

Habitat for Humanity Saint Louis and Affiliates

**Consolidated Financial Statements
and Independent Auditor's Report**

December 31, 2022 and 2021

Habitat for Humanity Saint Louis and Affiliates

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Independent Auditor's Report

To the Board of Directors
Habitat for Humanity Saint Louis and Affiliates
St. Louis, MO

We have audited the consolidated financial statements of Habitat for Humanity Saint Louis and Affiliates, which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity Saint Louis and Affiliates as of December 31, 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. 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 Habitat for Humanity Saint Louis and Affiliates 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 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 Habitat for Humanity Saint Louis and Affiliates' 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 Responsibility 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 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 GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- 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 Habitat for Humanity Saint Louis and Affiliates' 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 Habitat for Humanity Saint Louis and Affiliates' 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 audits.



Chicago, Illinois
July 13, 2023

Habitat for Humanity Saint Louis and Affiliates

**Consolidated Statements of Financial Position
December 31, 2022 and 2021**

Assets

	<u>2022</u>	<u>2021</u>
Current assets		
Cash and cash equivalents	\$ 98,299	\$ 142,992
Restricted cash	48,554	79,720
Pledges receivable	11,500	2,100
Grants receivable	106,632	26,400
Mortgages receivable	21,471	9,000
Other receivables, net	294,251	613,100
Home construction and inventory	775,501	936,359
ReStore inventory	413,024	234,590
Prepaid expenses and other assets	31,418	708,815
Right of use asset - operating lease	<u>153,847</u>	<u>-</u>
Total current assets	<u>1,954,497</u>	<u>2,753,076</u>
Fixed assets		
Property and equipment, net	<u>3,540,252</u>	<u>3,629,265</u>
Total fixed assets	<u>3,540,252</u>	<u>3,629,265</u>
Long-term assets		
Mortgages receivable, net	1,286,828	1,249,989
Investments in new markets tax credit programs	2,455,376	2,455,376
Capitalized costs, net	<u>83,370</u>	<u>124,735</u>
Total long-term assets	<u>3,825,574</u>	<u>3,830,100</u>
Total assets	<u><u>\$ 9,320,323</u></u>	<u><u>\$ 10,212,441</u></u>

Habitat for Humanity Saint Louis and Affiliates

**Consolidated Statements of Financial Position
December 31, 2022 and 2021**

Liabilities and Net Assets

	<u>2022</u>	<u>2021</u>
Current liabilities		
Lines of credit	\$ 762,010	\$ 377,048
Current portion of long-term debt	43,131	40,611
Accounts payable and accrued expenses	612,391	973,076
Deferred revenue	132,983	650,560
Lease liability	<u>155,327</u>	<u>-</u>
Total current liabilities	<u>1,705,842</u>	<u>2,041,295</u>
Deposits liability		
Mortgage escrows	<u>270,508</u>	<u>270,747</u>
Long-term liabilities		
Long-term debt	<u>6,429,284</u>	<u>6,449,572</u>
Total long-term liabilities	<u>6,429,284</u>	<u>6,449,572</u>
Total liabilities	<u>8,405,634</u>	<u>8,761,614</u>
Commitments and contingencies	-	-
Net assets		
Without donor restrictions	905,803	1,435,941
With donor restrictions	<u>8,886</u>	<u>14,886</u>
Total net assets	<u>914,689</u>	<u>1,450,827</u>
Total liabilities and net assets	<u><u>\$ 9,320,323</u></u>	<u><u>\$ 10,212,441</u></u>

See Notes to Consolidated Financial Statements.

Habitat for Humanity Saint Louis and Affiliates

**Consolidated Statement of Activities
Year Ended December 31, 2022**

	Without donor restrictions	With donor restrictions	Total
Operating support and revenue			
Contributions and sponsorships	\$ 841,537	\$ 427,176	\$ 1,268,713
Grants	609,758	-	609,758
Sales to homeowners	900,000	-	900,000
ReStore retail sales	885,119	-	885,119
Donated property, materials and services	1,073,275	54,310	1,127,585
Fundraising and special events revenue (net of expenses of \$0)	-	8,820	8,820
Other income	444,072	-	444,072
Net assets released from restrictions	496,306	(496,306)	-
Total operating support and revenue	5,250,067	(6,000)	5,244,067
Operating expenses			
Program services			
Home construction and construction support	2,702,061	-	2,702,061
ReStore retail operations	2,247,474	-	2,247,474
Total program services	4,949,535	-	4,949,535
Supporting activities			
Management and general	574,384	-	574,384
Fundraising	287,968	-	287,968
Total supporting activities	862,352	-	862,352
Total operating expenses	5,811,887	-	5,811,887
Other revenue			
Net investment return	31,682	-	31,682
Total other revenue	31,682	-	31,682
Change in net assets	(530,138)	(6,000)	(536,138)
Net assets - beginning of year	1,435,941	14,886	1,450,827
Net assets - end of year	\$ 905,803	\$ 8,886	\$ 914,689

See Notes to Consolidated Financial Statements.

Habitat for Humanity Saint Louis and Affiliates

**Consolidated Statement of Activities
Year Ended December 31, 2021**

	Without donor restrictions	With donor restrictions	Total
Operating support and revenue			
Contributions and sponsorships	\$ 1,395,256	\$ 415,140	\$ 1,810,396
Grants	375,180	-	375,180
Sales to homeowners	1,548,002	-	1,548,002
ReStore retail sales	997,770	-	997,770
Donated property, materials and services	958,401	96,162	1,054,563
Fundraising and special events revenue (net of expenses of \$0)	-	9,109	9,109
Other income	1,065,852	-	1,065,852
Net assets released from restrictions	517,911	(517,911)	-
Total operating support and revenue	6,858,372	2,500	6,860,872
Operating expenses			
Program services			
Home construction and construction support	3,342,278	-	3,342,278
ReStore retail operations	2,285,731	-	2,285,731
Total program services	5,628,009	-	5,628,009
Supporting activities			
Management and general	647,758	-	647,758
Fundraising	307,344	-	307,344
Total supporting activities	955,102	-	955,102
Total operating expenses	6,583,111	-	6,583,111
Other revenue			
Net investment return	27,805	-	27,805
Total other revenue	27,805	-	27,805
Change in net assets	303,066	2,500	305,566
Net assets - beginning of year	1,132,875	12,386	1,145,261
Net assets - end of year	\$ 1,435,941	\$ 14,886	\$ 1,450,827

See Notes to Consolidated Financial Statements.

Habitat for Humanity Saint Louis and Affiliates

Consolidated Statement of Functional Expenses Year Ended December 31, 2022

	Program services			Supporting activities			Total
	Construction	ReStore operations	Total	Management and general	Fundraising	Total	
Salaries and wages	\$ 784,882	\$ 530,311	\$ 1,315,193	\$ 211,918	\$ 197,696	\$ 409,614	\$ 1,724,807
Employee taxes and benefits	188,750	124,170	312,920	45,692	36,972	82,664	395,584
Home construction costs	1,063,309	-	1,063,309	-	-	-	1,063,309
Discount on mortgages	265,132	-	265,132	-	-	-	265,132
Impairment on inventory	33,709	-	33,709	-	-	-	33,709
Cost of merchandise sales	-	894,841	894,841	-	-	-	894,841
New market tax credit expenses	24,889	-	24,889	-	-	-	24,889
Committee expenses	1,439	-	1,439	1,733	-	1,733	3,172
Computer expenses	7,260	5,007	12,267	7,153	2,832	9,985	22,252
Depreciation and amortization	78,487	66,926	145,413	14,697	-	14,697	160,110
Facilities cost	7,382	547,291	554,673	44,413	-	44,413	599,086
Insurance	17,996	558	18,554	27,320	-	27,320	45,874
Interest expense and service charges	185,592	7,411	193,003	19,859	3,254	23,113	216,116
Marketing and public relations	3,833	28	3,861	1,104	29,576	30,680	34,541
Miscellaneous	4,097	2,946	7,043	2,900	140	3,040	10,083
Office expenses	19,946	24,330	44,276	20,566	12,390	32,956	77,232
Postage	390	-	390	434	1,066	1,500	1,890
Professional fees	1,372	-	1,372	173,481	-	173,481	174,853
Telephone	5,613	8,561	14,174	2,652	1,444	4,096	18,270
Travel and meals	1,208	-	1,208	-	-	-	1,208
Vehicle	6,775	35,094	41,869	462	2,598	3,060	44,929
	<u>\$ 2,702,061</u>	<u>\$ 2,247,474</u>	<u>\$ 4,949,535</u>	<u>\$ 574,384</u>	<u>\$ 287,968</u>	<u>\$ 862,352</u>	<u>\$ 5,811,887</u>

See Notes to Consolidated Financial Statements.

Habitat for Humanity Saint Louis and Affiliates

Consolidated Statement of Functional Expenses Year Ended December 31, 2021

	Program services			Supporting activities			
	Construction	ReStore operations	Total	Management and general	Fundraising	Total	Total
Salaries and wages	\$ 695,637	\$ 436,957	\$ 1,132,594	\$ 184,252	\$ 212,583	\$ 396,835	\$ 1,529,429
Employee taxes and benefits	172,343	152,959	325,302	48,345	49,080	97,425	422,727
Home construction costs	1,632,051	-	1,632,051	-	-	-	1,632,051
Discount on mortgages	292,980	-	292,980	-	-	-	292,980
Impairment on inventory	3,384	-	3,384	-	-	-	3,384
Cost of merchandise sales	-	1,043,973	1,043,973	-	-	-	1,043,973
New market tax credit expenses	20,803	-	20,803	-	-	-	20,803
Bad debt	184,989	-	184,989	-	-	-	184,989
Committee expenses	562	-	562	63	-	63	625
Computer expenses	4,365	2,456	6,821	2,336	3,141	5,477	12,298
Depreciation and amortization	77,150	66,926	144,076	14,697	-	14,697	158,773
Facilities cost	3,334	510,827	514,161	28,998	-	28,998	543,159
Insurance	20,266	842	21,108	32,051	-	32,051	53,159
Interest expense and service charges	180,889	11,375	192,264	37,534	2,704	40,238	232,502
Marketing and public relations	563	631	1,194	211	21,622	21,833	23,027
Miscellaneous	17,278	6,376	23,654	4,662	345	5,007	28,661
Office expenses	16,121	17,047	33,168	20,507	13,435	33,942	67,110
Postage	-	-	-	108	1,100	1,208	1,208
Professional fees	-	-	-	269,970	-	269,970	269,970
Telephone	11,794	7,869	19,663	3,439	2,136	5,575	25,238
Vehicle	7,769	27,493	35,262	585	1,198	1,783	37,045
	<u>\$ 3,342,278</u>	<u>\$ 2,285,731</u>	<u>\$ 5,628,009</u>	<u>\$ 647,758</u>	<u>\$ 307,344</u>	<u>\$ 955,102</u>	<u>\$ 6,583,111</u>

See Notes to Consolidated Financial Statements.

Habitat for Humanity Saint Louis and Affiliates

Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Contribution and sponsorship receipts	\$ 1,065,283	\$ 1,311,712
Grant receipts	524,828	352,680
Sales to homeowners receipts	670,813	1,505,236
ReStore retail receipts	885,119	1,083,342
Net fundraising and special events receipts	8,820	9,109
Investment receipts	31,682	27,805
Other operating receipts	<u>358,817</u>	<u>799,248</u>
 Total receipts	 <u>3,545,362</u>	 <u>5,089,132</u>
 Salaries and wages paid	(2,106,720)	(1,924,512)
Home construction costs paid	(988,524)	(1,226,082)
Cost of merchandise sales	-	(85,572)
New markets tax credit transaction costs paid	(24,889)	(20,802)
Committee expenses paid	(3,172)	(625)
Computer expenses paid	(22,252)	(12,298)
Facilities expenses paid	(323,520)	(483,478)
Insurance paid	(60,911)	(38,082)
Interest expense and service charges paid	(216,116)	(232,502)
Marketing and PR expenses paid	(34,541)	(23,027)
Administrative expenses paid	(157,186)	(155,985)
Professional fees paid	<u>(20,853)</u>	<u>(269,970)</u>
 Total disbursements	 <u>(3,958,684)</u>	 <u>(4,472,935)</u>
 Net cash (used in) provided by operating activities	 <u>(413,322)</u>	 <u>616,197</u>

Habitat for Humanity Saint Louis and Affiliates

Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from investing activities		
Purchases of property and equipment	<u>(29,731)</u>	<u>-</u>
Net cash used in investing activities	<u>(29,731)</u>	<u>-</u>
Cash flows from financing activities		
Payments on lines of credit, net	384,962	(505,576)
Proceeds from long-term debt	22,843	-
Principal payments on long-term debt	<u>(40,611)</u>	<u>(26,299)</u>
Net cash provided by (used in) financing activities	<u>367,194</u>	<u>(531,875)</u>
Net (decrease) increase in cash, cash equivalents, and restricted cash	(75,859)	84,322
Cash, cash equivalents, and restricted cash, beginning	<u>222,712</u>	<u>138,390</u>
Cash, cash equivalents, and restricted cash, end	<u><u>\$ 146,853</u></u>	<u><u>\$ 222,712</u></u>
Significant noncash investing and financing activities		
Increase in right of use asset	\$ (515,954)	\$ -
Increase in lease liability	<u>515,954</u>	<u>-</u>
	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Habitat for Humanity Saint Louis and Affiliates

Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Reconciliation of change in net assets to net cash (used in) provided by operating activities		
Change in net assets	\$ (536,138)	\$ 305,566
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Discount on home construction and inventory	33,709	3,384
Discount on mortgages receivable	265,132	292,980
Donated property, materials and services	(178,434)	85,376
Bad debt	-	184,989
Depreciation and amortization	160,110	158,773
Changes in assets and liabilities		
Pledges receivable, net	(9,400)	(169,489)
Grants receivable, net	(80,232)	(22,500)
Other receivables, net	318,849	(329,783)
ReStore inventory	-	196
Home construction and inventory	127,149	554,377
Prepaid expenses	677,397	(215,215)
Right of use asset	(153,847)	-
Mortgages receivable	(314,442)	(91,997)
Accounts payable and accrued expenses	(360,686)	138,582
Mortgage escrows	(239)	(94,643)
Deferred revenue	(517,577)	(184,399)
Lease liability	<u>155,327</u>	<u>-</u>
Net cash (used in) provided by operating activities	<u>\$ (413,322)</u>	<u>\$ 616,197</u>

See Notes to Consolidated Financial Statements.

Habitat for Humanity Saint Louis and Affiliates

Notes to Consolidated Financial Statements December 31, 2022 and 2021

Note 1 - Organization

Habitat for Humanity Saint Louis ("Habitat") was organized as a nonprofit organization in the State of Missouri and is associated with Habitat for Humanity International, Inc. Habitat has received tax exempt status under the provisions of Section 501(c)(3) of the Internal Revenue Code of 1954 to construct affordable, decent housing for sale to low-income families at cost and to build communities by encouraging existing homeowners to upgrade and improve their property.

On July 10, 2014, HFHSL Community Housing Development Organization ("HFHSL CHDO") and on January 27, 2015, HFHSL Community Housing Development Corporation II ("HFHSL CHDC II"), were formed in the State of Missouri.

HFHSL CHDO and HFHSL CHDC II are Community Housing Development Organizations ("CHDO's") sanctioned by the U.S. Department of Housing and Urban Development's ("HUD") HOME Program, whose purpose is to assist in developing community low-income housing. CHDO's receive certain priority and eligibility for HUD grants.

On August 12, 2020, HFHSL QALICB Real Estate Holding LLC ("QALICB") was organized as a nonprofit organization in the State of Missouri for the purpose of management of real estate for use in its homebuilding activity program. QALICB is owned entirely by Habitat.

These consolidated financial statements include the accounts of Habitat for Humanity Saint Louis, HFHSL Community Housing Development Organization, and HFHSL Community Housing Development Corporation II, and HFHSL QALICB Real Estate Holding LLC (collectively, the "Organization"). Inter-company activity is eliminated in consolidation.

The primary source of the Organization's revenues is contributions and sponsorships received from the general public, corporations, and religious organizations. Habitat also operates two retail hardware stores (the "ReStores") with sales to the general public. Inventory is primarily donated, with the sale proceeds used to carry out the Organization's mission.

The Organization's activities are primarily comprised of the following:

Program services

Home construction, financing and support - Includes all home construction costs such as materials, supplies, labor and overhead, as well as financing certain mortgages for the homeowners. This programming also includes construction supporting costs such as real estate development, volunteer mobilization and family selection services.

ReStore operations - Includes salaries, utilities, and overhead necessary to operate two discount and recycled materials hardware stores. This programming also includes the estimated value of donated merchandise sold in the stores.

Supporting activities

Management and general - Includes the functions necessary to maintain an equitable employment program; ensure an adequate working environment; provide coordination and articulation of the Organization's program strategy; secure proper administrative functioning of the Board of Directors; and manage the consolidated financial and budgetary responsibilities of the Organization.

Habitat for Humanity Saint Louis and Affiliates

Notes to Consolidated Financial Statements December 31, 2022 and 2021

Fundraising - Provides the structure necessary to encourage and secure consolidated financial support for the Organization through grants, contributions, and special events.

Note 2 - Summary of significant accounting policies

Basis of presentation

The Organization is required to report information regarding its consolidated financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Additionally, information is required to segregate program service expenses from support expenses. Support expenses include management and general and fundraising expenses.

Principles of consolidation

The accompanying consolidated financial statements include the accounts of Habitat, HFHSL CHDO, HFHSL CHDC and QALICB. All intercompany balances and transactions have been eliminated in consolidation.

Revenue recognition

Contributions and grants received are recorded as without donor restrictions or with donor restrictions support, depending on the existence and/or nature of any donor restrictions. Contributions of assets other than cash are recorded at their estimated fair market value.

Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as unrestricted revenues. The expiration of temporary restrictions on net assets (i.e., the donor imposed stipulated purpose has been fulfilled, or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Unconditional pledges receivable that are expected to be collected within a year are recorded at their net realizable value when the donor makes the promise. Unconditional pledges receivable that are expected to be collected in the future years are recorded at the present value of their estimated future cash flows.

Grants that are received prior to recognition of revenue are recorded as deferred revenue.

Sales to homeowners represent the sale of homes built or rehabilitated by the Organization. The resulting mortgages are noninterest-bearing and have been discounted based upon prevailing market rates for low-income housing at the inception of the mortgages. The Organization recognizes income from the sales to homeowners when home closings occur.

Donated property, materials and services

Donated materials are valued at the lower of estimated donor cost or fair value at the date of contribution. Certain professional services are donated to the Organization by various organizations. Since these donated services meet the criteria for recognition, as stated by generally accepted accounting principles, they are recorded at fair value at the date of donation. In addition, a substantial number of volunteers have donated a significant amount of time to the Organization. These donated services have not been recognized as contributions in the consolidated financial statements since the recognition criteria, as stated by generally accepted accounting principles, were not met. Some donated materials and services are designated by the donor for specific construction projects, and accordingly, are recorded as with donor restrictions.

Habitat for Humanity Saint Louis and Affiliates

Notes to Consolidated Financial Statements December 31, 2022 and 2021

Donated investments are recorded at the fair market value as of the date of the contribution. Gains and losses on investments and other assets or liabilities, are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulation or by law.

Net assets

The Organization classifies net assets as without donor restrictions and with donor restrictions.

Without donor restrictions net assets of the Organization are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

With donor restrictions net assets of the Organization result (a) from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither or either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations and (c) from reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the Organization pursuant to those stipulations.

Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments in new markets

The Organization's long-term investments are investments in entities related to the New Markets Tax Credit ("NMTC") program. The NMTC investments are accounted for using the equity method. Under the equity method, the initial investment is recorded at cost and is subsequently increased or decreased by its share of income or loss and increased or decreased by the amount of any contributions made or distributions received. All investment activity is reflected in the accompanying consolidated statements of activities as net investment return.

The Organization assess other-than-temporary declines in values in its NMTC investments. Annually, the carrying value of each investment is compared to its respective fair value. If an other-than-temporary decline in its carrying value exists, an impairment loss is recorded on the Organization's consolidated statement of activities to reduce the investment to fair value.

Cash and cash equivalents

The Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Inventory

Inventory primarily consists of ReStore merchandise, construction in progress, homes available for sale, and land and buildings occupied and subject to lease with the option to purchase.

ReStore inventory consists of materials and is stated at donated value. Any purchased inventory is stated at the lower of cost or market value.

Habitat for Humanity Saint Louis and Affiliates

Notes to Consolidated Financial Statements December 31, 2022 and 2021

All direct material and equipment costs and indirect costs related to home construction are recorded as construction in progress inventory. When revenue from the sale of a home is recognized, the corresponding costs are expensed in the consolidated statement of activities and changes in net assets as program services.

Homes are transferred from construction in progress to homes available for sale once completed, with the accrued impairment for the sale of the mortgage and the expected loss on the sale of the property. Homes available for sale also includes foreclosed homes mortgage balances which are recorded at the unpaid mortgage balance at the time of foreclosure.

Mortgages receivable

Mortgages receivable consist of noninterest-bearing notes received from homebuyers in connection with the sale of homes constructed by the Organization. The notes are discounted to their present values using various interest rates at the time of closing. The discount is amortized over the lives of the mortgages using the effective interest method. An allowance for estimated doubtful accounts has been setup based on past collection experience of homeowners.

Assets held for sale

Long-lived assets to be sold are classified as "held for sale" in the period in which certain criteria are met such as the estimated timeframe in which the assets are expected to be sold. As a result, depreciation is not recorded on an asset once deemed to be held for sale, and it is recorded in the consolidated financial statements at the lower of its carrying value or fair value less cost to sell.

Capitalization and depreciation

Property and equipment are recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. Assets are depreciated over their estimated service lives. The estimated service lives of the assets for depreciation purposes may be different than their actual economic useful lives.

Construction in progress

Costs incurred for construction in progress are capitalized when incurred. If at any time management determines that the costs incurred would no longer provide a future benefit to the Organization, the costs are expensed in the period in which the determination is made.

Capitalized costs

Guarantee fees paid in conjunction with the NMTC investments are capitalized and amortized over seven years, the NMTC guarantee period.

Impairment of long-lived assets

The Organization reviews its property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment losses have been recognized during 2022 and 2021, respectively.

Income taxes

Habitat has applied for and received a determination letter from the Internal Revenue Service ("IRS") to be treated as a tax exempt entity pursuant to Section 501(c)(3) of the Internal Revenue Code and did not have any unrelated business income for the years ended December 31, 2022 and 2021. Due to its tax-exempt status, Habitat is not subject to income taxes. They are required to file, and do file, tax returns with the IRS and other taxing authorities. The Forms 990, Return of

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Organization Exempt from Income Tax, are subject to examination by the IRS generally for three years after they were filed.

Advertising costs

Advertising costs are charged to operations when incurred.

Functional expenses

The costs of providing program and other activities have been summarized on a functional basis in the consolidated statements of functional expenses. Included in each functional category are the expenses directly attributable to that functional area plus certain indirect or shared costs that have been allocated to the area. Expenses are allocated based on program, management and general, and resource development, with ReStore expenses being separately netted. Program expenses are defined as all costs related to the construction of homes, including hard and soft costs of a development, as well as all construction overhead expenses (staff salaries and benefits, and operating expenses related to construction). Program expenses also include the costs of mobilizing the volunteers used in the construction of homes, as well as the cost to select and educate partner families.

New accounting pronouncements

The Organization adopted Accounting Standards Update 2016-02 (as amended) *Leases* ("Topic 842") on January 1, 2022 ("Adoption Date"). Topic 842 requires leases to recognize a right-of-use asset and a corresponding lease liability for virtually all leases. The Organization elected and applied the following practical expedients on the Adoption Date:

- To apply the provisions of Topic 842 at the adoption date, instead of applying them to the earliest comparative period presented in the consolidated financial statements.
- The package of practical expedients permitting the Organization to not reassess (i) the lease classification of existing leases; (ii) whether existing and expired contracts are or contain leases; and (iii) initial direct costs for existing leases.

The Organization made the following adjustments as of the adoption date in connection with transitioning to Topic 842:

	As of January 1, 2022
Operating lease right of use asset	<u>\$ 515,954</u>
Operating lease liability	<u>\$ 515,954</u>

As of December 31, 2022, the right of use assets and the corresponding lease liabilities were \$153,847 and \$155,212, respectively. See Note 6 regarding the Organization's right of use assets and regarding its lease liabilities.

Finally, the Organization has elected and applies the practical expedient to combine nonlease components with their related lease components and account for them as a single combined lease component.

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In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326) ("ASU 2016-13") and subsequently issued various corresponding updates that will update the impairment model for financial assets measured at amortized cost, known as the Current Expected Credit Loss ("CECL") model. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking "expected loss" model that generally will result in the earlier recognition of allowance for losses. For available-for-sale debt securities with unrealized losses, there will be no change to the measurement of credit losses, except that unrealized losses due to credit-related factors will be recognized as an allowance on the consolidated statement of financial position with a corresponding adjustment to earnings in the income statement. There are various transition methods available upon adoption. ASU 2016-13, as amended by ASU 2019-10, is effective for nonpublic companies for periods beginning after December 15, 2022. Early adoption is permitted. The Organization is currently assessing the impact of adopting this guidance on its consolidated financial statements.

On January 1, 2022, the Organization adopted ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This standard provides guidance on the presentation of contributed nonfinancial assets in the statement of activities and additional disclosure requirements for each type of contributed nonfinancial asset. The ASU provides transparency on the measurement of the contributed nonfinancial assets of the organization and will not change existing recognition and measurement requirements. The Organization has implemented the provisions of ASU 2020-07 applicable to all contributed nonfinancial assets, which has been applied retrospectively to all periods presented.

Note 3 - Availability and liquidity

The following represents the Organization's financial assets at December 31, 2022 and 2021:

	2022	2021
Financial assets at year end		
Cash and cash equivalents	\$ 98,299	\$ 142,992
Restricted cash	48,554	79,720
Contributions receivable	118,132	28,500
	<u>264,985</u>	<u>251,212</u>
Total financial assets	264,985	251,212
Less amounts not available to be used within one year		
Net assets with donor restrictions	<u>8,886</u>	<u>14,886</u>
Financial assets not available to be used within one year	<u>8,886</u>	<u>14,886</u>
Financial assets available to meet general expenditures within one year	<u>\$ 256,099</u>	<u>\$ 236,326</u>

Liquidity management

The Organization maintains a policy of structuring its financial assets to be available as its general expenditures, construction expenditures, liabilities and other obligations become due. The Organization utilizes project specific construction lines of credit to manage hard and soft construction expenses, as well as certain organization expenses as related directly to the

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construction program. These lines exist solely during the specific construction period and are paid in full upon the origination of a repayable mortgage on the sale of each home.

To help manage unanticipated liquidity needs, the Organization utilizes short-term (on a daily basis) cash flow analysis and projection report. The Organization also utilizes a long-term cash flow analysis that operates as a trended profit and loss report which uses the annual budget as a basis, but is updated in real time to reflect actual revenue and expenses. This allows for the projection of the availability of cash surplus and thus enhanced planning and budgeting for times of unexpected liquidity needs.

Additionally, the Organization has a proven track record of applying for and receiving grants and tax credit allocations that have been utilized to cover any gaps in revenue versus expense, as well as to actually fund ongoing operational expenses.

Note 4 - Cash and cash equivalents

The Organization maintains its cash reserve balances in several accounts. The cash reserve balances are insured by the Federal Deposit Insurance Corporation. At times, these balances may exceed the federal insurance limits; however, the Organization has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash reserve balances during the years ended December 31, 2022 and 2021.

Restricted cash consists of the following as of December 31, 2022 and 2021:

	2022	2021
Homeowner repair escrow	\$ 9,187	\$ 15,458
Restricted for NMTC expenses (Note 12)	39,367	64,262
	<u>\$ 48,554</u>	<u>\$ 79,720</u>

Note 5 - Project fund

In accordance with the Financing Agreement dated December 1, 2017 (the "Financing Agreement"), proceeds from the Series 2017 Revenue Bonds (see Note 16) are required to be deposited with Royal Bank of Missouri, the fiscal agent. The project fund is to be used to pay for the rehabilitation costs of the Organization's new administrative office building at 3830 South Grand Boulevard. During 2018, the funds were used towards the construction of the new office building.

Note 6 - Operating leases

In a prior year, the Organization entered into a lease for a ReStore facility with an effective date of June 1, 2018 through May 1, 2023.

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Supplemental cash flow information related to the Organization's operating leases for the year ended December 31, 2022:

	<u>Operating leases</u>
Cash paid for amounts included in the measurement of lease liabilities	\$ 369,454
Addition to right of use assets	515,954

Weighted average remaining lease term and weighted average incremental borrowing rate for the Organization's leases as of December 31, 2022:

	<u>Operating leases</u>
Weighted average remaining terms (in years)	0.3
Weighted average discount rate	2.74%

On March 27, 2013, Habitat entered into a lease agreement to open a second ReStore location. The lease commenced on June 1, 2013 and terminated on May 31, 2018, with two five-year options to renew. During 2018, Habitat exercised the renewal option through May 31, 2023. The lease provides for annual base rent, a portion of which is donated back to Habitat each year on June 1, and monthly base rent payable by Habitat.

On November 14, 2016, Habitat entered into an amended lease agreement effective January 1, 2015. The new lease agreement states the Landlord shall compensate Habitat for the work performed, amount of any rent collected, and the amount of any invoice for service paid on behalf of the Landlord. During 2022 and 2021, Habitat earned \$68,443 and \$136,842, respectively, of reimbursement expenses. In addition, the Landlord shall compensate Habitat with a management fee in the amount equal to 15% of the reimbursement expenses. During 2022 and 2021, Habitat earned a management fee of \$91,807 and \$172,606, respectively. The reimbursement and the management fee are included in other income on the accompanying consolidated statements of activities.

The future minimum rental commitments under all such operating leases for the next year are as follows:

<u>Year</u>	<u>Total annual base rent</u>
2023	\$ 156,037
Total	<u>\$ 156,037</u>

On September 16, 2020, Habitat entered into a ground lease agreement with HFHSL QALICB Real Estate Holding LLC. The lease term is for 25 years terminating on September 16, 2045, with an option to renew for 5 more years. Commencing on October 1, 2020, Habitat shall pay the lessor annual base rent of \$225,095 in monthly installments. The base rent shall increase 2% each year during the term of the lease. The activity is eliminated in consolidation.

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The future minimum rental commitments under the ground lease for the next four years are as follows:

	Base rent
2023	\$ 235,360
2024	240,067
2025	244,868
2026	249,766
Total	<u>\$ 970,061</u>

Note 7 - Investments

Certain investments have been designated by the Board for specific purposes (see Note 17). Income on those investments includes the following for the years ended December 31, 2022 and 2021:

	2022	2021
Investment income from NMTC investments	\$ 23,192	\$ 23,192
Interest and dividend income	6,813	4,951
Realized (loss)/gain on investments	1,677	(338)
	<u>\$ 31,682</u>	<u>\$ 27,805</u>

Note 8 - Pledges receivable

Pledges, or promises to give, consist of contributions restricted for the purpose of building a home. At December 31, 2022 and 2021, pledges receivable for house sponsorships totaled \$11,500 and \$2,100, respectively. The promises to give are unconditional and are expected to be collected within one year.

Note 9 - Grants receivable and grant revenue

Grants receivable as of December 31, 2022 and 2021 consists primarily of reimbursement type grants for home construction costs:

	2022	2021
State of MO Allocation	\$ 30,952	\$ -
LaSaison Phase 1	26,400	26,400
Itaska KMOV	7,455	-
MHRP	41,825	-
	<u>\$ 106,632</u>	<u>\$ 26,400</u>

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Grant revenue earned during 2022 and 2021 consists of the following:

	2022	2021
Affordable Housing Trust Fund	\$ 180,820	\$ 255,980
St. Louis Philanthropic Organization	-	5,000
MHRP	41,825	-
State of MO Allocation	329,913	-
US Bank	-	30,000
Bank of America	-	25,000
Other	57,200	59,200
	<u>\$ 609,758</u>	<u>\$ 375,180</u>

Note 10 - Mortgages receivable

Mortgages receivable consist of noninterest-bearing mortgages secured by real estate, receivable in monthly installments through years ranging to 2049. Mortgage receivables include those mortgages repurchased from CitiMortgage upon homeowner default and second promissory notes on homes under the zero-equivalent mortgage method. Each mortgage is discounted to the value it could be sold to a third-party lender.

The Organization utilizes an affordable mortgage analysis method for financing homes. Under this method, the lending bank charges the homebuyer a below-market rate of interest. The monthly payments the homebuyer makes to the lending bank are the same as if the Organization was providing a zero-percent loan directly to the homebuyer. The Organization sells homes at a reduced price in order for the mortgage with interest to be equivalent to the mortgage with no interest at a normal sale price. The Organization holds the second mortgage on each home which will be forgiven over the life of the mortgage.

Mortgages receivable as of December 31, 2022 and 2021 are presented net of unamortized discount resulting from the imputation of interest as follows:

	2022	2021
Mortgages receivable at face value	\$ 3,556,800	\$ 3,535,051
Less: Reserve	(1,787,508)	(1,833,831)
Less: Allowance for doubtful accounts	(482,464)	(451,231)
	<u>\$ 1,286,828</u>	<u>\$ 1,249,989</u>

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Note 11 - Home construction and inventory

Home construction and inventory for the years ended December 31, 2022 and 2021 consists of the following:

	2022	2021
Land	\$ 183,791	\$ 204,834
Construction in progress	591,710	731,525
Leased and available-for-sale homes	-	-
	<u>\$ 775,501</u>	<u>\$ 936,359</u>

Leases for homes contain purchase options, which allow the lessee to purchase the home with an affordable mortgage payable over 30 years. Leased and available-for-sale homes are valued in inventory at the lower of cost or net realizable proceeds after all expected selling costs. During 2022 and 2021, all leased homes have been sold to Habitat homebuyers.

Note 12 - Investments in New Markets Tax Credit programs

Habitat entered into two transactions involving New Markets Tax Credit ("NMTC") financing. Under the NMTC structure, Habitat makes investments in a leverage lender, whose sole purpose is to lend to an investment fund. The investment fund entity also receives capital contribution equity from private investors. The private investor receives tax credits in return for its contribution into the investment fund. The investment fund uses the loan from the leverage lender and the equity from the investors to make an investment in a community development entity ("CDE"). All of the proceeds received by the CDE are then loaned to Habitat.

Investment in Harbor Habitat Leverage II, LLC

In 2017, Habitat made an investment in Harbor Habitat Leverage II, LLC in the amount of \$1,207,410, plus transaction costs of \$53,142. Habitat is the 16.67% member of Harbor Habitat Leverage II, LLC. Habitat recorded its investment at cost plus transaction costs. In return for its investment, Habitat received a loan from Harbor Community Fund XIII, LLC in the amount of \$1,715,000.

As of December 31, 2022 and 2021, Habitat's investment in Harbor Habitat Leverage II, LLC was \$1,260,552.

In December 2024, Twain Investment Fund 296, LLC (the "2017 Fund") and the upstream effective owner of Harbor Community Fund XIII, LLC (holder of the promissory note due from the Habitat) 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 2017 Fund. If the put option is not exercised, Harbor Habitat Leverage II, LLC has the option to purchase (call), at any time during the 12-month period following the expiration of the put option. Exercise of the option will effectively allow Habitat to extinguish its outstanding debt owed to the 2017 Fund.

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Investment in Harbor Habitat Leverage III, LLC

In 2020, Habitat made an investment in Harbor Habitat Leverage III, LLC in the amount of \$1,111,838, plus transaction costs of \$82,986. Habitat is the 25% member of Harbor Habitat Leverage III, LLC. Habitat recorded its investment at cost plus transactions costs. In return for its investment, Habitat received a loan from Harbor Community Fund XXII, LLC in the amount of \$1,521,250.

As of December 31, 2022 and 2021, Habitat's investment in Harbor Habitat Leverage III, LLC was \$1,194,824.

In June 2027, USBCDC Investment Fund 346, LLC (the "2020 Fund") and the upstream effective owner of Harbor Community Fund XXII, LLC (holder of the promissory note due from Habitat) is expected to exercise its put option. Under the terms of the put option agreement, Harbor Habitat Leverage III, LLC is expected to sell the ownership interest of the 2020 Fund. If the put option is not exercised, Harbor Habitat Leverage III, LLC has the option to purchase (call), at any time during the 12-month period following the expiration of the put option. Exercise of the option will effectively allow Habitat to extinguish its outstanding debt owed to the 2020 Fund.

Management expects the put option for each of its NMTC transactions to be exercised at the end of each respective compliance period. If that does occur, management anticipates revenue from the forgiveness of debt as follows for the years ending December 31:

	Revenue
2023	\$ -
2024	454,448
2025	-
2026	-
2027	326,426
Total	<u>\$ 780,874</u>

Interest income earned from the investments and interest expense incurred from the loans during the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Interest income	\$ 23,192	\$ 23,192
Interest expense	<u>(30,001)</u>	<u>(30,001)</u>
Net interest	<u>\$ (6,809)</u>	<u>\$ (6,809)</u>

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Note 13 - Fixed assets

Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. Property and equipment as of December 31, 2022 and 2021 is comprised of the following:

	Useful life	2022	2021
Land	N/A	\$ 1,141,364	\$ 1,141,364
Building and improvements	10 - 40 years	2,800,610	2,800,610
Equipment	3 - 39 years	554,161	548,905
Vehicles	5 years	244,562	220,087
Computer software	3 years	42,687	42,687
Total property and equipment		4,783,384	4,753,653
Less: Accumulated depreciation		(1,243,132)	(1,124,388)
Property and equipment, net		<u>\$ 3,540,252</u>	<u>\$ 3,629,265</u>

Depreciation expense for the years ended December 31, 2022 and 2021 was \$118,744 and \$117,407, respectively.

Note 14 - Capitalized costs

The guarantee fees associated with the NMTC transactions have been capitalized and amortized over the seven-year guarantee period. As of December 31, 2022 and 2021, guarantee fees amounted to \$241,917 and \$241,917, respectively, and accumulated amortization amounted to \$158,547 and \$117,182, respectively. During the years ending December 31, 2022 and 2021, amortization expense totaled \$41,365 and \$41,368, respectively.

Estimated amortization expense for the ensuing years is as follows:

Year	Amount
2023	\$ 34,560
2024	17,150
2025	15,830
2026	15,830
Thereafter	-
	<u>\$ 83,370</u>

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Note 15 - Lines of credit

Lines of credit at December 31, 2022 and 2021 consist of the following:

Lender	Face amount	Outstanding	Interest rate + prime rate	Maturity date	Function	Status, report date
People's National Bank, N.A.	\$ 592,500	\$ 166,028	8.50%	6/13/2023	Construction	Under review for repayment/ renewal
People's National Bank, N.A.	12,500	6,250	8.50%	2/19/2023	Construction	Repaid
People's National Bank, N.A.	535,000	96,899	8.50%	12/30/2023	Construction	To be renewed
Royal Banks of Missouri	800,000	492,833	8.50%	11/4/2023	Permanent	To be renewed
Total lines of credit, 12/31/22		<u>\$ 762,010</u>				

Lender	Face amount	Outstanding	Interest rate + prime rate	Maturity date	Function
People's National Bank, N.A.	\$ 592,500	\$ 166,028	4.25%	9/13/2022	Construction
People's National Bank, N.A.	12,500	12,500	4.25%	12/19/2022	Construction
People's National Bank, N.A.	450,000	144,825	4.25%	9/16/2022	Construction
People's National Bank, N.A.	535,000	11,632	4.25%	12/30/2022	Construction
People's National Bank, N.A.	76,500	42,063	4.25%	10/26/2022	Construction
Total lines of credit, 12/31/21		<u>\$ 377,048</u>			

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Note 16 - Long-term debt

Long-term debt at December 31, 2022 and 2021 consists of the following:

	<u>2022</u>	<u>2021</u>
<u>IFF Note A</u>		
The loan in the amount of \$1,116,593, dated September 16, 2020, is held by St. Louis New Markets Tax Credit Fund 59, LLC. The loan bears interest at 5% per annum. Commencing on December 1, 2020, quarterly interest payments are due. The loan matures on June 27, 2026 when all principal and accrued interest is due. The loan is secured by real estate and an assignment of leases and rents.	\$ 1,116,593	\$ 1,116,593
<u>IFF Note B</u>		
The loan in the amount of \$133,407, dated September 16, 2020, is held by St. Louis New Markets Tax Credit Fund 59, LLC. The loan bears interest at 5% per annum. Commencing on December 1, 2020, quarterly interest payments are due. The loan matures on June 27, 2026 when all principal and accrued interest is due. The loan is secured by real estate and an assignment of leases and rents.	133,407	133,407
<u>Harbor Community Fund XIII LLC</u>		
The loan in the amount of \$1,715,000, dated December 20, 2017, is held by Harbor Community Fund XIII LLC. The loan bears interest at a fixed rate of 0.7041%. The loan matures on December 20, 2037. Commencing on June 5, 2018, semi-annual payments are due until December 5, 2024 when principal and interest payments commence. The loan is secured by the operating account, Joint expense Non-POB account and all other bank accounts held by U.S. Bank. The loan is also guaranteed by a related party if an event of NMTC recapture occurs. The loan has a put option feature that is exercisable in December 2024 (Note 11).	1,715,000	1,715,000

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	2022	2021
<u>Harbor Community Fund XXII LLC</u>		
The loan in the amount of \$1,521,250, dated June 4, 2020, is held by Harbor Community Fund XIII LLC. The loan bears interest at fixed rate of 0.7309%. The loan matures on June 4, 2040. Commencing on December 5, 2020, semi-annual interest payments are due until December 5, 2027 when principal and interest payments commence. The loan is secured by the operating account, Joint expense Non-POB account and all other bank accounts held by U.S. Bank. The loan is also guaranteed by a related party if an event of NMTC recapture occurs. The loan has a put option feature that is exercisable in June 2027 (Note 11).	1,521,250	1,521,250
<u>2016 Ford Transit</u>		
The loan in the amount of \$24,476, dated October 15, 2022, bears interest at 6.94% per annum. Commencing on October 15, 2022, monthly payments are due. The loan matures August 2027. The loan is secured by the asset.	22,843	-
<u>Series 2017 Revenue Bonds</u>		
On December 1, 2017, The Industrial Development Authority of the City of St. Louis, Missouri, issued Series 2017 revenue bonds in the amount of \$2,040,000 to finance the rehabilitation of 3830 South Grand Boulevard, St. Louis, MO. Royal Bank of Missouri is the fiscal agent. During 2020, the terms of the note were changed reducing the principal amount to \$2,030,232. The note initially carries interest at the rate of 3.3%. Commencing in February 2023, the note will bear interest at 2.52% plus the rate of the Federal Home Loan Bank of Des Moines 5 Year Long-Term Fixed Rate Advance, but is not to be adjusted more often than each five years. Principal and interest payments in the amount of \$8,920 were due monthly beginning on January 1, 2020 but were deferred to commence on April 1, 2020. The loan matures on December 1, 2049.	1,963,322	2,003,933
Total	6,472,415	6,490,183
Less: current maturities	(43,131)	(40,611)
Net long-term debt	\$ 6,429,284	\$ 6,449,572

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Aggregate annual maturities of the mortgages and notes payable for each of the five following years and thereafter is as follows:

Year	Amount
2023	\$ 43,131
2024	49,061
2025	177,142
2026	1,429,557
2027	176,209
Thereafter	4,597,315
	<u>\$ 6,472,415</u>

Note 17 - Net assets with donor restrictions

Net assets with donor restrictions are restricted for the following purposes or periods:

	2022	2021
Construction projects	\$ -	\$ -
Other	8,886	14,886
	<u>\$ 8,886</u>	<u>\$ 14,886</u>

Net assets of \$496,306 and \$517,911 were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors for the years ended December 31, 2022 and 2021, respectively.

Note 18 - Related party transactions

Habitat has a nonbinding covenant with Habitat for Humanity International, Inc. ("HFHI") to make an annual voluntary tithe payment to HFHI. In 2022 and 2021, Habitat paid \$1,000 in tithe per year.

In 2013, HFHI implemented its Stewardship and Organizational Sustainability Initiative ("SOSI"), which requires payment from affiliates of annual fees based upon the size of the individual affiliate, in addition to the annual tithe. The annual fee required of Habitat is \$25,000. In 2021, Habitat paid \$25,000 for the previous year's SOSI commitment. In 2022, HFHI has deferred the U.S. Stewardship and Organizational Sustainability Initiative ("US-SOSI") fee as follows: to be invoiced September 1, 2022. The first half of the invoiced amount will be due on November 1, and the balance will be due February 1 of the subsequent year. As of December 31, 2022 and 2021, the payable amounted to \$6,250 and \$12,500, and is included in accounts payable and accrued expenses on the accompanying consolidated statements of financial position.

Note 19 - 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.

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During 2022 and 2021, Habitat was receiving lease payments on one home.

Note 20 - Mortgages sold with recourse

Prior to 2002, Habitat sold mortgages receivable with recourse to the Missouri Housing Development Commission. Habitat has guaranteed payment of the mortgage loans and in the event of any loan default, Habitat will replace the nonperforming loan with a performing loan or will buy back the nonperforming loan at par. As of December 31, 2022 and 2021, the uncollected balances remaining on the mortgages totaled \$0 and \$1,051, respectively.

Note 21 - Commitments and contingencies

The purchase option agreement when a home is sold contains a provision that if the home is sold within 10 years of the initial date of the lease agreement, the Organization has the right to receive a certain percentage of the gain on the sale of the home. The percentage ranges from 100% if sold during the first year to 10% if sold in the 10th year.

The Organization provides a limited warranty to homeowners for all work done and materials provided in the construction of the home. This warranty is for one year from the date the buyer took occupancy, including the buyer's lease term. During this time, upon written notice from the purchaser, the Organization will repair or replace substantial defects free of charge. However, the Organization has the right to use the funds in the major repair fund (a portion of each mortgage payment is allocated to this escrow account). Based on past experience, management has determined no reserve is needed for warranties.

The Organization is a party to lawsuits arising in the ordinary course of their business. The Organization provides for costs relating to these matters when a loss is probable, and the amount is reasonably estimable. The effect of the outcome of these matters on the Organization's consolidated financial statements cannot be predicted with certainty. While the results of litigation cannot be predicted with certainty, the Organization believes, based on the advice of counsel, that the final outcome of such litigation will not have a materially adverse effect on the Organization's financial position, results of operations and cash flows.

Note 22 - Employee benefit plan

Habitat implemented a SIMPLE-IRA plan in 1998. An employee was eligible for the plan if \$2,400 of wages have been earned in any prior year. On December 31, 2019, Habitat terminated the SIMPLE-IRA plan in favor of a new Defined Contribution 401(k) Profit Sharing retirement plan. An employee is eligible for the plan after 1 year of entry service, which amounts to 1,000 hours of service and 12 months after hire date. Participation in the plan is optional. 401(k) elective deferrals, up to a percentage of an employee's pay as decided by the Organization, are matched. Matching contributions are calculated based on the employee's pay and 401(k) elective deferrals for the payroll period. Matching contributions are made for all persons who were active participants at any time during that payroll period. Any percentage chosen will apply for the entire plan year. During the years ended December 31, 2022 and 2021, Habitat's contribution to the plan amounted to \$19,627 and \$16,029, respectively.

Habitat for Humanity Saint Louis and Affiliates

Notes to Consolidated Financial Statements December 31, 2022 and 2021

Note 23 - Paycheck Protection Program loans

On April 8, 2020, Habitat received loan proceeds in the amount of \$432,000 under the Paycheck Protection Program ("PPP"). Established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), the PPP provides for loans to qualifying businesses in amounts up to 2.5 times the business's average monthly payroll expenses. PPP loans and accrued interest rate are forgivable after a "covered period" (eight or 24 weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries during the covered period.

Additionally, on January 25, 2021, Habitat received loan proceeds in the amount of \$434,923 under the Paycheck Protection Program.

Habitat initially recorded notes payable and subsequently recorded forgiveness when the loan obligations were legally released. Habitat recognized \$0 and \$437,174 of loan forgiveness income for the years ending December 31, 2022 and 2021, respectively, which is included in other income on the accompanying consolidated statements of activities. As of December 31, 2022 and 2021, no principal and interest payments were required to be made.

Note 24 - Subsequent events

Events that occur after the consolidated balance sheet date but before the consolidated financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the consolidated statement of financial position date are recognized in the accompanying consolidated financial statements. Subsequent events which reflect significant matters but which provide evidence about conditions that existed after the consolidated statement of financial position date require disclosure in the accompanying notes. Management evaluated the activity of the Organization through July 13, 2023 (the date the consolidated financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the consolidated financial statements or disclosure in the notes to the consolidated financial statements.



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