

**Habitat for Humanity of Spartanburg, Inc.**

**Financial Statements**

**Years Ended June 30, 2023 and 2022**

Habitat for Humanity of Spartanburg, Inc.

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	2-3
Statements of Financial Position	4-5
Statements of Activities	6
Statements of Functional Expenses	7-8
Statements of Cash Flows	9
Notes to Financial Statements	10-21

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Habitat for Humanity of Spartanburg, Inc.  
Spartanburg, South Carolina

### Opinion

We have audited the financial statements of Habitat for Humanity of Spartanburg, Inc. (a nonprofit organization) which comprise the statement of financial position as of June 30, 2023 and 2022, and the related statement of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Habitat for Humanity of Spartanburg, Inc. as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audit 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 Habitat for Humanity of Spartanburg, Inc. 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.

### Responsibility of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, 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 Habitat for Humanity of Spartanburg, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are issued.

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

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Habitat for Humanity of Spartanburg, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Habitat for Humanity of Spartanburg, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*Elliott & Painter, LLP*

Spartanburg, South Carolina  
November 14, 2023

Habitat for Humanity of Spartanburg, Inc.  
 Statements of Financial Position  
 June 30, 2023 and 2022

	2023	2022
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 321,445	\$ 731,569
Accounts receivable	13,801	4,480
Pledges receivable	40,425	22,772
Construction in progress	177,732	159,496
Mortgages receivable - current	300,819	291,707
Prepaid insurance	16,029	15,561
Total current assets	870,251	1,225,585
<b>Property and equipment</b>		
Land and improvements	120,000	120,000
Furniture and equipment	77,869	76,533
Trailers and vehicles	20,319	20,319
Pine Street building	604,018	593,948
	822,206	810,800
Less: accumulated depreciation	(362,834)	(340,870)
Total property and equipment	459,372	469,930
<b>Other assets</b>		
Spartanburg County Foundation account	94,804	88,613
Mortgages receivable - net of current portion	2,836,161	2,492,350
Operating lease right-of-use asset	14,085	
Land for development	203,156	237,951
Total other assets	3,148,206	2,818,914
<b>Total assets</b>	\$ 4,477,829	\$ 4,514,429

Habitat for Humanity of Spartanburg, Inc.  
 Statements of Financial Position  
 June 30, 2023 and 2022

	2023	2022
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 11,634	\$ 28,111
Accrued payroll liabilities	118,344	92,050
Current portion right-of-use operating lease liability	3,567	
Notes payable - current	9,126	16,792
<b>Total current liabilities</b>	<b>142,671</b>	<b>136,953</b>
<b>Long-term liabilities</b>		
Right-of-use operating lease liability - net of current portion	10,518	
Notes payable - net of current portion	126,037	130,264
<b>Total long-term liabilities</b>	<b>136,555</b>	<b>130,264</b>
<b>Total liabilities</b>	<b>279,226</b>	<b>267,217</b>
<b>Net assets</b>		
Without donor restrictions	3,943,226	3,775,988
With donor restrictions	255,377	471,224
<b>Total net assets</b>	<b>4,198,603</b>	<b>4,247,212</b>
<b>Total liabilities and net assets</b>	<b>\$ 4,477,829</b>	<b>\$ 4,514,429</b>

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

Habitat for Humanity of Spartanburg, Inc.  
Statements of Activities  
Years ended June 30, 2023 and 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support						
Contributions	\$ 459,938	\$ 80,472	\$ 540,410	\$ 457,923	\$ 357,854	\$ 815,777
ReStore sales	656,552		656,552	680,297		680,297
Transfers to homeowners	765,000		765,000	877,000		877,000
Noncash donations of land and appliances	25,444		25,444	13,283		13,283
PPP loan forgiveness				185,000		185,000
Other income	2,230		2,230	2,648		2,648
Investment return, net	6,191		6,191	(10,641)		(10,641)
Mortgage loan discount amortization	228,582		228,582	189,657		189,657
	<u>2,143,937</u>	<u>80,472</u>	<u>2,224,409</u>	<u>2,395,167</u>	<u>357,854</u>	<u>2,753,021</u>
	<u>296,319</u>	<u>(296,319)</u>		<u>180,948</u>	<u>(180,948)</u>	
Net assets released from restrictions						
	<u>2,440,256</u>	<u>(215,847)</u>	<u>2,224,409</u>	<u>2,576,115</u>	<u>176,906</u>	<u>2,753,021</u>
Total revenues, gains and other support						
Functional expenses						
Program services						
Construction	974,857		974,857	1,015,794		1,015,794
Family support	94,845		94,845	88,533		88,533
Discounts on mortgages	359,987		359,987	498,459		498,459
ReStore expenses	461,801		461,801	471,313		471,313
Supporting services						
Management and general	289,119		289,119	247,607		247,607
Fundraising	48,074		48,074	63,669		63,669
Golf tournament direct costs	29,335		29,335	26,171		26,171
	<u>2,258,018</u>		<u>2,258,018</u>	<u>2,411,546</u>		<u>2,411,546</u>
	<u>15,000</u>		<u>15,000</u>	<u>15,000</u>		<u>15,000</u>
Total functional expenses	<u>2,273,018</u>		<u>2,273,018</u>	<u>2,426,546</u>		<u>2,426,546</u>
Unallocated payment to affiliated organization						
	<u>167,238</u>	<u>(215,847)</u>	<u>(48,609)</u>	<u>149,569</u>	<u>176,906</u>	<u>326,475</u>
Increase (Decrease) in Net Assets						
	<u>3,775,988</u>	<u>471,224</u>	<u>4,247,212</u>	<u>3,626,419</u>	<u>294,318</u>	<u>3,920,737</u>
Net Assets - Beginning of Year						
	<u>\$ 3,943,226</u>	<u>\$ 255,377</u>	<u>\$ 4,198,603</u>	<u>\$ 3,775,988</u>	<u>\$ 471,224</u>	<u>\$ 4,247,212</u>

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

Habitat for Humanity of Spartanburg, Inc.  
 Statement of Functional Expenses  
 Year Ended June 30, 2023

	Program Services			Total Program Services	Supporting Services			Total Supporting Services	Total Expenses
	Construction	Family Support	Discounts on Mortgages		ReStore	Management and General	Fund Raising		
Salaries and benefits	\$ 388,837	\$ 83,883	\$ 359,987	\$ 361,053	\$ 169,464	\$ 39,954	\$	\$ 209,418	\$ 1,043,191
Mortgage discounts	541,862		359,987						359,987
Building material and supplies	6,645	1,594		31,717	3,400	240		3,640	43,596
Travel and auto expenses	28,542	7,529		32,309	38,857		29,335	68,192	136,572
Building expense and other	4,167	1,719		13,297	44,857	3,000		47,857	67,040
Office supplies and expenses	202			8,572	1,311			784	9,558
Interest	80	120			1,430	4,880		6,310	6,510
Training and education					10,000			10,000	10,000
Tithe to HFHI					17,210			17,210	17,210
Professional fees	970,335	94,845	359,987	446,948	286,529	48,074	29,335	363,938	2,236,053
Total before depreciation	4,522			14,853	2,590			2,590	21,965
Depreciation									
<b>Total Expenses</b>	<b>\$ 974,857</b>	<b>\$ 94,845</b>	<b>\$ 359,987</b>	<b>\$ 461,801</b>	<b>\$ 289,119</b>	<b>\$ 48,074</b>	<b>\$ 29,335</b>	<b>\$ 366,528</b>	<b>\$ 2,258,018</b>

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



Habitat for Humanity of Spartanburg, Inc.  
 Statement of Functional Expenses  
 Year Ended June 30, 2022

	Program Services		ReStore	Total Program Services	Supporting Services			Total Supporting Services	Total Expenses
	Family Support	Discounts on Mortgages			Management and General	Fund Raising	Golf Tourn. Costs		
Salaries and benefits	\$ 339,352	\$ 80,321	\$ 375,044	\$ 794,717	\$ 135,132	\$ 55,109	\$ 190,241	\$ 984,958	
Mortgage discounts		498,459		498,459				498,459	
Building material and supplies	640,325			640,325				640,325	
Travel and auto expenses	8,280	804	30,015	39,099	1,048	278	1,326	40,425	
Building expense and other	18,176	6,529	30,984	55,689	42,373	1,500	70,044	125,733	
Office supplies and expenses	3,095	854	15,476	19,425	26,326	3,000	29,326	48,751	
Interest	120		5,118	5,238	783		784	6,022	
Training and education	220	25		245	55	3,782	3,837	4,082	
Tithe to HFHI	1,750			1,750	10,000		10,000	10,000	
Professional fees					29,300		29,300	31,050	
Total before depreciation	1,011,318	88,533	456,637	2,054,947	245,017	63,669	334,857	2,389,804	
Depreciation	4,476		14,676	19,152	2,590		2,590	21,742	
<b>Total Expenses</b>	<b>\$ 1,015,794</b>	<b>\$ 88,533</b>	<b>\$ 471,313</b>	<b>\$ 2,074,099</b>	<b>\$ 247,607</b>	<b>\$ 63,669</b>	<b>\$ 337,447</b>	<b>\$ 2,411,546</b>	

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

Habitat for Humanity of Spartanburg, Inc.  
 Statements of Cash Flows  
 Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating activities		
Cash received from contributors	\$ 522,758	\$ 821,877
Cash received from ReStore sales	656,552	680,297
Interest received		55
Other income received	2,230	2,648
Cash paid to employees and suppliers	(1,850,244)	(1,833,762)
Interest paid	(9,558)	(6,022)
Net cash used in operating activities	<u>(678,262)</u>	<u>(334,907)</u>
Investing activities		
Purchase of fixed assets	(11,406)	(5,973)
Payments received on mortgages	291,437	305,828
Net cash provided by investing activities	<u>280,031</u>	<u>299,855</u>
Financing activities		
Payments on long term debt	(11,893)	(22,411)
Net cash used in financing activities	(11,893)	(22,411)
Net change in cash and cash equivalents	(410,124)	(57,463)
Cash and cash equivalents - beginning of year	731,569	789,032
Cash and cash equivalents - end of year	<u>\$ 321,445</u>	<u>\$ 731,569</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 9,558</u>	<u>\$ 6,022</u>
Non-cash: PPP loan forgiveness	<u>\$</u>	<u>\$ 185,000</u>

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

**Habitat for Humanity of Spartanburg, Inc.**  
**Notes to Financial Statements**

**Note 1 – Summary of Significant Accounting Policies**

This summary of significant accounting policies of Habitat for Humanity of Spartanburg, Inc. (Habitat), is presented to assist in understanding the financial statements. The financial statements and notes are representations of Habitat's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses.

**Organization**

Habitat, a nonprofit corporation, was incorporated on July 21, 1987, under the laws of the State of South Carolina. Habitat is a local affiliate of Habitat for Humanity International, a nondenominational, Christian nonprofit organization whose purpose is to create decent, affordable housing for those in need, and make decent shelter a matter of conscience with people everywhere. This is accomplished through a variety of home ownership opportunities and home repairs. The homeownership opportunities include construction of new builds, rehabs of acquired dwellings involving reconstruction or renovations, and recycles (homes previously built by Habitat and reacquired). The home repair services involve owner occupied houses in need of preservation, weatherization, or critical home repairs. Although Habitat for Humanity International assists with information resources, training, publications, prayer support and in other ways, Habitat is primarily and directly responsible for its own operations. Support for Habitat's program of services and operations is received from individuals, churches and other organizations located primarily in Spartanburg County, South Carolina.

**Financial Statement Presentation**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Net assets, support and revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Without Donor Restrictions:* Net assets available for use in general operations and not subject to donor restrictions. Grants and contributions gifted for recurring programs are generally not considered "restricted" under GAAP, though for internal reporting, Habitat tracks such grants and contributions to verify that the disbursement matches the intent. Assets restricted solely through the actions of the Board are reported as net assets without donor restrictions, board-designated.

*With Donor Restrictions:* Net assets subject to donor-imposed stipulations that are more restrictive than Habitat's mission and purpose. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when the restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor-imposed restrictions could potentially be perpetual in nature when the donor stipulates that resources be maintained in perpetuity.

**Basis of Accounting**

Habitat's financial statements have been prepared utilizing the accrual basis of accounting.

**Habitat for Humanity of Spartanburg, Inc.**  
**Notes to Financial Statements**

**Note 1 – (continued)****Tax Exempt Status**

Habitat has received exemption from income taxes under section 501(c)(3) of the Internal Revenue Code under a group exemption letter granted to Habitat for Humanity International by the Internal Revenue Service.

**Cash and Cash Equivalents**

Habitat considers all short-term, highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Pledges Receivable**

Habitat records pledges receivable if a donor has given written notification of their intent to give. Pledges receivable are not discounted due to being collected in less than one year.

**Mortgages Receivable**

Mortgages receivable consist of non-interest bearing mortgages which are secured by real estate and contracts for deed and are payable in monthly installments over the life of the mortgage or contract. No allowance for doubtful mortgages receivable is recorded by Habitat since substantially all mortgages are relatively current with payments and any defaulted mortgage would be foreclosed and the home resold for greater than the mortgage balance.

**Property, Equipment, and Improvements**

Property, equipment, and improvements are recorded at acquisition cost, including costs necessary to get the asset ready for its intended use, or estimated fair value on the date contributed. Depreciation expense is provided on a straight-line and accelerated basis over the estimated useful lives of the respective assets, as follows:

Furniture and equipment	5 to 7 years
Buildings and improvements	5 to 39 years

Depreciation expense for the years ended June 30, 2023 and 2022 was \$21,965 and \$21,742, respectively.

**Land for Development**

Land for development has been recorded at estimated fair value at the date donated to Habitat and is charged to construction cost when a house is substantially completed. Land for development charged to construction during the years ended June 30, 2023 and 2022, was \$46,796 and \$66,656, respectively.

**Contributions**

Unconditional promises to give are recognized as revenue when the underlying promises are received by Habitat. Gifts of cash or other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation.

**Habitat for Humanity of Spartanburg, Inc.**  
**Notes to Financial Statements**

**Note 1 – (continued)**

Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without donor restriction, (unless explicit donor stipulations specify how the donated assets are to be used) upon acquisition of the assets and the assets are placed in service.

**Contributed Nonfinancial Assets**

Donated land, buildings, equipment, investments and other noncash donations are recorded as contributions at their fair market value at their date of donation. The Organization reports the donations in the net assets without donor restrictions category, unless explicit restrictions specify how the assets must be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported in the net assets with donor restrictions category. Per FASB 2016-14 and absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Some volunteers have donated significant amounts of time to the Organization in furthering its programs and objectives. However, no amounts have been included in the financial statements for donated volunteer services since they do not meet the criteria for recognition.

**Transfers to Homeowners**

Transfers to homeowners are recorded at the gross selling price. Net closing costs are absorbed in the mortgage. Non-interest bearing mortgages have been discounted based upon prevailing market rates for low income housing at the inception of the mortgages. Utilizing the amortization rate, this discount is recognized as revenue over the term of the mortgage.

**ReStore Sales and Fund Raising Revenues**

ReStore sales represent the gross proceeds, net of returns, of sales of donated merchandise at the thrift store. Expenses of operating the thrift store including salaries, rent, and utilities have been shown as program services expenses and totaled \$461,801 and \$471,313 for the years ended June 30, 2023 and 2022, respectively.

**Functional Expenses**

Habitat allocates its expenses on a functional basis among its various programs and supporting services. Expenses that can be identified with a specific program and supporting service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated using estimates of employee time or space utilization as a basis for allocation.

**Financial Instruments**

Financial instruments consist of cash, investments, accounts receivable, accounts payable, and other accrued liabilities. Management is of the opinion that Habitat is not exposed to significant interest rate or credit risk arising from these instruments. Unless otherwise noted, the fair values of these financial instruments are the market values of these financial instruments and approximate their carrying values.

**Habitat for Humanity of Spartanburg, Inc.**  
**Notes to Financial Statements**

**Note 1 – (continued)****Leases**

The Organization is a lessee in 2 operating leases. If the contract provides the Organization the right to substantially all the economic benefits and right to direct the use of the identified asset, it is considered to be or contain a lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the present value of future lease payments over the expected lease term. ROU assets are also adjusted for any lease prepayments made, lease incentives received, and initial direct costs incurred.

Lease liabilities are initially and subsequently recognized based on the present value of their future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or rate. Increases (decreases) to variable lease payments due to subsequent changes in an index or rate are recorded as variable lease expense (income) in the future period in which they are incurred.

ROU assets for operating leases are subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) and prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized.

The Organization has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for those leases. Lease payments for short-term leases are recognized on a straight-line basis.

The Organization has elected to use the practical expedient to not separate lease and non-lease components for all leases.

The Organization has elected to use the risk-free rate determined using a period comparable to the lease terms as the discount rate for leases where the implicit rate is not readily determinable.

Right-of-use assets and liabilities as of June 30, 2023 are presented as separate line items on the Organization's statement of financial position.

**Fair Value Measurements**

The fair value of financial assets and liabilities is measured according to the Fair Value Measurements and Disclosures topic of the FASB Accounting Standards Codification. Fair value is required to be evaluated and adjusted according to the following valuation techniques:

Level 1 – Fair value is determined using quoted market prices in active markets for identical assets and liabilities.

Level 2 – Fair value is determined using quoted market prices in active markets for similar assets and liabilities, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant inputs are observable in the market for substantially the full term of the assets or liabilities.

Level 3 – Fair value is determined using inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The market for assets and liabilities using level 3 measures is typically inactive.

**Habitat for Humanity of Spartanburg, Inc.**  
**Notes to Financial Statements**

**Note 1 – (continued)****New Accounting Standards**

Effective July 1, 2022, Habitat adopted the provisions of Financial Accounting Standards Board ASC Topic 842 (ASU 2016-02), *Leases*. ASC 842 requires that a lease liability and related right-of-use asset representing the lessee's right to use or control the asset be recorded on the statement of financial position upon the commencement of all leases, except those with a term of twelve months or less. Leases are classified as either finance leases or operating leases. The Organization has elected to record in its financial statements the effect of FASB 842 as of the beginning of the year of adoption, which is July 1, 2022.

Accordingly, the Organization has recognized the right-of-use assets and lease liabilities measured under FASB ASC 842 in its statement of financial position, and the related cumulative effect on earnings as an adjustment to net assets, as of the adoption date. Adoption of FASB ASC 842 did not result in a change to beginning net assets without donor restrictions for the year ended June 30, 2023. The comparative year ending June 30, 2022 is presented under the provisions of FASB ASC 840.

*Leases (Topic 842) Discount Rate for Lessees that are not Public Entities (ASU 2021-9)* – Topic 842 currently provided lessees that are not public business entities with a practical expedient that allows them to elect, as an accounting policy, to use the risk-free rate election by class of underlying asset, rather than at the entity-wide level. An entity that makes the risk-free election is required to disclose which asset classes it had elected to apply a risk-free rate. The amendments require that when the rate implicit in the lease is readily determinable for any individual lease, the lessee use that rate (rather than the risk-free or incremental borrowing rate), regardless of whether it had made the risk-free election. Entities that have not yet adopted Topic 842 as of November 11, 2021 are required to adopt the amendments in this Update at the same time they adopt Topic 842. The Organization has adopted the provisions of FASB ASC 842 as of July 1, 2022 and has elected to use the risk-free rate for its office equipment class of leases.

Effective July 1, 2022, the Organization adopted the provisions of FASB ASU 2020-07, *Not-for-Profit Entities, (Topic 958), Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The amendments in this Update apply to nonprofit organizations that receive contributed nonfinancial assets (also referred to as gifts-in-kind) and addresses presentation and disclosure of those contributed nonfinancial assets. Under ASU 2020-07, organizations must present gifts-in-kind as a separate line item in the statement of activities, apart from gifts of cash and other financial assets. In addition to this presentation requirement, the gifts-in-kind must be further broken down into categories (fixed assets, supplies, contributed services, etc.) in the notes to the financial statements. For each category of contributed nonfinancial assets recognized in the financial statements, further footnote disclosures are required under the ASU, including whether the gifts-in-kinds were sold or used, among other disclosures. The provisions of ASU 2020-07 must be applied on a retrospective basis (meaning all periods presented in the comparative financial statements must reflect the requirements of the new standard). Adoption of this standard had no effect on net assets for the years ending June 30, 2023 or 2022.

**Note 2 – Concentrations of Custodial Credit Risk**

Habitat maintains its cash balances in one financial institution in which the balances are insured by the Federal Deposit Insurance Corporation. At June 30, 2023, Habitat's bank balances at this institution totaled \$334,432 and its book balances were \$293,167. At times the balances in these accounts exceed insured balances. Habitat does not have a formal deposit policy for custodial credit risk. Habitat has not experienced any losses on the uninsured cash balances and does not believe that it is exposed to any significant risk in connection, therewith.

Concentrations of credit risk with respect to mortgages receivable are limited due to the collateral held and the ability to reclaim, refurbish, and resale the home.

**Habitat for Humanity of Spartanburg, Inc.**  
**Notes to Financial Statements**

**Note 3 – Investments at Spartanburg County Foundation**

The Bob Breitweiser Habitat for Humanity Fund is held and managed by the Foundation as component funds for the benefit of Habitat. The Fund agreement calls for the principal and income of the fund to be devoted to annual distributions for the purpose of providing the means necessary to change lives by building decent affordable homes for families in need. The trust agreement grants variance power to the Foundation. The Foundation maintains an investment pool of various mutual funds and managed accounts. The investment pool is allocated to various sub-funds, including Habitat, based on a percentage of ownership interest in the market value of the investment pool. Distributions are made from the fund at the discretion of the Foundation.

The following table represents the investments that are measured at fair value on a recurring basis at June 30, 2023 and 2022:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Funds held at Spartanburg County Foundation	<u>\$ 94,804</u>	<u>\$</u>	<u>\$</u>	<u>\$ 94,804</u>
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Funds held at Spartanburg County Foundation	<u>\$ 88,613</u>	<u>\$</u>	<u>\$</u>	<u>\$ 88,613</u>

Level 3 consists of investments which are part of the joint investment account of the Spartanburg County Foundation and its fair value is based on the average value of the underlying investments determined at least monthly.

Investment return is presented net of investment fees on the statement of activities. Changes in the Foundation account for the years ended June 30, 2023 and 2022 were as follows:

	<u>2023</u>	<u>2022</u>
Beginning Balance	\$ 88,613	\$ 99,255
Dividends and interest	1,663	1,285
Realized and unrealized gains (losses)	5,198	(10,945)
Investment fees	(670)	(982)
Ending Balance	<u>\$ 94,804</u>	<u>\$ 88,613</u>

Gains and (losses) for the year ended June 30, 2023 of \$ (69) realized and \$5,267 unrealized and for the year ended June 30, 2022 of \$(100) realized and \$(10,845) unrealized are included in unrestricted revenues, gains and other support and are reported in realized and unrealized gains (losses) on investments in the statements of activities.



**Habitat for Humanity of Spartanburg, Inc.**  
**Notes to Financial Statements**

**Note 4 - Mortgages Receivable**

Mortgages receivable consist of non-interest bearing mortgages which are secured by real estate and contracts for deed and are payable in monthly installments. Most of the mortgages and contracts have original maturities ranging from 20 to 30 years and arose in connection with Habitat's homebuilding initiatives in Spartanburg, South Carolina. The mortgages and contract receivables at June 30, 2023 and 2022 are as follows:

	2023	2022
Receivables at face value	\$ 5,931,680	\$ 5,447,352
Less unamortized discount at 7.39% to 8.5%	(2,794,700)	(2,663,295)
	<u>\$ 3,136,980</u>	<u>\$ 2,784,057</u>

At June 30, 2023 these mortgages and contracts are receivable as follows:

<u>Year Ended June 30,</u>	
2024	\$ 300,819
2025	299,525
2026	296,331
2027	291,452
2028	287,906
Thereafter	4,455,647
	<u>\$ 5,931,680</u>

During the year ended June 30, 2023, four new non-interest bearing mortgage notes were accepted with a face value of \$631,747 and a discounted value of \$271,760. In addition, \$228,582 of mortgage loan discount amortization was recognized as revenue in the statement of activities during the year ended June 30, 2023.

**Note 5 – Home Construction Costs**

Costs incurred in conjunction with home construction are capitalized until completion of the home. Land costs are allocated to homes once construction is substantially complete. Following is a summary of home building activity:

	2023		2022	
	Units	Costs	Units	Costs
Homes under construction, beginning of period	4	\$ 159,496	3	\$ 143,528
New homes started during the period and additional construction costs	3	560,099	6	656,294
Homes transferred during the period	(4)	(541,863)	(5)	(640,326)
Homes under construction, end of period	<u>3</u>	<u>\$ 177,732</u>	<u>4</u>	<u>\$ 159,496</u>

**Habitat for Humanity of Spartanburg, Inc.**  
**Notes to Financial Statements**

**Note 6 – In-Kind Contributions**

In-kind contributions consisted of the following at June 30, 2023:

	<u>2023</u>	<u>2022</u>
Land for development	\$ 12,000	\$
Building materials	13,444	13,283
	<u>\$ 25,444</u>	<u>\$ 13,283</u>

Land for development was recorded at estimated fair value at the date donated to Habitat and will be charged to construction cost when a house is substantially completed. The donated materials were used in current year construction.

**Note 7 – Loan Servicing Agreement**

United Home Loan Service provides a range of services to include loan origination as well as servicing mortgages after closing. United Home Loan Service collect payments for principal, taxes, insurance and any other assessments. Amounts collected against the mortgage principal are remitted to Habitat net of the loan servicing fees. Funds received on the account of the loan debtor for the purpose of paying taxes, assessments, insurance premiums, or other similar purposes are retained and disbursed by the Bank. Loan servicing fees for the years ended June 30, 2023 and 2022 totaled \$13,375 and \$13,500, respectively.

**Note 8 – Notes Payable**

Notes payable at June 30, 2023 and 2022 consist of the following:

	<u>2023</u>	<u>2022</u>
A mortgage with interest rate of prime plus 0.25% (but not less than 3.75%). Monthly payments of \$1,652, including interest, are due through October 17, 2029. Collateralized by land, building and equipment located at 2270 South Pine Street, Spartanburg, South Carolina. Interest was 8.5% at June 30, 2023.	\$ 135,163	\$ 144,915
A note with interest rate of 2% annually. Quarterly payments of \$2,152, including interest, are due through October 22, 2022.		2,141
Subtotal	<u>135,163</u>	<u>147,056</u>
Less current portion	<u>9,126</u>	<u>16,792</u>
	<u>\$ 126,037</u>	<u>\$ 130,264</u>

**Habitat for Humanity of Spartanburg, Inc.**  
**Notes to Financial Statements**

**Note 8 – (continued)**

Future minimum principal payments over the next five years and in the aggregate are as follows:

Fiscal Year Ended June 30,		
2024	\$	9,126
2025		9,476
2026		10,314
2027		11,226
2028		12,218
Thereafter		82,803
	<u>\$</u>	<u>135,163</u>

Interest expense on long term debt totaled \$8,763 and \$6,022 for the years ended June 30, 2023 and 2022, respectively.

Habitat secured a revolving line of credit in July 2020. The maximum amount that can be outstanding is \$150,000, secured by real estate on Pine Street. The variable interest rate applicable to outstanding balances is the US prime index plus 1.54 points. The note matured July 20, 2022 and was renewed on September 1, 2022. The new line of credit matures July 20, 2024. There was no outstanding balance on the line of credit as of June 30, 2023.

**Paycheck Protection Program**

During the year ended June 30, 2021, Habitat Spartanburg applied for and received a \$185,000 loan from the Paycheck Protection Program (PPP), administered by the Small Business Association and provided by the CARES Act. In order to qualify for the forgiveness component, at least 75% of the proceeds were required to be used on payroll costs. Habitat met the qualifications for loan forgiveness and the loan was fully forgiven in the year ended June 30, 2022. This loan was forgiven during the year ended June 30, 2022. The forgiveness is shown on the Statement of Activities as “PPP loan forgiveness” in the year ended June 30, 2022.

**Note 9 – Net Assets with Donor Restrictions**

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

	2023	2022
Subject to expenditure for a specific purpose:		
Home construction and repairs	\$ 232,258	\$ 452,689
Americorp	15,587	17,478
Homeowner Gifts	1,332	1,057
Other	6,200	
	<u>\$ 255,377</u>	<u>\$ 471,224</u>

**Habitat for Humanity of Spartanburg, Inc.**  
**Notes to Financial Statements**

**Note 9 – (continued)**

Net assets released from donor restrictions by incurring expenses or satisfying restricted purposes are as follows:

	<u>2023</u>	<u>2022</u>
Subject to expenditure for a specific purpose:		
Home constructions and repairs	\$ 293,760	\$ 180,948
Homeowner Gifts	2,559	
	<u>\$ 296,319</u>	<u>\$ 180,948</u>

**Note 10 - Retirement Plan**

Effective March 2015, Habitat established a SIMPLE IRA Plan which covers all employees who are reasonably expected to receive at least \$5,000 in compensation in the calendar year or who have received at least \$5,000 during any one prior calendar year. Habitat matches employee contributions to the plan up to 3% of gross salaries. Plan expenses were \$5,962 and \$7,933 for the years ended June 30, 2023 and 2022, respectively.

**Note 11 – Leases**

Habitat entered into an operating truck lease with Ryder Truck Rental, Inc. on April 3, 2023, to lease a 2016 Isuzu truck for use with its thrift store. The lease is for 12 months and requires a monthly payment of \$1,271 plus 11.3 cents per mile driven. Habitat is responsible for reimbursing Ryder for all amounts it paid for licenses, taxes and permits on the vehicle which exceed the annual allowance amount of \$196. Ryder is responsible for maintenance and repairs.

Total payments on this lease during the year ended June 30, 2023 were \$5,745.

Habitat entered into an operating lease with Sangoma on September 22, 2022 to lease a telecom system. The lease is for 60 months and requires a monthly payment of \$297 per month.

The weighted-average discount rate is based on the discount rate implicit in the lease. The Organization has elected to use the risk-free rate determined using a period comparable to the lease terms as the discount rate for leases where the implicit rate is not readily determinable. The rate implicit in the lease was applied to the telecom lease.

**Habitat for Humanity of Spartanburg, Inc.**  
**Notes to Financial Statements**

**Note 11 – (continued)****Reported under FASB ASC 842 – year ended June 30, 2023**

<b>Lease cost</b>	
Operating lease cost	\$ 2,675
<b>Cash flow items</b>	
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows for operating leases	\$ 2,675
<b>Weighted-average information</b>	
Weighted-average remaining lease term in years	5
Weighted-average discount rate	3.90%
<b>Future minimum lease payments</b>	
2024	\$ 3,567
2025	3,567
2026	3,567
2027	3,567
2028	892
	\$ 15,160

**Note 12 - Transactions with Habitat for Humanity International**

Habitat annually remits a portion of its contributions (excluding noncash contributions) to Habitat for Humanity International. These funds are used to construct homes in economically depressed areas around the world. For each of the years ended June 30, 2023 and 2022, Habitat contributed \$10,000. Such amounts are included in program services expense on the statements of activities.

In November 2013, Habitat for Humanity International (HFHI) adopted a policy, U.S. Stewardship and Organizational Sustainability Initiative (US-SOSI), affecting its U.S. affiliated organizations of which Habitat is one. The policy requires all affiliates to pay an annual US-SOSI fee which is determined by population within the affiliate's approved Geographic Service Area. The purpose is to generate a revenue stream for HFHI to help offset a portion of the operational costs to assist U.S. affiliates and to use in leveraging the strength of the many for the benefit of all. The fee is \$15,000 annually. The fee is invoiced at the beginning of the fiscal year, and is due by July 31.

**Note 13 - Nonrecurring Fair Value Measurements**

The fair value of land donated to Habitat for development is measured on a nonrecurring basis in the year the land is donated. The valuation technique is considered a Level 3 valuation (significant unobservable inputs) and is based on the current market value of other properties in the area and the assessed tax values of the land donated as determined by the Spartanburg County Tax Assessor's office. During the year ended June 30, 2023, two lots valued at \$6,000 each were donated to Habitat.

**Habitat for Humanity of Spartanburg, Inc.**  
**Notes to Financial Statements**

**Note 14 - Neighborhood Initiative Program**

Effective May 8, 2015, Habitat entered into a Neighborhood Initiative Program (NIP) Award Agreement with SC Housing Corp. (SCHC), the City of Spartanburg and four other partners each a nonprofit entity. The SCHC will provide NIP funds to these organizations to be used to acquire and demolish blighted residential structures. Habitat is eligible to receive up to \$35,000 per home for four homes in the Northside Area and four homes in the Southside area. As of June 30, 2022, Habitat had acquired nine lots and demolished the structure on another lot it owned through this program. A total of \$112,613 has been received from the City. There is a three-year forgivable mortgage on each property from the date of the note modification agreement which is entered into once the demolition is complete that requires Habitat to hold the land for three years before disposing of it. There were no purchases of property with NIP funds in fiscal year 2023 or 2022, therefore no revenue was recorded for June 30, 2023 or 2022. None of the NIP revenue has been included in the restricted net assets or revenue with donor restrictions due to the time restriction being satisfied or Habitat's ability to get a waiver on the three year holding period.

**Note 15 – Liquidity**

Habitat has \$476,674 of financial assets that are available within one year of the statement of financial position date to meet cash needs for general expenditures consisting of cash of \$321,445, pledges receivable of \$60,425, and investments of \$94,804. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. The contribution receivable is expected to be collected within one year. As part of Habitat's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

**Note 16 - Subsequent Events**

Habitat sold 3 mortgages with a total balance of \$315,264 to Carolina Foothills Credit Union in September of 2023. \$251,415 cash was received and a discount expense of \$63,599 was recognized. Related legal expenses were \$250.

Subsequent events have been evaluated through November 14, 2023, which is the date the financial statements were available to be issued.