

Habitat for Humanity/Lenawee County, Inc.
Financial Statements
Year Ended June 30, 2023



Habitat for Humanity/Lenawee County, Inc.

Financial Statements

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Independent Auditor's Report

To the Board of Directors
Habitat for Humanity/Lenawee County, Inc.
Adrian, Michigan

Opinion

We have audited the accompanying financial statements of Habitat for Humanity/Lenawee County, Inc. (Habitat), a Nonprofit Organization, which comprise the statement of financial position as of June 30, 2023, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity /Lenawee County, Inc. as of June 30, 2023, 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. 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 and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Your partner in financial statement auditing and all things accounting.

Phone: 517.945.3312 - Meredith@MeredithFrancis.com

To the Board of Directors
Habitat for Humanity/Lenawee County, Inc.
Adrian, Michigan

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 generally accepted auditing standards 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 generally accepted auditing standards, 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'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'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.

Report on Summarized Comparative Information

We have previously audited Habitat's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 21, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Meredith Francis, CPA, P.C.

Adrian, Michigan
October 16, 2023

Habitat for Humanity/Lenawee County, Inc.

Statements of Financial Position

June 30, 2023 and 2022

	2023	2022
Assets		
Current assets		
Cash and cash equivalents	\$ 60,250	\$ 68,607
Restricted cash	115,467	88,493
Escrow accounts	14,168	18,136
Accounts receivable	565	685
Inventory	31,822	32,002
Current portion of mortgage and land contracts receivable	87,575	87,632
Total current assets	309,847	295,555
Noncurrent assets		
Noncurrent portion of mortgage and land contracts receivable (net of discount of \$91,778 and \$171,156 respectively)	593	72,851
Land	11,250	19,705
Construction in progress	65,719	139,970
Right-of-use asset	1,197,635	1,344,844
Leasehold improvements	314,518	309,947
Office equipment	19,921	19,921
Equipment	15,736	15,736
Leased equipment	2,396	2,396
Vehicle	99,526	15,120
Less: accumulated amortization	(2,396)	(2,396)
Less: accumulated depreciation	(107,621)	(80,807)
Total assets	1,927,124	2,152,842
Liabilities and Net Assets		
Current liabilities		
Accounts payable	32,936	6,029
Accrued expenses	1,217,473	1,350,425
Escrow payable	14,168	18,136
Current portion of loans payable	39,801	54,050
Total current liabilities	1,304,378	1,428,640
Noncurrent liabilities		
Noncurrent portion of loans payable	73,045	110,968
Total liabilities	1,377,423	1,539,608
Net assets		
With donor restrictions	44,004	19,250
Without donor restrictions	505,697	593,984
Total net assets	549,701	613,234
Total liabilities and net assets	\$ 1,927,124	\$ 2,152,842

The accompanying notes are an integral part of this statement.

Habitat for Humanity/Lenawee County, Inc.

Statements of Activities

**For the Year Ended June 30, 2023
With Comparative Totals for the year ended June 30, 2022**

	Without Donor Restrictions	With Donor Restrictions	2023	2022
Operating revenues, gains and other support				
Contributions	\$ 59,517	145,058	\$ 204,575	\$ 142,122
Contributions - in kind	25,456	-	25,456	32,153
Home sales and projects	150,500	-	150,500	164,012
Restore sales	525,555	-	525,555	477,356
Mortgage discount	79,378	-	79,378	26,009
Late fees	285	-	285	262
Special event revenue	72,901	10,500	83,401	62,262
Less: costs of direct benefits to donors	(10,319)	-	(10,319)	(5,180)
Programmatic investing return	966	-	966	955
Other income	31,464	-	31,464	14,428
Net assets released from restrictions (Note 9):				
Satisfaction of program restrictions	130,804	(130,804)	-	-
Total operating revenues, gains and other support	1,066,507	24,754	1,091,261	914,379
Operating expenses				
Home construction	388,703	-	388,703	417,633
Restore	377,315	-	377,315	252,263
International tithes	8,417	-	8,417	11,639
General and administrative	305,264	-	305,264	148,022
Fund-raising	83,438	-	83,438	87,819
Total operating expenses	1,163,137	-	1,163,137	917,376
Nonoperating activities				
Gain (loss) on disposition of assets	8,343	-	8,343	-
Change in net assets	(88,287)	24,754	(63,533)	(2,997)
Net assets at the beginning of the year	593,984	19,250	613,234	616,231
Net assets at the end of the year	<u>\$ 505,697</u>	<u>\$ 44,004</u>	<u>\$ 549,701</u>	<u>\$ 613,234</u>

The accompanying notes are an integral part of this statement.

Habitat for Humanity/Lenawee County, Inc.

Statements of Functional Expenses

**For the Year Ended June 30, 2023
With Comparative Totals for the year ended June 30, 2022**

	<u>Construction</u>	<u>Restore</u>	<u>Total Programs</u>	<u>General & Administrative</u>	<u>Fund Raising</u>	<u>Total 2023</u>	<u>Total 2022</u>
Cost of sales	\$ 183,544	\$ 45,198	\$ 228,742	\$ -	\$ -	\$ 228,742	\$ 214,134
Salaries	138,565	176,390	314,955	163,937	51,450	530,342	350,632
Payroll taxes	12,517	13,421	25,938	8,871	4,195	39,004	39,413
Employee benefits	8,598	5,846	14,444	15,719	5,137	35,300	45,062
Professional fees	-	-	-	24,342	-	24,342	13,896
Client assistance	12,000	-	12,000	-	-	12,000	-
Occupancy	0	68,961	68,961	28,047	-	97,008	67,498
Interest expense	-	-	-	5,292	5	5,297	4,392
Printing, postage & publications	93	-	93	821	1,274	2,188	4,002
Office supplies	340	1,658	1,998	11,683	-	13,681	11,194
Information technology	1,116	-	1,116	6,424	-	7,540	15,445
Telephone and internet	3,200	1,745	4,945	4,021	-	8,966	7,280
Travel expense	1,025	8,047	9,072	3,254	-	12,326	6,460
Meetings	5,866	-	5,866	1,837	-	7,703	7,193
Depreciation and amortization	1,492	17,144	18,636	8,178	-	26,814	14,712
Insurance	8,674	9,558	18,232	8,675	-	26,907	29,490
Membership fees	5,000	-	5,000	580	175	5,755	6,262
Bank charges	2,195	9,390	11,585	-	-	11,585	10,639
Public relations	73	7,892	7,965	2,848	4,643	15,456	6,353
Utilities	-	7,071	7,071	4,713	-	11,784	11,804
Supplies	4,255	894	5,149	3,917	16,559	25,625	38,907
Equipment lease	-	4,100	4,100	-	-	4,100	4,100
Miscellaneous	150	-	150	2,105	-	2,255	2,049
Total expenses	<u>\$ 388,703</u>	<u>\$ 377,315</u>	<u>\$ 766,018</u>	<u>\$ 305,264</u>	<u>\$ 83,438</u>	<u>\$ 1,154,720</u>	<u>\$ 910,917</u>

The accompanying notes are an integral part of this statement.

Habitat for Humanity/Lenawee County, Inc.

Statements of Cash Flows

**For the Year Ended June 30, 2023
With Comparative Totals for the year ended June 30, 2022**

Increase (Decrease) In Cash

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Cash received from donors	\$ 177,601	\$ 144,458
Cash from special events	73,082	57,082
Cash from program income and grants	757,118	677,472
Cash from other	31,464	14,428
Interest received	966	955
Interest paid	(5,297)	(4,392)
Cash paid for program and other expenses	<u>(1,104,237)</u>	<u>(879,913)</u>
Net cash provided by (used in) operating activities	<u>(69,303)</u>	<u>10,090</u>
Cash flows from investing activities		
Home purchases	(85,931)	(97,936)
Property asset purchases	(88,977)	(16,788)
Proceeds from sale of assets	<u>315,000</u>	<u>49,407</u>
Net cash provided by (used in) investing activities	<u>140,092</u>	<u>(65,317)</u>
Cash flows from financing activities		
Repayment of loans payable	<u>(52,172)</u>	<u>(152,895)</u>
Net cash used in financing activities	<u>(52,172)</u>	<u>(152,895)</u>
Increase (decrease) in cash	18,617	(208,122)
Cash at beginning of year	<u>157,100</u>	<u>365,222</u>
Cash at end of year	<u><u>\$ 175,717</u></u>	<u><u>\$ 157,100</u></u>
 Non-cash activity:		
Home purchases (not shown in above figures)	\$ 162,863	\$ 55,826

The accompanying notes are an integral part of this statement.

Habitat for Humanity/Lenawee County, Inc.

Statements of Cash Flows

For the Year Ended June 30, 2023
With Comparative Totals for the year ended June 30, 2022

Reconciliation of Change in Net Assets to Net Cash
Provided by Operating Activities

	<u>2023</u>	<u>2022</u>
Change in net assets	\$ (63,533)	\$ (2,997)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	26,814	14,712
Mortgage discount	(79,378)	(26,009)
Contributed services and materials included in projects	(25,456)	(32,153)
(Increase) decrease in:		
Accounts receivable	72,435	35,842
Restricted cash	(26,974)	2,336
Prepaid expenses	-	9,620
Increase (decrease) in:		
Accounts payable	26,907	853
Accrued expenses	(298)	(132)
Total adjustments	<u>(5,770)</u>	<u>13,087</u>
Net cash provided by (used in) operating activities	<u>\$ (69,303)</u>	<u>\$ 10,090</u>

The accompanying notes are an integral part of this statement.

Habitat for Humanity/Lenawee County, Inc.

Notes to Financial Statements

June 30, 2023

1. Principal Activity and Significant Accounting Policies

Organization

Habitat for Humanity/Lenawee County, Inc. (“Habitat”) is a Michigan Non-Profit Corporation. Habitat for Humanity envisions a world where everyone has a decent place to live. The mission of Habitat is *“Seeking to put God’s love into action, Habitat for Humanity for Lenawee County brings people together to build homes, community, and hope.”* Habitat builds, renovates and repairs homes in Lenawee County, Michigan. Habitat’s major sources of revenue are home sales, philanthropic contributions and ReStore proceeds.

Comparative Financial Information

The accompanying financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with our audited financial statements for the year ended June 30, 2022, from which the summarized information was derived.

Cash, Cash Equivalents and Restricted Cash

Habitat considers all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

Restricted cash represents amounts received from grantors or donors with either time or purpose restrictions.

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due from down payment assistance grants from the Michigan State Housing Development Authority (MSHDA). Habitat determines the allowance for uncollectible accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectible. At June 30, 2023, there was no allowance for uncollectible accounts.

Inventory

Purchased inventory is recorded at the lower of cost or market determined by the specific identification method. Inventories represent building materials and materials to be sold in the ReStore. Donated inventory items are not valued until the time of sale.

Property and Equipment

Habitat records property and equipment additions over \$3,500 at cost, or if donated, at fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation are removed from the accounts, and any resulting gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

Habitat for Humanity/Lenawee County, Inc.

Notes to Financial Statements

June 30, 2023

1. Principal Activity and Significant Accounting Policies (Continued)

Leases

Habitat adopted ASC 842, *Leases*, effective July 1, 2022. Refer to Note 8 for further discussion of the impact of adoption.

Habitat determines if an arrangement is a lease at inception. All leases are recorded on the statements of financial position except for leases with an initial term less than 12 months for which Habitat made the short-term lease election.

Operating lease right-of-use assets (ROU) and lease liabilities are recognized at the lease commencement date based on the present value of the lease payments over the lease term. ROU assets also include adjustments related to lease payments made and lease incentives received at or before the commencement date. The ROU assets resulting from operating leases are included in Other assets and the related liabilities are included in Accrued expenses in the statements of financial position. The ROU assets and lease liabilities, all of which arise from operating leases, were calculated based on the present value of future lease payments over the lease terms. Habitat has made an accounting policy election to use a risk-free rate in lieu of its incremental borrowing rate to discount future lease payments. Operating lease cost is recognized on a straight-line basis over the lease term within operating expenses in the statements of activities. Lease and non-lease components of lease agreements are accounted for separately. Lease terms may include options to extend or terminate the lease when it is reasonably certain that Habitat will exercise that option.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of Habitat 's management and the board of directors.

Net assets with donor restrictions: Net assets subject to donor (or certain grantor) restrictions. 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. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Donor-imposed restrictions are released when a 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.

Revenue and Revenue Recognition

Habitat recognizes revenue from home sales when ownership is transferred to the buyer and ReStore program revenue when purchased by customers. Habitat records special events revenue equal to the fair value of direct benefits to donors, and contribution revenue for the difference.

Habitat recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

Habitat for Humanity/Lenawee County, Inc.

Notes to Financial Statements

June 30, 2023

1. Principal Activity and Significant Accounting Policies (Continued)

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to our program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. We record donated professional services at the respective fair values of the services received (Note 10).

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include occupancy, depreciation, insurance and interest, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, which are allocated on the basis of estimates of time and effort.

Income Taxes

Habitat is organized as a Michigan nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under IRC Section 501(a) as an organization described in IRC Section 501(c)(3), qualifies for the charitable contribution deduction, and has been determined not to be a private foundation. We are annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, it is subject to income tax on net income that is derived from business activities that are unrelated to our exempt purposes. We have determined that we are not subject to unrelated business income tax and have not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS. According to the IRS's statute of limitations, there are three years, 2020-2022, of Form 990 information returns that are potentially subject to examination.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The COVID-19 pandemic has created and may continue to create significant uncertainty in macroeconomic conditions, which may cause further business disruptions and adversely impact our results of operations. As a result, many of our estimates and assumptions required increased judgment and carry a higher degree of variability and volatility. As events continue to evolve and additional information becomes available, our actual results could materially differ from those estimates in future periods.

Financial Instruments and Credit Risk

Habitat manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by us to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, Habitat has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from Board members, governmental agencies, and/or foundations supportive of our mission.

Habitat for Humanity/Lenawee County, Inc.

Notes to Financial Statements

June 30, 2023

1. Principal Activity and Significant Accounting Policies (Concluded)

Recently adopted accounting standards

Habitat adopted ASC 842, *Leases*, which requires lessees to recognize leases on the statement of financial position as right-of-use (ROU) assets and lease liabilities based on the value of the discounted future lease payments. In adopting ASC 842, Habitat elected to use practical expedients, including but not limited to, not reassessing past lease and easement accounting, and not recording assets or liabilities for leases with terms of one year or less.

2. Availability and Liquidity

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, comprise the following:

	<u>2023</u>	<u>2022</u>
Cash	\$ 60,250	\$ 68,607
Accounts receivable	565	685
Loan proceeds expected to be released from purpose accomplishments	38,801	30,289
Other cash expected to be released from purpose accomplishments	44,004	19,250
Current portion of mortgage and repair receivables	<u>87,575</u>	<u>87,632</u>
Financial assets available	<u>\$ 231,195</u>	<u>\$ 206,463</u>

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 date of the statement of financial position. To help manage unanticipated liquidity needs, Habitat can withdraw from established lines of credit (see Note 6) with a local bank.

3. Inventory

Inventory consists of the following as of June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Construction materials	\$ 7,904	\$ 2,000
Purchased inventory	<u>23,918</u>	<u>30,002</u>
Total	<u>\$ 31,822</u>	<u>\$ 32,002</u>

Habitat for Humanity/Lenawee County, Inc.

Notes to Financial Statements

June 30, 2023

4. Mortgage, Land Contract and Project Receivables

In previous years, Habitat sold properties to homeowners without any interest charge. Receivables are reported at cost, equal to the sales price of the home, and secured by the property. In the event that a homeowner defaults on the mortgage or land contract, Habitat reacquires the property and sells it to another homeowner. A mortgage loan is issued with a face value equal to the purchase price of the house. At the point of those sales, a mortgage discount was estimated using the current market interest rate of similar mortgages and amortized over the life of the mortgage. Current practice is to sell the properties to homeowners through a partnership with a local financial institution. The local financial institution issues and collects the mortgage from Habitat homeowners.

The current portion of contracts receivable at the year-end consists of the principal payments due during the following year. Management estimates the amount of doubtful accounts based on historical measures and existing economic conditions. When receivables are deemed uncollectible, they are written off. At June 30, 2023 and 2022, total current mortgage and repair projects receivable are \$179,492 and \$454, and \$327,944 and \$3,695, respectively, which are deemed collectible.

An analysis follows:

	<u>Current</u>	<u>30 Days</u>	<u>Past Due 60 Days</u>	<u>90+ Days</u>	<u>Total</u>
Mortgages receivable	\$ 126,469	\$ 53,023	\$ -	\$ -	\$ 179,492
Repair projects receivable	209	-	-	245	454
Total receivables	<u>\$ 126,678</u>	<u>\$ 53,023</u>	<u>\$ -</u>	<u>\$ 245</u>	<u>\$ 179,946</u>

Habitat for Humanity/Lenawee County, Inc.

Notes to Financial Statements

June 30, 2023

5. Property and Equipment

A summary of capital assets follows:

	Balance July 1, 2022	Additions	Deletions	Balance June 30, 2023
Nondepreciable assets:				
Land	\$ 19,705	\$ 6,125	\$ 14,580	\$ 11,250
Construction in progress	139,970	242,669	316,920	65,719
Total nondepreciable assets	159,675	248,794	331,500	76,969
Depreciable assets:				
Leasehold improvements	309,947	4,571	-	314,518
Office equipment	19,921	-	-	19,921
Equipment	15,736	-	-	15,736
Leased equipment	2,396	-	-	2,396
Vehicle	15,120	84,406	-	99,526
Total depreciable assets	363,120	88,977	-	452,097
Less: accumulated amortization	(2,396)	-	-	(2,396)
Less: accumulated depreciation	(80,807)	(26,814)	-	(107,621)
Total of accumulated depreciation and amortization	(83,203)	(26,814)	-	(110,017)
Net capital assets	<u>\$ 439,592</u>	<u>\$ 310,957</u>	<u>\$ 331,500</u>	<u>\$ 419,049</u>

Current year additions include lighting in the ReStore building and final office renovations and an awning. Depreciation expense at June 30, 2023 and 2022 was \$26,814 and \$14,712, respectively. Amortization expense at June 30, 2023 and 2022 was \$0 and \$0, respectively.

6. Line of Credit

Habitat has established a renewable line of credit with First Federal Bank of \$125,000 at an interest rate of 4.25%. The line of credit is due January 30, 2023 however, Habitat expects to refinance this line of credit and any balance owed at the due date. At June 30, 2023, the balance of this line of credit was \$0. The interest expense for the years ended June 30, 2023 and 2022 was \$0 and \$0, respectively.

Habitat for Humanity/Lenawee County, Inc.

Notes to Financial Statements

June 30, 2023

7. Loans Payable

Habitat is obligated by a loan from the Adrian Dominican Sisters, with proceeds restricted for the construction program in the next fiscal year. The rate of interest is 2.00% with a maturity date of December 15, 2023. Payments are due quarterly based on an agreed upon amortization schedule.

Habitat is obligated by a loan from the Adrian Dominican Sisters, to renovate and expand its ReStore to include office space. The rate of interest is 2.00% with a maturity date of May 15, 2026. Payments are due quarterly based on an agreed upon amortization schedule. This loan is secured by Habitat's mortgage receivables.

On June 25, 2022, Habitat qualified for a received an Economic Injury Disaster Loan issued by the Small Business Administration for \$25,000 at an interest rate of 2.75%. The loan is due June 2050, however Habitat is electing to make accelerated payments.

The interest expense related to these loans for the years ended June 30, 2023 and 2022 was \$4,541 and \$3,011, respectively.

A schedule of payments follows:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 39,801	\$ 2,077	\$ 41,878
2025	24,702	1,462	26,164
2026	25,213	955	26,168
2027	1,179	621	1,800
2028	1,211	589	1,800
2029-2033	6,583	2,417	9,000
2034-2038	7,551	1,449	9,000
2039-2042	6,606	363	6,969
	<u>\$ 112,846</u>	<u>\$ 9,933</u>	<u>\$ 122,779</u>

Habitat for Humanity/Lenawee County, Inc.

Notes to Financial Statements

June 30, 2023

8. Leases

Habitat evaluated current contracts to determine which met the criteria of a lease. The right-of-use (ROU) assets represent Habitat's right to use underlying assets for the lease term, and the lease liabilities represent Habitat's obligation to make lease payments arising from these leases. The ROU assets and lease liabilities, all of which arise from operating leases, were calculated based on the present value of future lease payments over the lease terms. Habitat has made an accounting policy election to use a risk-free rate in lieu of its incremental borrowing rate to discount future lease payments. The weighted-average discount rate applied to calculate lease liabilities as of June 30, 2023, was 2.85%.

Habitat primarily leases space for its operations, for a renewable term of five years ending April 2025, with an option to extend to April 2055. Habitat intends to renew until the full term expires. For the year ended June 30, 2023, total operating lease cost was \$59,541 and \$59,541, respectively. As of June 30, 2023, the weighted-average remaining lease term for Habitat's operating leases was approximately 33 years.

Cash paid for operating leases for the years ended June 30, 2023 and 2022 were \$71,619 and \$57,204, respectively. There were no noncash investing and financing transactions related to leasing.

Future maturities of lease liabilities are presented in the following table:

<u>Year Ending June 30,</u>	<u>Building Lease</u>
2024	\$ 57,972
2025	57,972
2026	57,972
2027	57,972
2028	57,972
Thereafter	1,555,582
Total lease payments	1,845,442
Less: present value discount	(633,252)
Total lease obligations	<u>\$ 1,212,190</u>

9. Net Assets with Donor Restrictions

Contributions were received throughout the year with donor restrictions. As of June 30, 2023, net assets with donor restrictions were for the following activities.

	<u>2023</u>	<u>2022</u>
Subject to expenditure for specified purpose:		
Construction program	\$ 17,964	\$ 7,200
General operations	25,990	11,000
Endowment fund	50	50
ReStore	-	1,000
Total net assets with donor restrictions	<u>\$ 44,004</u>	<u>\$ 19,250</u>

Habitat for Humanity/Lenawee County, Inc.

Notes to Financial Statements

June 30, 2023

9. Net Assets with Donor Restrictions (Concluded)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors, as follows.

	<u>2023</u>	<u>2022</u>
Purpose restrictions accomplished:		
Construction	\$ 34,355	\$ 65,360
ReStore	72,000	6,999
General operations	<u>13,949</u>	<u>11,000</u>
Total restrictions released	<u><u>\$ 130,804</u></u>	<u><u>\$ 83,359</u></u>

10. Donated Professional Services and Materials

Habitat received contributed professional services valued at \$9,700, for its Construction Program and ReStore activities.

Habitat received a vehicle with a value of \$6,170 for its ReStore Program and a property valued at \$5,000 for its Construction Program. Another \$4,586 of materials were received for general operations. A donation of materials for the ReStore is not valued or carried in inventories. The items are considered to have no value or indeterminate value until someone purchases them.

11. Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including October 16, 2023, which is the date the financial statements were available to be issued.