BLUE RIDGE HABITAT FOR HUMANITY, INC.
AND SUBSIDIARY

Winchester, Virginia

FINANCIAL REPORT

JUNE 30, 2023

OFFICERS

Terri Hirst, President
Rachel Hite, Vice President
Millie Ketron, Treasurer
Cary Kimble, Secretary

DIRECTORS

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Greg Bowman
Wendy Connor
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INDEPENDENT AUDITOR'S REPORT

To the Officers and Directors
Blue Ridge Habitat for Humanity, Inc.
Winchester, Virginia

Opinion

We have audited the consolidated financial statements of Blue Ridge Habitat for Humanity, Inc. and Subsidiary (the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, "the financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Blue Ridge Habitat for Humanity, Inc. and Subsidiary as of June 30, 2023 and 2022, and the changes in its net assets, functional expenses, 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 (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement 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 the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
February 20, 2024

BLUE RIDGE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

Consolidated Statements of Financial Position

June 30, 2023 and 2022

Assets	2023	2022
Cash	$ 1,432,610	$ 676,759
Certificates of deposit	100,975	- -
Investments	8,049	7,842
Grants and other receivables	6,250	126,534
ReStore inventory	19,048	57,561
Construction in progress	853,403	985,386
Property held for development	191,424	330,088
Noninterest-bearing mortgage loans	2,250,221	3,172,776
Discount on noninterest-bearing mortgage loans	(1,117,146)	(1,673,108)
Other note receivable	- -	24,243
Beneficial interest in assets held by the Community Foundation of the Northern Shenandoah Valley	49,540	45,075
Property and equipment, net of accumulated depreciation	3,773,146	1,163,138
Other assets and prepaid expenses	31,487	24,922
Right-of-use assets - operating	18,472	- -
Total assets	$ 7,617,479	$ 4,941,216
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 52,852	$ 143,005
Accrued other expenses	31,996	23,726
Accrued payroll taxes	5,298	835
Accrued sales taxes	- -	2,985
Accrued rent	- -	45,590
Refundable advances	502,206	31,720
Homeowner and tenant deposits	12,897	10,450
Notes payable	2,369,738	37,201
Operating lease liabilities	22,751	- -
Total liabilities	2,997,738	295,512
Net Assets		
Without donor restrictions	4,593,897	4,633,565
With donor restrictions	25,844	12,139
Total net assets	4,619,741	4,645,704
Total liabilities and net assets	$ 7,617,479	$ 4,941,216

See Notes to Consolidated Financial Statements.

BLUE RIDGE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

Consolidated Statements of Activities

For the Years Ended June 30, 2023 and 2022

Changes in net assets without donor restrictions:	**2023**	**2022**
Revenues:		
Contributions of cash and other financial assets	$ 723,799	$ 547,601
Contributions of nonfinancial assets	16,762	10,585
Fundraising, net of special event expenses	- -	305
ReStore sales, net of operating expenses of $519,564 in 2023 and $501,249 in 2022	103,108	204,431
Transfers to homeowners	1,218,605	765,396
Construction repair income	19,002	34,743
Rental income	85,876	102,318
Investment return, net	8,655	1,227
Mortgage loan discount amortization	554,130	105,273
Miscellaneous	1,695	3,602
(Loss) gain on disposal of assets	(148,969)	260,836
Net increase (decrease) in beneficial interest in assets held	4,465	(6,397)
Total revenue before releases	2,587,128	2,029,920
Net assets released from restrictions:		
Satisfaction of program restrictions	92,378	86,619
Total revenue without donor restrictions	2,679,506	2,116,539
Expenses:		
Program services	2,467,065	1,670,667
Supporting services:		
Management and general	159,119	135,939
Fundraising	85,490	80,258
Total supporting services	244,609	216,197
Unallocated payments to international organizations:		
SOSI fee	7,500	7,500
Total expenses	2,719,174	1,894,364
Changes in net assets without donor restrictions	(39,668)	222,175

See Notes to Consolidated Financial Statements.

BLUE RIDGE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

Consolidated Statements of Activities (continued)
For the Years Ended June 30, 2023 and 2022

Changes in net assets with donor restrictions:	**2023**	**2022**
Revenues:		
Grants and contributions	106,083	60,780
Net assets released from restrictions:		
Satisfaction of program restrictions	(92,378)	(86,619)
Changes in net assets with donor restrictions	13,705	(25,839)
Changes in total net assets	$ (25,963)	$ 196,336
Net assets, beginning of year		
Without donor restrictions	$ 4,633,565	$ 4,411,390
With donor restrictions	12,139	37,978
Total net assets, beginning of year	$ 4,645,704	$ 4,449,368
Net assets, end of year		
Without donor restrictions	$ 4,593,897	$ 4,633,565
With donor restrictions	25,844	12,139
Total net assets, end of year	$ 4,619,741	$ 4,645,704

See Notes to Consolidated Financial Statements.

BLUE RIDGE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2023

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Supporting Services: Subtotal	ReStore Program Costs	Total
Accounting	$ - -	$ 27,020	$ - -	$ 27,020	$ - -	$ 27,020
Advertising	1,866	18	3,752	5,636	198	5,834
Appreciation costs	500	200	10	710	- -	710
Auto and hauling	4,741	- -	- -	4,741	5,549	10,290
Conferences and meetings	1,154	5,800	99	7,053	60	7,113
Cost of sales	- -	- -	- -	- -	85,714	85,714
Credit card fees	- -	- -	- -	- -	11,418	11,418
Depreciation and amortization	12,896	25,791	12,896	51,583	- -	51,583
Dues and licenses	7,723	3,485	- -	11,208	609	11,817
Housing construction, rehabilitation and rental maintenance costs	1,949,962	- -	- -	1,949,962	- -	1,949,962
Insurance	18,469	9,701	1,940	30,110	14,331	44,441
Internet and computer expense	1,006	4,292	2,274	7,572	391	7,963
Miscellaneous	6,309	3,251	20	9,580	564	10,144
Office supplies	6,275	1,090	152	7,517	1,155	8,672
Payroll and benefit expense	359,339	50,385	52,144	461,868	252,410	714,278
Payroll taxes	23,546	8,397	3,338	35,281	15,294	50,575
Printing and postage	744	- -	- -	744	- -	744
Professional services	33,596	4,328	146	38,070	- -	38,070
Property taxes	8,691	- -	- -	8,691	1,850	10,541
Rent expense	16,633	5,546	5,544	27,723	83,167	110,890
Repairs and maintenance	3,610	2,366	1,183	7,159	6,453	13,612
Tithes and contributions	- -	5,129	- -	5,129	- -	5,129
Travel	771	- -	- -	771	78	849
Utilities and telephone	9,234	2,320	1,992	13,546	40,323	53,869
Total	$ 2,467,065	$ 159,119	$ 85,490	$ 2,711,674	$ 519,564	$ 3,231,238

See Notes to Consolidated Financial Statements.

BLUE RIDGE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2022

		Supporting Services				
	Program Services	**Management and General**	**Fundraising**	**Subtotal**	**ReStore Program Costs**	**Total**
Accounting	$ - -	$ 28,400	$ - -	$ 28,400	$ - -	$ 28,400
Advertising	2,268	- -	2,804	5,072	7,676	12,748
Appreciation costs	458	- -	153	611	- -	611
Auto and hauling	5,369	- -	- -	5,369	5,561	10,930
Conferences and meetings	5,929	4,776	27	10,732	600	11,332
Cost of sales	- -	- -	- -	- -	32,847	32,847
Credit card fees	- -	- -	- -	- -	12,065	12,065
Depreciation and amortization	13,399	26,798	13,399	53,596	- -	53,596
Discount on mortgages issued	234,518	- -	- -	234,518	- -	234,518
Dues and licenses	6,654	3,561	- -	10,215	2,244	12,459
Housing construction, rehabilitation and rental maintenance costs	997,766	- -		997,766	- -	997,766
Insurance	17,706	7,706	1,541	26,953	11,872	38,825
Internet and computer expense	8,157	1,437	40	9,634	586	10,220
Miscellaneous	6,673	291	90	7,054	1,830	8,884
Office supplies	4,739	1,347	341	6,427	2,012	8,439
Online selling expenses	- -	73	- -	73	291	364
Payroll and benefit expense	297,676	46,823	48,081	392,580	219,799	612,379
Payroll taxes	20,424	3,029	3,081	26,534	17,896	44,430
Printing and postage	973	- -	4	977	- -	977
Rent expense	20,325	6,775	6,775	33,875	129,065	162,940
Repairs and maintenance	14,634	2,002	1,001	17,637	12,510	30,147
Tithes and contributions	3,710	- -	- -	3,710	- -	3,710
Travel	525	- -	- -	525	575	1,100
Utilities and telephone	8,764	2,921	2,921	14,606	43,820	58,426
Total	$ 1,670,667	$ 135,939	$ 80,258	$ 1,886,864	$ 501,249	$ 2,388,113

See Notes to Consolidated Financial Statements.

BLUE RIDGE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

For the Years Ended June 30, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
Change in net assets	$ (25,963)	$ 196,336
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Noncash contribution of construction costs	(16,162)	(5,304)
Depreciation and amortization	51,583	53,596
Transfers to homeowners, net	1,593,899	449,967
Discount on noninterest-bearing mortgage loans	- -	234,518
Mortgage loan discount amortization	(555,962)	(125,927)
Loss (gain) on disposal of assets	148,969	(260,836)
Forgiveness of Paycheck Protection Program note payable	- -	(112,399)
Amortization of right-of-use asset	106,720	- -
Changes in assets and liabilities:		
Decrease (increase) in grants and other receivables	120,284	(18,882)
Decrease in inventory	38,513	9,190
(Increase) decrease in other assets and prepaid expenses	(6,565)	1,497
(Increase) in cost of construction in progress	(1,300,079)	(806,843)
(Decrease) increase in accounts payable	(90,153)	109,100
Increase (decrease) in accrued other expenses	8,270	(356)
Increase (decrease) in accrued taxes	1,478	(1,413)
(Decrease) in accrued rent	- -	(23,898)
Increase in homeowner deposits	2,447	1,346
Increase in refundable advances	470,486	31,720
(Decrease) in lease liabilities	(148,031)	- -
Net cash provided by (used in) operating activities	399,734	(268,588)

See Notes to Consolidated Financial Statements.

BLUE RIDGE HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows (continued)
For the Years Ended June 30, 2023 and 2022

	2023	2022
Cash Flows from Investing Activities		
Purchase of property and equipment	(408,148)	- -
Purchase of property held for development	(7,954)	(6,163)
Purchase of certificate of deposit	(100,975)	- -
Purchase of investments	(207)	(240)
Net (increase) decrease in beneficial interest in assets held	(4,465)	6,397
Proceeds from sale of mortgages	603,205	- -
Mortgage payments received	194,624	188,685
Net cash provided by investing activities	276,080	188,679
Cash Flows from Financing Activities		
Proceeds from notes payable	100,000	- -
Payments on notes payable	(19,963)	(18,049)
Net cash provided by (used in) financing activities	80,037	(18,049)
Change in cash and cash equivalents	755,851	(97,958)
Cash and Cash Equivalents		
Beginning of year	676,759	774,717
End of year	$ 1,432,610	$ 676,759
Supplemental Disclosures of Noncash Operating, Investing and Financing Activities		
Issuance of noninterest-bearing mortgage loans	$ - -	$ 406,455
Discount on noninterest-bearing mortgage loans	$ - -	$ 234,518
Property received in lieu of foreclosure on mortgage loan	$ - -	$ 35,464
Property purchased through issuance of note payable	$ 2,252,500	$ - -
Right-of-use assets and operating lease liabilities recognized with the adoption of ASC 842	$ 125,192	$ - -

See Notes to Consolidated Financial Statements.

Note 1. Summary of Significant Accounting Policies

This summary of significant accounting policies of Blue Ridge Habitat for Humanity, Inc. and Subsidiary (the "Organization" or "Habitat") is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management, who is responsible for the integrity and objectivity of the financial statements.

Organization

Blue Ridge Habitat for Humanity, Inc. is a nonprofit corporation incorporated in Virginia on June 27, 1996. Habitat is an affiliate of Habitat for Humanity International, Inc. (Habitat International) a nondenominational Christian nonprofit organization whose purpose is to create decent, affordable housing for those in need and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists with information resources, training, publications, prayer support and in other ways, Habitat is primarily and directly responsible for its own operation. The Organization is supported primarily through donor contributions from various individuals and corporate and religious organizations in the community, and local grant programs. The Organization's service area includes the counties of Clarke, Frederick and Shenandoah, and the City of Winchester. Habitat also operates a ReStore in the City of Winchester to help fund future program costs of the Organization.

Millwood Works, LLC (the Subsidiary), was established in 2023 by Blue Ridge Habitat for Humanity, Inc. to hold real estate located in Winchester, Virginia.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles and presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, Not-for-Profit Entities, Presentation of Financial Statements.

Contributions

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as contributions without donor restrictions in the accompanying financial statements.

In-Kind Contributions

Donated materials and equipment are recorded at their estimated values at date of receipt. Donated use of facilities is recorded at the property's fair rental value. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The value of such services is recorded based on the estimated fair value of services provided and is classified as in-kind contributions revenue and expense charged to programs and supporting services based on the program or support services directly benefited.

Many individuals volunteer their time and perform a variety of activities that support the Organization. The value of these contributed services is not recorded as in-kind contributions as the criteria for recognition was not met under the standards. Therefore, no contributed services for volunteer time has been reflected in the financial statements for the years ended June 30, 2023 and 2022.

Investments and Certificates of Deposit

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the consolidated statement of financial position. Net investment return/(loss) is reported in the consolidated statement of activities and consists of interest and dividend income, realized and unrealized gains and losses, less external and internal investment expenses.

Inventory

Substantially all of the items sold in the Organization's ReStore are donated to the Organization. For year-end reporting, donated inventory items held for resale are recorded as in-kind contributions and valued based on subsequent sales. Throughout the year, donated inventory items are only recorded when the sale transaction occurs, which determines the final realization of value. In-kind construction materials are recorded as inventory at fair market value when the materials are not designated to a particular project and to be used at a future date.

Property Held for Development

Held for development properties consists of lots at cost when purchased or fair market value at the date of gift. The lots are valued at lower of specific acquisition and carrying costs or estimated net value.

Property, Equipment and Depreciation

Effective February 2019, the Organization capitalizes all expenditures in excess of $5,000 at cost when purchased or fair market value at the date of gift. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

Deferred Revenue and Refundable Advances

Deferred revenue represents amounts received for rent in advance. Additionally, amounts received prior to June 30 for the benefit of events to be held in the following fiscal year have been included in deferred revenue. There was no deferred revenue at June 30, 2023 or 2022. Refundable advances were $502,206 and $31,720 as of June 30, 2023 and 2022, respectively, and represent grants received with conditions that have not yet been met.

Estimates

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

Income Taxes

Habitat has received exemption from income taxes under Section 501(c)(3) of the Internal Revenue Code as a charitable organization under a group exemption letter granted to Habitat for Humanity International by the Internal Revenue Service. Only unrelated business income, as defined by Section 509(a)(1) of the Code, is subject to federal income tax. The Organization currently has no unrelated business income. Accordingly, no provision for income taxes has been recorded. The Organization follows the provisions of FASB ASC 740-10-25. Under these provisions, the Organization must recognize the effects of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. The Organization does not believe there are any uncertain tax positions and accordingly, no amounts have been recorded in the financial statements.

Cash and Cash Equivalents

The Organization considers investments with a maturity of three months or less to be cash and cash equivalents.

Grants and Other Receivables

Grants receivable consists of amounts due to Habitat for reimbursement of expenses incurred under various grant programs, and were $6,250 and $0 at June 30, 2023 and 2022, respectively. Other receivables of $0 and $126,534 at June 30, 2023 and 2022, respectively relate to a receivable for the Employee Retention Credit (ERC). The ERC, originally provided for within the CARES Act, is a refundable tax credit against certain employment taxes based on qualified wages paid to employees.

Transfers to Homeowners

Transfers to homeowners represent sales to individuals which are recorded at the gross mortgage amount plus the down payment received. Noninterest bearing mortgages have been discounted based upon prevailing market rates for low-income housing at the inception of the mortgages. The discount on noninterest bearing mortgage loans for June 30, 2023 and 2022 was 7.85% and 7.49%, respectively. Using a present value basis, this discount will be recognized as mortgage loan discount amortization over the term of the mortgage.

Cash Concentrations

Habitat maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. It has not experienced any losses in such accounts. Habitat believes it is not exposed to any significant credit risk for cash.

Advertising

Habitat expenses the cost of advertising as incurred.

Revenue Recognition

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-19, "Revenue from Contracts with Customers (Topic 606)." Topic 606 supersedes the revenue recognition requirements in "Revenue Recognition (Topic 605)" and requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Organization adopted Topic 606 as of July 1, 2019.

The Organization recognizes revenue in accordance with ASC Topic 606. This standard provides a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when or as performance obligations are satisfied

<u>Nature of Products and Services</u>

ReStore sales are recorded at a point in time when donated inventory is sold. Transfers to homeowners includes revenue from house sales and is recognized at a point in time at the time of the home's closing. Amortization on noninterest bearing mortgages that have been discounted is recognized using the present value method over the term of the mortgage. Rental income is recognized over time in conjunction with the related lease agreement. Fundraising event income includes both exchange transactions as well as contributions and is recognized at a point in time when the event occurs.

<u>Transaction Price</u>

The transaction price is the amount of consideration to which the Organization expects to be entitled in exchange for transferring goods and services to the customer.

Contract Balances

The Organization records accounts receivable when it has the unconditional right to issue an invoice and receive payment. If consideration is received and revenue has not been recognized, a contract liability (deferred revenue) is recorded. The Organization did not recognize a contract liability as of June 30, 2023 or 2022.

The Organization does not recognize revenue in advance of the right to invoice and therefore has not recorded a contract asset as of June 30, 2023 or 2022.

Recently Adopted Accounting Pronouncement

In February 2016, the FASB issued ASC Topic 842, Leases, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their statement of financial position as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, Leases) and operating leases, with classification affecting the pattern of expense recognition in the statement of activities. The Organization adopted Topic 842 on July 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, the Organization has applied Topic 842 to reporting periods beginning on July 1, 2022, while prior periods continue to be reported and disclosed in accordance with the Organization's historical accounting treatment under ASC Topic 840, Leases.

The Organization elected the "package of practical expedients" under the transition guidance within Topic 842, in which the Organization does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. The Organization has not elected to adopt the "hindsight" practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on July 1, 2022.

The Organization determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the Organization obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Organization also considers whether its service arrangements include the right to control the use of an asset.

The Organization made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or July 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, the Organization made an accounting policy election available to non-public companies to utilize an incremental borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable, they will be incurred.

The Organization has made an accounting policy election to account for lease and non-lease components in its contracts as a single lease component for its real estate, vehicle, and equipment asset classes. The non-lease components typically represent additional services transferred to the Organization, such as common area maintenance for real estate, which are variable in nature and recorded in variable lease expense in the period incurred.

Adoption of Topic 842 resulted in the recording of ROU assets and lease liabilities at July 1, 2022 of $125,192.

Upcoming Accounting Pronouncement

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of activities as the amounts expected to be collected change. The ASU is effective for the Organization's fiscal year beginning July 1, 2023. The Organization is currently evaluating the impact of adopting this new guidance on its consolidated financial statements.

Note 2. Liquidity and Availability of Funds

The Organization's financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date are as follows:

	2023	2022
Financial assets, at year-end:		
Cash	$ 1,432,610	$ 676,759
Certificate of deposit	100,975	- -
Investments	8,049	7,842
Grants and other receivables	6,250	126,534
Beneficial interest in assets held	49,540	45,075
Other note receivable	- -	24,243
Noninterest-bearing mortgage loans	2,250,221	3,172,776
Financial assets at year end	3,847,645	4,053,229
Less those unavailable for general expenditure within one year, due to:		
Noninterest bearing mortgage loans and other note receivable with liquidity greater than one year	2,117,210	3,033,608
Beneficial interest in assets held	49,540	45,075
Donor-imposed restrictions	25,844	12,139
Financial assets not available to be used within one year	2,192,594	3,090,822
Financial assets available to meet cash needs for general expenditures within one year	$ 1,655,051	$ 962,407

In February 2019, the Organization adopted a liquidity policy that states a minimum amount of operating funds must be sufficient to maintain ongoing operations and programs for a period of not less than 3 months of average recurring operating expenses. The policy is reviewed every fiscal year at a minimum, or sooner, if warranted and may be changed upon approval from the Board of Directors. The Organization intends for operating funds to be used and replenished on a recurring monthly basis by contributions, ReStore sales, and monthly mortgage receivable payments to meet cash needs for general expenditures. During the years ended June 30, 2023 and 2022, the level of liquidity and reserves was managed within the policy requirements.

Note 3. Construction in Progress

Construction in progress as of June 30, 2023 and 2022, consists of costs to date of houses under construction, including acquisition cost, land and sitework.

Note 4. Noninterest-Bearing Mortgage Loans

Habitat sells homes to low-income families under various terms, including zero to low interest loans, ensuring families have an affordable mortgage payment. These notes are all payable to Habitat over payment terms as determined between each individual participant and Habitat. Generally, these notes carry a term of 15-30 years. At June 30, 2023, Habitat had 39 loans outstanding with a gross value of $2,250,221. At June 30, 2022, Habitat had 45 loans outstanding with a gross value of $3,172,776. Management feels no provision for loan losses is required because Habitat is a secured creditor and the fair market value of the home is in excess of the related mortgage note balances. The following schedule summarizes the payment status of the mortgage loans at June 30, 2023 and 2022:

	2023		2022	
	Number of Loans	Loan Amount	Number of Loans	Loan Amount
Current	30	$ 1,462,699	30	$ 2,075,567
1-30 days past due	5	583,755	9	635,177
31-60 days past due	1	33,833	2	79,918
61-90 days past due	- -	- -	1	35,176
More than 90 days past due	3	169,934	3	346,938
Total	39	$ 2,250,221	45	$ 3,172,776

Note 5. Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2023 and 2022, were available for the following purposes:

	2023	2022
Subject to expenditure for a specific purpose:		
Shenandoah repair	$ 1,066	$ 2,581
General repair program	14,078	3,591
Clarke County repair	10,700	5,967
Total assets with donor restrictions	$ 25,844	$ 12,139

During the year ended June 30, 2023 and 2022, $92,378 and $86,619 of net assets were released from donor restrictions by incurring expenses satisfying the donors' restricted purposes or by the occurrence of other events specified by the donors. During the year ended June 30, 2023, amounts released from restriction consisted of $1,650 for the Shenandoah repair program, $28,315 for the Clarke County repair program, and $62,413 for the General repair program. During the year ended June 30, 2022, amounts released from restriction consisted of $12,230 for the Shenandoah repair program, $11,980 for the Clarke County repair program, $35,409 for the General repair program, and $27,000 for Norris Village.

Note 6. Contributions of Nonfinancial Assets

During the years ended June 30, 2023 and 2022, contributed nonfinancial assets recognized within the consolidated statements of activities included the following:

	2023	2022
Construction services	$ 16,162	$ 5,366
Professional services and other	600	5,219
	$ 16,762	$ 10,585

The estimated fair value of construction services at date of receipt for the years ended June 30, 2023 and 2022 was $16,162 and $5,366, respectively, and represents the value of the services based on invoiced amounts from the contractor.

The estimated fair value of professional services and other for the years ended June 30, 2023 and 2022 was $600 and $5,219, respectively, and represents the value of the services determined by the donor.

Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

Note 7. Fair Value Measurements

FASB ASC 820-10 establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Financial assets valued for Level 3 inputs are based on significant unobservable inputs. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under the standards are described as follows:

Level 1 - Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities or other inputs observable for the asset or liability, either directly or indirectly through corroboration with observable market data. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets and liabilities.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

For the fiscal years ended June 30, 2023 and 2022, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

Corporate Common Stock

The fair value of corporate stock is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers, and are classified within level 1.

Insured Cash Deposits

Insured cash deposits are carried at cost, which approximates fair value based on quoted market prices, when available, or market prices provided by recognized broker dealers, and are classified within level 1.

Certificates of Deposit

Certificates of Deposit are valued using pricing models based on credit quality, time to maturity, stated interest rates and market rate assumptions, and are classified within level 2.

Beneficial Interest in Assets Held

The fair value for the beneficial interest is measured using the fair value of the assets reported by the Community Foundation of the Northern Shenandoah Valley. The Organization considers the measurement of its beneficial interest to be a Level 3 measurement within the fair value measurement hierarchy, because even though the measurement is based on the unadjusted fair value of the beneficial interest held by the Foundation, the investments are not held in accounts owned by Habitat. See Note 9 for reconciliation of Level 3 balances.

The carrying amounts of the Organization's financial instruments not described above arise in the ordinary course of business and approximate fair value.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Organization recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

The following table presents the balance of financial assets measured at fair value on a recurring basis as of June 30, 2023 and 2022:

	2023			
	Balance as of June 30, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Insured cash deposits	$ 7,157	$ 7,157	$ - -	$ - -
Corporate common stock	892	892	- -	- -
Certificates of deposit	100,975	- -	100,975	- -
Beneficial interest in assets held by the Community Foundation of the Northern Shenandoah Valley	49,540	- -	- -	49,540
	$ 158,564	$ 8,049	$ 100,975	$ 49,540

	2022			
	Balance as of June 30, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Insured cash deposits	$ 6,943	$ 6,943	$ - -	$ - -
Corporate common stock	899	899	- -	- -
Beneficial interest in assets held by the Community Foundation of the Northern Shenandoah Valley	45,075	- -	- -	45,075
	$ 52,917	$ 7,842	$ - -	$ 45,075

Note 8. Investments and Certificates of Deposit

Investments consist primarily of insured cash deposits and corporate common stock and certificates of deposit, and are reported at fair value as follows:

	2023		
	Cost	Observable Fair Market Value	Unrealized Appreciation
Insured cash deposits	$ 7,157	$ 7,157	$ - -
Corporate common stock	521	892	371
Certificates of deposit	100,975	100,975	- -
	$ 108,653	$ 109,024	$ 371

	2022		
	Cost	Observable Fair Market Value	Unrealized Appreciation
Insured cash deposits	$ 6,943	$ 6,943	$ - -
Corporate common stock	521	899	378
	$ 7,464	$ 7,842	$ 378

The following schedule summarizes the investment return in the consolidated statements of activities for the years ended June 30, 2023 and 2022:

	2023	2022
Interest and dividend income	$ 8,655	$ 1,227

Note 9. Beneficial Interest in Assets Held

During fiscal year 2018, the Organization created an agency endowed fund, the assets of which are not in possession of the Organization but are held by the Community Foundation of the Northern Shenandoah Valley. The Organization has granted the Foundation variance power which gives the Foundation's board of directors the power to use the fund for other purposes in certain circumstances. The fund is subject to the Foundation's investment and spending policies which prohibits the spending rate to exceed 4%. The distribution is based on the rolling 20 quarter, five-year average of the market value of the portfolio. The Organization reports the fair value of the fund as beneficial interest in assets held by the Community Foundation of the Northern Shenandoah Valley and any distributions received as investment income. There were no distributions for the years ended June 30, 2023 and 2022. Changes in the value of the fund are reported as net increase or decrease in beneficial interest in assets held in the consolidated statement of activities.

The activity in the beneficial interest is as follows:

	2023	2022
Beginning value	$ 45,075	$ 51,472
Change in value	4,465	(6,397)
Ending value	$ 49,540	$ 45,075

Note 10. Property and Equipment

Property and equipment at June 30, 2023 and 2022, consisted of the following:

	2023	2022	Depreciable Lives
Rental properties	$ 1,189,178	$ 1,189,178	27.5 years
Office equipment, furniture and fixtures	39,297	39,297	5-7 years
Leasehold improvements	52,660	52,660	5-7 years
Vehicles and equipment	148,250	148,250	5-7 years
Buildings	2,147,143	- -	40 years
Land	513,505	- -	
	4,090,033	1,429,385	
Less accumulated depreciation	316,887	266,247	
Net property and equipment	$ 3,773,146	$ 1,163,138	

Note 11. Notes Payable

On February 19, 2021, Habitat was approved a $112,399 loan under the Paycheck Protection Program created as part of the relief efforts related to COVID-19 and administered by the United States Small Business Administration. The loan accrues interest at 1%, but payments are deferred until a determination of forgiveness is made by the SBA. If the borrower does not apply for forgiveness within ten months after the last day of the covered period, payments will be due that month. Habitat is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The loan is uncollateralized and is fully guaranteed by the Federal government. The loan was recorded as a note payable on the statement of financial position at June 30, 2021. Habitat received 100% forgiveness of the loan on September 23, 2021. The loan forgiveness has been recorded within grants and contributions on the consolidated statement of activities for the year ending June 30, 2022.

On June 9, 2021, Habitat was approved a $55,250 three-year loan from Isuzu Finance of America, Inc for the purchase of a truck. The interest rate on the loan is 1.99% with monthly payments of $1,582 beginning in July 2021, expiring on June 24, 2024. Future maturities of the note payable during the next fiscal year is: 2024, $17,238.

On December 20, 2022, Habitat was approved a $100,000 loan from Habitat Mortgage Solutions, LLC (HMS) for the development of a new property. The loan term is the earlier of closing construction or 2 years. One 180-day extension may be granted subject to approval by HMS. The interest rate on the loan is 1%. The payment terms are interest only, payable in four quarterly installments on the last day of each quarter, with principal due at maturity. Future maturities of the note payable during the upcoming fiscal years are: 2024, $0 and 2025, $100,000.

On June 29, 2023, Millwood Works, LLC entered into a $2,252,500 seven-year loan agreement for the purchase of a building. The interest rate on the loan is 4.89%. Payments on the loan begin on July 29, 2023 with twelve (12) monthly payments of interest only. After the interest only period, there will be seventy-one (71) consecutive payments of principal and interest beginning on July 29, 2024, in an estimated monthly payment amount of $13,117 and one principal and interest payment of $1,947,202 on June 29, 2030.

2024	$ - -
2025	46,774
2026	49,146
2027	51,639
2028	53,972
Thereafter	2,050,969
	$ 2,252,500

Note 12. Retirement Plan

Habitat maintains a Simple IRA plan for full-time employees meeting certain eligibility requirements. In addition to participant salary deferrals, Habitat may make a discretionary matching contribution equal to a uniform percentage. For the years ended June 30, 2023 and 2022, Habitat matched salary deferrals up to 3% of the participant's annual gross compensation. The contributions for the years ended June 30, 2023 and 2022 were $13,637 and $10,498, respectively.

Note 13. Functional Allocation of Expenses and Fundraising Expenses

The costs of providing the various programs, supporting services and fundraising activities have been summarized on a functional basis in the consolidated statements of functional expenses. Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated are compensation and benefits, which are allocated on the basis of estimates of time and effort; and occupancy costs, which are allocated on a square footage basis.

Note 14. ReStore Operations

Habitat operates a ReStore to sell donated construction items. For the years ended June 30, 2023 and 2022, the ReStore generated product sales, net of sales taxes of $622,672 and $705,680, and incurred expenses of $519,564 and $501,249, respectively.

Substantially most of the items sold in the ReStore are donated to the Organization. For year-end reporting, donated inventory items held for resale are recorded as in-kind contributions and valued based on subsequent sales. Throughout the year, donated inventory items are only recorded upon sale and final realization of value. As of June 30, 2023 and 2022, ReStore inventory, was $19,048 and $57,561, respectively.

In December 2016, the Organization entered into a lease agreement under a seven-year operating lease with an escalation clause expiring December 1, 2023. The lease was terminated subsequent to year-end in August 2023 as the Organization relocated to the office building purchased as noted in Note 11. The lease contained a provision to offer the Organization a rent-free period from lease commencement through April 1, 2017. The incentive portion of this four-month period along with the escalation clause is required to be amortized as rent expense over the life of the lease term. As of June 30, 2022, the unamortized rent of $45,590, is reflected as accrued rent in the accompanying consolidated statements of financial position. Accrued rent was removed and a lease liability was recognized upon implementation of ASC 842 as of July 1, 2022. During fiscal year 2018, Habitat amended the lease agreement for additional space under two separate amendments which resulted in increased monthly rent. Lease payments were $12,550 at July 1, 2019 and increased to $13,350, $14,250, $14,750 and $15,250 by the end of the fiscal year 2020, 2021, 2022 and 2023, respectively. Rent expense allocated to the ReStore for the years ended June 30, 2023 and 2022 was $83,167 and $129,065, respectively.

Note 15. Transactions with Habitat for Humanity International

Habitat annually remits a portion of its undesignated contributions and required annual U.S. Stewardship and Organizational Sustainability Initiative (US-SOSI) fee to Habitat for Humanity International. These funds are used to construct homes in economically depressed areas around the world and fund Habitat for Humanity International's operational costs. For the years ended June 30, 2023 and 2022 Habitat remitted $7,500 each year to Habitat for Humanity International.

Note 16. Commitments and Contingencies

Habitat is contingently liable as guarantor on four mortgages and has agreed to repurchase any of the obligations in the event that the homeowner is delinquent for more than 90 days on any payment. The combined amount of the outstanding mortgage obligations as of June 30, 2023and 2022 is approximately $151,000 and $156,000, respectively. The mortgages are secured by real estate and the Organization does not believe any significant losses will be absorbed by the Organization.

Note 17. Operating Leases

In addition, as described in Note 14, Habitat leases warehouse space to conduct its ReStore operations. During the year ended June 30, 2018, Habitat renovated a portion of the space to allow for all Habitat employees to be in one location. Rent expense is allocated between the ReStore and affiliate operations.

Rent expense, not allocated to the ReStore, for the years ended June 30, 2023 and 2022 was $27,723 and $33,875, respectively. As of June 30, 2023, the Organization's weighted average discount rate for its operating lease was 4.89%, and the weighted average remaining lease term is less than a year due to the lease being terminated as noted in Note 14.

The minimum lease payments required under the above operating leases as of June 30, 2023 are as follows:

Years Ending June 30:	
2024	$ 22,875
Total future minimum lease payments	22,875
Imputed interest	(124)
Present value of minimum lease payments	$ 22,751

Note 18. Related Parties

A board member is an employee of a local bank where the Organization maintains several accounts. Another board member is also an employee of a different local bank where the Organization does not have any accounts, however, the Organization sold five of their mortgages and this bank purchased all five mortgages. An agreement was signed between the local bank and the Organization on August 22, 2022 to purchase the mortgages based on the transaction price of 80% of the outstanding principal amount. The total purchase price was $603,205. This resulted in a loss of $148,969, which is included in the consolidated statements of activities for the year ended June 30, 2023. Revenue from the unamortized mortgage discount of $452,820 on the mortgages was recognized for the year ended June 30, 2023.

Note 19. Other Note Receivable

In June 2021, Habitat sold a parcel of land in Winchester, VA for $25,000. Habitat financed the sale through a note receivable. Payments of principal and interest at 2.0% of $104 are due monthly through June 2023 when the remaining balance is due. The loan was paid in full as of June 30, 2023.

Note 20. Line of Credit

On September 28, 2021, Habitat obtained an unsecured line of credit with a bank for $150,000. Interest is payable monthly at the Wall Street Journal Prime Rate plus 0.50% with a minimum rate of 4.0% (8.75% at June 30, 2023). The credit line was increased to $250,000 in March 2022. The line of credit matures on March 28, 2024. As of June 30, 2023 and 2022, the balance outstanding was zero.

Note 21. Subsequent Events

As described in Note 14, Habitat terminated their office building lease subsequent to year end.

Habitat sold two homes subsequent to year end. One sold on December 5, 2023 for $318,000. The other sold on December 5, 2023 for $310,000.

Subsequent events were evaluated through February 20, 2024, which is the date the financial statements were available to be issued. The Organization has determined there are no additional subsequent events that require recognition or disclosure.