

**GREATER FREDERICKSBURG
HABITAT FOR HUMANITY, INC.**

FINANCIAL STATEMENTS

JUNE 30, 2024



ASSURANCE, TAX & ADVISORY SERVICES

GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4 - 5
Statements of Functional Expenses	6 - 7
Statements of Cash Flows	8
Notes to Financial Statements	9 - 19



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Greater Fredericksburg Habitat for Humanity, Inc.

Opinion

We have audited the financial statements of Greater Fredericksburg Habitat for Humanity, Inc. (the Organization), which comprise the statements of financial position as of June 30, 2024 and 2023, the related statements 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 the Organization as of June 30, 2024 and 2023, and the changes in their net assets and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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.

PBMares, LLP

Fairfax, Virginia
December 10, 2024

FINANCIAL STATEMENTS

GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2024 and 2023

	2024	2023
ASSETS		
Current Assets		
Cash	\$ 1,219,747	\$ 970,320
Grants receivable	-	25,000
Mortgage loans receivable - current portion	34,649	34,649
Inventory	1,879	1,879
Other current assets	708	708
Total current assets	1,256,983	1,032,556
Property and Equipment		
Leasehold improvements	220,744	220,744
Vehicles	69,992	69,992
Furniture, fixtures, and equipment	66,713	61,713
	357,449	352,449
Less: accumulated depreciation	(240,149)	(222,598)
Property and equipment, net	117,300	129,851
Non-Current Assets		
Mortgage loans receivable, net of current portion less discount	212,487	234,968
Land and land engineering costs	52,300	52,300
Construction in progress	246,773	100,529
Property for resale	43,310	43,310
Other assets	24,688	24,688
Right-of-use assets	1,820,142	1,968,611
Total non-current assets	2,399,700	2,424,406
Total assets	\$ 3,773,983	\$ 3,586,813
LIABILITIES AND NET ASSETS		
Current Liabilities		
Notes payable - current portion	\$ 164,428	\$ 164,886
Accounts payable	61,896	51,727
Accrued liabilities	36,883	42,683
Lease liabilities - current portion	158,493	148,150
Total current liabilities	421,700	407,446
Non-Current Liabilities		
Notes payable, net of current portion, less unamortized deferred loan costs of \$6,851 and \$0, respectively	506,192	20,532
Lease liabilities - noncurrent portion	1,818,147	1,976,640
Total non-current liabilities	2,324,339	1,997,172
Net Assets		
Without donor restrictions	1,016,148	1,145,240
With donor restrictions	11,796	36,955
Total net assets	1,027,944	1,182,195
Total liabilities and net assets	\$ 3,773,983	\$ 3,586,813

GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2024

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Revenue, Gains, and Other Support			
ReStore sales income	\$ 997,179	\$ -	\$ 997,179
Contributions	114,889	-	114,889
Grants	12,711	23,000	35,711
Interest income	16,234	-	16,234
Mortgage discount amortization	11,769	-	11,769
Other income	5,714	-	5,714
Sale of completed homes	-	-	-
Gain from mortgages retired pre-term	-	-	-
Special events	-	-	-
Satisfaction of donor restrictions	48,159	(48,159)	-
Total revenue, gains and other support	1,206,655	(25,159)	1,181,496
Expenses			
Program services	966,134	-	966,134
Management and general	253,704	-	253,704
Fundraising	115,909	-	115,909
Total expenses	1,335,747	-	1,335,747
Change in net assets	(129,092)	(25,159)	(154,251)
Net Assets, beginning of year	1,145,240	36,955	1,182,195
Net Assets, end of year	\$ 1,016,148	\$ 11,796	\$ 1,027,944

GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2023

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Revenue, Gains, and Other Support			
ReStore sales income	\$ 1,049,590	\$ -	\$ 1,049,590
Contributions	91,269	350	91,619
Grants	89,048	44,000	133,048
Interest income	9,474	-	9,474
Mortgage discount amortization	107,819	-	107,819
Other income	1,007	-	1,007
Sale of completed homes	205,000	-	205,000
Gain from mortgages retired pre-term	83,193	-	83,193
Special events	18,740	-	18,740
Satisfaction of donor restrictions	78,410	(78,410)	-
	1,733,550	(34,060)	1,699,490
Expenses			
Program services	1,528,422	-	1,528,422
Management and general	250,047	-	250,047
Fundraising	143,376	-	143,376
	1,921,845	-	1,921,845
	(188,295)	(34,060)	(222,355)
Change in net assets			
Net Assets, beginning of year	1,333,535	71,015	1,404,550
Net Assets, end of year	\$ 1,145,240	\$ 36,955	\$ 1,182,195

GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2024

	<u>Supporting Services</u>			Total Expenses June 30, 2024
	Program Services	Management and General	Fund- Raising	
Salaries and Wages	\$ 564,705	\$ 70,588	\$ 70,588	\$ 705,881
Facility	251,424	31,428	31,428	314,280
Payroll Taxes and Benefits	76,915	9,614	9,614	96,143
Organization and Professional Fees	2,276	51,944	-	54,220
Construction	23,681	-	-	23,681
General Liability Insurance	-	16,134	-	16,134
Vehicle Expense	21,724	-	-	21,724
Donations and Tithes	-	21,000	-	21,000
Bank and Merchant Fees	-	19,547	-	19,547
Depreciation and Amortization	17,551	-	-	17,551
Supplies and Equipment	-	13,209	-	13,209
Dues, subscription, and publications	-	12,923	-	12,923
Miscellaneous Expenses	4,179	870	-	5,049
Advertising and Marketing	-	10	4,069	4,079
Food, travel, seminars, and training	2,364	-	-	2,364
Taxes and Licenses	-	3,898	-	3,898
Interest Expense	-	1,820	-	1,820
Human Resource Expenses	985	106	-	1,091
Postage	-	313	-	313
Bad debt expense	-	300	-	300
Fundraising Expenses	-	-	210	210
Merchandise for Resale	171	-	-	171
Homebuyer Service and Administrative Costs	159	-	-	159
	<u>\$ 966,134</u>	<u>\$ 253,704</u>	<u>\$ 115,909</u>	<u>\$ 1,335,747</u>

GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2023

	<u>Supporting Services</u>			Total Expenses June 30, 2023
	Program Services	Management and General	Fund- Raising	
Salaries and Wages	\$ 686,540	\$ 85,817	\$ 85,817	\$ 858,174
Facility	269,235	33,629	33,629	336,493
Payroll Taxes and Benefits	101,209	12,651	12,651	126,511
Organization and Professional Fees	2,046	27,430	1,616	31,092
Construction	394,530	-	-	394,530
General Liability Insurance	-	28,734	-	28,734
Vehicle Expense	25,128	-	-	25,128
Donations and Tithes	-	19,500	-	19,500
Bank and Merchant Fees	-	18,788	-	18,788
Depreciation and Amortization	27,307	-	-	27,307
Supplies and Equipment	-	10,853	-	10,853
Dues, subscription, and publications	10,002	3,847	1,539	15,388
Miscellaneous Expenses	3,991	1,457	-	5,448
Advertising and Marketing	-	-	6,030	6,030
Food, travel, seminars, and training	5,779	-	-	5,779
Taxes and Licenses	-	4,278	-	4,278
Interest Expense	-	1,932	-	1,932
Human Resource Expenses	-	798	-	798
Postage	-	333	-	333
Bad debt expense	-	-	-	-
Fundraising Expenses	-	-	2,094	2,094
Merchandise for Resale	327	-	-	327
Homebuyer Service and Administrative Costs	2,328	-	-	2,328
	<u>\$ 1,528,422</u>	<u>\$ 250,047</u>	<u>\$ 143,376</u>	<u>\$ 1,921,845</u>

GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2024 and 2023

	2024	2023
Cash Flows from Operating Activities		
Change in net assets	\$ (154,251)	\$ (222,355)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	17,551	27,307
Mortgage loan discount amortization	(11,770)	(107,819)
Changes in assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	-	3,336
Grants receivable	25,000	(25,000)
Inventory	-	1,529
Other assets	-	(10,000)
Reduction in the carrying amount of right-of-use assets	148,469	166,689
Land and land engineering costs	-	303,930
Construction in progress	(146,244)	(25,257)
Increase (decrease) in:		
Down payments	-	(500)
Accounts payable	10,169	670
Accrued expenses	(5,800)	(14,847)
Lease liability interest	55,050	58,995
Reduction of operating lease	(203,200)	(203,503)
Net cash used in operating activities	(265,026)	(46,825)
Cash Flows from Investing Activities		
Payments received on mortgage loans receivable	34,251	179,137
Purchase of property and equipment	(5,000)	-
Net cash provided by investing activities	29,251	179,137
Cash Flows from Financing Activities		
Proceeds from long-term borrowings, net of loan costs	492,500	-
Principal payments on long-term borrowings	(7,947)	(86,167)
Amortization of deferred loan costs	649	-
Net cash provided by (used in) financing activities	485,202	(86,167)
Net change in cash and cash equivalents	249,427	46,145
Cash and Cash Equivalents:		
Beginning	970,320	924,175
Ending	\$ 1,219,747	\$ 970,320
Supplementary Disclosure of Cash Flow Information		
Right-of-use assets exchanged for lease liabilities	\$ -	\$ 2,269,698
Cash paid for interest	4,060	1,932

GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Organization and Significant Accounting Policies

Greater Fredericksburg Habitat for Humanity, Inc. (a nonprofit corporation) (the Organization) was incorporated on October 12, 1994. The Organization 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 for Humanity International assists with information resources, training, publications, and prayer support and in other ways, the Organization is primarily and directly responsible for its own operations. Greater Fredericksburg Habitat for Humanity, Inc. operates primarily in the city of Fredericksburg, Virginia and the surrounding counties of Spotsylvania, Stafford, and King George.

The Organization operates a Habitat ReStore retail location that sells surplus new and used building and home improvement materials to the general public. ReStore provides additional funding for the Organization as well as inexpensive building materials to the public.

A summary of the Organization's significant accounting policies follows:

Basis of accounting: The Organization prepares its financial statements on the accrual basis of accounting, according to the policies of Habitat International and accounting principles generally accepted in the United States of America (U.S. GAAP). Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recognized when the obligation is incurred.

Cash and cash equivalents: All highly liquid investments with a maturity date of three months or less are considered to be cash equivalents. The Organization maintains its cash in checking and savings accounts with financial institutions. Such deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. The Organization has not experienced losses in any accounts and does not believe it is exposed to significant credit risk with these deposits.

Grants and accounts receivable: Grants and accounts receivable are considered to be fully collectible and accordingly no allowance for doubtful accounts is required. If amounts become uncollectible, they are charged to operations when that determination is made. There was no bad debt expense for the years ended June 30, 2024 and 2023.

Mortgages receivable: Mortgages receivable consist of non-interest bearing mortgages secured by real estate and payable in monthly installments. The maturities of the mortgages range from 15 to 30 years. These mortgages have been discounted at prevailing rates for similar mortgages. The mortgage discount rates range from 7.5% to 7.7%; for the years ended June 30, 2024 and 2023, respectively, as determined by Habitat International.

Inventory: ReStore inventory items are primarily donated by the public; the Organization's policy is not to recognize the value of these donated inventory items, as there is a major uncertainty about the reliability of their values. The value of these items is not reasonably determined until they are sold.

Property and equipment: Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the following estimated useful lives:

Leasehold improvements	20 years
Vehicles	5 years
Furniture and fixtures	3 – 7 years

GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

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

Leases: Effective July 1, 2022, the Organization changed its method of accounting for leases due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842), as amended. The Organization adopted the standard using a modified retrospective transition 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. The adoption of this guidance resulted in the inclusion of right-of-use (ROU) assets and lease liabilities on the statements of financial position.

As part of this adoption, the Organization has elected the practical expedient relief package allowed by the new standard, which does not require the reassessment of (i) whether any existing contracts at transition are or contain leases, (ii) the historical lease classification or (iii) the initial direct costs for any existing leases.

Additionally, the Organization made accounting policy elections such as exclusion of short-term leases (leases with a term of 12 months or less and which do not include a purchase option that the Organization is reasonably certain to exercise) from the statements of financial position presentation, use of portfolio approach in determination of discount rate and accounting for nonlease components in a contract as part of a single lease component for all asset classes, except specific mining operation equipment. The Organization does not separate lease components for real estate leases.

At contract inception, the Organization determines if a contract is or contains a lease and whether it is an operating lease or a finance lease. 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.

For leases that have a lease term greater than one year, the Organization initially recognizes lease liabilities and ROU assets at the lease commencement date, which is the date that the lessor makes an underlying asset available for use by the Organization. ROU assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent the present value of the Organization's obligation to make lease payments, primarily escalating fixed payments, over the lease term. The discount rate used to determine the present value of the lease payments is generally the rate implicit in the lease agreement. If the discount rate implicit in the lease agreement is not readily determinable, the Organization uses its incremental borrowing rate.

The incremental borrowing rate for the lease term is determined by adjusting the Organization's unsecured borrowing rate for a similar term to approximate a collateralized borrowing rate. The Organization's lease terms for each of its leases represents the noncancelable period for which the Organization has the right to use an underlying asset, together with all of the following: (i) periods covered by an option to extend the lease, if the Organization is reasonably certain to exercise that option; (ii) periods covered by an option to terminate the lease if the Organization is reasonably certain not to exercise that option; and (iii) periods covered by an option to extend (or not to terminate) the lease in which exercise of the option is controlled by the lessor. The Organization recognizes lease expense on a straight-line basis over the lease term.

GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

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

Leases (continued): 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 any index or other periodic market-rate adjustments to base rent are recorded in variable lease expenses 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.

Adoption of Topic 842 resulted in the recording of ROU assets and lease liabilities of \$2,269,698 at July 1, 2022. The adoption of the lease standard did not impact the change in net assets or cash flows and did not result in a cumulative-effect adjustment to net assets as of July 1, 2022.

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 available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net assets with donor restrictions – Net assets subject to donor (or certain grantor) imposed 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 imposed restrictions are perpetual in nature, where the donor stipulates that resources 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 recognition: The Organization records revenue from contracts with customers in accordance with FASB ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), and all related amendments using the modified retrospective method. There was no material impact to the results of operations or financial position upon adoption and no adjustments were required to equity. The new 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; and
- Recognize revenue when or as performance obligations are satisfied.

The Organization is involved in the acquisition, development, rehabilitation, construction, and sale of single-family residential homes as well as owning and operating a retail store consisting of mostly donated items. Revenue from these activities is recognized at a point in time upon transfer of property or merchandise.

The Organization utilizes the portfolio approach and groups contracts with similar characteristics into either home sale or ReStore sale contracts.

GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

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

Revenue recognition (continued):

Home sale revenue: New home construction sales to homeowners are financed by the Organization and are recorded when the title is transferred to the customer, which is when the performance obligation is satisfied. Neighborhood Stabilization Program (NSP) home sales are financed by a variety of sources including the Organization, the Virginia Department of Housing and Community Development (DHCD), and other grant sources as directed by the NSP program. Upon a sale of NSP program homes, the Organization is required to return a percentage of program receipts to the NSP program. The Organization estimates this liability/refund and reports such as an outstanding obligation. The opening balance of NSP liability as of July 1, 2022 was \$64,194. The value of the first mortgage on the home is reported as revenue at the date of transfer to the homeowner with the corresponding sales price discount and mortgage loan discount reported as operating expenses. The opening balance of mortgage loans receivable as of July 1, 2022 was \$340,936.

ReStore sale revenue: ReStore sales revenue is recognized upon delivery of the good to the customer at the time of the sale, which is when the performance obligation is satisfied. The Organization generally does not accept returns or exchanges for items sold in the ReStore. Payments for merchandise sales are due at the point of sale.

The Organization offers one year limited warranties on homes sold. These warranties allow the homeowner to request the Organization make eligible repairs to the home. These are assurance type warranties and are not considered performance obligations under Topic 606. Accrued warranty expense of \$0 and \$2,105 for the years ended June 30, 2024 and 2023 is recorded in accrued liabilities on the statements of financial position. The Organization does not offer warranties on ReStore store sales.

For the years ended June 30, 2024 and 2023, home sale revenue made up 0% and 12% of total revenue, gains, and other support, respectively. For the years ended June 30, 2024 and 2023, ReStore sales income made up 85% and 62% of total revenue, gains, and other support, respectively.

Support: The Organization follows FASB ASU 2018-08 – *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This ASU requires that an entity determine whether a revenue source is an exchange transaction covered under ASU 2014-09 or a contribution covered under ASU 2018-08. If it is determined to be a contribution, the next step is to determine if it is a conditional or unconditional contribution which affects the timing of the revenue recognized. Unconditional contributions are recognized immediately and classified as either net assets with donor restrictions or net assets without donor restrictions. Conditional contributions received are accounted for as a liability or are unrecognized initially, until the barriers to entitlement are overcome, at which point the transaction is recognized as unconditional and classified as either net assets with restrictions or net assets without restrictions.

Contributions of donated noncash assets and in-kind contributions are recorded at their estimated fair value on the date of the contribution. The in-kind contributions received by the Organization are primarily construction materials.

GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

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

Support (continued): Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, of volunteers who have made significant contributions of their time to the Organization's program and supporting services. The value of this contributed time is not reflected in these financial statements because the criteria for recognition has not been satisfied.

Receivables are stated at the amount management expects to collect as of year-end. Management estimates that no material losses will be sustained relating to the collectability of mortgages. As such, no allowance for loan losses or adjustments to the balance of mortgages receivable has been recorded, based on current facts and circumstances.

Functional allocation of expenses: The costs of providing the Organization's programs and support services have been summarized on a functional basis in the statements of activities and functional expenses. Directly identifiable expenses are allocated to program services, management and general, or fundraising. Expenses related to more than one function are charged to program services, management and general, and fundraising classifications based on estimates made by management. Allocations are based on departmental staffing levels and other methodologies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Program services include construction and discounts on mortgage originations as well as providing affordable home furnishings and home improvement materials in the ReStore. The cost of home building is capitalized as construction in progress and charged to program services when the house is sold. Program services include the cost of all homes completed and sold during the fiscal year and expenses related to the operation of the ReStore.

During the year ended June 30, 2024, the Organization was in the process of preparing land for development. No homes were sold during the fiscal year. The expenses incurred related to the remaining land in construction remain on the statements of financial position as construction in process since they have not yet been completed or sold.

Income taxes: The Organization is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code (IRC). Unrelated business income that is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes.

FASB Accounting Standards Codification (ASC) 740, *Income Taxes*, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Organization's management has evaluated the impact of this guidance to its financial statements. The Organization's income tax returns are subject to examination by taxing authorities, generally for a period of three years from the date the returns are filed.

Estimates and assumptions: 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. Actual results could differ from those estimates.

GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

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

Recently adopted accounting pronouncements: Effective July 1, 2023, the Organization adopted FASB ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, ASU 2019-11, *Codification Improvements to Topic 326* and ASU 2020-03, *Codification Improvements to Financial Instruments* which create a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASUs require 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 writedown. 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 statements of activities as the amounts expected to be collected change. The Organization adopted this standard using the modified retrospective adoption method, resulting in no impact on the financial statements and no cumulative effect adjustment to retained earnings on the date of adoption. See Note 4.

Subsequent events: Subsequent events have been evaluated through December 10, 2024, which was the date the financial statements were available to be issued.

Note 2. Liquidity

The following reflects the Organization's financial assets at June 30, 2024 and 2023, reduced by amounts that are not available for general use because of donor-imposed restrictions within one year of the statements of financial position date.

	<u>2024</u>	<u>2023</u>
Financial Assets		
Cash	\$ 1,219,747	\$ 970,320
Grants receivable	-	25,000
Mortgage loans receivable - current portion	34,649	34,649
Total financial assets	1,254,396	1,029,969
Less those unavailable for general expenditures within one year:		
Subject to satisfaction of donor imposed restrictions	(11,796)	(36,955)
Financial assets available to meet cash needs for general expenditures within one year	\$ 1,242,600	\$ 993,014

Current assets available for expenditure within one year consist mainly of cash. The Organization relies on grants and contributions throughout the year to fund its operations. In addition to relying on grants and contributions, the Organization also uses debt financing to fund its program expenses and may draw on its line of credit.

GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 3. Transactions with Related Parties

The Organization annually remits a portion of its contributions to Habitat International. These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2024 and 2023, the Organization contributed \$21,000 and \$19,500, respectively, in tithes to Habitat International. Amounts payable to Habitat International for tithes at June 30, 2024 and 2023 were \$0 and \$1,500, respectively. In addition to yearly tithes, Habitat International incurs and pays expenses on the Organization's behalf throughout the normal course of business. The Organization remitted payments of \$476 and \$527 for the years ended June 30, 2024 and 2023, respectively.

Habitat International receives donations on behalf of the Organization and remits these donations regularly throughout the year. Amounts remitted to the Organization were \$48,265 and \$15,861 during the years ended June 30, 2024 and 2023, respectively.

The Organization obtained a note payable of \$500,000 to Habitat International through Habitat Mortgage Solutions Loan Fund I, LLC (HMS). Further details of this loan are described in Note 5.

The Organization and Habitat for Humanity Virginia (Habitat Virginia) reimburse one another for small expenditures they incur and pay on the other entity's behalf throughout the normal course of operations. The Organization remitted payments to Habitat Virginia of \$0 and \$16,669 for the years ended June 30, 2024 and 2023, respectively. During the year ended June 30, 2024, the Organization entered into a consulting agreement with Habitat Virginia and incurred \$1,400 in expenses. Annual dues of \$1,000 and \$0 were paid to Habitat Virginia during the years ended June 30, 2024 and 2023, respectively.

Note 4. Mortgage Loans Receivable

When the Organization transfers ownership of a home to a family, multiple mortgages are created. The terms of the first mortgage vary depending on the type and amount of the mortgage and the family's ability to pay. First mortgages are interest free and have terms ranging from 15 to 33 years. Monthly payments range from \$141 to \$493. The Organization does not record a receivable for the second mortgages.

First mortgages are valued in the financial statements net of a discount. The discount is computed using the rate established by Habitat International at the time of the mortgage origination. Habitat International sets the rates by averaging the monthly discount rates published by the Internal Revenue Service for buildings placed into service for that year. The discount is amortized over the life of the mortgage.

Non-interest bearing mortgage loans receivable consisted of the following at June 30:

	<u>2024</u>	<u>2023</u>
Mortgage loans receivable	\$ 602,190	\$ 636,441
Discount	(355,054)	(366,824)
	<u>247,136</u>	<u>269,617</u>
Mortgage loans receivable - current portion	<u>34,649</u>	<u>34,649</u>
Mortgage loans receivable, net of current portion less discount	<u>\$ 212,487</u>	<u>\$ 234,968</u>

GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 4. Mortgage Loans Receivable (Continued)

The above referenced mortgage loans receivable have scheduled maturities as follows

Year(s) Ending June 30,	Amount
2025	\$ 34,649
2026	34,242
2027	32,016
2028	28,964
2029	28,964
Thereafter	<u>443,355</u>
	<u>\$ 602,190</u>

In connection with each mortgage, there is an agreement with the Organization and DHCD to perfect a second deed of trust. In the event of default on the first mortgage or sale of real estate, the other mortgage becomes due on demand. If the mortgage is with the Organization, the second deed of trust is forgiven by the Organization using the straight-line method over the life of the loan. If the home sale is through DHCD, the second deed of trust is forgiven at the completion of 15 years of ownership. If the home is sold prior to 15 years of ownership, the entire forgiven amount is due at the time of the sale. These mortgages are not recorded in the financial statements because collection is uncertain and no estimate is available for future payments. If the homeowner transfers, sells, or assigns their title or interest in the property, the second mortgage becomes due on demand and the Organization records a gain equal to the balance determined to be reasonably assured of collection. Realized gains on second mortgages were \$0 and \$83,193 for the years ended June 30, 2024 and 2023, respectively.

The Organization does not record an allowance for credit losses for mortgages receivable because each mortgage is fully secured by collateral. The net realizable value of the first mortgages is less than the fair market value of the homes thus if a family were to stop paying the first mortgage, the Organization could reclaim the home and sell it for a greater value than what is recorded as receivable.

Under the practical expedient for collateral-dependent assets, expected credit losses are based on the fair value of the collateral, adjusted for selling costs, as appropriate when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. Under this expedient, the allowance for expected credit losses would be adjusted to equal the difference between the net realizable value of the mortgages and the fair value of the collateral, adjusted for selling costs. This would result in the receivable, net of allowance, to equal the fair value of the collateral, adjusted for selling costs. As of June 30, 2024 and 2023, there were no first mortgages with these characteristics, thus no allowance for credit losses was made under this practical expedient.

A mortgage receivable is considered to be past due if any portion of the receivable balance is past its due date for more than 30 days. The aging of the mortgages receivable was the following at June 30, 2024:

Current	30-59 days past due	60-89 days past due	Total
\$ 244,806	\$ 693	\$ 1,637	\$ 247,136

GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 4. Mortgage Loans Receivable (Continued)

The aging of the mortgages receivable was the following at June 30, 2023:

Current	30-59 days past due	60-89 days past due	Total
\$ 268,688	\$ -	\$ 929	\$ 269,617

Note 5. Notes Payable

Notes payable consist of the following at June 30:

	<u>2024</u>	<u>2023</u>
Note payable to HMS Loan Fund I, LLC, bearing interest at 4%, requiring monthly interest only payments with principal due at maturity, maturing December 2025, subject to financial covenants, collateralized by the discounted value of three mortgages.	\$ 500,000	\$ -
Note payable to the Neighborhood Stabilization Program for a house to be rehabilitated, bearing no interest, due at the time the home is sold to an individual or family, secured by one property located at Winston Place, Stafford, Virginia.	155,500	155,500
Four notes payable to Virginia Housing Development Authority, bearing interest at 3%, due in monthly installments ranging from \$173 to \$408, with maturities ranging from March 2026 to January 2027, collateralized by mortgage receivables that have been pledged by the Organization.	21,971	29,555
Note payable to Truist, bearing interest at 5.94%, due in monthly installments of \$967, beginning September 2018, matured September 2023, collateralized by a vehicle.	-	363
	<u>677,471</u>	<u>185,418</u>
Less current portion	164,428	164,886
Less unamortized loan costs	6,851	-
	<u>\$ 506,192</u>	<u>\$ 20,532</u>

GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 5. Notes Payable (Continued)

Aggregate maturities on the notes payable for the next five years are as follows:

Year Ending June 30,	Amount
2025	\$ 164,428
2026	508,258
2027	4,785
	<u>\$ 677,471</u>

Note 6. Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following at June 30:

	2024	2023
Purpose Restricted		
Homebuyer services	\$ 11,446	\$ 11,605
Women's build	350	350
Homeownership study period cost program	-	25,000
	<u>\$ 11,796</u>	<u>\$ 36,955</u>

Net assets were received and released from donor restrictions, through satisfaction of the following purpose restrictions, during the years ended June 30, 2024 and 2023 as follows:

	2024	2023
Net Assets Received and Released with Donor Restrictions		
Homeownership study period cost program	\$ 25,000	\$ -
Construction or rehabilitation of home	20,000	14,000
Supplies and materials	3,000	-
Homebuyer services	159	2,328
NSP grants for home purchases	-	62,082
	<u>\$ 48,159</u>	<u>\$ 78,410</u>

Note 7. Leases

The Organization leases its office and retail store facilities in Fredericksburg, Virginia from Cosner Corner South, LLC and the ReStore from Poor House, LLC. The lease terms are for five (5) years and the Organization has four (4) options to extend the term for an additional five (5) years each.

The Organization rents additional warehouse space. The Organization is also responsible for real estate taxes, insurance and common area maintenance which will be billed separately by the landlord.

GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 7. Leases (Continued)

Lease expense for the operating leases was as follows:

	2024	2023
Lease Expense		
Operating lease expense	\$ 204,845	\$ 224,359
Total lease expense	\$ 204,845	\$ 224,359

The following is other supplemental information relating to the Organizations operating leases:

	2024	2023
Other Supplemental Information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 203,200	\$ 203,503
ROU assets obtained in exchange for new operating lease liabilities	-	2,269,298
Weighted-average remaining lease term in years for operating leases	11.11	12.01
Weighted-average discount rate for operating leases	2.7%	2.7%

Future maturities of the Organizations operating leases are as follows:

Year(s) Ending December 31,	Amount
2025	\$ 209,472
2026	186,634
2027	190,366
2028	194,174
2029	198,057
Thereafter	1,318,219
Total undiscounted cash flows	2,296,922
Less: Present value discount	(320,282)
Total lease liabilities	\$ 1,976,640

Note 8. Line of Credit

The Organization has a \$150,000 line of credit that renews annually. The expiration date of the current line of credit is August 5, 2025. Bank advances on the line of credit carry an interest rate equal to the lender's prime rate plus .75%. The interest rate at June 30, 2024 was 9.25%. There was no outstanding balance at June 30, 2024 and 2023.