

**FLOWER CITY HABITAT FOR
HUMANITY, INC.**

**Financial Statements
as of June 30, 2022
Together with
Independent Auditor's Report**

INDEPENDENT AUDITOR'S REPORT

November 18, 2022

To the Board of Directors of
Flower City Habitat for Humanity, Inc.:

Opinion

We have audited the accompanying financial statements of Flower City Habitat for Humanity, Inc. (a New York State not-for-profit corporation), which comprise the balance sheet as of June 30, 2022, and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Flower City Habitat for Humanity, Inc. as of June 30, 2022, and the change in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibility 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 Flower City Habitat for Humanity, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

INDEPENDENT AUDITOR'S REPORT (Continued)

Auditor's Responsibility for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

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

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

Report on Summarized Comparative Information

We have previously audited Flower City Habitat for Humanity, Inc.'s 2021 financial statements, and our report dated November 30, 2021 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RDG+Partners CPAs PLLC

Rochester, New York

FLOWER CITY HABITAT FOR HUMANITY, INC.**BALANCE SHEET****JUNE 30, 2022**

(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
ASSETS		
CURRENT ASSETS:		
Cash, cash equivalents and restricted cash:		
Operating	\$ 4,873,825	\$ 1,361,903
Restricted cash	10,662	109,538
Total cash, cash equivalents and restricted cash	4,884,487	1,471,441
Current portion of mortgages receivable	148,829	154,471
Grants receivable, net	648,997	106,000
Employee Retention Credit receivable	233,456	154,581
Other receivables	14,376	25,385
Other current assets	3,041	5,258
Total current assets	5,933,186	1,917,136
PROPERTY AND EQUIPMENT, net	618,671	494,873
OTHER ASSETS:		
Mortgages receivable, net of current portion	2,110,454	2,206,120
Construction in progress, net	794,669	498,053
Homes available for sale, net	1,000,000	300,000
Investments	321,371	286,930
Total other assets	4,226,494	3,291,103
	<u>\$ 10,778,351</u>	<u>\$ 5,703,112</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of notes payable - affiliate	\$ -	\$ 37,144
Accounts payable	133,699	103,964
Accrued expenses and other current liabilities	98,548	53,554
Total current liabilities	232,247	194,662
NON-CURRENT LIABILITIES:		
Notes payable - affiliate, net of current portion	-	230,610
Notes payable, net of current portion	479,951	-
Paycheck Protection Program loans	-	585,630
Total liabilities	712,198	1,010,902
NET ASSETS:		
Without donor restrictions	9,184,602	3,950,336
With donor restrictions	881,551	741,874
Total net assets	10,066,153	4,692,210
	<u>\$ 10,778,351</u>	<u>\$ 5,703,112</u>

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

FLOWER CITY HABITAT FOR HUMANITY, INC.

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2022
(With Comparative Totals for 2021)**

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	
SUPPORT:				
House sponsorships	\$ -	\$ 902,684	\$ 902,684	\$ 777,163
Fundraising and donations	644,001	45,700	689,701	539,128
Homebuilding grants	835,447	-	835,447	263,310
Private grants	3,790,000	-	3,790,000	15,000
Donated goods and services	6,548	-	6,548	15,993
Net assets released from restriction	756,612	(756,612)	-	-
Total support	6,032,608	191,772	6,224,380	1,610,594
REVENUES:				
Sale of homes	246,000	-	246,000	912,000
Mortgage receivable discount amortization	197,065	-	197,065	233,516
ReStore income	989,856	-	989,856	907,020
Investment income (loss), net	-	(52,095)	(52,095)	72,935
Home repair program	42,784	-	42,784	115,633
Rental income	33,238	-	33,238	26,476
Gain on sale of mortgages	-	-	-	163,308
Employee Retention Credit	233,456	-	233,456	258,605
Forgiveness of Paycheck Protection Program loans	585,630	-	585,630	-
Miscellaneous income	28,110	-	28,110	13,825
Total revenues	2,356,139	(52,095)	2,304,044	2,703,318
Total support and revenues	8,388,747	139,677	8,528,424	4,313,912
EXPENSES:				
Cost of homes sold	390,139	-	390,139	1,296,860
Discount on mortgages receivable	145,361	-	145,361	535,963
Change in discount on:				
Homes available for sale	215,132	-	215,132	(436,210)
Construction in progress	(107,070)	-	(107,070)	173,007
Program services:				
ReStore	988,920	-	988,920	933,179
Construction overhead and other	471,519	-	471,519	488,736
General and administrative	537,947	-	537,947	346,404
Fundraising	512,533	-	512,533	504,087
Total expenses	3,154,481	-	3,154,481	3,842,026
CHANGE IN NET ASSETS	5,234,266	139,677	5,373,943	471,886
NET ASSETS, beginning of year	3,950,336	741,874	4,692,210	4,220,324
NET ASSETS, end of year	\$ 9,184,602	\$ 881,551	\$ 10,066,153	\$ 4,692,210

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

FLOWER CITY HABITAT FOR HUMANITY, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022
(With Comparative Totals for 2021)

	2022							
	Program							
	ReStore	Construction Overhead and Family Services	Total Program	General and Administrative	Fundraising	Total	2021	
Payroll and payroll taxes	\$ 405,251	\$ 196,031	\$ 601,282	\$ 356,479	\$ 288,276	\$ 1,246,037	\$ 1,148,830	
Small tools and supplies	175,348	-	175,348	-	-	175,348	151,910	
Fundraising	-	-	-	-	141,471	141,471	105,088	
Employee benefits	52,026	35,029	87,055	23,127	23,123	133,305	124,644	
Rent expense	112,800	-	112,800	-	-	112,800	106,950	
Equipment maintenance	42,371	5,378	47,749	43,627	17,538	108,914	95,352	
Insurance	36,323	9,742	46,065	8,880	8,879	63,824	76,149	
Habitat International - tithe and fees	-	60,400	60,400	-	-	60,400	40,000	
Depreciation and amortization	20,749	30,162	50,911	6,785	619	58,315	74,560	
Promotion and public relations	36,033	3,185	39,218	521	18,180	57,919	43,083	
Auto	22,925	19,064	41,989	-	-	41,989	37,424	
Utilities	37,714	-	37,714	2,608	-	40,322	34,868	
Seminar and training	3,766	13,554	17,320	8,054	3,962	29,336	1,666	
Temporary help and consulting	4,663	23,097	27,760	-	1,125	28,885	19,482	
Legal and accounting	-	6,763	6,763	15,622	-	22,385	34,589	
Building repair and maintenance	10,958	4,510	15,468	3,319	-	18,787	15,368	
Repair programming	-	16,271	16,271	-	-	16,271	68,814	
Interest	4,662	8,210	12,872	3,399	-	16,271	14,546	
Bad debt expense (recovery)	-	14,801	14,801	-	-	14,801	(40,000)	
Telephone	8,464	3,763	12,227	1,055	1,432	14,714	13,959	
Office supplies	2,200	324	2,524	11,706	-	14,230	14,810	
Bank charges	3,940	-	3,940	3,932	379	8,251	7,008	
Travel and entertainment	-	1,096	1,096	2,404	2,318	5,818	2,181	
Mortgage outsourcing fees	-	-	-	-	-	-	2,918	
Miscellaneous	8,727	20,139	28,866	46,429	5,231	80,526	78,207	
	<u>\$ 988,920</u>	<u>\$ 471,519</u>	<u>\$ 1,460,439</u>	<u>\$ 537,947</u>	<u>\$ 512,533</u>	<u>\$ 2,510,919</u>	<u>\$ 2,272,406</u>	

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

FLOWER CITY HABITAT FOR HUMANITY, INC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022**

(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Support and contributions received	\$ 5,689,636	\$ 1,859,254
Mortgage payments received	334,467	412,412
Proceeds from sale of mortgage receivables	-	352,287
Proceeds from sale of homes	27,625	-
Cash received from ReStore sales	989,856	907,020
Interest and other income received	323,184	342,496
Cash paid to suppliers	(1,465,472)	(992,046)
Cash paid for salaries	(1,244,534)	(1,172,863)
Cash paid for operating expenses	(430,028)	(299,865)
Cash paid for fundraising	(235,014)	(218,959)
Cash paid for ReStore expenses	(503,951)	(469,323)
Interest paid	(16,271)	(14,546)
Net cash flow from operating activities	<u>3,469,498</u>	<u>705,867</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(182,113)	-
Deposit to investments, net	(86,536)	(7,728)
Net cash flow from investing activities	<u>(268,649)</u>	<u>(7,728)</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
Repayment of notes payable - affiliate	(267,754)	(35,385)
Borrowings of notes payable	498,000	-
Repayment of notes payable	(18,049)	-
Receipt of Paycheck Protection Program loans	-	292,830
Net cash flow from financing activities	<u>212,197</u>	<u>257,445</u>
CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	3,413,046	955,584
CASH, CASH EQUIVALENTS AND RESTRICTED CASH:		
Beginning of year	<u>1,471,441</u>	<u>515,857</u>
End of year	<u><u>\$ 4,884,487</u></u>	<u><u>\$ 1,471,441</u></u>

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

FLOWER CITY HABITAT FOR HUMANITY, INC.

STATEMENT OF CASH FLOWS (Continued)

FOR THE YEAR ENDED JUNE 30, 2022

(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 5,373,943	\$ 471,886
Adjustments to reconcile change in net assets to net cash flow from operating activities:		
Depreciation and amortization	58,315	74,560
Discount on mortgages receivable	145,361	535,963
Amortization of discount on mortgages receivable	(197,065)	(233,516)
Change in discount on homes available for sale	215,132	(436,210)
Change in discount on construction in progress	(107,070)	173,007
Investment loss (income), net	52,095	(72,935)
Bad debt expense (recovery)	14,801	(40,000)
Forgiveness of Paycheck Protection Program loans	(585,630)	-
Change in:		
Mortgages receivable	153,012	(304,052)
Grants receivable	(557,798)	348,499
Employee Retention Credit receivable	(78,875)	(154,581)
Other receivables	11,009	9,009
Other current assets	2,217	(1,558)
Construction in progress	(189,546)	(518,980)
Homes available for sale	(915,132)	827,795
Accounts payable	29,735	88,322
Accrued expenses and other current liabilities	44,994	(35,032)
Deferred revenue	-	(26,310)
Net cash flow from operating activities	<u>\$ 3,469,498</u>	<u>\$ 705,867</u>

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

FLOWER CITY HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

(With Comparative Totals for 2021)

1. ORGANIZATION

Flower City Habitat for Humanity, Inc. (the Organization) was established and incorporated in November 1984. The Organization is a non-profit corporation whose purpose is to develop a better habitat in which to work and live for economically disadvantaged people. This is accomplished by working with these people to build or rehabilitate homes and subsequently providing non-interest-bearing mortgages on these residences.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting -

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (GAAP).

Net Asset Classifications -

At June 30, 2022 and 2021, the Organization reported net assets as follows:

- Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
- 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 those resources be maintained in perpetuity. All 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 statement of activities as net assets released from restriction.

Accounting Pronouncement Adopted -

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-07 (ASC 958) "*Contributed Nonfinancial Assets*" which requires the Organization to present contributed nonfinancial assets received such as supplies, buildings, equipment, etc. as a separate line item on the statement of activities, balance sheet (if applicable), and with additional disclosures to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Pronouncement Adopted (Continued) -

The Organization adopted the provisions of ASU 2020-07 on July 1, 2021. In consideration of the adoption of this accounting pronouncement, the Organization determined that there was no impact on previously reported net assets of the Organization, and no reclassifications of assets or liabilities in the accompanying balance sheets were required.

Cash, Cash Equivalents and Restricted Cash -

The Organization's cash, cash equivalents, and restricted cash consist of bank deposit and money market accounts. These accounts may, at times, exceed federally insured limits. Restricted cash is held in investment accounts and is to be used for future tithing and building operations. The Organization has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk with respect to cash and cash equivalents.

Grants Receivable -

Grants receivable consists of Government and New York State grants awarded to the Organization to assist in subsidizing the cost of homebuilding. Grant revenue is earned by the Organization upon the completion of applicable grant related projects. As of June 30, 2022 and 2021, there was \$648,997 and \$106,000, respectively, of grants that had not been received by the Organization as of year-end. Balances that are still outstanding after management has used reasonable collection efforts are written off. No allowance for doubtful accounts on grants receivable was considered necessary at June 30, 2022 or 2021.

Property and Equipment -

It is the Organization's policy to capitalize property and equipment over \$5,000. Purchased property and equipment is stated at cost and depreciated using the straight-line method. The assets are depreciated over their estimated useful lives, ranging from three to thirty-nine years. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose.

Construction in Progress -

Construction in progress consists of homes owned by the Organization that are currently under construction or renovation. These homes are valued at the lower of cost or anticipated sales price, with the discount reserve being the difference between the total costs and the anticipated sales price. The discount reserve on construction in progress was \$65,937 and \$173,007 at June 30, 2022 and 2021, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Homes Available for Sale -

Homes available for sale consist of homes owned by the Organization that are valued at the lower of cost or anticipated sales price, with the discount reserve being the difference between the total costs and the anticipated sales price. As of the balance sheet date, these homes are either awaiting closing or the current tenants are in a probationary period prior to being eligible for ownership. The discount reserve on homes available for sale totaled \$407,194 and \$192,062 at June 30, 2022 and 2021, respectively.

Mortgages Receivable -

In accordance with instructions from Habitat for Humanity International, Inc., the Organization does not charge interest on the mortgages on houses sold to homeowners. The Organization records the mortgages at the present value of the note payments to be received in the future. Imputed rates of interest that are used in computing the discount vary between 7.23% and 9.00% depending on the origination date of the mortgage and are provided to the Organization by Habitat for Humanity International, Inc. on an annual basis. The difference between the face amount of the mortgage and its present value is accounted for as a discount and charged to expense in the initial year of the mortgage. The discount is then amortized over the life of the mortgage using the interest method and is reported as mortgage discount amortization revenue in the statement of activities and change in net assets.

Investments -

The Organization's title and building reserve funds represent cash and investments restricted for certain purposes. The investments consist of money market, equities, and mutual funds. The restricted cash amounts are held in bank deposit accounts.

The Organization's investments are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the value of investments will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

All of the Organization's investments are measured at fair value on a recurring basis utilizing level one inputs, as defined in the fair value measurement section of Note 2.

Revenue Recognition - Exchange Transactions -

Program revenues are recognized when control of the promised services is transferred to the Organization's customers, in an amount that reflects the consideration the Organization expects to be entitled to in exchange for those services. To do this, the Organization performs the following five steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the Organization satisfies a performance obligation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition - Exchange Transactions (Continued) -

Revenue Types -

The Organization has the following revenue types that qualify as exchange transactions:

Sale of Homes - The Organization builds and sells houses to low-income individuals. Such revenues are recognized at the date of closing for the house as this is the point in time the Organization has determined to satisfy their performance obligation.

ReStore - The Organization sells various donated and purchased goods to individuals through their ReStore locations. Such revenues are recognized at the date of sale as this is the point in time the Organization has determined to satisfy their performance obligation.

Sale of Mortgages - The Organization sells existing mortgages to a third-party bank. Such revenues are recognized at the date of sale as this is the point in time the Organization has determined to satisfy their performance obligation.

Home Repair Program - The Organization performs repairs for individuals and other organizations in the community. Such revenues are recognized at the date of sale as this is the point in time the Organization has determined to satisfy their performance obligation.

Significant Judgments -

Determining whether variable consideration (if applicable) should be reflected in the contract's transaction price may require judgment as to the probability that a significant reversal of such consideration will not occur when the variable consideration is resolved.

Practical Expedients -

The Organization has applied certain practical expedients, as follows:

- The Organization does not evaluate a contract for a significant financing component if payment is expected to be received within one year or less from the transfer of the promised services to the client.
- The Organization generally expenses costs incurred to obtain a contract when the amortization period would have been one year or less.

Sales and Use Tax -

At times, the Company collects and remits sales and use taxes. These taxes are reported on a net basis in the accompanying statements of activities, and therefore do not impact reported amounts of revenue and expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Support and Revenue -

Contributions are recognized when cash, securities, or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. Contributions that are expected to be received in future years are recorded at their present value. Contributions are recorded as unrestricted unless they are subject to donor restrictions or are required to be used or expected to be received in future years.

Grant income that does not meet the criteria of an exchange transaction is recognized under the criteria described above for contributions. Grantors may, at their discretion, amend the grant and contract amounts. In addition, reimbursement for expenses or return of funds, or both, may be requested as a result of noncompliance by the Organization with the terms of the grants and contracts. The Organization records such amendments, reimbursement, and return of funds as an adjustment to revenue in the year of the amendment. No such changes occurred during the years ended June 30, 2022 and 2021.

Grant funds with an explicit right to return funds if not used for their intended purpose and which are received in advance of their stipulated conditions are recorded as deferred revenue until such conditions are met. There was no deferred revenue as of June 30, 2022 and 2021.

Donated Goods and Services -

The Organization values all donations of material and professional services at fair market value when received. Revenue and expenses related to donated goods and services are recognized at the time such goods are received or services are rendered. Fair market value is determined using estimated wholesale prices of identical or similar goods if purchased in the region and estimated rates based on similar services provided if the Organization were to purchase such services. If donor restrictions are present, the Organization will follow the policy for net asset classification. Total contributed goods and services were approximately \$7,000 and \$16,000 for the years ended June 30, 2022 and 2021, respectively.

The Organization also receives a significant amount of donated services from unpaid volunteers who assist in home rehabilitation/construction, fund-raising and special projects. No amounts have been recognized in the statement of activities because the criteria for recognition under generally accepted accounting principles have not been met.

Functional Allocation of Expenses -

The costs of program, fundraising and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited on the basis of estimates of time and effort, square footage used, or other reasonable basis for allocation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement -

GAAP 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. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical 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 GAAP are described below:

- Level 1 - Valuations based on quoted market prices in active markets for identical assets or liabilities that the Organization has the ability to access. All of the Organization's investments are valued utilizing level 1 inputs.
- Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly, or indirectly. The Organization has no assets or liabilities that are valued utilizing level 2 inputs.
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The Organization has no assets or liabilities that are valued utilizing level 3 inputs.

Income Taxes -

The Organization is organized as a New York nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Internal Revenue Code (IRC) Section 501(a) as an organization described in IRC Section 501(c)(3), qualifies for the charitable contribution deduction under IRC Section 170(b)(1)(A)(vi), and has been determined not to be a private foundation under IRC Section 509(a)(2). The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. Management has determined that the Organization is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS. The Organization's informational returns are generally open to examination by taxing jurisdictions for three years from their filing dates or tax years ended in 2019 through 2022.

Estimates -

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Significant estimates included in these financial statements include useful lives of property and equipment, collectability of various receivables, discounts applied to mortgage receivables, reserves for construction in progress and homes available for sale, and allocation of functional expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comparative Information -

The accompanying financial statements include certain prior year summarized comparative information in total but not by net asset or functional class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's audited financial statements for the year ended June 30, 2021, from which the summarized information was derived.

Events Occurring After Reporting Date -

The Organization has evaluated events and transactions that occurred between June 30, 2022 and November 18, 2022, which is the date the financial statements were available to be issued, for possible disclosure and recognition in the financial statements (Note 16).

3. LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following at June 30:

	<u>2022</u>	<u>2021</u>
Financial assets:		
Cash, cash equivalents and restricted cash	\$ 4,884,487	\$ 1,471,441
Grants receivable, net	648,997	106,000
Employee Retention Credit receivable	233,456	154,581
Other receivables	14,376	25,385
Investments	321,371	286,930
Current portion of mortgages receivables, gross	<u>314,644</u>	<u>326,993</u>
	<u>6,417,331</u>	<u>2,371,330</u>
Less amounts not available to be used within one year:		
Net assets with donor restrictions, including restricted cash	(881,551)	(741,874)
Less: net assets with purpose restrictions to be met in less than one year	<u>541,470</u>	<u>345,406</u>
	<u>(340,081)</u>	<u>(396,468)</u>
Financial assets available to meet general expenditures over the next 12 months	<u>\$ 6,077,250</u>	<u>\$ 1,974,862</u>

3. LIQUIDITY AND AVAILABILITY OF RESOURCES (Continued)

In addition to the financial assets above, the Organization has a \$300,000 line-of-credit available for general working capital needs as well as a \$1,000,000 line-of-credit for the purpose of financing construction of residential homes. There was no outstanding balance on either line-of-credit at June 30, 2022 and 2021 (see Note 9). Cash, cash equivalents and restricted cash include a \$3,750,000 donation that was received on March 3, 2022. While there are no donor restrictions, the Board is in the process of designating the funds for strategic objectives to advance the mission of the Organization

4. MORTGAGES RECEIVABLE

Mortgages receivable secured by real estate, due on various dates with no interest, consisted of the following at June 30:

	<u>2022</u>	<u>2021</u>
Mortgages receivable	\$ 4,780,466	\$ 5,002,450
Discounts on non-interest-bearing notes	<u>(2,521,183)</u>	<u>(2,641,859)</u>
	2,259,283	2,360,591
Less: current portion, net of discount	<u>(148,829)</u>	<u>(154,471)</u>
	<u>\$ 2,110,454</u>	<u>\$ 2,206,120</u>

The following are future maturities of mortgages receivable, net of discount, for the years ending June 30:

	<u>Mortgage</u>	<u>Discount</u>	<u>Net</u>
2023	\$ 314,644	\$ (165,815)	\$ 148,829
2024	310,047	(161,744)	148,303
2025	302,184	(155,691)	146,493
2026	292,312	(154,172)	138,140
2027	279,731	(149,548)	130,183
Thereafter	<u>3,281,548</u>	<u>(1,734,213)</u>	<u>1,547,335</u>
	<u>\$ 4,780,466</u>	<u>\$ (2,521,183)</u>	<u>\$ 2,259,283</u>

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2022</u>	<u>2021</u>
Land	\$ 40,000	\$ 40,000
Buildings	774,688	774,688
Leasehold improvements	106,515	93,695
Computers and office equipment	104,255	95,376
Building equipment	84,589	37,999
Vehicles	<u>289,410</u>	<u>184,280</u>
	1,399,457	1,226,038
Less: Accumulated depreciation	<u>(780,786)</u>	<u>(731,165)</u>
	<u>\$ 618,671</u>	<u>\$ 494,873</u>

Depreciation and amortization expense for the years ended June 30, 2022 and 2021 was \$58,315 and \$74,560, respectively.

6. INVESTMENTS

Investments consisted of the following major types as of June 30:

	<u>2022</u>	<u>2021</u>
Marketable securities	<u>\$ 321,371</u>	<u>\$ 286,930</u>

Investment income (loss), net consisted of the following activity for the years ending June 30:

	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 7,119	\$ 9,066
Realized gain	13,603	11,809
Unrealized gain (loss)	(70,476)	53,781
Investment fees	<u>(2,341)</u>	<u>(1,721)</u>
	<u>\$ (52,095)</u>	<u>\$ 72,935</u>

7. NOTES PAYABLE - AFFILIATE

The following notes are payable to Habitat for Humanity International, Inc. as of June 30:

	<u>2022</u>	<u>2021</u>
Note payable in the original principal amount of \$210,000 requiring monthly payments of \$2,235, including interest at 5.00%. Final payment was due December 2028. During the year ended June 30, 2022, the Organization repaid the note in full.	\$ -	\$ 166,843
Note payable in the original principal amount of \$180,600 requiring monthly payments of \$1,899, including interest at 4.75%. Final payment was due June 2026. During the year ended June 30, 2022, the Organization repaid the note in full.	-	100,911
	-	267,754
Less: current portion	-	(37,144)
	<u>\$ -</u>	<u>\$ 230,610</u>

The notes payables to Habitat for Humanity International, Inc. were collateralized by security interests in specific mortgage receivables. The Organization was required to meet financial covenants of maintaining minimum net assets of \$250,000 and raising at least 50% of its annual support from local sources. The Organization was in compliance with these covenants as of and for the years ended June 30, 2022 and 2021.

8. NOTES PAYABLE

Notes payable consisted of the following as of June 30:

	<u>2022</u>	<u>2021</u>
The Organization applied for and obtained the Economic Injury Disaster Loan ("EIDL") in the total amount of \$498,000 during fiscal 2022. The loan requires monthly installments of \$2,235, including interest at 2.75%, from January 2024 through December 2052. Payments will be first applied to interest that has accrued between the date of the loan and the first required payment until accrued interest has been paid in full. The note is collateralized by substantially all assets of the Organization.	\$ 479,951	\$ -
	<u>\$ 479,951</u>	<u>\$ -</u>

8. NOTES PAYABLE (Continued)

Future required payments due under the terms of these notes are as follows for the years ending June 30:

2023	\$	-
2024		-
2025		-
2026		1,135
2027		13,826
Thereafter		<u>464,990</u>
	\$	<u>479,951</u>

9. LINES-OF-CREDIT

The Organization has two line-of-credit agreements allowing the Organization to borrow a total of \$1,300,000. The Organization may borrow up to \$1,000,000 for the purpose of financing construction of residential homes for low-income individuals. The second agreement allows the Organization to borrow up to \$300,000 for the purpose of general working capital. Amounts borrowed under both of these agreements bear interest at the prime rate (4.75% as of June 30, 2022) and are due on demand. The line-of-credit agreements are secured by substantially all of the assets of the Organization. There was no outstanding balance under these line-of-credit agreements at June 30, 2022 and 2021.

10. PAYCHECK PROTECTION PROGRAM LOANS

The Organization applied for and obtained the first round of the Paycheck Protection Program ("PPP") during fiscal 2020 in the amount of \$292,800 and the second round of PPP during fiscal 2021 in the amount of \$292,830. The loans are administered by the Small Business Administration ("SBA") and are forgivable if the funds are used for the intended purposes of the loans. During the year ended June 30, 2022, the first and second round funds totaling \$585,630 were fully forgiven and as such are recorded as revenue on the statement of activities and change in net assets for fiscal 2022.

11. COMMITMENTS

In January 2017, the Organization entered into a lease agreement for a second ReStore location that required monthly payments of \$8,813 through December 2021. During fiscal 2022, the Organization extended the lease for an additional period requiring monthly payments of \$9,694 from November 2021 to October 2026.

11. COMMITMENTS (Continued)

During fiscal 2018, the Organization entered into a lease agreement for a copier. Under the terms of the initial lease, the Organization was required to make monthly payments of \$181 through December 2021. During July 2022, the lease was extended through June 2027 requiring monthly payments of \$547. The Organization is also charged fees if monthly usage exceeds a predetermined amount under the agreement.

In November 2018, the Organization entered into a lease agreement for additional customer and volunteer parking space that required monthly payments of \$600 through October 2020. During the year ended June 30, 2021, the Organization executed an extension of the lease. Under the extended lease agreement, monthly payments of \$650 are required for the period November 2020 to October 2023.

Future required payments due under the terms of the above lease obligations are as follows for the years ending June 30:

2023	\$	132,068
2024		126,868
2025		123,810
2026		122,894
2027		<u>45,344</u>
	\$	<u>550,984</u>

12. RESTRICTIONS ON NET ASSETS

Net assets with donor restrictions consisted of the following as of June 30:

	<u>2022</u>	<u>2021</u>
Tithe fund	\$ 240,374	\$ 292,218
Building reserves fund	91,659	104,250
Specific home construction	541,470	335,497
Homeowner assistance	<u>8,048</u>	<u>9,909</u>
	<u>\$ 881,551</u>	<u>\$ 741,874</u>

Net assets with donor restrictions that were released from restrictions were as follows during the years ended June 30:

	<u>2022</u>	<u>2021</u>
Tithe fund	\$ 10,000	\$ 10,000
Specific home construction	744,051	720,842
Homeowner assistance	<u>2,561</u>	<u>3,894</u>
	<u>\$ 756,612</u>	<u>\$ 734,736</u>

12. RESTRICTIONS ON NET ASSETS (Continued)

The tithe fund amounts are restricted by the donor for use in supplementing the Organization's tithing to Habitat for Humanity International. Annually, amounts are released to unrestricted funds for this purpose based on the discretion of the Organization's Board of Directors.

The building reserves fund is restricted by the donor for use as an internal line-of-credit that is used by the Organization to fund the construction of homes while awaiting infrastructure, federal home loan payments, and other post-closing government grant funding. The fund is replenished as soon as these payments are received, with the balance in the fund equaling a minimum of \$100,000 plus interest earned thereon. At June 30, 2022 and 2021, the donor restricted amount totaled \$91,659 and \$104,250, respectively, which included principal of \$100,000 and cumulative earnings (losses) of \$(8,341) and \$4,250, respectively, and are represented in the restricted cash balance on the accompanying financial statements. There were no loans from the building reserve fund at June 30, 2022 and 2021.

13. EMPLOYEE BENEFIT PLAN

The Organization sponsors a defined contribution plan. All employees are eligible for participation in the plan after the completion of one year of service and may voluntarily elect to contribute a percentage of their compensation to the plan, subject to the terms of the plan and certain established federal limitations. The Organization makes no matching or discretionary contributions to the plan at this time.

14. EMPLOYEE RETENTION TAX CREDIT

The Organization was eligible for the Employee Retention Credit ("ERC") under the Taxpayer Certainty and Disaster Relief Act of 2020 which was enacted December 27, 2020. Under the ERC, the Organization can claim a credit for federal payroll taxes if certain parameters are met. During fiscal 2021, the Organization amended their 2020 quarterly federal payroll tax returns for quarters three and four, and included the credit on their 2021 quarterly federal payroll tax return for quarter one. During fiscal 2022, the Organization amended their 2021 quarterly federal payroll tax returns for quarter two, and included the credit on their 2021 quarterly federal payroll tax return for quarter three. The Organization accounted for the ERC under Accounting Standards Codification 958-605 and total revenue recognized in the amount of \$233,456 and \$258,605 for the years ended June 30, 2022 and 2021, respectively, is recorded on the accompanying statement of activities and change in net assets. Total receivables related to the Employee Retention Credit at June 30, 2022 and 2021 were \$233,456 and \$154,581, respectively.

15. CONTINGENCIES, RISKS AND UNCERTAINTIES

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively impact future operations. The entire financial impact that could result from such economic uncertainties are unknown at this time.

Third-party payers, especially governmental funders, have substantially increased their scrutiny of payments made to their designated service providers. Specific areas for review by the governmental payers and their investigative personnel include appropriate billing practices, reimbursement maximization strategies, technical regulation compliance, etc. The stated purpose for these reviews is to recover reimbursements which the payers believe may have been inappropriate. The Organization has reviewed its internal records and policies with respect to such matters. As a result of this review, the Organization has not recorded a liability as of June 30, 2022 or 2021.

16. SUBSEQUENT EVENTS

On October 12, 2022 the Board of Directors of the Organization approved a plan of merger. In conjunction with the plan of merger, the organization agrees to acquire the assets (subject to the liabilities) of both Habitat for Humanity of Ontario County, New York ("Ontario Habitat") and Habitat for Humanity of Wayne County, New York ("Wayne Habitat"). The effective date of the merger is expected to be January 1, 2023 and the name of the Organization will be changed to Greater Rochester Habitat for Humanity. Ontario and Wayne Habitat perform identical services and programming as the Organization related to providing affordable homeownership to individuals that qualify.