HABITAT FOR HUMANITY
MISSISSIPPI CAPITAL AREA
(A Non-Profit Organization)
Jackson, Mississippi

Audited Financial Statements
Years Ended December 31, 2021 and 2020

CONTENTS

HORNE

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Habitat for Humanity Mississippi Capital Area
Jackson, Mississippi

Opinion

We have audited the financial statements of Habitat for Humanity Mississippi Capital Area (the "Company"), which comprise the statements of financial position as of December 31, 2021 and 2020, and 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 Company as of December 31, 2021 and 2020, and the results of its operations 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 Company 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 Company's ability to continue as a going concern within one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 Company'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.

Horne LLP

Ridgeland, Mississippi
June 27, 2022

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA

Statements of Financial Position

December 31, 2021 and 2020

	2021	2020
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,493,312	$ 1,353,759
Receivables	158,787	49,842
Inventory	12,749	-
Prepaid expenses	12,606	10,544
Homes under construction	122,214	72,582
Current portion of mortgage notes receivable	913,089	925,100
Property held-for-resale	389,628	463,368
Total current assets	3,102,385	2,875,195
Mortgage notes receivable, collateralized by deeds of trust on real estate, less discounts of $6,767,375 and $7,012,500, respectively	6,583,934	6,775,561
Restricted cash	382,270	943,464
Property and equipment, net of accumulated depreciation	1,286,395	838,813
Total non-current assets	8,252,599	8,557,838
Total assets	$ 11,354,984	$ 11,433,033
LIABILITIES AND NET ASSETS		
Current liabilities		
Amounts held for homeowners	$ 17,691	$ 17,200
Accounts payable and accrued expenses	206,350	222,665
Deferred revenue	357,934	662,149
Current maturities of notes payable	406,959	422,086
Total current liabilities	988,934	1,324,100
Long-term liabilities		
Notes payable, less current maturities and discounts of $1,065,059 and $1,225,616, respectively	1,967,701	2,338,172
Total long-term liabilities	1,967,701	2,338,172
Total liabilities	2,956,635	3,662,272
Net assets		
Without donor restrictions	8,081,104	7,340,083
With donor restrictions	317,245	430,678
Total net assets	8,398,349	7,770,761
Total liabilities and net assets	$ 11,354,984	$ 11,433,033

See accompanying notes.

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA

Statement of Activities

Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Home sales	$ 1,440,386	$ -	$ 1,440,386
Contributions	432,994	261,883	694,877
Mortgage notes receivable discount amortization	652,480	-	652,480
Mortgage notes payable discount	54,301	-	54,301
Fundraising	328,962	86,303	415,265
Grants	-	848,769	848,769
ReStore sales	20,312	-	20,312
Miscellaneous revenue	43,256	-	43,256
Gain on forgiveness of notes payable	352,300		352,300
Net assets released from restriction	1,310,388	(1,310,388)	-
Total support and revenue	4,635,379	(113,433)	4,521,946
Expenses			
Program services			
Cost of homes sold	1,432,611	-	1,432,611
Mortgage notes receivable discount	504,928	-	504,928
Salaries, payroll taxes and insurance	576,103	-	576,103
Mortgage notes payable discount amortization	214,858	-	214,858
Property taxes and other property expenses	128,383	-	128,383
Miscellaneous program expenses	198,053	-	198,053
Impairment loss on property held for resale	29,390	-	29,390
ReStore setup costs	160,568	-	160,568
Total program services	3,244,894	-	3,244,894
Management and general			
Salaries, payroll taxes and insurance	233,546	-	233,546
Administrative	121,337	-	121,337
Office occupancy	69,847	-	69,847
Total management and general	424,730	-	424,730
Fundraising			
Salaries, payroll taxes and insurance	145,709	-	145,709
Administrative and office occupancy	30,273	-	30,273
Special events	48,752	-	48,752
Total fundraising	224,734	-	224,734
Total expenses	3,894,358	-	3,894,358
Change in net assets	741,021	(113,433)	627,588
Net assets, beginning of year	7,340,083	430,678	7,770,761
Net assets, end of year	$ 8,081,104	$ 317,245	$ 8,398,349

See accompanying notes.

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA

Statement of Activities

Year Ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Home sales	$ 1,041,145	$ -	$ 1,041,145
Contributions	197,829	381,275	579,104
Mortgage notes receivable discount amortization	654,668	-	654,668
Mortgage notes payable discount	221,689	-	221,689
Fundraising	237,229	-	237,229
Grants	-	334,490	334,490
ReStore sales	650	-	650
Miscellaneous revenue	149,139	-	149,139
Net assets released from restriction	756,823	(756,823)	-
Total support and revenue	3,259,172	(41,058)	3,218,114
Expenses			
Program services			
Cost of homes sold	1,021,212	-	1,021,212
Mortgage notes receivable discount	294,345	-	294,345
Salaries, payroll taxes and insurance	423,357	-	423,357
Mortgage notes payable discount amortization	216,141	-	216,141
Property taxes and other property expenses	150,212	-	150,212
Miscellaneous program expenses	201,119	-	201,119
Impairment loss on property held for resale	77,458	-	77,458
ReStore setup costs	22,844	-	22,844
Total program services	2,406,688	-	2,406,688
Management and general			
Salaries, payroll taxes and insurance	223,303	-	223,303
Administrative	96,425	-	96,425
Office occupancy	41,577	-	41,577
Total management and general	361,305	-	361,305
Fundraising			
Salaries, payroll taxes and insurance	178,723	-	178,723
Administrative and office occupancy	33,981	-	33,981
Special events	33,367	-	33,367
Total fundraising	246,071	-	246,071
Total expenses	3,014,064	-	3,014,064
Gains			
Gain on unwind of New Market Tax Credit Financing	1,245,277	-	1,245,277
Change in net assets	245,108	(41,058)	204,050
Net assets, beginning of year	7,094,975	471,736	7,566,711
Net assets, end of year	$ 7,340,083	$ 430,678	$ 7,770,761

See accompanying notes.

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA

Statement of Functional Expenses

For the Year Ended December 31, 2021

	Program Services	Support Services: Management and General	Support Services: Fundraising	Total
Salaries	$ 415,075	$ 194,703	$ 117,120	$ 726,898
Payroll taxes	52,142	11,023	8,611	71,776
Employee benefits	108,886	27,820	19,978	156,684
Total salaries and benefits	576,103	233,546	145,709	955,358
Cost of homes sold	1,417,611	-	-	1,417,611
Cost of homes sold allocated from management and general	15,000	(15,000)	-	-
Advertising	-	-	7,650	7,650
Contract labor	99,791	-	2,100	101,891
Demolitions	9,200	-	-	9,200
Disposal fees	8,689	-	-	8,689
Dues and subscriptions	-	627	-	627
Employee supplies	-	1,533	-	1,533
Equipment	24,258	3,349	550	28,157
Filing fees	4,144	-	-	4,144
Financial service fees	45	7,660	-	7,705
HFHI sustainability fee	15,000	-	-	15,000
Homeowner expense	1,090	-	-	1,090
Impairment loss on property held for resale	29,390	-	-	29,390
Insurance	29,680	12,872	175	42,727
IT expenses	10,452	20,943	7,350	38,745
Janitorial	-	7,209	-	7,209
Late fees and penalties	-	7,292	-	7,292
License and permits	-	153	-	153
Meeting expense	520	2,619	340	3,479
Miscellaneous	108	3,910	-	4,018
Miscellaneous construction supplies	2,266	-	-	2,266
Mortgage loan service fees	55,715	-	-	55,715
Mortgage loan underwriting expenses	2,643	-	-	2,643
Mortgage notes payable discount amortization	214,858	-	-	214,858
Mortgage notes receivable discount	504,928	-	-	504,928
Occupancy supplies	-	3,015	-	3,015
Office landscape maintenance	-	2,442	-	2,442
Office security	2,178	18,386	1,903	22,467
Office supplies	4,741	11,225	2,998	18,964
Payroll processing fees	-	6,753	-	6,753
Postage	4,055	1,672	12,305	18,032
Printing	3,492	-	17,828	21,320
Professional fees	-	39,300	-	39,300
Property maintenance	45,228	-	-	45,228
Property taxes	32,615	-	-	32,615
Rent expense	4,860	-	7,618	12,478
Repairs and maintenance	8,040	9,832	180	18,052
Shipping and freight	1,000	-	-	1,000
Software	6,421	10,149	4,533	21,103
Special event expenses	-	-	10,684	10,684
Staff activities	-	1,875	-	1,875
Staff recruiting	190	1,686	-	1,876
Staff training	3,528	2,100	660	6,288
Storage rental	20,413	-	-	20,413
Travel	1,050	418	678	2,146
Unemployment tax assessment	-	5,970	-	5,970
Utilities	9,580	11,029	-	20,609
Vehicle expenses	14,553	-	-	14,553
Volunteer expenses	1,674	-	1,473	3,147
Warehouse supplies	6,200	-	-	6,200
Warranty repairs	25,185	-	-	25,185
	2,640,391	179,019	79,025	2,898,435
Total expenses before depreciation	3,216,494	412,565	224,734	3,853,793
Depreciation	28,400	12,165	-	40,565
Total expenses	$ 3,244,894	$ 424,730	$ 224,734	$ 3,894,358

See accompanying notes.

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA

Statement of Functional Expenses

For the Year Ended December 31, 2020

		Support Services		
	Program Services	Management and General	Fundraising	Total
Salaries	$ 333,718	$ 183,841	$ 146,575	$ 664,134
Payroll taxes	24,777	13,876	10,758	49,411
Employee benefits	64,862	25,586	21,390	111,838
Total salaries and benefits	423,357	223,303	178,723	825,383
Cost of homes sold	1,008,712	-	-	1,008,712
Cost of homes sold allocated from management and general	12,500	(12,500)	-	-
Advertising	-	-	450	450
Casualty loss	15,780	-	-	15,780
Contract labor	17,301	5,000	1,690	23,991
Demolitions	5,500	-	-	5,500
Disposal fees	3,108	-	-	3,108
Dues and subscriptions	-	1,247	36	1,283
Employee supplies	-	1,277	-	1,277
Equipment	5,519	4,634	398	10,551
Filing fees	628	-	-	628
Financial service fees	105	4,132	-	4,237
HFHI sustainability fee	15,000	-	-	15,000
Homeowner expense	7,009	-	-	7,009
Impairment loss on property held for resale	77,458	-	-	77,458
Insurance	31,743	13,816	-	45,559
IT expenses	22,726	17,482	20,778	60,986
Janitorial	-	4,320	-	4,320
Late fees and penalties	-	1,873	-	1,873
Legal fees	13,756	-	-	13,756
License and permits	11	200	-	211
Meeting expense	-	1,112	23	1,135
Miscellaneous	1,790	4,255	-	6,045
Mortgage loan service fees	61,378	-	-	61,378
Mortgage loan underwriting expenses	1,873	-	-	1,873
Mortgage notes payable discount amortization	216,141	-	-	216,141
Mortgage notes receivable discount	294,345	-	-	294,345
Occupancy supplies	-	1,904	-	1,904
Office landscape maintenance	-	972	-	972
Office security	367	2,164	-	2,531
Office supplies	2,282	8,313	3,900	14,495
Postage	861	2,230	13,435	16,526
Printing	410	-	20,326	20,736
Professional fees	-	39,600	-	39,600
Property maintenance	32,415	-	-	32,415
Property taxes	60,527	-	-	60,527
Repairs and maintenance	3,461	3,935	-	7,396
Software	5,266	5,662	4,205	15,133
Special event expenses	-	-	571	571
Staff activities	-	1,506	-	1,506
Staff recruiting	-	734	-	734
Staff training	65	100	-	165
Storage rental	484	-	-	484
Supplies	-	-	30	30
Travel	165	1,324	40	1,529
Utilities	5,096	9,666	-	14,762
Vehicle expenses	7,371	-	-	7,371
Volunteer expenses	343	-	1,466	1,809
Warehouse supplies	8,412	-	-	8,412
Warranty repairs	14,955	-	-	14,955
	1,954,863	124,958	67,348	2,147,169
Total expenses before depreciation	2,378,220	348,261	246,071	2,972,552
Depreciation	28,468	13,044	-	41,512
Total expenses	$ 2,406,688	$ 361,305	$ 246,071	$ 3,014,064

See accompanying notes.

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA

Statements of Cash Flows

Years Ended December 31, 2021 and 2020

	2021	2020
Operating activities		
Change in net assets	$ 627,588	$ 204,050
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	40,565	41,512
Mortgage notes receivable discounts, net of amortization	(147,552)	(360,323)
Mortgage notes payable discount, net of amortization	160,557	(5,548)
Gain on forgiveness of notes payable	(183,300)	-
Impairment loss on property held for resale	29,390	77,458
Changes in assets and liabilities		
Receivables	(108,945)	18,817
Homes under construction	(49,632)	39,313
Property held-for-resale	44,350	(65,809)
Inventory	(12,749)	-
Prepaid expenses	(2,062)	(2,228)
Deferred revenue	(304,215)	(17,300)
Amounts held for home owners	491	(5,045)
Accounts payable and accrued expenses	(16,315)	58,349
Net cash provided by (used in) operating activities	78,171	(16,754)
Investing activities		
Net decrease in mortgage notes receivable	351,190	695,279
Purchases of property and equipment	(488,147)	(992)
Net cash (used in) provided by investing activities	(136,957)	694,287
Financing activities		
Proceeds from long-term borrowings	104,944	410,551
Principal payments on long-term borrowings	(467,799)	(420,439)
Net cash used in financing activities	(362,855)	(9,888)
Net increase (decrease) in cash and cash equivalents	(421,641)	667,645
Cash and cash equivalents, beginning of year	2,297,223	1,629,578
Cash and cash equivalents, end of year	$ 1,875,582	$ 2,297,223
Cash consists of		
Cash and cash equivalents	$ 1,493,312	$ 1,353,759
Restricted cash	382,270	943,464
Cash and cash equivalents, end of year	$ 1,875,582	$ 2,297,223
Supplemental disclosure of non-cash investing activities:		
Discount on non-interest bearing notes receivable	$ 504,928	$ 294,345
Repossession of homes	$ 144,685	$ 162,091

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activities and Significant Accounting Policies

Nature of Activities

Habitat for Humanity Mississippi Capital Area (the "Company") was organized under the laws of the State of Mississippi in 1986 as an affiliate of Habitat for Humanity International ("Habitat International"). The Company's objective is to provide decent, affordable housing in partnership with low-income families. Homes are constructed or renovated and sold to families on a no-interest basis. Families are selected on the basis of need, ability to repay the loan and willingness to put in 125 to 250 hours of labor in the building of their own house, another Habitat house, and volunteer-basis service to other not-for-profits. The capital needed to build these homes is obtained through gifts, interest-free loans and grants including federal funds and volunteer labor.

In 2022, the Company opened a home improvement outlet store (the "ReStore") to provide the community with a source of low-cost materials for home improvement, to reduce the volume of materials going to landfills, and to generate revenues for the Company. During 2021, the Company incurred certain expenses related to the startup of the ReStore.

Basis of Presentation

The Company's financial statements are presented in accordance with accounting principles generally accepted in the United States of America, which requires the Company to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Company's management and the board of directors.

Net Assets with Donor Restrictions

Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Company or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that resources be maintained in perpetuity. Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all cash and interest bearing accounts, which are not subject to withdrawal restrictions or penalties, to be cash equivalents. Restricted cash consists primarily of contributions restricted for construction costs of particular homes.

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Mortgage Notes Receivable

Mortgage notes receivable are reported at net realizable value, which is the present value of the amount due under the notes after discounting for the time value of money.

The Company does not establish an allowance for uncollectible accounts since all accounts are considered to be collectible and all are collateralized by properties with estimated fair values in excess of the loan balances.

Property Held-for-Resale

Properties previously sold to applicants and returned to the Company through foreclosure or by voluntary return of the property by the purchaser are held on the books at the cost of the unpaid mortgage plus costs incurred to renovate. These properties are renovated and then sold to approved applicants.

The Company determined certain properties' costs would not be fully recoverable when sold. Accordingly, the Company reduced the carrying value of these properties by approximately $29,000 and $77,000 during the years ended December 31, 2021 and 2020, respectively, which is included in the statements of activities.

Homes Under Construction

Costs of homes under construction are recorded when incurred and represents real estate costs, costs of building materials, general contractor fees and contractor labor costs.

Property and Equipment

Purchased property and equipment are capitalized at cost. Maintenance and repairs are expensed in the period incurred; major renewals and betterments are capitalized. Contributions of property and equipment are recognized at estimated fair market value as of the date of contribution. Property and equipment are depreciated using the straight-line method, over the estimated useful life of the related assets (ranging from 3 to 39 years). Depreciation expense was $40,565 and $41,512 for the years ended December 31, 2021 and 2020, respectively. The Company capitalizes all property and equipment purchases that are not clearly de minimis.

Net Assets

The Company reports donations of cash as net assets with donor restrictions if amounts are received with donor stipulations that limit the use of the funds. The Company receives donations from individuals, churches and other organizations to be used for the building of homes and for the purchase of land. When the purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restriction. Contributions without donor restrictions are recognized in support and revenue when received or unconditionally promised.

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Revenue Recognition

Revenues consist primarily of home sales to qualified low-income applicants at appraised value. The Company recognizes revenue in accordance with Financial Accounting Standards Board ("FASB") ASC Topic 606, *Revenue from Contracts with Customers* ("ASC 606").

A performance obligation, as defined in ASC 606, is a promise in a contract to transfer a distinct good or service to a customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue at the point in time, or over the period in which the performance obligation is satisfied.

Performance obligations associated with home sales are satisfied when homeowners have completed all program requirements and the home is sold and deeded to the homeowner.

For home sales, the transaction price is fixed based on the appraised value of the home. The Company finances the home with a no-interest first mortgage. The Company's transactions do not contain variable consideration, significant financing components, noncash considerations, or consideration payable to the customer. The Company does not offer cash discounts for early payments.

Unconditional grants and contributions are recognized as revenues in the period received. Conditional grants and contributions are not recognized as revenues until the condition on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation.

Cost of Homes Sold

Costs incurred in conjunction with home construction are charged to homes under construction and are included in cost of homes sold when a house is sold to a homeowner.

Donated Services

No amounts have been reflected in the financial statements for donated services that do not require specialized skills. Nevertheless, a large number of volunteers have given significant amounts of their time for construction of the homes, as well as to the Company's fund-raising campaigns and management. Services that require specialized skills that would need to be purchased if not donated and that have a clearly measurable basis, are recorded at their estimated fair value. In addition, the fair rental values of properties furnished rent-free are also recorded as in-kind contributions.

Grants

The Company receives grant income from Habitat International and other financial assistance programs that supplement its traditional funding sources. The Company recognizes grant revenue as the conditions in the grant agreement are met. The Company recognized approximately $0 and $104,000 of grant income from Habitat International during the years ended December 31, 2021 and 2020, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Interest-Free Loans

Under the Community Reinvestment Act ("CRA"), the Company has received interest-free financing with financial institutions for the construction of homes. Likewise, the mortgage notes receivable between the purchasers and the Company are interest free, which enables ownership opportunities for lower income applicants. Interest is imputed on the mortgage notes receivable and mortgage notes payable by discounting the instruments to their respective present values, based on an assumed 7.23 and 7.38 percent interest rate as of December 31, 2021 and 2020, respectively, over the terms of each note. Since the Company does not anticipate making a profit on the interest rate spread, a similar rate is used to discount the mortgage notes receivable and the mortgage notes payable. The difference between the face value and present value of each note receivable is considered to be donated interest by the maker of the note and is recorded as expense in the year the loan is originated. Conversely, the interest forgiven under the CRA on notes payable is recorded as income. The discount on mortgage notes receivable and payable is amortized to income and expense, respectively, by use of the effective interest method over the term of each loan.

Deferred Revenue

Deferred revenue represents amounts collected but not earned as of December 31, 2021 and 2020. This is primarily comprised of grants received from state and federal agencies. Revenue is recognized upon the sale of the related home.

Income Taxes

The Company is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state provisions.

Advertising Costs

The Company expenses advertising costs as incurred. All advertising costs are considered fund raising expenses and are included as such on the statements of activities. Advertising costs totaled $7,650 and $450 for the years ended December 31, 2021 and 2020, respectively.

Inventory

Inventory is made up of donated items contributed to the ReStore and items purchased for resale. Inputs for measuring the fair value of contributed inventory are obtained from published catalogues, vendors, independent appraisals, and other sources. Items purchased for resale are recorded at the lower of cost, determined by the first-in, first-out method, or net realizable value.

Functional Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs, such as salaries and benefits, information technology, general office supplies, general software and utilities, have been allocated among the programs and supporting services benefited by either time and effort or full-time equivalent allocation.

NOTES TO FINANCIAL STATEMENTS

Note 1. Continued

Recent Accounting Pronouncements

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets.* This guidance requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. The new standard requires a not-for-profit to disclose contributed nonfinancial assets recognized within the statement of activities disaggregated by category that depicts the type of contributed nonfinancial assets. The new standard requires a not-for-profit to disclose qualitative information about each identified category regarding whether the contributed nonfinancial assets were monetized or utilized during the reporting period. For contributed nonfinancial assets utilized, the organization must disclose a description of the programs or other activities in which those assets were used. The new standard also requires that disclosures be made regarding the policy for monetizing rather than utilizing contributed nonfinancial assets, a description of any donor-imposed restrictions associated with the contributed nonfinancial assets, the valuation techniques and inputs used to arrive at a fair value measure in accordance with ASC Topic 820 *Fair Value Measurement*, the principal market (or most advantageous market) used to arrive a fair value measure if it is a market in which the recipient not-for-profit is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets. The standard is effective for the Company on January 1, 2022, with early adoption permitted. The Company is currently evaluating the effect that the updated standard will have on its financial statements.

Note 2. Mortgage Notes Receivable

The Company had mortgage notes receivable at December 31, 2021, as follows:

Receivable in less than one year	$	913,089
Receivable in one to five years		3,652,356
Receivable in six to ten years		4,562,325
Receivable thereafter		5,136,628
Total mortgage notes receivable		14,264,398
Less discounts to present value at 7.23 to 8.00 percent		6,767,375
Net mortgage notes receivable	$	7,497,023

NOTES TO FINANCIAL STATEMENTS

Note 3. Property and Equipment

The major classes of property and equipment are as follows:

	2021	2020
Land	$ 76,717	$ 76,717
Buildings and improvements	1,025,350	1,025,350
Furnishings and equipment	524,322	456,409
Construction in process	420,234	-
	2,046,623	1,558,476
Less accumulated depreciation	760,228	719,663
Total	$ 1,286,395	$ 838,813

Note 4. Notes Payable

The following is a summary of notes payable at December 31, 2021 and 2020:

	2021	2020
Notes payable to Habitat International at no interest; paid during 2021.	$ -	$ 5,517
Note payable to Habitat International at no interest; loan is payable in monthly installments of $506 beginning January 2018, net of imputed interest of $50 and $497 in 2021 and 2020, respectively.	2,498	8,123
Notes payable to Habitat International at no interest; loan is payable in monthly installments of $579 beginning January 2019, net of imputed interest of $752 and $1,834 in 2021 and 2020, respectively.	10,315	16,181
Notes payable to Habitat International at no interest; loans are payable in monthly installments of $505 beginning January 2020, net of imputed interest of $2,026 and $1,745 in 2021 and 2020, respectively.	27,233	35,194
Notes payable to Habitat International at no interest; loans are payable in monthly installments of $203 beginning in July 2022.	9,750	9,750
Notes payable to banks; payable in monthly installments totaling $2,403 at no interest through varying dates ending March 2046, collateralized by the assignments of the Deeds of Trust which collateralize mortgage notes receivable of $652,819 and $529,226, net of imputed interest of $179,467 and $142,115 in 2021 and 2020, respectively.	206,771	164,782

NOTES TO FINANCIAL STATEMENTS

Note 4. Continued

		2021		2020
Notes payable to housing corporation; payable in monthly installments totaling $4,414 at no interest through varying dates ending in 2045, collateralized by the assignments of the Deeds of Trust which collateralize mortgage notes receivable of $593,029 and $678,374, net of imputed interest of $245,640 and $173,626 in 2021 and 2020, respectively.	$	328,129	$	361,206
Notes payable to state agency; payable in monthly installments totaling $10,771 at no interest through varying dates ending in 2029, collateralized by the assignments of the Deeds of Trust which collateralize mortgage notes receivable of $638,522 and $796,316, net of imputed interest of $156,732 and $220,168 in 2021 and 2020, respectively.		625,993		722,360
Revolving credit facility at no interest, payable in monthly installments of $15,000, collateralized by mortgage notes receivable, net of imputed interest $480,392 and $585,519 in 2021 and 2020, respectively.		1,163,971		1,253,845
Note payable to a bank in connection with the Paycheck Protection Program ("PPP") bearing interest at 1.00 percent forgiven during 2021.		-		183,300
Total notes payable		2,374,660		2,760,258
Less current maturities		406,959		422,086
Notes payable, less current maturities	$	1,967,701	$	2,338,172

The Company maintains a revolving credit facility (the "Credit Facility") with a syndicate of lenders. The Credit Facility is non-interest bearing and has maximum availability of $5,545,000. Available borrowings are determined monthly based on, among other things, outstanding mortgage notes receivable, as defined. The Credit Facility requires minimum monthly payments of $15,000 and may be prepaid in full without penalty. Outstanding borrowings at December 31, 2021 and 2020 were $1,644,364 and $1,839,364, respectively, and are recorded net of imputed interest of $480,393 and $585,519, respectively. Available borrowings under the Credit Facility at December 31, 2021 were approximately $3,107,000. The Credit Facility agreement states the Company is to maintain net assets of at least $5,045,625 and EBITDA shall not be negative for two successive years. Substantially all of the Company's mortgage notes receivable collateralize borrowings under the Credit Facility. The Credit Facility matures August 31, 2023.

NOTES TO FINANCIAL STATEMENTS

Note 4. Continued

Maturities of debt for the next five years and in the aggregate are as follows:

Period Ending December 31, 2021		Amount
2022	$	406,959
2023		1,681,779
2024		200,364
2025		187,373
2026		182,665
Thereafter		780,579
Total borrowings outstanding		3,439,719
Less unamortized imputed interest		1,065,059
Net borrowings outstanding	$	2,374,660

Note 5. Restrictions on Net Assets

Net assets with donor restrictions consist of unexpended contributions and grants restricted by the donor or grantor for the acquisition of land and houses and for construction and rehabilitation costs of houses. Net assets restricted for the acquisition of land and houses and rehabilitation costs of houses totaled $317,245 and $430,678 as of December 31, 2021 and 2020, respectively.

Note 6. Unrecorded Contributed Services

Management estimates the fair value of contributed services representing general volunteer construction labor that does not require specialized skills approximated $16,479 and $4,553 for 2021 and 2020, respectively. The value of those services not requiring specialized skills are not recorded in the financial statements of the Company.

Note 7. Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash investments at financial institutions. The Company had cash deposits at financial institutions in excess of insurable limits of $250,000 as of December 31, 2021 of approximately $1,375,612.

NOTES TO FINANCIAL STATEMENTS

Note 8. Liquidity and Availability

The following represents the Company's financial assets at December 31, 2021 and 2020:

	2021	2020
Financial assets at year-end:		
Cash, cash equivalents and restricted cash	$ 1,875,582	$ 2,297,223
Receivables	158,787	49,842
Current maturities of mortgage notes receivable	913,089	925,100
Total financial assets	2,947,458	3,272,165
Less amounts not available to be used within one year:		
Net assets with donor restrictions	317,245	430,678
Board designated net assets for sponsored house construction	65,025	512,786
	382,270	943,464
Financial assets available to meet general expenditures over the next twelve months	$ 2,565,188	$ 2,328,701

A substantial portion of contributions received by the Company are for sponsored house construction. The Company utilizes unrestricted contributions, grants and mortgage loan proceeds to cover operating expenses. In addition, the Company can utilize the Credit Facility discussed in Note 4 for additional liquidity and third-party financial institutions that partner with the Company to originate mortgages at zero percent interest on homes sold by the Company.

Note 9. Paycheck Protection Program

In connection with the Paycheck Protection Program (the "Program"), which was established by the Coronavirus Aid Relief and Economic Security Act and administered by the U.S. Small Business Administration ("SBA"), the Company obtained loans through an SBA-approved financial institution to help offset certain payroll and other operating costs during the COVID-19 pandemic. During 2020, the Company received loan proceeds totaling $183,300. Borrowings under this loan bore interest at 1.00 percent. The Company received notification in April 2021 that their Program loan qualified for debt forgiveness by the SBA and was considered paid in full by its lender.

The Company received proceeds totaling $169,000 under a second draw Program loan in February 2021. Borrowings bore interest at 1.00 percent. The Company received notification during 2021 that their second draw Program loan qualified for debt forgiveness. The Company recognized the forgiveness of the loans in the statement of activities for the year ended December 31, 2021.

Note 10. Subsequent Events

The Company has evaluated subsequent events through June 27, 2022, the date the financial statements were available to be issued.