

**FAUQUIER  
HABITAT FOR HUMANITY, INC.  
WARRENTON, VIRGINIA**

**FINANCIAL REPORT  
YEAR ENDED DECEMBER 31, 2023**



**FAUQUIER  
HABITAT FOR HUMANITY, INC.**

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## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors  
Fauquier Habitat for  
Humanity, Inc.  
Warrenton, Virginia

### ***Opinion***

We have audited the accompanying financial statements of FAUQUIER HABITAT FOR HUMANITY, INC. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2023 and the related statements of activities, 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 FAUQUIER HABITAT FOR HUMANITY, INC. as of December 31, 2023 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the ***Auditor's Responsibilities for the Audit of the Financial Statements*** section of our report. We are required to be independent of FAUQUIER HABITAT FOR HUMANITY, INC. 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 FAUQUIER 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.

To the Board of Directors  
Fauquier Habitat for  
Humanity, Inc.

## **REPORT OF INDEPENDENT AUDITORS**

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

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

*Hantymon Wiebel, LLP*

Charlottesville, Virginia  
April 8, 2024

# FAUQUIER HABITAT FOR HUMANITY, INC.

## STATEMENT OF FINANCIAL POSITION DECEMBER 31, 2023

### ASSETS

Cash and cash equivalents .....	\$ 186,818
Mortgages receivable, net .....	252,934
Grants receivable .....	13,575
Employee Retention Credit receivable .....	11,534
Other receivables .....	23,168
Prepaid expenses .....	12,674
ReStore inventory .....	35,535
Homes under construction .....	769,134
Land held for development as lots for homebuilding .....	1,697,511
Deposits .....	16,121
Land, buildings, and equipment, net .....	471,048
Right-of-use assets under operating leases .....	713,519
	<hr/>
Total assets .....	<u>\$ 4,203,571</u>

### LIABILITIES AND NET ASSETS

#### LIABILITIES

Accounts payable .....	\$ 58,977
Accrued expenses .....	38,327
Line of credit .....	200,000
Obligations under operating leases .....	734,030
Notes payable .....	831,907
	<hr/>
Total liabilities .....	<u>1,863,241</u>

#### NET ASSETS

Without donor restrictions .....	2,295,396
With donor restrictions .....	44,934
	<hr/>
Total net assets .....	<u>2,340,330</u>
	<hr/>
Total liabilities and net assets .....	<u>\$ 4,203,571</u>

(The accompanying notes are an integral part of this financial statement)

# FAUQUIER HABITAT FOR HUMANITY, INC.

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2023

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
Revenues:			
Contributions and grants .....	\$ 186,557	\$ 360,622	\$ 547,179
Contributions of non-financial assets .....	51,503	6,400	57,903
Sale of homes .....	233,967	....	233,967
Amortization of mortgages receivable .....	210,484	....	210,484
ReStore sales .....	503,845	....	503,845
Rental income .....	31,235	....	31,235
Other income .....	14,554	....	14,554
Net assets released from restrictions .....	479,718	( 479,718)	....
Total revenues .....	1,711,863	( 112,696)	1,599,167
Expenses:			
Program services .....	1,711,637	....	1,711,637
Management and general .....	317,076	....	317,076
Fund-raising .....	52,449	....	52,449
Total expenses .....	2,081,162	....	2,081,162
<b>CHANGE IN NET ASSETS</b> .....	( 369,299)	( 112,696)	( 481,995)
<b>NET ASSETS, BEGINNING OF YEAR</b> .....	2,664,695	157,630	2,822,325
<b>NET ASSETS, END OF YEAR</b> .....	\$ 2,295,396	\$ 44,934	\$ 2,340,330

(The accompanying notes are an integral part of this financial statement)

# FAUQUIER HABITAT FOR HUMANITY, INC.

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2023

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets .....	(\$ 481,995)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation expense .....	24,230
(Gain) loss on disposition of assets .....	1,255
Amortization of right-of-use assets.....	111,549
(Increase) decrease in operating assets:	
Prepaid expenses .....	269
Store inventory .....	( 12,701)
Mortgages receivable .....	( 67,422)
Grants receivable .....	137,770
Employee Retention Credit receivable .....	127,353
Other receivables .....	( 4,999)
Deposits .....	( 10,210)
Homes under construction .....	122,512
Land held for development as lots for homebuilding .....	132,830
Increase (decrease) in operating liabilities:	
Accounts payable and accrued expenses .....	( 33,418)
Obligations under operating leases.....	<u>( 96,697)</u>
Net cash provided by (used in) operating activities .....	<u>( 49,674)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of land, building, and equipment .....	<u>( 33,000)</u>
Net cash provided by (used in) investing activities .....	<u>( 33,000)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Proceeds from notes payable .....	27,500
Payments on notes payable .....	( 58,281)
Proceeds from line of credit .....	<u>200,000</u>
Net cash provided by (used in) financing activities .....	<u>169,219</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS .....</b>	<b>86,545</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR .....</b>	<b>100,273</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR .....</b>	<b><u>\$ 186,818</u></b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>	
Cash paid during the period for interest .....	<u>\$ 36,032</u>

(The accompanying notes are an integral part of this financial statement)

**FAUQUIER HABITAT FOR HUMANITY, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2023**

	PROGRAM SERVICES			MANAGEMENT AND GENERAL	FUND- RAISING	TOTAL
	AFFORDABLE HOUSING CONSTRUCTION	ReSTORE	TOTAL PROGRAM SERVICES			
Advertising .....	\$ 11,653	\$ 6,523	\$ 18,176	\$ 217	\$ 3,279	\$ 21,672
Bank and credit card fees .....	362	10,361	10,723	176	559	11,458
Construction costs .....	3,620	754	4,374	....	1,049	5,423
Cost of homes sold .....	679,634	....	679,634	47	....	679,681
Cost of store sales .....	....	60,692	60,692	....	....	60,692
Depreciation expense .....	20,056	....	20,056	4,174	....	24,230
Dues and subscriptions .....	3,433	2,463	5,896	34,523	....	40,419
HFHI expenses .....	38,333	....	38,333	....	....	38,333
Information technology .....	10,576	1,436	12,012	14,106	10,129	36,247
Insurance .....	24,000	5,318	29,318	2,176	....	31,494
Interest expense .....	....	....	....	36,032	....	36,032
Lease expense.....	48,473	204,294	252,767	13,728	5,491	271,986
Office expense .....	2,201	426	2,627	7,263	663	10,553
Payroll tax .....	13,658	16,877	30,535	11,872	2,080	44,487
Professional fees .....	43,997	144	44,141	39,620	1,913	85,674
Repairs and maintenance .....	23,985	9,051	33,036	8	....	33,044
Wages and benefits .....	176,005	215,785	391,790	141,980	24,877	558,647
Special events .....	6,315	295	6,610	125	355	7,090
Taxes and licenses .....	1,923	46	1,969	39	....	2,008
Vehicle costs .....	3,209	4,284	7,493	....	....	7,493
Training expense .....	2,842	434	3,276	7,185	935	11,396
Utilities .....	31,709	26,470	58,179	3,805	1,119	63,103
	<u>\$ 1,145,984</u>	<u>\$ 565,653</u>	<u>\$ 1,711,637</u>	<u>\$ 317,076</u>	<u>\$ 52,449</u>	<u>\$ 2,081,162</u>

(The accompanying notes are an integral part of this financial statement)



# FAUQUIER HABITAT FOR HUMANITY, INC.

## NOTES TO FINANCIAL STATEMENTS

### NATURE OF ORGANIZATION

Fauquier Habitat for Humanity, Inc. (the Organization) was incorporated on October 1, 1991. The Organization is an affiliate of Habitat for Humanity International Inc. (Habitat International), a nonprofit, ecumenical Christian organization dedicated to eliminating substandard housing and homelessness worldwide and to making adequate, affordable shelter a matter of conscience and action. The Organization operates primarily in Fauquier County, Virginia, with some activity in Rappahannock County. Although Habitat International assists with grants, informational resources, training, publications and other ways, the Organization is primarily and directly responsible for its operations.

### DESCRIPTION OF PROGRAM AND SUPPORTING SERVICES

**Program services** - Includes expenses to carry out the Organization's mission. The Organization's strategic plan concentrates its activities into two areas: Affordable housing construction and ReStore operations.

**Affordable housing construction:** The Organization's primary goal is to build and/or renovate and sell safe and affordable homes to Homebuyers. In exchange for the family's "sweat equity," the Organization sells homes at no profit and originates 0% to 4% loans so that families between 30% and 80% of the area median income can become homeowners.

**ReStore:** The Organization operates a Habitat ReStore retail location that sells surplus new and used building and home improvement materials as well as home furnishings, appliances, and other miscellaneous items to the general public. The ReStore provides additional funding for the Organization from its sale of retail items and provides opportunities for Habitat families and the general public to serve as volunteers.

**Management and general** - Includes the functions necessary to maintain an equitable employment program and ensure an adequate working environment, provide coordination and articulation of the Organization's program services, provide for administrative functioning of the Board of Directors, maintain competent professional services, and manage the financial and budgetary responsibilities of the Organization.

**Fund-raising** - Includes functions necessary to ensure the Organization is able to raise the funds required to operate and fulfill its mission.

### SIGNIFICANT ACCOUNTING POLICIES

#### *Basis of Accounting*

The Organization prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (GAAP) for non-profit entities.

# FAUQUIER HABITAT FOR HUMANITY, INC.

## NOTES TO FINANCIAL STATEMENTS

### ***Financial Statement Presentation***

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) No. 958, *Not-for-Profit Entities*.

### ***Recent Accounting Pronouncement Adopted***

In June 2016, the FASB issued guidance (FASB ASC 326 – *Financial Instruments – Credit Losses*), which significantly changed how entities measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the Organization that are subject to the guidance in FASB ASC 326 were mortgages receivable. The Organization adopted the standard effective January 1, 2023.

### ***Revenue from Exchange Transactions***

In accordance with FASB ASC 606, *Revenue from Contracts with Customers*, revenue is recognized when a customer obtains control of promised goods or services (performance obligation) in an amount that reflects the consideration the Organization expects to receive in exchange for those goods or services (transaction price). The Organization's exchange revenue is primarily derived from the sale of ReStore merchandise and real estate income. Revenue is recorded net of discounts and similar charges. Sales and other tax amounts collected for remittance to governmental authorities are excluded from revenue.

ReStore income is generated through the sale of home furnishings, appliances, and other miscellaneous items that are donated or purchased and then sold at a reduced price. The transaction price is a fixed amount set by the Organization, and revenue is recognized at the time of sale, as that is when the performance obligation is satisfied. Real estate income is generated through home sales. The cost to construct the homes is accumulated under homes under construction on the statement of financial position, and revenue is recognized at the time of sale, as that is when the performance obligation is satisfied. For market rate sales, the transaction price is based on the appraised value of the property that is agreed upon the entering of a contract of sale. For sales to partner families, the transaction price is based on the partner family's income.

The Organization does not provide warranties on home sales or ReStore sales.

### ***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 bank accounts which, at times, may exceed federally-insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

# **FAUQUIER HABITAT FOR HUMANITY, INC.**

## **NOTES TO FINANCIAL STATEMENTS**

### ***Inventory***

The Organization's inventory consists of items purchased for resale at the ReStore. Inventory is recorded at the lower of cost or net realizable value, determined using the first-in, first-out method.

### ***Grants Receivable***

Grants awarded and earned but not collected are recorded as grants receivable.

### ***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 10 to 30 years. These mortgages have been discounted at prevailing rates for similar mortgages. The mortgage discount rates range from 7.5% to 8.5% for the year ended December 31, 2023, as determined by Habitat International.

The allowance for loan losses represents management's estimate of lifetime losses inherent in the mortgages receivable as of the balance sheet date. The allowance for loan losses is estimated by management using relevant available information, from both internal and external sources, relating to historical losses, current conditions, and reasonable and supportable forecasts. Management measures expected credit losses for mortgages on a pooled basis when similar risk characteristics exist. These pools are split between performing and delinquent mortgages.

With performing mortgages, the expected credit losses are based on historical credit losses, loan-to-value ratios, and current and projected housing market data and other economic factors for Fauquier County. When the borrower is delinquent and experiencing financial difficulty and repayment is expected to be provided through operation or sale of the collateral, the expected credit losses are based on the fair value of collateral at the reporting date, adjusted for selling costs as appropriate.

Management estimates that no material losses will be sustained relating to the collectability of the mortgages. As such, no allowance for loan losses or adjustments to the balance of mortgages receivable has been recorded.

### ***Homes Under Construction***

Materials, labor, supplies, services, and other costs of building are capitalized and presented on the statement of financial position as homes under construction until the specific home or project is completed. These costs are expensed at the time of transfer of ownership of a property.

### ***Land Held for Development as Lots for Homebuilding***

Costs that clearly relate to land development projects are capitalized. Costs are allocated to project components by the specific identification method whenever possible. Otherwise, acquisition costs are allocated based on their relative cost before development.

# FAUQUIER HABITAT FOR HUMANITY, INC.

## NOTES TO FINANCIAL STATEMENTS

### *Land, Buildings, and Equipment*

Land, buildings, and equipment are recorded at cost. The Organization capitalizes all land, buildings, and equipment expenditures in excess of \$3,500. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings and improvements .....	30 years
Leasehold improvements .....	5 years
Computers, autos, furniture, and equipment .....	3 - 5 years

### *Leases*

The Organization has operating leases. The Organization determines if an arrangement is a lease at inception. Operating leases are included in the statement of financial position under assets as right-of-use (ROU) assets under operating leases, and under liabilities as obligations under operating leases.

ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. If a lease is entered into that does not provide an implicit rate, the Organization uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The lease terms may include options to extend or terminate the lease when it is reasonably certain the Organization will exercise those options. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Organization’s lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Organization has lease agreements with lease and non-lease components, which are generally accounted for separately. For certain leases, such as the lease agreement for office space, the Organization accounts for the lease and non-lease components as a single lease component. For arrangements accounted for as a single lease component, there may be variability in future lease payments, as the amount of the non-lease components is typically revised from one period to the next. These variable lease payments, which primarily comprise common area maintenance, utilities, and real estate taxes that are passed on from the lessor, are recognized in operating expenses in the period in which the obligation for these payments was incurred.

The Organization elected to apply the short-term lease exemption to rentals of copiers and other equipment. In 2023, there are only a small number of leases that qualify for this exemption.

In evaluating contracts to determine if they qualify as a lease, the Organization considers factors such as if it has obtained substantially all of the rights to the underlying asset through exclusivity, if the Organization can direct the use of the asset by making decisions about how and for what purpose the asset will be used, and if the lessor has substantive substitution rights. This evaluation may require significant judgment.

In determining the discount rate used to measure the right-of-use asset and lease liability, the Organization uses rates implicit in the lease, or if not readily available, the Organization uses its incremental borrowing rate or a risk-free rate.

# FAUQUIER HABITAT FOR HUMANITY, INC.

## NOTES TO FINANCIAL STATEMENTS

### ***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. The governing board has not designated any net assets from net assets without donor 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. At December 31, 2023, the Organization had no net assets with donor restrictions that are perpetual in nature.

### ***Contributions***

Contributions received are recorded as support without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions.

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 restrictions.

### ***Gift-in-Kind Contributions***

The Organization periodically receives contributions in a form other than cash or investments. If the Organization receives a contribution of land, buildings, or equipment, the contributed property is recognized as an asset at its estimated fair value at the date of gift, provided that the value of the asset and its estimated useful life meet the Organization's capitalization policy. The Organization recognizes in-kind contribution revenue and a corresponding expense in an amount approximating the estimated fair value at the time of donation.

The Organization benefits from services provided by a substantial number of volunteers. Those volunteers have donated significant amounts of time and services to the Organization's program operations. However, none of the services contributed during the financial statement period met the criteria for recognition in the financial statements. GAAP allows recognition of contributed services only if (a) the services create or enhance nonfinancial assets or (b) the services would have been purchased if not provided by contribution, require specialized skills, and are provided by individuals possessing those skills.

# FAUQUIER HABITAT FOR HUMANITY, INC.

## NOTES TO FINANCIAL STATEMENTS

Donations of items to the ReStore are not valued as inventory items for financial reporting. This accounting treatment is based on FASB ASC 958, *Measuring Contributions*, which requires that fair value should be regarded as not determinable within reasonable limits if major uncertainties exist about the realizability of the value.

### ***Advertising***

The Organization expenses advertising costs as incurred.

### ***Functional Allocation of Expenses***

The costs of providing various programs and other activities 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 fund-raising. Expenses related to more than one function are charged to program services, management and general, and fund-raising classifications based on estimates made by management. Allocations are based on departmental staffing levels and other methodologies. Management and general expense 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 homes under construction and charged to program services when the house is sold. Program services include the cost of all homes completed and sold during the reporting period and expenses related to the operation of the ReStore.

### ***Sales Taxes***

The Organization collects sales tax and remits the entire amount to the taxing jurisdictions. The Organization's accounting policy is to exclude the tax collected and remitted to the taxing jurisdictions from revenues and cost of sales.

### ***Use of Estimates***

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amount of assets and liabilities at the date of the financial statements. On an ongoing basis, the Organization's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The Organization's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

### ***Exempt Tax Status***

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

# FAUQUIER HABITAT FOR HUMANITY, INC.

## NOTES TO FINANCIAL STATEMENTS

The Organization has reviewed and evaluated the relevant technical merits of each of its tax positions in accordance with guidance established by the Financial Accounting Standards Board and determined that there are no uncertain tax positions that would have a material impact on the financial statements of the Organization.

### Subsequent Events

Management has evaluated subsequent events through April 8, 2024, which is the date the financial statements were available to be issued.

### LIQUIDITY AND AVAILABILITY

The following financial assets are available for general expenditure within one year of the statement of financial position date:

Cash and cash equivalents .....	\$186,818
Mortgage loans receivable, net .....	50,946
Grants receivable.....	13,575
Employee Retention Credit receivable.....	11,534
Other receivables available for general expenditure .....	<u>23,168</u>
Financial assets available to meet general expenditures within one year .....	<u>\$286,041</u>

As part of the Organization’s liquidity management plan, excess cash balances are maintained in interest bearing checking accounts. In addition, the Organization uses debt financing to fund its program expenses and maintains a line of credit that can be used to supplement cash flows. The Organization has an additional \$300,000 line of credit available for use as of December 31, 2023.

### MORTGAGES 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 amount of the mortgage and the family’s ability to pay. First mortgages are interest-free and have terms ranging from 10 to 30 years, with the newest mortgages maturing in 2053. Monthly payments range from \$100 to \$300.

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 IRS for building placed into service for that year. The discount is amortized over the life of the mortgages.

Non-interest bearing mortgage loans receivable as of December 31, 2023 are as follows:

Mortgages receivable .....	\$607,582
Less: Discount on mortgages .....	<u>(354,648)</u>
Mortgages receivable, net.....	<u>\$252,934</u>

**FAUQUIER HABITAT FOR HUMANITY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

Mortgage delinquencies as of December 31, 2023 are summarized as follows:

	<b>MORTGAGE BALANCE</b>	<b>DISCOUNT</b>	<b>NET</b>
Performing .....	\$517,373	\$317,210	\$200,163
Delinquent ≥ 90 days .....	77,040	30,210	46,830
Delinquent ≤ 90 days .....	<u>13,169</u>	<u>7,228</u>	<u>5,941</u>
	<u>\$607,582</u>	<u>\$354,648</u>	<u>\$252,934</u>

In connection with each mortgage, there is an agreement with the Organization to perfect a second deed of trust, and in some cases, a third. In the event of default on the first mortgage or sale of real estate, the other mortgages become due on demand. The other mortgages are forgiven by the Organization using the straight-line method over the life of the loan. 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 other mortgages become due on demand and the Organization records a gain equal to the balance determined to be reasonably assured of collection. There were no realized gains on other mortgages for the year ended December 31, 2023. The Organization’s unrecognized mortgages amounted to \$1,954,131 at December 31, 2023.

The Organization’s mortgage receivable and unrecognized mortgage balances as of December 31, 2022 were \$185,512 and \$2,006,631, respectively.

Maturities on mortgages receivable for the years subsequent to December 31, 2023 are as follows:

2024 .....	\$ 50,946
2025 .....	50,750
2026 .....	48,173
2027 .....	47,620
2028 .....	45,045
Thereafter .....	<u>365,048</u>
Total.....	<u>\$607,582</u>

**CONTRACT BALANCES**

For each of the Organization’s contracts, the timing of revenue recognition, customer billings, and cash collections may result in a net contract asset or liability at the end of each reporting period. Contract assets consist of unbilled receivables, and contract liabilities consist of advance payments from customers (deferred revenue). At December 31, 2023 and December 31, 2022, the Organization had no contract assets or liabilities.

**HOMES UNDER CONSTRUCTION**

The Organization partners with local low-income families to develop and build decent, affordable homes. All homes being constructed by the Organization are expected to be completed within one year.



# FAUQUIER HABITAT FOR HUMANITY, INC.

## NOTES TO FINANCIAL STATEMENTS

### LAND, BUILDINGS, AND EQUIPMENT

Property and equipment, net of accumulated depreciation, as of December 31, 2023, consists of the following:

Autos and transport equipment .....	\$ 93,839
Computers and software .....	17,770
Furniture and equipment .....	6,518
Leasehold improvements .....	7,890
Land, buildings, and improvements .....	<u>476,465</u>
Total .....	602,482
Less: Accumulated depreciation .....	<u>(131,434)</u>
Land, buildings, and equipment, net ....	<u>\$471,048</u>

### NOTES PAYABLE

Notes payable at December 31, 2023 consist of the following:

INTEREST RATE	DESCRIPTION	
2.75%	Note payable to the Small Business Administration, payments began 12 months after loan deposit, due in monthly installments of \$641, maturing in June 2050. The note is unsecured. ....	\$144,405
3.75%	Note payable to Virginia National Bank, due in monthly installments of \$2,964, maturing in August 2031, collateralized by multiple parcels of land in development with a carrying value of \$409,495 .....	171,031
3.00%	Note payable to Virginia Housing Development Authority, due in monthly installments of \$343, maturing in July 2034, collateralized by mortgage receivables that have been pledged by the Organization. The carrying value of the discounted mortgages used as collateral approximate the loan value .....	36,947
3.00%	Note payable to Virginia Housing Development Authority, due in monthly installments of \$906, maturing in September 2025, collateralized by mortgage receivables that have been pledged by the Organization. The carrying value of the discounted mortgages used as collateral approximate the loan value .....	14,818
3.00%	Note payable to Virginia Housing Development Authority, due in monthly installments of \$208, maturing in December, 2027, collateralized by mortgage receivables that have been pledged by the Organization. The carrying value of the discounted mortgages used as collateral approximate the loan value .....	9,387

# FAUQUIER HABITAT FOR HUMANITY, INC.

## NOTES TO FINANCIAL STATEMENTS

INTEREST RATE	DESCRIPTION	
7.50%	Note payable to Oak View National Bank, due in interest-only monthly installments until December 2026 when the entire remaining balance is due. The note is collateralized by property located at 35 Horner Street, Warrenton, Virginia with a carrying value of \$652,103 .....	\$427,819
7.75%	Note payable to Oak View National Bank, due in principal plus interest monthly installments until December 2025 when the entire remaining balance is due. ....	<u>27,500</u>
	Total notes payable .....	<u>\$831,907</u>

The approximate annual maturities of notes payable for each of the five years succeeding December 31, 2023 and thereafter are as follows:

YEAR ENDING DECEMBER 31,	
2024 .....	\$ 68,988
2025 .....	65,556
2026 .....	456,017
2027 .....	43,047
2028 .....	42,095
Thereafter .....	<u>156,204</u>
	<u>\$831,907</u>

### LINE OF CREDIT

In November 2022, the Organization signed a letter of agreement with Oak View National Bank for a \$500,000 construction line of credit. The construction line of credit was finalized in February 2023 with an interest rate of 7.75% adjusted to market rates. At December 31, 2023, the line of credit payable balance was \$200,000. The line of credit expires in February 2025.

### NET ASSETS WITH DONOR RESTRICTIONS

At December 31, 2023, net assets with donor restrictions consisted of the following:

Subject to appropriation and expenditure when a specified event occurs:	
Critical Home Repair .....	\$ 42,619
The Margaret Fund.....	<u>2,315</u>
Total subject to appropriation and expenditure .....	<u>44,934</u>
Total net assets with donor restrictions .....	<u>\$ 44,934</u>

# FAUQUIER HABITAT FOR HUMANITY, INC.

## NOTES TO FINANCIAL STATEMENTS

### OPERATING LEASES AS LESSEE

The Organization has operating leases for copier equipment and retail space. The copier lease expires in June 2027 and calls for 60 monthly payments of \$187. The retail space lease expires in August 2029 and calls for monthly payments of \$10,283 with annual increases. The Organization has a kick-out provision in the retail space lease that provides a one-time privilege to reduce the term to August 2026 if it has not achieved sales of \$500,000 during the year ending December 31, 2025. Management estimates that it is highly unlikely that the kick-out provision will be exercised. As a result, the right of use asset and liability have been calculated for the full term of the lease.

For the year ended December 31, 2023, lease expense totaled \$271,986 and is allocated between program, management and general, and fund-raising expense on the statement of functional expenses.

The components of lease expense were as follows for the year ended December 31, 2023:

Operating lease cost.....	\$153,151
Variable lease cost .....	63,923
Short-term lease cost.....	3,409
Contributed lease cost.....	<u>51,503</u>
	<u>\$271,986</u>

The weighted-average remaining lease terms and incremental borrowing rates are as follows at December 31, 2023:

Operating leases:	
Weighted-average remaining lease term.....	5.64 years
Weighted-average incremental borrowing rate .....	4.0%

The following is a schedule of future minimum lease payments under these operating leases as of December 31, 2023:

2024 .....	\$133,871
2025 .....	139,444
2026 .....	144,035
2027 .....	148,232
2028 .....	152,386
Thereafter .....	<u>103,602</u>
Total undiscounted cash flows...	821,570
Less: Present value discount .....	<u>(87,540)</u>
	<u>\$734,030</u>

# **FAUQUIER HABITAT FOR HUMANITY, INC.**

## **NOTES TO FINANCIAL STATEMENTS**

### **CONTRIBUTED NON-FINANCIAL ASSETS**

During the year ended June 30, 2018, the Organization entered into a lease agreement for in-kind lease of office space. The lease agreement was for a three-year term, which commenced on July 1, 2018. The lease expired on June 30, 2022 and was subsequently renewed until September 30, 2024. During the year ended December 31, 2023, contributed lease expense of \$51,503 was recognized under this lease. The contributed lease expense is allocated between program, management and general, and fund-raising expense on the statement of functional expenses.

During 2023, the Organization also received \$6,400 in contributed professional services that were used in the housing construction program services.

### **MAJOR CUSTOMERS AND DONORS**

A donor is considered major when the current year contract revenue or support represents 10% or more of the total current year contract revenue or support. For the year ended December 31, 2023, two major grantors contributed 57% of total support.

### **EMPLOYEE RETENTION CREDIT RECEIVABLE**

The Employee Retention Credit receivable represents estimated funds due from the application of the Employee Retention Credit through December 31, 2022. The Employee Retention Credit (ERC), a credit against certain payroll taxes allowed to an eligible employer for qualifying wages, was established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act and further amended by the Consolidated Appropriations Act (CAA) and the American Rescue Plan (ARP). The maximum credit is based on a qualified-wages ceiling for each employee. Salary and wage amounts that were used as allowable expense under the Paycheck Protection Program forgiveness application are not eligible for the ERC. An entity may qualify for the ERC if it experienced a significant decline in gross receipts compared to the applicable reference quarter in 2019 or experienced a full or partial suspension of services due to a governmental order related to COVID-19.

As of December 31, 2022, the Organization had estimated a receivable related to the ERC program in the amount of \$138,887. The Organization's estimate is based on the significant gross receipts decline test, which is calculated on a quarterly basis.

In April 2023, the Organization received its ERC in three payments from the IRS amounting to \$138,096. As of December 31, 2023, the Organization has \$11,534 in outstanding interest to be received in 2024.