

DuPage Habitat for Humanity, Inc. and Subsidiaries
Consolidated Financial Statements
Years Ended June 30, 2023 and 2022

DuPage Habitat for Humanity, Inc. and Subsidiaries
For the Year Ended June 30, 2023 with Comparative Information
For the Year Ended June 30, 2022

CONTENTS

Independent Auditor's Report	1-3
Consolidated Financial Statements:	
Statements of Financial Position	4-5
Statements of Activities	6-7
Statements of Functional Expenses	8-9
Statements of Cash Flows	10
Notes to Consolidated Financial Statements	11-36

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
DuPage Habitat for Humanity, Inc. and Subsidiaries
Wheaton, Illinois

Opinion

We have audited the accompanying consolidated financial statements of DuPage Habitat for Humanity, Inc. and Subsidiaries (the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of DuPage Habitat for Humanity, Inc. and Subsidiaries as of June 30, 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 Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Adjustment to Prior Period Financial Statements

The financial statements of the Organization as of June 30, 2022 were audited by other auditors whose opinion dated May 9, 2023 expressed an unmodified opinion on those financial statements. As more fully described in Note 19, the Organization has restated its 2022 financial statements during the current year to properly account for certain mortgage receivable assets and retail store inventory. The other auditors reported on the 2022 financial statements before the restatement.

As part of our audit of the 2023 financial statements, we also audited the adjustments described in Note 19 that were applied to restate the 2022 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the 2022 financial statements of the Organization other than with respect to the adjustments, and, accordingly, we do not express an opinion or any other form of assurance on the 2022 financial statements as a whole.

Adoption of Accounting Standards Update 2016-02

As discussed in Note 2 to the consolidated financial statements, the Organization changed its method of accounting for leases in 2023 due to the adoption of ASU 2016-02, *Leases*.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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, including omissions, 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 consolidated 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 DuPage Habitat for Humanity, Inc. and Subsidiaries' 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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about DuPage Habitat for Humanity, Inc. and Subsidiaries' 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.

Bronswick Benjamin P.C.

Chicago, Illinois
April 4, 2024

DuPage Habitat for Humanity, Inc. and Subsidiaries
Consolidated Statements of Financial Position
June 30, 2023 and 2022

	2023	2022 (Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,167,093	\$ 1,942,983
Other receivables	-	3,774
Critical home repair receivable	78,096	45,484
Grants receivable	-	1,766,833
Contributions receivable	202,330	115,777
Mortgages receivable net, current	91,282	95,392
Inventory - ReStore	178,176	176,135
Inventories - land and construction in progress	4,639,290	1,674,434
Inventory - real estate owned	937,489	1,586,812
Prepaid expenses	14,256	9,980
Investments	4,957,772	-
Deposits and other assets	449,048	56,335
Total Current Assets	<u>12,714,832</u>	<u>7,473,939</u>
Property and equipment:		
Land and buildings	828,989	457,940
Buildings and improvements	67,005	1,583,548
Office equipment and furniture	24,554	22,654
ReStore equipment	126,729	85,697
Software	57,840	57,840
Vehicles	175,839	145,125
Subtotal	1,280,956	2,352,804
Less: accumulated depreciation	(456,537)	(419,404)
Total property and equipment, net	<u>824,419</u>	<u>1,933,400</u>
Right of use lease asset	824,070	-
Other assets:		
Investment in limited liability company	(26,300)	(18,449)
Mortgages receivable, noncurrent, net of present value discount	2,708,535	3,383,185
Other assets	9,541	9,541
Total Other Assets	<u>2,691,776</u>	<u>3,374,277</u>
TOTAL ASSETS	<u><u>\$ 17,055,097</u></u>	<u><u>\$ 12,781,616</u></u>

See the accompanying notes and independent auditor's report

DuPage Habitat for Humanity, Inc. and Subsidiaries
Consolidated Statements of Financial Position
June 30, 2023 and 2022

	2023	2022 (Restated)
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 29,045	\$ 32,390
Accrued expenses	179,449	161,915
Escrow and closing funds held	26,722	30,102
Lease liability, current	214,233	-
Notes payable, current	65,008	111,134
Total Current Liabilities	<u>514,457</u>	<u>335,541</u>
Noncurrent Liabilities		
Notes payable, net of current portion	1,033,536	1,872,210
Lease liability, net of current portion	638,474	-
TOTAL LIABILITIES	<u>2,186,467</u>	<u>2,207,751</u>
Net assets:		
Without donor restrictions	13,088,655	6,893,813
With donor restrictions	1,779,975	3,680,052
TOTAL NET ASSETS	<u>14,868,630</u>	<u>10,573,865</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 17,055,097</u>	<u>\$ 12,781,616</u>

See the accompanying notes and independent auditor's report

DuPage Habitat for Humanity, Inc. and Subsidiaries

Consolidated Statements of Activities

For the Year Ended June 30, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Changes in net assets:			
Public support and revenue:			
Federal and local government grants	\$ 1,619,319	\$ -	\$ 1,619,319
Contributions	1,913,113	-	1,913,113
Contributions - donated merchandise	2,068,346	-	2,068,346
In-kind contributions and donated services	86,269	-	86,269
In-kind contributions - donated facilities	-	-	-
Other contributions	1,400,000	-	1,400,000
Special events revenue, net	588,069	-	588,069
Home sales	405,098	-	405,098
Net revenue from reclaimed homes	209,524	-	209,524
Mortgage loan discount amortization	223,019	-	223,019
ReStore operations	2,079,853	-	2,079,853
Critical home repair income, net	7,311	-	7,311
Rental income	20,328	-	20,328
Gain on extinguishment of Paycheck Protection Program loan	-	-	-
Recovery of bad debt expense	-	-	-
Interest and dividend income	86,095	-	86,095
Miscellaneous income	57,351	-	57,351
Equity in loss of limited liability company	(7,851)	-	(7,851)
Unrealized gain (loss) on investments	32,166	-	32,166
Gain / (loss) on disposal of property and equipment, net	2,098,122	-	2,098,122
Net assets released from restrictions	<u>1,900,077</u>	<u>(1,900,077)</u>	<u>-</u>
Total public support and revenue	14,786,209	(1,900,077)	12,886,132
Cost of Homes Transferred	1,208,945	-	1,208,945
Expenses:			
Cost of goods sold	2,122,714	-	2,122,714
Program services:			
Homebuilding	2,300,954	-	2,300,954
ReStore	1,740,828	-	1,740,828
Management and general	382,237	-	382,237
Fund-raising	<u>835,689</u>	<u>-</u>	<u>835,689</u>
Total expenses	<u>8,591,367</u>	<u>-</u>	<u>8,591,367</u>
Change in net assets	<u>\$ 6,194,842</u>	<u>\$ (1,900,077)</u>	<u>\$ 4,294,765</u>
Net assets			
Beginning of year	<u>6,893,813</u>	<u>3,680,052</u>	<u>10,573,865</u>
Net assets, end of the year	<u>\$ 13,088,655</u>	<u>\$ 1,779,975</u>	<u>\$ 14,868,630</u>

See the accompanying notes and independent auditor's report

DuPage Habitat for Humanity, Inc. and Subsidiaries

Consolidated Statements of Activities

For the Year Ended June 30, 2022 (Restated)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Changes in net assets:			
Public support and revenue:			
Federal and local government grants	\$ 5,915	\$ -	\$ 5,915
Contributions	3,553,096	1,845,000	5,398,096
Contributions - donated merchandise	2,091,339	-	2,091,339
In-kind contributions and donated services	12,402	-	12,402
In-kind contributions - donated facilities	25,704	-	25,704
Special events revenue, net	250,887	-	250,887
Home sales	1,691,799	-	1,691,799
Net revenue from reclaimed homes	823,441	-	823,441
Mortgage loan discount amortization	345,331	-	345,331
ReStore operations	2,178,995	-	2,178,995
Critical home repair income, net	11,709	-	11,709
Rental income	19,195	-	19,195
Gain on extinguishment of Paycheck Protection Program loan	410,856	-	410,856
Recovery of bad debt expense	10,397	-	10,397
Interest and dividend income	69	-	69
Miscellaneous income	23,933	-	23,933
Equity in loss of limited liability company	(2,813)	-	(2,813)
Loss on disposal of property and equipment	(7,610)	-	(7,610)
Net assets released from restrictions	<u>67,183</u>	<u>(67,183)</u>	<u>-</u>
Total public support and revenue	<u>11,511,828</u>	<u>1,777,817</u>	<u>13,289,645</u>
Cost of Homes Transferred	1,983,111	-	1,983,111
Expenses:			
Cost of goods sold	2,196,718	-	2,196,718
Program services:			
Homebuilding	1,956,016	-	1,956,016
ReStore	2,600,517	-	2,600,517
Management and general	345,744	-	345,744
Fund-raising	<u>610,054</u>	<u>-</u>	<u>610,054</u>
Total expenses	<u>9,692,160</u>	<u>-</u>	<u>9,692,160</u>
Change in net assets	1,819,668	1,777,817	3,597,485
Net assets:			
Beginning of year, as originally reported	4,445,808	1,902,235	6,348,043
Prior period adjustment	<u>628,337</u>	<u>-</u>	<u>628,337</u>
Beginning of year, as adjusted	5,074,145	1,902,235	6,976,380
Net assets, end of the year	<u>\$ 6,893,813</u>	<u>\$ 3,680,052</u>	<u>\$ 10,573,865</u>

See the accompanying notes and independent auditor's report

DuPage Habitat for Humanity, Inc. and Subsidiaries
Consolidated Statements of Functional Expenses
For the Year Ended June 30, 2023

	Program Services			Management and General	Fund-raising	Total
	<u>Homebuilding</u>	<u>ReStore</u>	<u>Total</u>			
Advertising	\$ -	\$ 7,268	\$ 7,268	\$ -	\$ 9,199	\$ 16,467
Alarm system/security	-	8,535	8,535	-	-	8,535
Association fees	1,529	-	1,529	-	-	1,529
Bad debt expense	-	-	-	5,908	22,500	28,408
Bank charges	3,700	9,151	12,851	1,560	217	14,628
Credit card processing	-	50,241	50,241	-	3,162	53,403
Depreciation	36,215	16,994	53,209	-	-	53,209
Donations to affiliate	-	-	-	-	-	-
Donor development	26,090	-	26,090	115	131,751	157,956
Dues and subscriptions	28,911	225	29,136	6,225	520	35,881
Education and conferences	848	-	848	150	-	998
Employee relations	21,855	1,631	23,486	413	1,226	25,125
Equipment rental	2,190	54,250	56,440	-	-	56,440
Home building related costs	39,358	-	39,358	-	-	39,358
Home repair costs	12,744	-	12,744	495	-	13,239
Insurance	134,630	8,649	143,279	2,362	(8,227)	137,414
Interest	48,223	-	48,223	-	-	48,223
Licenses and permits	-	7,751	7,751	-	-	7,751
Miscellaneous	40,507	17,250	57,757	11,975	601	70,333
Office supplies	19,304	10,689	29,993	3,183	1,461	34,637
Occupancy	46,534	267,727	314,261	12,045	20,310	346,616
Payroll	966,177	864,214	1,830,391	245,370	421,551	2,497,312
Payroll processing	-	35,197	35,197	-	-	35,197
Payroll taxes and benefits	205,910	156,799	362,709	54,646	89,553	506,908
Postage and delivery	884	3,136	4,020	182	443	4,645
Printing and reproduction	3,503	166	3,669	1,350	3,480	8,499
Professional fees	160,221	66,418	226,639	31,831	25,496	283,966
Property development	-	-	-	-	-	-
Real estate tax	133,502	434	133,936	(9,425)	104,000	228,511
Repairs and maintenance	113,621	21,268	134,889	2,942	20	137,851
Retirement contribution	12,184	-	12,184	6,638	3,015	21,837
Tithing to Habitat International	209,682	-	209,682	-	-	209,682
Telephone and internet	12,680	10,299	22,979	2,385	4,035	29,399
Tools and equipment	(255)	4,367	4,112	-	-	4,112
Trash disposal	3,545	32,056	35,601	-	-	35,601
Travel, meals and entertainment	14,653	2,341	16,994	1,887	1,376	20,257
Utilities	-	68,312	68,312	-	-	68,312
Vehicle expense other	-	15,360	15,360	-	-	15,360
Volunteer appreciation	2,009	100	2,109	-	-	2,109
Total	<u>2,300,954</u>	<u>1,740,828</u>	<u>4,041,782</u>	<u>382,237</u>	<u>835,689</u>	<u>5,259,708</u>
Expenses presented separate on the statement of activities - cost of goods sold	<u>1,208,945</u>	<u>2,122,714</u>	<u>3,331,659</u>	<u>-</u>	<u>-</u>	<u>3,331,659</u>
Total expenses	<u>\$ 3,509,899</u>	<u>\$ 3,863,542</u>	<u>\$ 7,373,441</u>	<u>\$ 382,237</u>	<u>\$ 835,689</u>	<u>\$ 8,591,367</u>

See the accompanying notes and independent auditor's report

DuPage Habitat for Humanity, Inc. and Subsidiaries
Consolidated Statements of Functional Expenses
For the Year Ended June 30, 2022 (Restated)

	Program Services			Management and General	Fund-raising	Total
	Homebuilding	ReStore	Total			
Advertising	\$ -	\$ 3,233	\$ 3,233	\$ -	\$ 2,942	\$ 6,175
Alarm system/security	-	9,910	9,910	-	-	9,910
Bank charges	13,806	1,808	15,614	1,099	-	16,713
Building	-	24,004	24,004	-	-	24,004
Credit card processing	-	56,955	56,955	-	3,202	60,157
Depreciation	37,337	52,014	89,351	-	-	89,351
Donations to affiliate	71,210	862,518	933,728	-	-	933,728
Donor development	13,105	-	13,105	2,217	27,571	42,893
Dues and subscriptions	37,020	983	38,003	2,348	1,408	41,759
Education and conferences	1,748	-	1,748	990	1,925	4,663
Employee relations	11,793	1,256	13,049	1,136	887	15,072
Equipment rental	-	76,448	76,448	803	-	77,251
Home building related costs	55,017	-	55,017	-	-	55,017
Home repair costs	50,810	-	50,810	-	-	50,810
Insurance	91,711	8,452	100,163	237	966	101,366
Interest	20,677	57,808	78,485	19,253	-	97,738
Licenses and permits	-	4,936	4,936	-	-	4,936
Miscellaneous	62,262	35,995	98,257	(7,520)	5,113	95,850
Office supplies	5,151	10,642	15,793	5,139	2,095	23,027
Occupancy	72,994	245,053	318,047	19,680	24,802	362,529
Payroll	865,146	741,458	1,606,604	163,902	380,795	2,151,301
Payroll processing	-	33,977	33,977	-	-	33,977
Payroll taxes and benefits	184,416	148,754	333,170	52,437	88,437	474,044
Postage and delivery	1,402	4,291	5,693	176	582	6,451
Printing and reproduction	2,958	392	3,350	3,843	4,258	11,451
Professional fees	144,224	40,390	184,614	67,448	52,794	304,856
Property development	668	-	668	-	-	668
Real estate tax	75,094	3,710	78,804	-	-	78,804
Repairs and maintenance	10,655	-	10,655	-	119	10,774
Retirement contribution	12,053	(215)	11,838	3,354	2,024	17,216
Tithing to Habitat International	86,278	-	86,278	-	-	86,278
Telephone and internet	14,073	13,177	27,250	3,564	4,439	35,253
Tools and equipment	2,574	5,387	7,961	80	22	8,063
Trash disposal	3,842	45,932	49,774	-	-	49,774
Travel, meals and entertainment	7,774	3,050	10,824	5,558	5,673	22,055
Utilities	-	90,173	90,173	-	-	90,173
Vehicle expense other	-	17,744	17,744	-	-	17,744
Volunteer appreciation	218	282	500	-	-	500
Total	1,956,016	2,600,517	4,556,533	345,744	610,054	5,512,331
Expenses presented separate on the statement of activities - cost of goods sold	<u>1,983,111</u>	<u>2,196,718</u>	<u>4,179,829</u>	<u>-</u>	<u>-</u>	<u>4,179,829</u>
Total expenses	\$ 3,939,127	\$ 4,797,235	\$ 8,736,362	\$ 345,744	\$ 610,054	\$ 9,692,160

See the accompanying notes and independent auditor's report

DuPage Habitat for Humanity, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2023 and 2022

	2023	2022 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 4,294,765	\$ 3,597,485
Adjustments to reconcile change in net assets to net cash from operating activities:		
Debt forgiveness income	-	(410,856)
Depreciation	53,211	89,351
Lease asset amortization	(58,017)	-
Amortization of debt issuance costs	-	12,569
Mortgage loan discount amortization	(161,094)	(341,698)
Mortgage accretion	(3,500)	-
Pledges received	-	(95,000)
Payments received on pledges	-	33,377
Recovery of bad debt expense	-	(10,397)
Reduction of allowance for doubtful mortgages	5,908	-
Present value on mortgages issued for home sales	(46,387)	(673,034)
Shared appreciation on real estate buybacks	-	(107,634)
Income recognized on reclaimed homes	-	(716,271)
Gain on sale of real estate owned	-	(199,798)
Equity in loss of limited liability company	7,851	2,813
Unrealized gain on investments	(16,048)	-
Gain on disposal of property and equipment	(2,140,180)	7,610
Reinvested dividends	(78,650)	-
Changes in operating assets and liabilities:		
Receivables	1,969,351	(152,766)
Grants receivable	-	(1,679,998)
ReStore inventory	(2,041)	25,017
Land and construction inventory	(2,315,533)	470,638
Prepaid expenses, deposits and other assets	(396,989)	48,202
Accounts payable and accrued expenses	(97,079)	21,556
Escrow and closing funds held	86,654	(12,244)
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	1,102,222	(91,078)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of leasehold improvements	(804,050)	-
Additions to real estate owned	-	(294,603)
Proceeds from sale of real estate owned	4,000,000	770,000
Proceeds from sale of mortgaged property	-	75,730
Principal repayments on mortgage receivables	673,812	334,220
Purchases of marketable securities	(4,863,074)	-
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	(993,312)	885,347
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	940,000	1,586,000
Payments on notes payable	(1,824,800)	(1,718,058)
CASH USED FOR FINANCING ACTIVITIES	(884,800)	(132,058)
Net increase (decrease) in cash and cash equivalents	(775,890)	662,211
Cash and cash equivalents at the beginning of the year	1,942,983	1,280,772
Cash and cash equivalents at the end of the year	\$ 1,167,093	\$ 1,942,983
Supplemental Disclosures:		
Cash paid for interest	\$ 48,223	\$ 97,738

See the accompanying notes and independent auditor's report

DuPage Habitat for Humanity, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 1 ORGANIZATION AND PURPOSE

The accompanying financial statements reflect the consolidated operations of DuPage Habitat for Humanity, Inc., DuPage Habitat for Humanity Neighborhood Revitalization Council, Habitat for Humanity – Chicago South Suburbs, and ReStore of Fox Valley Habitat for Humanity (collectively referred to as the Organization). All significant intercompany transactions and balances have been eliminated in consolidation.

DuPage Habitat for Humanity, Inc. (“DHFH”), a not-for-profit corporation, was incorporated on February 3, 1995. The Organization is an affiliate of Habitat for Humanity International, Inc. (“HFHI”), a non-denominational, Christian-based, non-profit organization whose purpose is to provide home ownership opportunities to limited income families or individuals, and to put the reality of substandard housing in the minds and hearts of DuPage residents in such a powerful way that unattainable home ownership for these families or individuals becomes politically, socially and religiously unacceptable. Although HFHI assists with informational resources, training, publications, prayer support, and in other ways, the Organization is primarily and directly responsible for its own operation.

Habitat for Humanity Chicago South Suburbs (“Habitat – CSS”), a not-for-profit corporation, was incorporated on June 2, 1988. Habitat – CSS is also an affiliate of HFHI, a nondenominational, Christian-based, not-for-profit organization whose mission is to provide home ownership opportunities to limited income families or individuals, and to put the reality of substandard housing in the minds and hearts of residents in and around Southern Cook County in such a powerful way that unattainable home ownership for these families or individuals becomes politically, socially and religiously unacceptable. Although HFHI assists with information resources, training, publications, prayer support and in other ways, Habitat – CSS is primarily and directly responsible for its own operations.

During the year ended June 30, 2012, DHFH launched a ReStore program. This program recycles used and surplus household and construction materials to reduce the tonnage of waste going into landfills and provide building supplies to the general public at greatly reduced prices. All profits from the sales go to funding the mission of the Organization.

During the year ended June 30, 2015, the Organization established the DuPage Habitat for Humanity Neighborhood Revitalization Council (“NRC”), a single member wholly-owned subsidiary. The NRC was established for the purpose of developing a Community Housing Development Organization (“CHDO”), a community-based organization with staff and the capacity to develop affordable housing for the community it serves.

On October 1, 2018, the Organization entered into a Memorandum of Understanding with ReStore of Fox Valley Habitat for Humanity (“ReStore”) to establish an affiliate relationship. Effective July 1, 2019, ReStore became a subsidiary of DHFH and the operations of the ReStore facility in Addison, Illinois, previously reported within the financial statements of DHFH, were merged in with ReStore.

On March 23, 2020, the Board of Directors for Habitat – CSS approved a corporate resolution establishing a corporate structure whereby Habitat – CSS becomes a wholly controlled sister organization of DHFH, with the Executive Director of DHFH assuming the role of Chief Executive of Habitat – CSS. The agreement was made retroactive to July 1, 2019. As a result of this transaction, DHFH reorganized by moving all ReStore operations of Habitat – CSS under the legal organization of ReStore.

DuPage Habitat for Humanity, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The accounts and consolidated financial statements are maintained on the accrual basis of accounting and, accordingly, reflect all significant accounts receivable, payable, and other liabilities.

The Organization reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions (when applicable), as required by Generally Accepted Accounting Principles ("GAAP").

Net Assets Without Donor Restrictions – Net assets which are available for fulfillment of the Organization's mission, and which may be expended at the discretion of management and the Board of Directors.

Net Assets With Donor Restrictions – Net assets which are subject to donor or grantor imposed restrictions. Some restrictions could be temporary in nature, such as those that will be met by the actions of the Organization or the passage of time, while some restrictions could be perpetual in nature, in that the donor or grantor has stipulated the funds must be maintained in perpetuity.

Management Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from these estimates.

Income Tax Status

DHFH, Habitat – CSS and ReStore have been granted exemptions from federal income tax by the Internal Revenue Service under appropriate provisions of the Internal Revenue Code ("IRC") as charitable organizations that are not private foundations. The tax-exempt purpose of these entities and the nature in which they operate is described in Note 1, and management believes the Organizations continue to operate in compliance with their tax-exempt purposes.

ReStore operates a resale store, which it considers to be a related business activity. The IRC provides for taxation of unrelated business income under certain circumstances. ReStore reports no unrelated business taxable income; however, such status is subject to final determination upon examination of the related tax returns by the appropriate taxing authorities.

The NRC is a wholly-owned corporation with DHFH being the sole shareholder. For tax purposes, this entity is treated as a disregarded entity. Its activities are included in DHFH's tax reporting.

Each entity's tax returns for the years ended June 30, 2020, 2021, 2022, and 2023 are open for purposes of Internal Revenue Service or Illinois Department of Revenue examinations.

Cash and Cash Equivalents

The Organization considers all highly liquid debt investments with a maturity of three months or less when purchased to be cash equivalents. The Organization maintains cash balances at large financial institutions. The Organization has an arrangement with its bank such that, should cash balances exceed Federal Deposit Insurance Corporation limits, excess balances are transferred to sister banks of the Organization's primary bank. Thus, management does not believe it is exposed to any significant credit risk related to cash.

DuPage Habitat for Humanity, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventory ReStore

ReStore receives contributions of goods and materials (inventory) and processes these contributions as merchandise available for sale in its retail store. Accounting standards require that contributions be recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses, depending on the form of benefits received. Contributions are measured at fair value.

Inventory balances recorded at year-end are comprised mostly of goods donated to ReStore for resale through its retail store. In accordance with the HFHI *Financial Policies and Procedures* issued in June 2021, the value of donated inventory at the end of the year is estimated using average sales. Management has estimated ending inventory as one month of average sales. This is a critical assumption which significantly affects inventory accounting.

The Organization may carry purchased inventory at a given time, which consists primarily of paint and related supplies. Any purchased inventory on hand is stated at the lower of cost (on the FIFO method) or net realizable value.

Inventories – Land and Construction-in-Progress

Inventory primarily consists of purchased and donated houses, construction materials, land and homes under construction issued in the Organization's programs. Inventory is initially capitalized at cost or fair value if donated. This includes all direct and indirect costs incurred to prepare it for sale or use. If it is determined that the capitalized costs of inventory exceed its fair value, the inventory is written down to its fair value. Construction materials are valued at cost using the first-in, first-out ("FIFO") method.

Inventory – Real Estate Owned

Reclaimed homes are recorded as real estate owned at fair value at the date of reclamation. Added to these amounts are closing costs and additional costs necessary to ready the homes for resale. Any write-down based on the home's fair value at the date of foreclosure is charged to the allowance for uncollectible mortgage receivables. Activity for the years ended June 30, 2023 and 2022, is as follows:

Balance, June 30, 2021	\$ 781,444
Fiscal year ended June 30, 2022, activity:	
Five homes reclaimed	1,368,000
Additional costs necessary to ready homes for resale	7,570
Three homes sold	<u>(570,202)</u>
Balance, June 30, 2022	\$ 1,586,812
Fiscal year ended June 30, 2023, activity:	
Two homes reclaimed	570,000
Additional costs necessary to ready homes for resale	5,677
Five homes sold	<u>(1,225,000)</u>
Balance, June 30, 2023	<u>\$ 937,489</u>

DuPage Habitat for Humanity, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciable and Amortizable Property and Assets

Expenditures for property and equipment and items which substantially increase the useful lives of existing assets are capitalized at cost or fair value if donated. The Organization provides for depreciation on the straight-line method at rates designed to depreciate the costs of these assets over estimated useful lives of 39 years. The Organization generally follows the practice of capitalizing expenditures for assets in excess of \$5,000. Leasehold improvements are amortized over the estimated lives of the improvements. Maintenance and repairs, which do not extend the life of the property, are charged to expense as incurred. Gains and losses from disposal of assets are included in operations in the year of sale.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or net realizable value.

Investment in Limited Liability Company

The Organization is one of two equal members in Home Together, LLC, a non-profit organization formed in 2010, to purchase and share the building used for operations (see Note 18). Due to the Organization's lack of a controlling interest in the subsidiary, its investment is accounted for under the equity method and consolidated financial statements are not presented. The investment account is increased for cash contributions made to the LLC and for the Organization's proportionate share of the LLC's other increase in net assets and decreased for the cash distributions received from the LLC and the Organization's proportionate share of the LLC's other decreases in net assets. The Organization remains committed to providing future funding to the LLC, and is liable for debt incurred by the LLC, and, therefore, is required to recognize a negative investment in Home Together, LLC on its statement of financial position of \$26,300 and \$18,449 at June 30, 2023 and 2022, respectively.

Sale to Homeowners and Mortgages Receivable

DHFH and Habitat – CSS recognize revenue from the sale of their homes at the fair value of the first mortgages received plus the required down payments when a closing occurs and title, possession, and other attributes of home ownership have been transferred to the buyer. The first mortgages are non-interest bearing and require monthly payments, typically over a 30 or 40-year period. The amount of a first mortgage is determined by the lower of (a) actual construction costs incurred by DHFH or Habitat – CSS, (b) the fair market value of the property, or (c) an ability to pay formula based on the homeowner's gross income. The present value of the first mortgage is determined by discounting the mortgage payments using an interest rate that approximates a current market rate of interest for such a mortgage instrument at its inception. The difference between the face amount of each mortgage and its present value is accounted for as a discount. The original discount on the mortgage issued is recorded as a program expense in the year the mortgage closes, based on the prevailing interest rates for low-income housing. The discount is then amortized and recorded as income over the estimated life of the mortgage on a straight-line basis.

The delinquency of mortgages receivable is based upon past due status in accordance with contractual terms. When a customer begins to miss payments, management will work with the client and encourage the client to refinance their mortgage.

DuPage Habitat for Humanity, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DHFH has not established an allowance for loan losses for its mortgages receivable as there are no probable and reasonably estimable losses related to the mortgage receivables as of June 30, 2023. This conclusion is based in part on the fact that the estimated value of the properties securing the mortgages receivable significantly exceeds the amount recognized as mortgages receivable. Historically, Habitat – CSS has not experienced significant losses on mortgages to individual clients. This is based in part on the fact that the estimated value of the properties securing the mortgage receivables significantly exceeds the amount recognized as mortgages receivable. Management's periodic evaluation to determine if an allowance for doubtful mortgages is necessary is based upon its history, industry, and economic conditions, and known risks or adverse situations that may affect the borrower's ability to repay. Habitat – CSS has recognized an allowance for loan losses for its mortgage receivables of \$60,000 and \$54,092 at June 30, 2023 and 2022, respectively.

The Organization provides a limited one-year warranty in the deed of trust on the sale of a home which is generally for defects in materials and workmanship. The warranty is considered an assurance-type warranty whereby costs are accrued when obligations under the warranty period become probable and can be reasonably estimated. Warranty costs have not been significant, and no warranty liability has been accrued at June 30, 2023 or 2022.

Compensated Absences

The Organization provides its employees with unlimited personal time and, accordingly, does not accrue a liability for compensated absences.

Leases, Right of Use Asset and Lease Liability

Effective July 1, 2022, the Organization adopted Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") 842, *Leases*. Management determines if an arrangement contains a lease at inception based on whether the Organization has the right to control the asset during the contract period and other facts and circumstances. Management elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed it to carry forward the historical lease classification.

The Organization has a lease agreement for office facilities in Wheaton, Illinois and a lease agreement for its retail space located in Addison, Illinois. The Organization does not separate lease components from nonlease components for real estate lease. For operating leases that have a lease term of greater than one year, the Organization initially recognizes operating lease liabilities and right-of-use ("ROU") assets at the lease commencement date, which is the date that the lessor makes an underlying asset available for use by the Organization. ROU assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent the present value of the Organization's obligation to make lease payments, including escalating fixed payments and net of rent holiday months, over the lease term. The discount rate used to determine the present value of the lease payments is the risk-free interest rate for a similar term because the rate implicit in the lease is not readily determinable. The Organization's lease term for its lease represents the noncancelable period for which the Organization has the right to use an underlying asset, together with all of the following: (i) periods covered by an option to extend the lease if the Organization is reasonably certain to exercise that option; (ii) periods covered by an option to terminate the lease if the Organization is reasonably certain not to exercise that option; and (iii) periods covered by an option to extend (or not to terminate) the lease in which exercise of the option is controlled by the lessor. The Organization's office lease contained no such option periods. The Organization recognizes lease payments as lease expense on a straight-line basis over the lease term. The Organization's operating ROU asset and lease liability are presented as separate assets and liabilities, respectively, on its balance sheet. The Organization also leases vehicles and copiers.

DuPage Habitat for Humanity, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Support and Revenue

The Organization reports gifts of cash and other assets as with donor restrictions, if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as without donor restrictions.

The Organization reports gifts of land, buildings, and equipment as without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as with donor restrictions. Absent explicit donor stipulations regarding how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Government Contributions

Support funded by government contracts, which qualify as conditional promises to give, are recognized when the condition of performing the contracted services is met. Revenue is therefore recognized as earned as the condition of eligible expenses is incurred. These expenditures are subject to audit and acceptance by the respective granting agency, and, because of such audit, adjustments could be required. Management does not anticipate any material adjustments for revenue shown at June 30, 2023.

In-Kind Contributions

The Organization receives in-kind contributions and donated services from various donors. In accordance with GAAP, contribution of services are required to be recognized if the services received (a) create or enhance non-financial assets, or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. In-kind contributions are recorded at fair value. The Organization recognizes the estimated fair value of these in-kind donations and donated services as an expense or asset if appropriate in its consolidated financial statements, and similarly records a corresponding donation by a like amount. There were no donor restrictions related to the in-kind contributions and donated services for the years ending June 30, 2023 and 2022.

The Organization received donations in the form of building materials and supplies, household furnishings, and appliances for its ReStore. The items are processed and displayed at the store to be sold and the proceeds used to benefit the mission of the Organization. Items which cannot be retailed or reconditioned are sold as salvage. The donated items for the ReStore are valued based on comparable prices at local hardware stores if new, or thrift value if used. The Organization recognized contributions of \$2,068,346 and \$2,091,339 for the years ending June 30, 2023 and 2022, respectively.

For the years ended June 30, 2023 and 2022, the Organization recorded \$0 and \$25,704, respectively, in donated facilities for the ReStore in Chicago Heights, Illinois. The value of the donated facilities was determined based on the rent previously paid for the building prior to the City of Chicago Heights assuming ownership of the building and allowing the ReStore to operate within the facility for an annual payment of one dollar.

DuPage Habitat for Humanity, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In-Kind Contributions (continued)

DHFH and Habitat – CSS mortgages issued prior to July 1, 2017, are serviced by BMO Harris Bank at no charge. The Organization received donated services valued at \$86,269 (\$86,269 to DHFH and \$0 to Habitat – CSS) for the year ended June 30, 2023, which is recorded at fair value in the consolidated financial statements. Fair value was determined based on a percentage of the mortgage loan portfolio in accordance with industry standards. The Organization received \$12,402 of donated services (\$8,174 to DHFH and \$4,228 to Habitat – CSS) for the year ended June 30, 2022, which is recorded at fair value in the consolidated financial statements.

Donated Services

There were also a substantial number of volunteers who donated a significant amount of their time towards the activities of the Organization for the years ended June 30, 2023 and 2022, the value of which has not been recognized in the consolidated financial statements as they do not meet the criteria for recognition.

Revenue Recognition

Revenues from contracts with customers are recognized when control of the promised goods or services are 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 as outlined in Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* ("ASC 606"): (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.

Significant sources of contract revenue include the following:

ReStore – The Organization's ReStores recognize revenues from merchandise sales when the products are sold, and the title and risk of loss pass to the customer. Sales returns are generally not permitted and have not been significant.

Home Sales – The Organization recognizes revenue from home sales when the home is sold and title passes to the buyer, at the time of closing.

Net Revenue from Reclaimed Homes – The Organization recognizes revenue from reclaimed homes when the home is repurchased, and title reverts to the Organization at the time of closing.

Special Events – The Organization recognizes revenue at the time the event is held.

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.

The Organization has applied certain practical expedients in its application of ASC 606 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 is less than one year.

DuPage Habitat for Humanity, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Advertising and Promotion**

The Organization maintains a small supply of promotional books, pamphlets, and other merchandise available for public distribution and ministry purposes. Costs related to these materials, including advertising and promotion, are expensed as incurred.

The Organization incurs advertising costs to promote its ReStore activities which are expensed as incurred. Such costs were \$7,268 and \$3,233 for the years ended June 30, 2023 and 2022, respectively.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Salaries and wages and payroll taxes and benefits are allocated on the basis of estimates of time and effort. Depreciation expense is allocated based on the program or supporting service benefitting from the underlying asset. All direct costs are charged to the programs or fund-raising as applicable, and the remaining costs are considered management and general.

Reclassifications

Certain comparative figures have been reclassified to conform to the current year presentation.

Note 3 CONTRACT REVENUE AND BALANCES

Revenue for the year ended June 30, 2023 (none of which is earned over time), consisted of the following:

	Contract Revenue Earned at a Point in Time	Other Revenue Sources	Total
ReStore sales	\$ 2,079,853	\$ -	\$ 2,079,853
Special events revenue, net	588,069	-	588,069
Home sales	405,098	-	405,098
Net revenue from reclaimed homes	209,524	-	209,524
Critical home repair income, net	7,311	-	7,311
Grants and contributions	-	7,087,045	7,087,045
Mortgage loan discount amortization	-	223,019	223,019
Rental income	-	20,328	20,328
Gain on extinguishment of Paycheck Protection Program loan	-	-	-
Recovery of bad debt expense	-	-	-
Gain on disposal of property and equipment, net	-	2,098,122	2,098,122
Miscellaneous income	-	167,763	167,763
	<u>\$ 3,289,855</u>	<u>\$ 9,596,277</u>	<u>\$ 12,886,132</u>

DuPage Habitat for Humanity, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 3 CONTRACT REVENUE AND BALANCES (continued)

Revenue for the year ended June 30, 2022 (none of which is earned over time), consisted of the following:

	Contract Revenue Earned at a Point in Time	Other Revenue Sources	Total
ReStore sales	\$ 2,178,995	\$ -	\$ 2,178,995
Special events revenue, net	250,887	-	250,887
Home sales	1,691,799	-	1,691,799
Net revenue from reclaimed homes	823,441	-	823,441
Critical home repair income, net	11,709	-	11,709
Grants and contributions	-	7,533,456	7,533,456
Mortgage loan discount amortization	-	345,331	345,331
Rental income	-	19,195	19,195
Gain on extinguishment of Paycheck Protection Program loan	-	410,856	410,856
Recovery of bad debt expense	-	10,397	10,397
Miscellaneous income	-	13,579	13,579
	<u>\$ 4,956,831</u>	<u>\$ 8,332,814</u>	<u>\$ 13,289,645</u>

Note 4 LIQUIDITY AND AVAILABILITY

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

	2023	2022
Cash and cash equivalents	\$ 1,167,093	\$ 1,942,983
Current receivables:		
Other	-	3,774
Critical home repair receivable	78,096	45,484
Grants and contributions	202,330	1,882,610
Mortgages, net, current	<u>91,282</u>	<u>95,392</u>
Total current receivables	371,708	2,027,260
Investments	<u>4,957,772</u>	-
Total current financial assets	6,496,573	3,970,243
Net assets with donor restrictions	<u>(1,779,975)</u>	<u>(3,680,052)</u>
Financial assets available for general expenditure over the next twelve months	<u>\$ 4,716,598</u>	<u>\$ 290,191</u>

DuPage Habitat for Humanity, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 4 LIQUIDITY AND AVAILABILITY (continued)

The Organization relies on grants and donor contributions, which may or may not have donor restrictions, to help fund major capital outlays. It manages its day-to-day operations based on available funds from such contributions or grants, as well as ReStore sales.

Note 5 CONTRIBUTIONS RECEIVABLE

Unconditional promises to give cash, in-kind contributions, and certain qualified donated services are recognized in the consolidated financial statements at the time of commitment based on written documentation from the donor.

When a contribution receivable is deemed uncollectible, it is written off as a reduction of grants and pledges included with expenses in the statement of activities. There were no contributions receivable written off for the years ended June 30, 2023 and 2022.

Note 6 MORTGAGES RECEIVABLE

The Organization recognized \$223,019 of income from the mortgage loan discount amortization for fiscal year ended June 30, 2023. The Organization recognized \$345,331 of income from the mortgage loan discount amortization for fiscal year ended June 30, 2022.

DHFH originated two new mortgages during the year ended June 30, 2023, net of related discounts, in the amount of \$189,628; it originated seven new mortgages during the year ended June 30, 2022, net of related discounts, in the amount of \$719,020. Habitat – CSS originated one new mortgage for the year ended June 30, 2023 for \$58,900; it originated one new mortgage for the year ended June 30, 2022 for \$45,000. The Organization does not charge homeowners any fees in connection with originating the mortgages and does not defer any costs related to originating the mortgages.

First and second mortgage receivables at June 30, 2023 are presented net of unamortized discounts as follows:

	<u>DHFH</u>	<u>Habitat - CSS</u>	<u>Total</u>
Gross first and second mortgage receivable at face value	\$ 4,081,837	\$ 1,612,003	\$ 5,693,840
Less unamortized discount based on imputed interest rates of 4.0% to 8.78%	(1,906,144)	(927,879)	(2,834,023)
Less allowance for doubtful mortgages receivable	<u>-</u>	<u>(60,000)</u>	<u>(60,000)</u>
Net mortgages receivables	<u>\$ 2,175,693</u>	<u>\$ 624,124</u>	<u>\$ 2,799,817</u>
Current portion	\$ 65,696	\$ 25,586	\$ 91,282
Long-term	<u>2,109,997</u>	<u>658,538</u>	<u>2,768,535</u>
	<u>\$ 2,175,693</u>	<u>\$ 684,124</u>	<u>\$ 2,859,817</u>

DuPage Habitat for Humanity, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 6 MORTGAGES RECEIVABLE (continued)

Future first mortgage principal collections, net of discount amortization, are estimated as:

Year Ending June 30,	DHFH	Habitat - CSS	Total
First Mortgages			
2024	\$ 65,696	\$ 25,586	\$ 91,282
2025	65,696	25,586	91,282
2026	64,205	26,481	90,686
2027	63,156	28,202	91,358
2028	63,156	28,202	91,358
Thereafter	676,660	449,383	1,126,043
	<u>\$ 998,569</u>	<u>\$ 583,440</u>	<u>\$ 1,582,009</u>
Second Mortgages	\$ 1,177,124	\$ 100,684	\$ 1,277,808
Total	<u>\$ 2,175,693</u>	<u>\$ 684,124</u>	<u>\$ 2,859,817</u>

First and second mortgage receivables at June 30, 2022 are presented net of unamortized discounts as follows:

	DHFH	Habitat - CSS	Total
Gross first and second mortgage receivable at face value	\$ 4,828,760	\$ 1,613,261	\$ 6,442,021
Less unamortized discount based on imputed interest rates of 4.0% to 8.78%	(2,030,529)	(970,252)	(3,000,781)
Less allowance for doubtful mortgages receivable	<u>-</u>	<u>(54,092)</u>	<u>(54,092)</u>
Net mortgages receivables	<u>\$ 2,798,231</u>	<u>\$ 588,917</u>	<u>\$ 3,387,148</u>
Current portion	\$ 67,559	\$ 27,833	\$ 95,392
Long-term	<u>2,730,672</u>	<u>652,513</u>	<u>3,383,185</u>
	<u>\$ 2,798,231</u>	<u>\$ 680,346</u>	<u>\$ 3,478,577</u>

DuPage Habitat for Humanity, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 6 MORTGAGES RECEIVABLE (continued)

Mortgage receivable activity for DHFH for the years ended June 30, 2023 and 2022, are as follows:

	Mortgages Receivable	Unamortized Discount	Net Mortgages Receivable
Balance, June 30, 2021	\$ 4,889,955	\$ (2,485,109)	\$ 2,404,846
New mortgages	719,020	-	719,020
Properties sold	(507,125)	268,830	(238,295)
Payments received	(273,090)	-	(273,090)
Discounts earned	-	185,750	185,750
Balance, June 30, 2022	\$ 4,828,760	\$ (2,030,529)	\$ 2,798,231
New mortgages	189,628	-	189,628
Properties sold	(809,991)	21,508	(788,483)
Payments received	(148,069)	-	(148,069)
Discounts earned	-	124,386	124,386
Balance, June 30, 2023	\$ 4,060,328	\$ (1,884,635)	\$ 2,175,693

Mortgage receivable activity for Habitat – CSS for the years ended June 30, 2023 and 2022, are as follows:

	Mortgages Receivable	Escrow Receivable	Unamortized Discount	Allowance For Doubtful Mortgages	Net Mortgages Receivable
Balance, June 30, 2021	\$ 1,857,197	\$ 8,084	\$ (1,077,091)	\$ (64,489)	\$ 723,701
New mortgages	3,120	-	-	-	3,120
Properties sold	(94,497)	-	-	-	(94,497)
Payments received	(61,130)	-	-	-	(61,130)
Discounts earned	-	-	106,839	-	106,839
Allowance adjustment	-	-	-	10,397	10,397
Escrow adjustment	-	(8,084)	-	-	(8,084)
Balance, June 30, 2022	1,704,690	-	(970,252)	(54,092)	680,346
New mortgages	58,900	-	-	-	58,900
Properties sold	5,796	-	3,459	-	9,255
Payments received	(160,842)	-	-	-	(160,842)
Discounts earned	-	-	42,373	-	42,373
Allowance adjustment	-	-	-	(5,908)	(5,908)
Escrow adjustment	-	-	-	-	-
Balance, June 30, 2023	\$ 1,608,544	\$ -	\$ (924,420)	\$ (60,000)	\$ 624,124

DuPage Habitat for Humanity, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 6 MORTGAGES RECEIVABLE (continued)

In addition, second mortgages generally exist on homes sold by the Organization. In general, the “silent” second mortgages are established for the difference between (a) the estimated fair value of the home at date of sale and (b) the sales price of the home (the sum of the undiscounted amount of the first mortgage and the down payment made by the homeowner). Silent second mortgages are non-interest-bearing. Some are due and payable upon either the resale of the property or the payoff of the first mortgage. Another tranche of second mortgages is fully forgivable upon pay-off of the first mortgage. The third type of second mortgage is forgivable ratably over the remaining term after timely payment of 60 or 84 monthly mortgage payments. The mortgage receivable asset includes the second mortgages as they are legal obligations of the partner family to the Organization. They are recorded at the discounted amount based on the mortgage rate at the time of the mortgage, with consideration of accretion to the date of the financial statements and forgiveness, if any. Pursuant to some grant arrangements, the grantor may hold a portion of the silent second mortgage or may hold a “silent” third mortgage. The face amount of the second mortgages on homes totaled \$3,045,412 and \$2,883,304 at June 30, 2023 and 2022, respectively. The net recorded balance of second mortgages on homes totaled \$1,227,271 and \$1,227,777 at June 30, 2023 and 2022, respectively.

Finally, an equity-sharing agreement exists on all homes sold by DHFH. The amount is based on a percentage of the appreciation in value (shared appreciation) and the length of time the homeowner has owned the house so that the longer the homeowner has owned the home, the lower the percentage of equity shared with the Organization. No such equity-sharing agreement exists for homes sold by Habitat – CSS.

Events which trigger payments to be made on the silent second mortgages are as follows:

1. Sale of property to a third-party.
2. Transfer of property to someone other than the buyer’s spouse.
3. Rental of property to a third-party.
4. Creation of certain trusts which affects the title to the property.
5. Failure to occupy property as main residence.
6. Refinance property without paying off the amount due under the first mortgage note plus the amount for which the buyer has not received credit under the second mortgage noted as of the date of the payoff.
7. Failure to make three payments in a row.
8. Third-party forecloses on the property or files mechanic’s lien on the property.
9. Use of property to carry on a business, trade, or profession except as permitted by applicable law or ordinance.
10. Attempt to prepay one of the mortgage notes before maturity of the first mortgage note and the second mortgage note without prepaying both the first mortgage note and the second mortgage note.
11. Failure to perform the terms of either of the first mortgage note or the second mortgage note or either of the first mortgage or the second mortgage and do not cure such failure within any applicable notice or cure period.

In the event that a homeowner disposes of a home or otherwise prepays the first mortgage prior to the end of the term of the first mortgage, the balance of the silent mortgages and any sharing of appreciation in the value of the home between the homeowner and the Organization becomes due. Finally, the first mortgage provides the Organization with the right of first refusal, at the then current fair value, to purchase any home that a homeowner has decided to sell. DHFH recognized shared appreciation income from partner families selling homes in fiscal 2023 totaling \$49,500 (\$107,634 in fiscal 2022).

DuPage Habitat for Humanity, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 6 MORTGAGES RECEIVABLE (continued)

In December 2016, Habitat – CSS sold four mortgages receivable with full recourse to a financial institution. Proceeds received from the sale of such loans equated to the outstanding principal balance of the loans at the time of sale. In the event a sold loan becomes 90 days or more delinquent, the financial institution can require Habitat – CSS to provide a substitute loan of similar characteristics. If no such loan exists that is acceptable to the financial institution, Habitat – CSS may be required to repurchase the loan at the principal balance then outstanding. For two of these loans, the underlying property development was funded with federal funds under the NSP and HOME programs. The effects of the sale of these mortgages on the federal funds received is not known. There were no claims by the financial institution as a result of any sold loans becoming delinquent for the years ended June 30, 2023 and 2022.

Note 7 INVENTORIES – LAND AND CONSTRUCTION IN PROGRESS

Land and construction in progress inventory consists of property and improvements in progress for homes to be sold to partner families when completed. It includes development communities and a total of approximately 40 units as of June 30, 2023 and approximately 16 units as of June 30, 2022.

Note 8 INVENTORIES – RESTORE

Inventory at June 30, consists of the following:

	2023	2022
Purchased inventory	\$ 6,801	\$ 11,652
Donated goods and materials	171,375	164,483
Total	<u>\$ 178,176</u>	<u>\$ 176,135</u>

Note 9 FAIR VALUE

Fair value is defined in FASB ASC 820, *Fair Value Measurements and Disclosures*, as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. FASB ASC 820 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 FASB ASC 820 are described as follows:

Level 1:	Unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
Level 2:	Inputs other than quoted prices included within Level 1 that are directly or indirectly observable, such as quoted prices for similar instruments in active markets, or quoted prices for identical or similar instruments in inactive markets.
Level 3:	Inputs are based on prices or valuation techniques that are unobservable and significant to the fair value measurement.

DuPage Habitat for Humanity, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 9 FAIR VALUE (continued)

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

The following table sets forth, by level within the fair value hierarchy, the Organization's assets required to be reported at fair value on a recurring basis at June 30, 2023 (there were no investments at June 30, 2022):

	Level 1	Level 2	Level 3	Total
Marketable equitable securities	\$ 19,807	\$ -	\$ -	\$ 19,807
Exchange traded funds	835,847	-	-	835,847
Fixed income funds	1,082,876	-	-	1,082,876
Money market and cash	1,486,905	-	-	1,486,905
Mutual funds	1,532,337	-	-	1,532,337
Total Investments	<u>\$ 4,957,772</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,957,772</u>

Exchange traded funds, fixed income funds, money market funds and mutual funds owned by the Organization are registered with the Securities and Exchange Commission and are deemed to be in active markets. The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 10 PAYROLL PROTECTION PROGRAM LOAN PROCEEDS

ReStore entered into a loan of \$410,856, dated February 16, 2021, under the Paycheck Protection Program ("PPP") administered by the Small Business Administration. ReStore applied for and received forgiveness for the entire balance on December 22, 2021. The proceeds on extinguishment of the PPP loan were contributed to ReStore by its affiliate, DHFH, and recognized as income on the ReStore statement of activities in fiscal year 2022.

DuPage Habitat for Humanity, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2023 and 2022

Note 11 LONG-TERM DEBT

DuPage Habitat for Humanity, Inc.

	<u>2023</u>	<u>2022</u>
The Organization obtained a promissory note with HFHI in 2016 in the amount of \$400,300 with an original maturity date of June 30, 2026. The Organization was allowed to defer payment of the principal portion due June 30 and September 30, 2020, due to the pandemic, and extend the maturity date of the note by two quarters to December 31, 2026. Original principal of \$400,300 payable in quarterly installments of \$12,630 which includes interest at 4.75%. Proceeds used to refinance all debt except Wheaton Bank and Trust Company line of credit.	\$ 162,020	\$ 203,602
The Organization obtained a promissory note with First Eagle Bank in 2018 in the amount of \$350,000 with an original maturity date of May 29, 2021, originally due in a lump sum at maturity. Interest is payable monthly commencing June 29, 2018, at a variable rate equal to the prime rate as published in the Wall Street Journal (4.75% at June 30, 2022). Proceeds were used to acquire property in Hanover Park, Illinois. Dated May 29, 2021, a first amendment to the promissory note extended the maturity date to May 29, 2024, with monthly payments of all accrued unpaid interest commencing July 29, 2021. The note was paid in full on September 29, 2022.	-	210,000

DuPage Habitat for Humanity, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 11 LONG-TERM DEBT (continued)

On March 4, 2022, the Organization obtained a promissory note with First Eagle Bank in the amount of \$1,586,000 with an interest rate of 3.35% and a maturity date of March 4, 2027. The Organization will make 59 monthly payments of principal and interest totaling \$10,031 commencing April 4, 2022, with lump sum payment of \$1,234,372 due at maturity. The proceeds were used to repay the mortgage note payable of ReStore Habitat for Humanity. The note was paid in full on October 28, 2022 upon the sale of the underlying property. **

-	1,569,742
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On October 19, 2022, the Organization obtained a commercial mortgage loan with First Eagle Bank in the amount of \$940,000 with an interest rate of 4.50% and a maturity date of October 19, 2027. The Organization will make 6 monthly interest-only payments and 53 monthly payments of principal and interest totaling \$303,243 commencing November 19, 2022, with a lump sum payment of \$841,194 due at maturity. The proceeds were used to purchase a building in Oak Forest, Illinois for use as a future ReStore location.

	<u>936,524</u>	<u>-</u>
	1,098,544	1,983,344
Less current portion	<u>(65,008)</u>	<u>(111,134)</u>
Net long-term debt	<u>\$ 1,033,536</u>	<u>\$ 1,872,210</u>

Minimum future principal payments are as follows at June 30:

2024	\$ 65,008
2025	68,231
2026	71,490
2027	49,495
2028	<u>844,320</u>
Total	<u>\$ 1,098,544</u>

** The building in which one of the ReStore facilities had been operating was sold in October, 2022 which resulted in a gain of approximately \$2,100,000, which is included in Public Support and Revenue in the Statement of Activities.

DuPage Habitat for Humanity, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 12 NET ASSETS WITH DONOR RESTRICTIONS

Net assets released from restriction for DHFH totaled \$1,900,077 and \$67,183 for the years ended June 30, 2023 and 2022, respectively.

Net assets with donor restriction for Habitat – CSS consists of the following at June 30:

	<u>2023</u>	<u>2022</u>
Discounted first mortgages and payments received on those mortgages:		
NSP grant	\$ 1,102,573	\$ 1,102,573
HOME grant	587,402	587,402
Cash and in-kind grants not yet received	-	1,865,000
Housing opportunities and home ownership	-	16,685
Home repair	-	18,392
FDC Foundation Housing Opportunity Grant	-	20,000
Home build for veteran	35,000	35,000
Home build for single mother	35,000	35,000
	<u>\$ 1,759,975</u>	<u>\$ 3,680,052</u>

For Habitat – CSS, the \$35,077 of grants and contributions related to housing opportunities and home ownership and home repair, and the FDC Foundation Housing Opportunity grant of \$20,000, were released from restriction for the year ended June 30, 2023, while the Thrivent Home Grant of \$15,000 was released from restriction for the year ended June 30, 2022.

Note 13 FEDERAL AND LOCAL GOVERNMENT GRANTS**DuPage Habitat for Humanity****Neighborhood Stabilization Program**

The Organization had been selected by the County of DuPage (“County”) to act as a developer to acquire and rehabilitate eligible abandoned and foreclosed single family homes under a Neighborhood Stabilization Program (“NSP”) funded by the Department of Housing and Urban Development (“HUD”). Homes acquired and rehabilitated under the NSP are then sold by the Organization to qualifying low-income individuals under the Organization’s normal terms and conditions. The Organization received NSP funds from the County as it incurred eligible costs. The Organization executes notes to the County as the NSP funds are received from the County. The County releases the Organization from these notes when the related homes are sold by the Organization to eligible individuals. The homeowners execute non-interest-bearing first mortgages to the Organization at the time they purchase the homes. The amount of the first mortgage is determined by the Organization such that, when considering real estate taxes and insurance, the required mortgage payment is affordable to the homeowners in accordance with the Organization’s mission. The homeowners also execute a second mortgage to the Organization that equals the difference between the actual costs of the home and the sum of the first mortgage. The homeowners may have a third mortgage if assistance from the County is received. The second and third mortgages, if any, are also non-interest-bearing and are payable only if certain events occur in the future.

DuPage Habitat for Humanity, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 13 FEDERAL AND LOCAL GOVERNMENT GRANTS (continued)

Community Development Block Grants

The Organization had been awarded grants in prior years by the County from its Housing Development Fund that were used to fund, in part, the Organization's development of 11 homes in its Pioneer Prairie subdivision. These grants were funded through Community Development Block Grants ("CDBG") from HUD. The Organization received CDBG funds from the County as it incurred eligible costs. For the portion of the funds used to build homes, the Organization executed notes to the County as the CDBG funds were received from the County. The homeowners executed non-interest-bearing first mortgages to the Organization at the time they purchased the homes. The amount of the first mortgage was determined by the Organization such that, when considering real estate taxes and insurance, the required mortgage payment was affordable to the homeowner in accordance with the Organization's policies. In addition, the homeowners assumed a pro rata portion of the Organization's note to the County in the form of a third mortgage. The homeowners also executed a second mortgage to the Organization that equaled the difference between (a) the fair value of the home and (b) the sum of the sales price (which is the sum of the first mortgage and the down payment) and the third mortgage. The second and third mortgages were also non-interest-bearing and are payable only if certain events occur in the future.

The Organization recognized the portion of the CDBG grant designated to fund a portion of the infrastructure costs as revenue without donor restrictions in the period it incurred the eligible infrastructure costs. The Organization recognized the portion of the CDBG grant designated to fund a portion of the cost of building the homes as revenue with donor restrictions in the period it incurred the eligible costs and released the restriction at the time of the sale of the home. The Organization does not receive a developer's fee under the CDBG grant agreement. No revenue was recognized as it relates to the prior years' CDBG grants from the County during the years ended June 30, 2023 and 2022.

HOME

In prior years, the Organization was awarded grants by the County from its Housing Development Fund to be used to fund, in part, the Organization's development of 12 townhomes in its Prairie Green subdivision. These grants are funded through HOME Investment Partnerships Act Funds ("HOME") from HUD. The Organization received HOME funds from the County as it incurred eligible costs. The Organization executed notes to the County when the HOME grant was executed with the County. The future homeowners then executed non-interest-bearing first mortgages to the Organization at the time they purchased the townhomes. The amount of the first mortgage was determined by the Organization such that, when considering real estate taxes and insurance, the required mortgage payment is affordable to the homeowner in accordance with the Organization's policies. The homeowners also executed a second mortgage to the Organization that equals the difference between (a) the fair value of the townhome and (b) the sum of the sale price (which is the sum of the first mortgage and the down payment) not to exceed \$275,200. The second mortgage is also non-interest-bearing and payable only if certain events occur in the future.

The County released the Organization from 1/12th of the County's mortgage at the time each townhouse was sold to an eligible homeowner. Each townhouse is subject to a Regulatory Land Use Restriction Agreement ("RLURA") that will impose resale restrictions on the townhomes for a period of 15 years. The RLURA is intended to ensure that any townhouses resold during that 15-year period will be sold to individuals whose income does not exceed specified levels at a price affordable to such individuals.

The Organization recognized the HOME grant as revenue with donor restrictions in the period it incurred the eligible costs. A portion of the HOME grant, equal to costs incurred for the construction of the home plus a pro rata share of land and general infrastructure costs, was transferred to net assets without donor restrictions at the time of the sale of the home. All revenue related to the HOME grant award for the Prairie Green subdivision has been recognized in prior years. The Organization received a developer fee of fifteen percent of eligible costs for its services under the HOME agreement. The developer fee was recognized as revenue with donor restrictions as the eligible costs were incurred with a pro rata portion being transferred to net assets without donor restrictions at the time of the sale of the home.

DuPage Habitat for Humanity, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 13 FEDERAL AND LOCAL GOVERNMENT GRANTS (continued)

During fiscal year 2018, the Organization received an additional HOME grant of \$500,000 to fund eligible costs related to the acquisition, rehabilitation, and resale of at least five residential properties in the Greenbrook Tanglewood area of Hanover Park, Illinois. A portion of eligible costs were incurred during the current year. No revenue was recognized under this grant for the years ended June 30, 2023 and 2022.

Habitat for Humanity – CSS

Funding from Cook County, Illinois

Habitat – CSS has been selected by Cook County, Illinois (“County”) to act as a developer to acquire and rehabilitate eligible abandoned and foreclosed single family homes under a NSP and HOME funded by the HUD. Homes acquired and rehabilitated under these awards are then generally sold by Habitat – CSS to qualifying low-income individuals under Habitat – CSS’s normal terms and conditions. Habitat – CSS receives NSP and HOME funds from the County as it incurs eligible costs. Habitat – CSS then executes notes to the County as the NSP and HOME funds are received. These funds are recorded as refundable advances in the statement of financial position. The County releases Habitat – CSS from these notes when the related homes are sold by Habitat – CSS and the associated refundable advances is generally recognized as revenue with donor restriction. If the homes are sold to qualified low-income individuals, the homeowners execute non-interest-bearing first mortgages to Habitat – CSS at the time they purchase the homes. The amount of the first mortgage is determined by Habitat – CSS such that, when considering real estate taxes and insurance, the required mortgage payment is affordable to the homeowner in accordance with Habitat – CSS’s mission.

The Homeowners also execute two second mortgages, equal in amount, to Habitat – CSS and the County, which in the aggregate, equal the difference between the actual cost of the home and the sum of the first mortgage and the down payment. The second mortgages are also non-interest-bearing and are payable only if certain events occur in the future.

For homes sold to qualified low-income individuals, all amounts paid by the homeowners to Habitat – CSS for their mortgages are considered NSP and HOME income and are retained by Habitat – CSS with the restriction that such amounts be used by Habitat – CSS for other eligible NSP and HOME activity in the County. Upon sale of the home, a portion of the NSP and HOME awards (the carrying amount of the first mortgage on NSP and HOME projects and any payments received under mortgages related to NSP and HOME projects) continues to be reflected as net assets with donor restrictions until such time those amounts are depleted for other eligible NSP and HOME activities in the County. The NSP and HOME funding is not designed to be a recurring government program and Habitat – CSS may not receive any future grants under this program beyond those described above.

If there are insufficient qualified buyers for homes available, Habitat – CSS may sell the rehabilitated homes to non-qualified buyers. If the house is sold at a price below the eligible costs incurred and capitalized, any proceeds received at closing are remitted to the County. Any refundable advance associated with the respective home is forgiven by the County and offset with the eligible capital costs. If the house is sold at a price above the eligible costs incurred, Habitat – CSS is obligated to remit proceeds up to the associated refundable advance for that house to the County. The gain would be recognized as revenue with donor restrictions for further reinvestment into the NSP. Additionally, the refundable advance would be offset with capitalized costs associated with the house. No homes were sold to qualified buyers for the years ended June 30, 2023 and 2022.

DuPage Habitat for Humanity, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 13 FEDERAL AND LOCAL GOVERNMENT GRANTS (continued)

Illinois Department of Commerce and Economic Opportunity Funding

In May of 2013, Habitat – CSS received an Illinois Department of Commerce and Economic Opportunity (“DCEO”) grant from the Illinois Facilities Fund (“IFF”) to acquire, develop, and sell homes in Park Forest and Lansing, Illinois, under the Illinois Disaster Recovery Program (“IDRP”). Properties acquired must be vacant structures and are subject to prior approval by the sub-grantee. Homes acquired and rehabilitated under this award are then generally sold by Habitat – CSS to qualifying low-income individuals under Habitat – CSS’s normal terms and conditions. Habitat – CSS receives IDRP funds from the IFF as it incurs eligible costs. All funds received from IFF are in the form of a construction loan that is forgiven upon sale of the eligible property to qualifying low-income individuals. As such, all amounts received are recorded as refundable advances in the statement of financial position until such time the homes are sold. Habitat – CSS had no such refundable advances at June 30, 2023 or 2022. If a house is sold at a price above the eligible costs incurred, Habitat – CSS is obligated to remit sales proceeds up to the associated refundable advance for that house to the IFF.

Note 14 HOME SALES

Beginning in the year ended June 30, 2018, a financial institution assumes the first mortgage on homes sold by the Organization. The first mortgage amount is based on a front-end ratio of 30%. The front-end ratio is calculated by dividing mortgage-related costs (principal, interest, property taxes and insurance) by gross monthly household income. The purchase price is based upon appraised value. The Organization issues a second and sometimes a third mortgage to the homeowner on these properties. The amount of the second mortgage is the difference between the appraised value and the sum of the first mortgage, held by the financial institution, and the third mortgage held by the Organization. The second mortgage is interest free and is payable upon satisfaction of the first mortgage, unless a portion has been forgiven, which is based on the original mortgage date. The fair value of the second mortgage was determined by discounting the mortgage payments using the interest rate on the first mortgage issued by the financial institution. The third mortgage is equal to the interest owed to the financial institution over the life of the first mortgage, with the amount owed on the third mortgage reduced proportionately over the life of the first mortgage as payments are made.

Previously, the Organization recognized revenue from the sale of its homes at the fair value of the first mortgages it received plus the required down payments. The first mortgages issued by the Organization to the homeowners were non-interest-bearing and required monthly payments, typically over a 30-year period. The amount of a first mortgage was determined by the Organization such that, when considering real estate taxes and insurance, the required mortgage payment was affordable to the homeowner in accordance with the Organization’s policies. The fair value of the first mortgage was determined by discounting the mortgage payments using an interest rate that approximates a current market rate of interest for such a mortgage instrument.

The sales price is the appraised value at the time of sale. The Organization determines the amount of the first mortgage based on the partner family’s ability to pay, and a second mortgage is entered into for the difference. The Organization sold five homes in the current year with a fair value of \$1,225,000. The Organization took second mortgages on all four of the properties, for a gross amount of \$367,086 and a recorded balance of \$72,010. For the year ended June 30, 2022, the Organization sold five homes with a fair value of \$1,340,000; the Organization took second mortgages on all five of the properties, for a gross amount of \$483,564 and a recorded balance of \$155,605.

DuPage Habitat for Humanity, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 15 OPERATING LEASES

On March 1, 2011, the Organization commenced a lease for its office space located at 1600 East Roosevelt in Wheaton, Illinois, with a related party, Home Together, LLC (see Note 18 for information about the formation and mission of Home Together, LLC). The Organization's monthly rent is set annually by the Board of Managers of Home Together, LLC at an amount that approximates 50% of the projected operating costs of Home Together, LLC. Office space rent expense was \$42,000 for each of the years ended June 30, 2023 and 2022.

In May 2018, Home Together, LLC entered a lease for additional space at 1616 East Roosevelt Road in Wheaton, Illinois. The lease initially ran from May 4, 2018 through May 3, 2021, and the expense was included in the amount in the paragraph above. Under a new lease, dated May 4, 2021, and running from May 4, 2021 through May 31, 2023, DHFH replaced Home Together, LLC as the lessee. Lease expense for DHFH under the lease for the years ended June 30, 2023 and 2022 was \$28,607 and \$28,992, respectively. Minimum future lease payments are \$29,713 in 2024.

The Organization leases retail space for its operations at 869 South Route 53 in Addison, Illinois, under an operating lease with an original expiration date of February 28, 2016, that was amended from time to time to extend the lease through February 28, 2027. Rent for the years ended June 30, 2023 and 2022 was \$199,985 and \$219,349, respectively. Minimum future lease payments are \$186,317 for the fiscal year ending June 30, 2024.

The Organization entered into a six-month lease on January 21, 2019 for retail space in Downers Grove, Illinois, that was subsequently extended through March 31, 2022. Monthly rent expense under the term of this lease was \$3,500, except that at the time the extension was signed in September 2019, only one payment of \$3,500 was required for the period September 15, 2019 through October 31, 2019. Effective November 1, 2019, payments resumed at \$3,500 per month. Lease expense was \$31,500 for the year ended June 30, 2022. The lease was not renewed at March 31, 2022.

The Organization entered into a lease for a copy machine in January 2019 expiring in December 2023 that was subsequently extended through October 31, 2028. Monthly payments under the lease total \$605, increasing to \$649 beginning in November 2023. Rent expense for each of the years ended June 30, 2023 and 2022 was \$7,260. Minimum future lease payments are \$7,612 for the fiscal year ending June 30, 2024.

On May 5, 2017, Habitat – CSS entered into an agreement to lease office space in Frankfort, Illinois, effective June 1, 2017. The original term of this agreement was through June 30, 2019, has been extended after that date and is on a month-to-month basis since November 2021. Base rental expense for this lease totaled \$7,718 for the year ended June 30, 2022. The lease was terminated for the year ended June 30, 2022. Habitat – CSS also leases transportation equipment under a lease that has been extended through November 30, 2025 at a rate of \$1,104 per month.

In addition to a right of use lease asset for \$824,070 (all of which is for operating leases), the following summarizes the line items in the balance sheet which include amounts for operating leases:

	2023
Current portion of lease liability	\$ 214,233
Non-current portion of operating lease liability	638,474
Operating lease liability	<u>\$ 852,707</u>

The components of operating lease expenses that are included in "General and administrative" expenses in the consolidated statement of operations were as follows:

DuPage Habitat for Humanity, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 15 OPERATING LEASES (continued)

	<u>2023</u>
Operating lease costs	\$ 229,704
Variable lease costs	69,914
Short-term lease costs	-
	<u>\$ 299,618</u>

The following summarizes the cash flow information related to operating leases:

	<u>2023</u>
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows for operating leases	<u>\$ 299,618</u>

Weighted average lease term and discount rate for operating leases were as follows:

	<u>2023</u>
Weighted average remaining lease term	3.96 years
Weighted average discount rate	2.53%

The maturities of operating lease liabilities as of June 30, 2023, were as follows:

2024	\$ 245,430
2025	284,111
2026	292,660
2027	193,209
2028	47,741
Thereafter	28,605
Total payments*	<u>\$ 1,091,756</u>

*Includes leases entered into post year end.

Note 16 RENTAL PROPERTY

Habitat – CSS constructed a large home for a family of nineteen individuals which was not within the normal scope of the Habitat – CSS mission. Because of the unusual nature of this house and the personal financial plight of the family, Habitat – CSS retained ownership of the home and has rented it to the family. Gross rents received for the years ended June 30, 2023 and 2022 totaled \$20,328 and \$19,195, respectively. The building and related costs, reported as property and equipment on the statement of financial position, are being depreciated over 30 years and have a net book value of \$13,610 and \$17,940 at June 30, 2023 and 2022, respectively. Habitat – CSS also substantially maintains the property. Depreciation expense, included in total depreciation expense, for the rental property was \$4,330 and \$4,330 for the years ended June 30, 2023 and 2022, respectively.

DuPage Habitat for Humanity, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 17 RELATED PARTY TRANSACTIONS

The Organization annually remits a portion of its contributions (excluding in-kind contributions) to HFHI. These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2023 and 2022, the Organization made contributions of \$109,682 and \$86,278, respectively, earmarked for the Orphans and Vulnerable Groups Fund, the Global Mission Fund, and the Dominican Republic.

During the year ended June 30, 2023, the Organization received grant funds, contributions, and pass-through funds from HFHI and Chicagoland Habitat for Humanity for unrestricted support, build days support, Stewardship and Organizational Sustainability Initiative ("SOSI") fee support, and other support totaling \$450,907 (\$437,085 – none of which was for Illinois Housing Development Authority ("IHDA") tax credits – during the year ended June 30, 2022).

During 2011, the Organization borrowed \$249,900 from HFHI, securing the loan by pledging mortgages receivable. The loan was refinanced through proceeds from an additional note through HFHI totaling \$400,300 during the year ended June 30, 2016. Refer to Note 11 for further information.

Note 18 HOME TOGETHER, LLC

During the year ended June 30, 2011, DHFH and DuPage Home Ownership Center ("DHOC") formed Home Together, LLC to jointly acquire office space for themselves in DuPage County, Illinois. On February 13, 2012, Home Together, LLC received a notice from the Internal Revenue Service that it is a 501(c)(3) organization. Home Together, LLC will administer, operate and oversee the use and management of the property, including, without limitation, leasing office space to member organizations, repairing, and maintaining the property. Each member has equal membership interest and is entitled to appoint three managers of the Company.

Home Together, LLC has acquired the property located at 1600 East Roosevelt Road in Wheaton, Illinois for \$625,000. This purchase was funded through a CDBG grant received from HUD in the amount of \$566,888 and a loan from West Suburban Bank in the amount of \$70,000. The grant is in the form of a 20-year non-interest-bearing loan that will be forgiven after 20 years as long as the Organization, Home Together, LLC, and DHOC have complied with the terms of the grant. Specifically, the grant requires that any real property acquired using the grant funds be used to benefit low- and moderate-income persons for the 20-year term of the forgivable loan. The Organization, DHOC, and Home Together, LLC are jointly obligated for the forgivable loan. The promissory note with West Suburban Bank had a term of five years, a maturity date of March 2016, and a fixed interest rate at 4.25%. Principal was being paid monthly as if the loan was amortized over 20 years, with the balance of the loan due in March of 2016. Effective November 1, 2015, the note was amended increasing the interest rate to 5.25% and extending the maturity date to October 1, 2025. The outstanding balance on the loan was \$16,288 and \$28,786 at June 30, 2023 and 2022, respectively.

Note 19 PRIOR YEAR RESTATEMENTS

As a result of the 2023 audit procedures, it became evident that the amount recorded as second mortgages receivable had been recorded inconsistent with GAAP. Certain of the mortgages were recorded at the full receivable amount and certain were not recorded. In accordance with GAAP, the second mortgages should be recorded at the net present value of the expected amount to be received upon the sale of the property to a third party. The discounted balance at the date of the initial sale to the partner family is accreted at the estimated mortgage rate at the time of sale through the estimated retention period, net of any potential loan forgiveness.

In addition, it became evident that certain transactions related to ReStore's inventory were not recorded properly for the year ended June 30, 2022, requiring an adjustment to state the balance accurately as of that date.

DuPage Habitat for Humanity, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 19 PRIOR YEAR RESTATEMENTS (continued)

The consolidated financial statements for the year ended June 30, 2022 have been restated to reflect the above information, and prior period adjustments were recorded for the year ended June 30, 2022. The effects on the financial statements are as follows:

	<u>As Previously Reported</u>	<u>Prior Period Adjustment</u>	<u>As Restated</u>
June 30, 2021:			
Net mortgages receivable	\$ 73,948	\$ 628,337	\$ 702,285
Total net assets	6,348,045	628,337	6,976,382
June 30, 2022:			
Statement of Financial Position:			
Assets:			
Inventory - ReStore	285,371	(109,236)	176,135
Net mortgages receivable	2,969,515	509,062	3,478,577
Total assets	12,381,790	399,826	12,781,616
Net assets:			
Without donor restrictions	6,892,948	865	6,893,813
Total net assets	10,174,037	399,828	10,573,865
Statement of Activities:			
Revenues, gains, and other support:			
Home sales	1,863,816	(172,017)	1,691,799
Mortgage discount amortization	292,589	52,742	345,331
Total public support and revenue, without donor restrictions	10,802,169	709,659	11,511,828
Expenses:			
Cost of goods sold	2,092,526	104,192	2,196,718
Change in net assets:			
Without donor restrictions	2,048,175	(228,507)	1,819,668

Note 20 RECENT ACCOUNTING STANDARDS

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): *Measurement of Credit Losses on Financial Instruments*. Under its core principle, entities will be required to recognize an allowance for credit losses for the difference between the amortized cost basis of a financial instrument and the amount of amortized cost that the Organization expects to collect over the instrument's contractual life. The new standard will be effective for the fiscal year ended June 30, 2024.

DuPage Habitat for Humanity, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 21 SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 4, 2024, the date which the financial statements were available to be issued. No events or items have occurred that would require disclosure or accrual in the financial statements.