

**HABITAT FOR HUMANITY
SEATTLE-KING COUNTY AND AFFILIATES**

Consolidated Financial Statements and
Single Audit Reports

For the Year Ended June 30, 2022

Table of Contents

	Page
Independent Auditor's Report	1 - 3
Consolidated Financial Statements:	
Consolidated Statement of Financial Position	4 - 5
Consolidated Statement of Activities	6
Consolidated Statement of Functional Expenses	7
Consolidated Statement of Cash Flows	8
Notes to Consolidated Financial Statements	9 - 25
Supplementary Information:	
Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	26 - 27
Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditure of Federal Awards Required by the Uniform Guidance	28 - 30
Schedule of Expenditures of Federal Awards	31
Notes to Schedule of Expenditures of Federal Awards	32 - 33
Schedule of Findings and Questions Costs	34 - 35
Management's Corrective Action Plan	
Summary Schedule of Prior Year Audit Findings	

Independent Auditor's Report

**To the Board of Directors
Habitat for Humanity Seattle-King County and Affiliates
Renton, Washington**

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Habitat for Humanity Seattle-King County and Affiliates (Habitat), which comprise the consolidated statement of financial position as of June 30, 2022, 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 accompanying financial statements present fairly, in all material respects, the financial position of Habitat as of June 30, 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Habitat 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.

Report on Summarized Comparative Information and Prior Period Restatement

We have previously audited Habitat's June 30, 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 19, 2021. As discussed in Note 16 to the financial statements, the 2021 financial statements have been restated to correct a misstatement. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, as restated is consistent, in all material respects, with the audited financial statements from which it has been derived.



T: 425-454-4919
T: 800-504-8747
F: 425-454-4620

10900 NE 4th St
Suite 1400
Bellevue WA
98004

clarknuber.com



Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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



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

OTHER MATTERS

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2022, on our consideration of Habitat's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Habitat's internal control over financial reporting and compliance.

Clark Nuber P.S.

Certified Public Accountants
October 18, 2022

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES

Consolidated Statement of Financial Position - Assets
June 30, 2022 (With Comparative Totals for 2021)

	2022	2021 As Restated (Note 16)
Assets		
Current Assets:		
Cash and cash equivalents	\$ 6,273,472	\$ 1,505,453
Restricted investments	13,752	13,724
Inventory held for sale- Habitat Store	938,415	676,553
Grants and other receivables	213,641	30,491
Pledges receivable	470,914	1,139,529
Mortgage notes receivable, unpledged	542,391	553,158
Mortgage notes receivable, pledged	629,451	781,914
Prepaid expenses and other	211,079	199,860
Total Current Assets	9,293,115	4,900,682
Noncurrent Assets:		
Restricted cash	761,244	666,976
Pledges receivable, net of current portion	353,495	523,633
Mortgage notes receivable, unpledged, net of discount and current portion	5,552,871	6,135,018
Mortgage notes receivable, pledged, net of discount and current portion	4,280,330	4,717,252
Construction in progress	25,772,766	18,706,343
Land leased to homeowners	17,505,038	13,919,474
Property and equipment, net	596,814	566,025
Investment in new markets tax credit leveraged lender	2,358,343	
Investments in leased property, net of accumulated amortization	35,283	39,083
Deposits and other	221,075	65,671
Total Noncurrent Assets	57,437,259	45,339,475
Total Assets	\$ 66,730,374	\$ 50,240,157

See accompanying notes.

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES

Consolidated Statement of Financial Position - Liabilities
June 30, 2022 (With Comparative Totals for 2021)

	2022	2021 As Restated (Note 16)
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 862,944	\$ 830,642
Accrued expenses	435,678	487,909
Secured borrowings	629,451	781,914
Notes payable	150,929	146,952
Total Current Liabilities	2,079,002	2,247,417
Noncurrent Liabilities:		
Deferred rent	184,240	160,716
Deferred interest	127,015	127,015
Other noncurrent liabilities	151,567	
Secured borrowings, net of discount and current portion	4,538,281	5,026,747
Notes payable, net of current portion	23,493,238	14,519,944
Total Noncurrent Liabilities	28,494,341	19,834,422
Total Liabilities	30,573,343	22,081,839
Net Assets:		
Without donor restrictions	34,443,980	25,789,768
With donor restrictions	1,713,051	2,368,550
Total Net Assets	36,157,031	28,158,318
Total Liabilities and Net Assets	\$ 66,730,374	\$ 50,240,157

See accompanying notes.

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES

Consolidated Statement of Activities
For the Year Ended June 30, 2022 (With Comparative Totals for 2021)

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 As Restated (Note 16)
Support and Revenue:				
Contributions	\$ 11,413,227	\$ 1,238,684	\$ 12,651,911	\$ 5,271,135
Grants		317,521	317,521	481,888
In-kind materials donated for resale	4,360,040		4,360,040	3,327,393
In-kind donations for office and construction	42,975		42,975	3,222,957
Contribution related to affiliation with not-for-profit entity				405,754
Sales of homes	10,665,420		10,665,420	1,767,468
Other income	101,195		101,195	217,726
Mortgage note discount amortization	785,375		785,375	732,045
Habitat store income	5,114,964		5,114,964	4,105,534
Repair and rehabilitation income	38,100		38,100	40,542
Net assets released from restriction	2,211,704	(2,211,704)		
Total Support and Revenue	34,733,000	(655,499)	34,077,501	19,572,442
Expenses:				
Program services	22,727,866		22,727,866	12,387,653
Management and administration	1,957,498		1,957,498	1,210,151
Fundraising	1,393,424		1,393,424	1,217,528
Total Expenses	26,078,788		26,078,788	14,815,332
Change in Net Assets	8,654,212	(655,499)	7,998,713	4,757,110
Net assets, beginning of year	25,789,768	2,368,550	28,158,318	23,401,208
Net Assets, End of Year	\$ 34,443,980	\$ 1,713,051	\$ 36,157,031	\$ 28,158,318

See accompanying notes.

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES

**Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2022 (With Comparative Totals for 2021)**

	Program Services	Management and Administration	Fundraising	2022 Total	2021 Total
Cost of homes sold	\$ 9,280,158	\$ -	\$ -	\$ 9,280,158	\$ 1,350,439
Salaries and wages	3,727,815	957,726	531,862	5,217,403	3,874,755
Cost of goods sold	4,648,371			4,648,371	3,678,869
Rent and occupancy	1,243,653	39,318	33,935	1,316,906	1,027,117
Payroll taxes and benefits	991,139	199,284	92,310	1,282,733	933,635
Other miscellaneous costs	463,156	317,411	88,634	869,201	534,031
Program and house building costs	434,860			434,860	684,916
Computer hardware and software	231,150	27,220	67,445	325,815	213,528
Public relations and marketing	69,413	2,991	225,629	298,033	145,398
Professional fees and consulting	114,395	116,398	64,230	295,023	193,598
Mortgage and pledge discounts	272,692			272,692	342,345
Utilities	244,518	10,499	5,670	260,687	219,497
Vehicle expense and repairs	243,445	916	3,622	247,983	165,154
Contract labor	113,162	94,476		207,638	462,555
Depreciation and amortization	186,455	15,087	5,280	206,822	174,507
Special events		3,025	203,645	206,670	141,269
Credit card processing fees	135,627	109	53,633	189,369	175,077
Interest	6,860	154,734		161,594	169,024
Americorps and vista fees	113,827			113,827	110,672
Tithe to overseas construction	100,000			100,000	100,000
Supplies	63,612	6,173	7,484	77,269	82,993
Training and travel	36,269	12,131	8,545	56,945	13,924
Grants to others	7,289		1,500	8,789	22,029
Total Expenses	\$ 22,727,866	\$ 1,957,498	\$ 1,393,424	\$ 26,078,788	\$ 14,815,332

See accompanying notes.

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES

**Consolidated Statement of Cash Flows
For the Year Ended June 30, 2022 (With Comparative Totals for 2021)**

	2022	2021 As Restated (Note 16)
Cash Flows From Operating Activities:		
Change in net assets	\$ 7,998,713	\$ 4,757,110
Adjustments to reconcile change in net assets to net cash used by operating activities-		
Depreciation and amortization	206,822	174,507
Gain on disposal of equipment	(4,800)	(186,108)
Discounts on mortgages	(323,028)	(389,699)
In-kind contributions related to affiliation with not-for-profit entity		(120,791)
Changes in assets and liabilities:		
Inventory held for sale- Habitat store	(261,862)	(159,943)
Grants and other receivables	(183,150)	(16,786)
Pledges receivable, net	838,753	(1,014,914)
Construction in progress	(10,311,987)	(12,617,333)
Prepaid expenses and other	(166,651)	(20,443)
Deferred rent	23,524	(7,749)
Accounts payable	32,302	537,368
Deferred interest		63,370
Other noncurrent liabilities	151,567	
Accrued expenses	(52,231)	216,695
Net Cash Used by Operating Activities	(2,052,028)	(8,784,716)
Cash Flows From Investing Activities:		
Proceeds from receipts on unpledged mortgages	864,398	695,402
Proceeds from receipts on pledged mortgages	1,105,099	1,057,489
Proceeds from sale of property and equipment	4,800	358,751
Purchases of property and equipment	(233,811)	(345,480)
Purchase of investment in new markets tax credit leveraged lender	(2,358,343)	
Net Cash (Used in) Provided by Investing Activities	(617,857)	1,766,162
Cash Flows From Financing Activities:		
Payment of loan fees	(198,488)	
Payments on secured borrowings	(1,105,099)	(1,057,489)
Proceeds from notes payable	8,982,741	7,041,752
Repayment on notes payable	(146,982)	(306,398)
Net Cash Provided by Financing Activities	7,532,172	5,677,865
Net Change in Cash and Cash Equivalents	4,862,287	(1,340,689)
Cash and cash equivalents, beginning of year	2,172,429	3,513,118
Cash and Cash Equivalents, End of Year	\$ 7,034,716	\$ 2,172,429
Supplemental Cash Flow Information:		
Cash and cash equivalents	\$ 6,273,472	\$ 1,505,453
Restricted cash	761,244	666,976
Cash and Restricted Cash Per Cash Flow Statement	\$ 7,034,716	\$ 2,172,429
Supplemental information:		
Property, plant and equipment and mortgages receivable acquired through contribution	\$ -	\$ 276,102
Debt assumed as part of acquisition of construction in progress	\$ 340,000	\$ 142,282

See accompanying notes.

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2022 (With Comparative Totals for 2021)

Note 1 - Organization and Significant Accounting Policies

Organization - Habitat for Humanity Seattle-King County (Habitat) is an affiliate of Habitat for Humanity International, Inc. (HFHI), a nonprofit organization whose purpose is to create decent affordable housing for those in need, and to make decent shelter a matter of conscience with people everywhere. Although HFHI assists with information resources, publications, and training, Habitat is directly responsible for its own operations. Habitat is committed to neighborhood revitalization across King County using a community engagement model that utilizes volunteer labor and donated materials, in addition to paid services and materials. As part of neighborhood revitalization, Habitat builds houses that are sold to qualified homebuyers. Prospective homeowners are required to participate in the construction of homes.

Principles of Consolidation - The accompanying financial statements consolidate the statements of Habitat for Humanity Seattle-King County, HFHSC Community Housing Development Organization, La Fortuna Holding LLC, Kittitas Cty Habitat for Humanity LLC, 410 11th Ave East LLC, 7750 28th Ave LLC, 712 South Donovan LLC, 250 East 2nd Street LLC, 2117 SW Trenton St LLC, 511 S 136th St LLC, 1627 14th Ave LLC, 9021 15th Ave SW LLC, 113 W Bender Road LLC, and 5022 MLK Jr Way S LLC (collectively, the Organization). Transactions and accounts between entities have been eliminated in consolidation.

Habitat formed HFHSC Community Housing Development Organization (the CHDO) for the purpose of supporting the development and management of housing for low-income residents of King County. These statements consolidate the accounts of the CHDO because Habitat is its sole member.

Habitat formed La Fortuna Holding LLC for the purpose of carrying on the business of ground leasing, owning, managing, and selling real property assets, and to form and act as declarant of one or more condominiums. These statements consolidate the accounts of La Fortuna Holding LLC because Habitat is its sole member.

Kittitas County Habitat for Humanity affiliated with Habitat for Humanity Seattle-King County resulting in Habitat for Humanity Seattle-King County becoming the sole member. These statements consolidate the accounts of Kittitas County Habitat for Humanity because Habitat is its sole member. During the year ended June 30, 2022 Kittitas County Habitat for Humanity was dissolved and the assets were transferred to a newly formed Kittitas Cty Habitat for Humanity LLC. The accounts of Kittitas Cty Habitat for Humanity LLC are consolidated in these statements as Habitat is the sole member.

Habitat formed 410 11th Ave East LLC, 7750 28th Ave LLC, 712 South Donovan LLC, 250 East 2nd Street LLC, 2117 SW Trenton St LLC, 511 S 136th St LLC, 1627 14th Ave LLC, 9021 15th Ave SW LLC, 113 W Bender Road LLC, and 5022 MLK Jr Way S LLC as single member LLCs for the purpose of acquiring land and developing low-income housing. The accounts of each LLC is consolidated in these statements as Habitat is the sole member of each LLC.

Basis of Presentation - Accounting principles generally accepted in the United States of America require nonprofit entities to report information regarding their financial position and activities according to two classes of net assets: net assets with donor restrictions, and net assets without donor restrictions.

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled or both.

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2022 (With Comparative Totals for 2021)

Note 1 - Continued

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor-stipulation or by law. Expirations of net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Donor-restricted contributions are recorded as activity of net assets with donor restrictions and a release of restriction when the restriction is met.

Cash and Cash Equivalents - All cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, are considered cash and cash equivalents. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

Restricted Cash - Some cash is restricted for program use in compliance with loan or other requirements, and cannot be used for most general operations (Note 3).

Inventory Held for Sale - Habitat Stores - Habitat Stores (the Stores) inventory includes furniture, household items, and other materials used for re-sale and operations at the Stores. For the year end June 30, 2021 Habitat estimated the value of donated inventory items are at fair value as determined by management using net sales of the month subsequent to year end, based on an estimated inventory turnover rate of 12 times annually. For the year end June 30, 2022 Habitat estimated the value of donated inventory items are at fair value as determined by management using one and half times net sales of the month subsequent to year end, based on an estimated inventory turnover rate of 8 times annually. Purchased inventory is stated at the lower of cost (retail method) or market. Construction inventory was not material. Inventory held for sale at June 30, 2022 and 2021 was \$938,415 and \$676,553, respectively. Of the total inventory held for sale at June 30, 2022 and 2021 was \$374,309 and \$287,489, respectively, was purchased.

Fixed Assets - Fixed assets are carried at cost, if purchased, or fair value at the time of donation, if donated. Habitat capitalizes all expenditures for fixed assets in excess of \$5,000. Depreciation is computed using the straight-line method over the estimated useful lives ranging from 3 to 27 1/2 years. Habitat reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable.

If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. No impairment loss was recognized in the current period.

Land Leased to Homeowners - Land leased to homeowners represents the intangible asset associated with ground lease agreements. The ground lease is recognized at fair value which is estimated at the difference between the sales price of the property less the cash consideration received. The ground lease is documented with a Deed of Trust and associated Promissory Note for the value that is booked. Land leased to homeowners are tested for impairment whenever events or circumstances indicate that the carrying amount of an asset or asset group may not be recoverable

Investment in New Markets Tax Credit Leveraged Lender - Habitat acquired an investment in a limited liability company, in conjunction with the New Markets Tax Credit financing, without a readily determinable fair value, and over which Habitat does not have significant influence, which is reported at the lower of cost or impaired cost, plus or minus changes in fair value as a result of observable price changes that occur in orderly transactions for identical or similar investments of the same issuer.

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2022 (With Comparative Totals for 2021)

Note 1 - Continued

Revenue and Cost Recognition -

Sales of Homes - At the point in time when closing conditions are met to deliver a completed home to a qualified buyer, the sale is recorded as revenue and the cost of the home is recorded as program services expense on the accompanying statement of activities. Currently buyers obtain loans from banks with whom Habitat works to facilitate the arrangement of mortgages for the home buyers. In prior years, Habitat financed the purchase of homes by offering no-interest loans to qualified, low-income homeowners secured by a deed of trust on the related property. At the time of sale, Habitat recognized revenue and the related mortgages receivable. In accordance with generally accepted accounting principles, revenue is recognized by discounting the future payments to be received from the homeowners using an interest rate based on term loans collateralized by mortgages receivable.

To promote current and future affordability to homeowners arising from disparities in land values, Habitat currently retains title to some of the underlying land. In the past, some sales included the land. Currently, Habitat retains control of the land through a long-term land lease arrangement with the homeowners. Concurrent with the recognition of the sale, the difference between the properties' sales price and cash consideration received upon the sale is recognized as an intangible asset "land leased to homeowners" on the accompanying statement of financial position.

Habitat Store Income - Habitat sells donated and purchased goods at Habitat Stores. Revenue is recognized at the point in time the good is transferred to the customer. Payment is collected from the customer when the sale occurs.

Grants and Contributions - Grants and contributions from United States agencies, foundations and public and private funders are recognized as revenue when the donor-imposed conditions, if any, have been met.

Expenses - The costs of providing program services and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited. Those expenses include occupancy and information technology expenses. Occupancy is allocated based on a square footage basis and information technology expenses are allocated based on the headcount supporting each function. Program services include construction, home repairs, family support, volunteer management, and Habitat Stores operations. The cost of home building is charged to program services as homes are sold.

In-Kind Donations for Office and Construction - Habitat receives significant donated services from unpaid volunteers who assist in home building and administrative tasks. Donated services are recorded at fair value if they create or enhance nonfinancial assets or if they consist of specialized skills that would have to be purchased if they were not donated. During the years ended June 30, 2022 and 2021, respectively, volunteers contributed 31,834 and 20,595 hours of labor which have not been recorded in the financial statements since this labor did not require a specialized skill (unaudited). Further, Habitat receives donated goods and real property associated with construction activities, which are recognized at fair value based upon appraisals obtained or market price analysis.

In-Kind Materials Donated for Resale - Habitat estimates the value of donated goods received based upon net revenues generated from the sales of the donated goods. Using this method, management has estimated that the value of all goods donated to Habitat throughout the year is equal to the revenue realized by the sale of these goods plus the ending inventory less the beginning inventory. The total estimated value of items donated to the stores for the years ended June 30, 2022 and 2021 was \$4,360,040 and \$3,327,393, respectively.

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2022 (With Comparative Totals for 2021)

Note 1 - Continued

Comparative Financial Information - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Habitat's financial statements for the year ended June 30, 2021, from which the summarized information was derived.

Equity Agreements - Certain completed homes were sold to beneficiary homeowners at cost when possible, but in all cases at or below appraised value. Habitat obtained a deed of trust for any difference between the agreed-upon purchase price and the current fair value of the property. This difference (referred to as "the equity") is payable to Habitat should the homeowner sell the property. However, the equity accrues to the benefit of the homeowner ratably over the life of the mortgage, as long as the homeowner continues to occupy the property as primary residence and maintains the property in good condition. The equity agreements are not reflected in the financial statements. During the year ended June 30, 2022, no significant equity from those agreements was paid to Habitat.

Income Taxes - Habitat for Humanity Seattle-King County, Kittitas County Habitat for Humanity and the CHDO received exemption from federal income tax under section 501(c)(3) of the Internal Revenue Code. Habitat's wholly owned subsidiaries, La Fortuna Holding LLC, 410 11th Ave East LLC, 7750 28th Ave LLC, 712 South Donovan LLC, 250 East 2nd Street LLC, 2117 SW Trenton St LLC, 511 S 136th St LLC, 1627 14th Ave LLC, 9021 15th Ave SW LLC, 113 W Bender Road LLC, Kittitas Cty Habitat for Humanity LLC, and 5022 MLK Jr Way S LLC are disregarded entities for tax purposes. Habitat qualifies for the charitable contribution deduction under section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private foundation under section 509(a)(1). Habitat's income tax filings are subject to examination by various taxing authorities.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Reclassifications of Prior Year Balances - Certain reclassifications have been made to prior year accounts to conform to the presentation in the current year financial statements. The reclassifications have no effect on the previously reported change in net assets or net asset balances.

Note 2 - Liquidity and Availability

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

	2022	2021 As Restated (Note 16)
Cash and cash equivalents	\$ 6,273,472	\$ 1,505,453
Accounts and other receivables	213,641	30,491
Pledges receivable, current portion	470,914	1,139,529
Mortgages receivable, unpledged, current portion	542,391	553,158
	<u>\$ 7,500,418</u>	<u>\$ 3,228,631</u>

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2022 (With Comparative Totals for 2021)**

Note 2 - Continued

Habitat receives contributions and promises to give restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures.

As part of the Habitat’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, Habitat has a committed line of credit.

Note 3 - Restricted Cash and Investments

Cash received from principal payments from mortgages receivable on homes sold in both the Kent and Federal Way Neighborhood Stabilization Programs is restricted to program activities (Note 15). Habitat also maintains a restricted cash account as required by SHOP grants. The balance of the account was \$500 at June 30, 2022 and 2021.

Habitat maintains an assigned certificate of deposit as required by the Washington State Department of Labor and Industries in lieu of a bond for Habitat's contractor license. The value of the certificate of deposit was \$13,752 at June 30, 2022 and 2021.

Note 4 - Pledges Receivable

Pledges receivable consist of unconditional promises to give. A discount has not been provided for pledges that are expected to be realized in a time frame greater than one year since the amount is considered immaterial. An allowance for uncollectible pledges represents management's estimate of losses inherent in promises to give. No allowance was considered necessary at June 30, 2022 or 2021. The balance of pledges receivable was \$824,409 and \$563,162 at June 30, 2022 and 2021, respectively.

Pledges receivable at June 30, 2022, are expected to be received in the years ending June 30 as follows:

For the Year Ending June 30,	
2023	\$ 470,914
2024	285,450
2025	68,045
	<hr/>
	\$ 824,409
	<hr/>

Note 5 - Mortgage Notes Receivable

As part of Habitat's efforts to foster affordability, Habitat homeowner mortgages do not bear interest. Such noninterest-bearing mortgages are secured by homes sold. U.S. GAAP requires that interest be imputed on below-market interest instruments. The effect is to discount each note with an offsetting charge to program expense. The discount is then amortized over the life of each note as income.

The resulting carrying value of the mortgages approximates fair value. The notes are due upon the earlier of the sale of the home, refinance or at maturity. Uncollectible notes are expected to be insignificant; accordingly no provision for doubtful accounts has been included in the financial statements.

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2022 (With Comparative Totals for 2021)**

Note 5 - Continued

Unpledged notes at June 30, 2022 and 2021, have been discounted at an average rate of 4.66% and 4.85%, respectively:

	<u>2022</u>	<u>2021</u>
Face value	\$ 8,992,484	\$ 10,041,179
Less discount	<u>(2,897,222)</u>	<u>(3,353,003)</u>
	<u>\$ 6,095,262</u>	<u>\$ 6,688,176</u>

Those notes pledged by Habitat to banks and credit unions have been transferred with recourse. Because the notes were transferred with recourse, Habitat accounts for transactions related to the notes in accordance with FASB Accounting Standards Codification Topic 860, *Accounting for Transfers and Servicing of Financial Assets*, whereby the transferor and transferee account for the transfer as a secured borrowing with a pledge of collateral. See discussion of the related liability in Note 8.

Pledged notes at June 30, 2022 and 2021, have been discounted at an average rate of 5.91% and 5.95%, respectively:

	<u>2022</u>	<u>2021</u>
Face value	\$ 6,864,344	\$ 7,783,322
Less discount	<u>(1,954,563)</u>	<u>(2,284,156)</u>
	<u>\$ 4,909,781</u>	<u>\$ 5,499,166</u>

Maturities on mortgage notes receivable for the years subsequent to June 30, 2022, are as follows:

For the Year Ending June 30,

2023	\$ 1,171,842
2024	1,173,593
2025	1,149,118
2026	1,119,544
2027	1,064,173
Thereafter	<u>10,178,558</u>
	<u>\$ 15,856,828</u>

Following are disclosures related to financing receivables for the period ended June 30:

	<u>2022</u>	<u>2021</u>
Ending balances	\$ 15,856,828	\$ 17,824,501
Ending balances, individually evaluated for impairment	\$ 15,856,828	\$ 17,824,501

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES

Notes to Consolidated Financial Statements
For the Year Ended June 30, 2022 (With Comparative Totals for 2021)

Note 5 - Continued

Age analysis of past due financing receivables:

30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivables
\$ 169,974	\$ 174,965	\$ 102,489	\$ 447,428	\$ 15,409,400	\$ 15,856,828

Credit Quality Indicators

	<u>2022</u>	<u>2021</u>
Credit risk profile by internally assigned grade-		
Good	\$ 15,579,374	\$ 16,510,709
Substandard	277,454	1,313,792
	<u>\$ 15,856,828</u>	<u>\$ 17,824,501</u>
	<u>2022</u>	<u>2021</u>
Credit risk profile based on payment activity-		
Performing	\$ 15,579,374	\$ 17,881,744
Nonperforming	277,454	795,237
	<u>\$ 15,856,828</u>	<u>\$ 18,676,981</u>

A delinquent mortgage is considered nonperforming if no payment has been received in the previous 60 days and no attempt has been made by the homeowner to contact Habitat to work out a payment plan.

Note 6 - Property and Equipment

Property and equipment consisted of the following at June 30:

	<u>2022</u>	<u>2021</u>
Leasehold improvements	\$ 324,816	\$ 324,816
Buildings, furnishings and equipment	1,464,334	1,257,660
	1,789,150	1,582,476
Less accumulated depreciation and amortization	<u>(1,192,336)</u>	<u>(1,016,451)</u>
Net Property and Equipment	<u>\$ 596,814</u>	<u>\$ 566,025</u>

Depreciation and amortization expense, including amortization on investment in leased property was \$206,822 and \$174,507 for the years ended June 30, 2022 and 2021, respectively.

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2022 (With Comparative Totals for 2021)**

Note 7 - Notes Payable and Other Debt

	<u>2022</u>	<u>2021</u>
<u>Issaquah Highlands</u>		
Note payable to King County, Washington; secured by deed of trust; no interest unless in default; principal is due December 31, 2089 or at the option of the holder of the note upon sale or other conveyance of all or any portion of the property.	\$ 500,000	\$ 500,000
<u>Coal Creek Terrace</u>		
Note payable to King County, Washington; secured by deed of trust; no interest unless in default; principal is due May 1, 2051 or at the option of the holder of the note upon sale or other conveyance of all or any portion of the property.	369,464	369,464
<u>Overlake Park</u>		
Noninterest bearing note payable to King County, Washington; forgiven in 2070 provided compliance with terms and conditions of the loan agreement; otherwise, outstanding balance and accrued interest of maximum rate allowable by law is due at the option of the holder of the note.	89,775	89,775
<u>La Fortuna</u>		
Note payable to King County, Washington; secured by deed of trust; interest at 1% is compounded annually; principal and interest is due December 31, 2088 or at the option of the holder of the note upon sale or other conveyance of all or any portion of the property.	494,643	494,643
Note payable to the Community Frameworks, no interest unless in default, forgiven on May 22, 2030, provided compliance with terms and conditions of the loan agreement; otherwise, interest at 18% starting at time of default; interest and outstanding balance may be due at the option of the holder of the note.	180,000	180,000
Note payable to King County, Washington up to \$1,520,000; secured by deed of trust; note accrues simple interest at 1% annually; principal and interest are due February 14, 2072 or at the option of the holder of the note upon sale or other conveyance of all or any portion of the property. In the event of the sale or transfer of the property Habitat must pay to King County its proportionate share of the net appreciated value of the property.	1,443,000	1,439,000

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES

Notes to Consolidated Financial Statements
For the Year Ended June 30, 2022 (With Comparative Totals for 2021)

Note 7 - Continued

	<u>2022</u>	<u>2021</u>
<u>Burien</u>		
Note payable to Habitat Mortgage Solutions, LLC; secured by mortgage notes receivable; interest at 3.4% due monthly; \$1,000,000 of outstanding loan balance is due September 30, 2024 with remainder due on September 30, 2025.	2,000,000	2,000,000
<u>Snoqualmie Ridge</u>		
Note payable to King County, Washington; secured by deed of trust; no interest unless in default; principal is due June 1, 2107 or at the option of the holder of the note upon sale or other conveyance of all or any portion of the property.	649,886	649,886
<u>Westway</u>		
Noninterest bearing note payable to King County, Washington; forgiven on December 31, 2022, provided compliance with terms and conditions of the loan agreement; otherwise, interest at 12% starting at time of default; interest and outstanding balance may be due at the option of the holder of the note.	40,000	40,000
<u>Patterson Park</u>		
Noninterest bearing note payable to King County, Washington; forgiven September 1, 2047 provided compliance with terms and conditions of the loan agreement; otherwise, accrued interest of maximum rate allowable by law is due monthly and outstanding balance is due at the option of the holder of the note.	436,683	436,683
<u>Sammamish</u>		
Note payable to the King County, Washington; secured by deed of trust; interest at 1% is compounded annually unless there is a default, after which interest at 12% or highest allowable by law; principal and interest is due May 31, 2069 or at the option of the holder of the note upon default, sale or other conveyance of all or any portion of the property.	350,000	350,000
Noninterest bearing note payable to Community Frameworks; forgiven January 29, 2026 provided compliance with terms and conditions of the loan agreement; otherwise, accrued interest of 1.5% is due monthly and outstanding balance is due at the option of the holder of the note.	120,000	120,000

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2022 (With Comparative Totals for 2021)**

Note 7 - Continued

	2022	2021
<u>City of Seattle Office of Housing</u>		
Note payable to the City of Seattle with a maximum available balance of up to \$1,700,000; secured by deed of trust; no interest unless in default; principal and any interest due at maturity on August 31, 2078 with an extension available to December 31, 2103 if certain conditions are met.	1,530,000	
Note payable to the City of Seattle with a maximum available balance of up to \$1,440,000; secured by deed of trust; no interest unless in default; principal and any interest due at maturity on August 31, 2068 with an extension available to August 31, 2093 if certain conditions are met.	1,296,000	1,079,359
Note payable to the City of Seattle with a maximum available balance of up to \$1,320,000; secured by deed of trust; no interest unless in default; principal and any interest due at maturity on May 31, 2079 with an extension available to May 31, 2104 if certain conditions are met.	1,188,000	
Note payable to the City of Seattle with a maximum available balance of up to \$970,000; secured by deed of trust; no interest unless in default; principal and any interest due at maturity on August 31, 2072 with an extension available to December 31, 2097 if certain conditions are met.	1,224,000	353,588
Note payable to the City of Seattle; secured by deed of trust; no interest unless in default; principal and any interest due at maturity on September 1, 2071 with an extension available to September 1, 2096 if certain conditions are met.	910,000	819,104
Note payable to the City of Seattle with a maximum available balance of up to \$400,000; secured by deed of trust; no interest unless in default; principal and any interest due at maturity on September 1, 2072 with an extension available to September 1, 2097 if certain conditions are met.	360,000	360,000
Note payable to the City of Seattle with a maximum available balance of up to \$840,000; secured by deed of trust; no interest unless in default; principal and any interest due at maturity on December 31, 2072 with an extension available to December 31, 2097 if certain conditions are met.	756,000	481,109

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2022 (With Comparative Totals for 2021)**

Note 7 - Continued

	2022	2021
<u>City of Federal Way</u>		
Note payable to the City of Federal Way; secured by deed of trust; interest at 1% is compounded annually unless there is a default, after which interest at 12% or highest allowable by law; principal and interest is due October 13, 2035 or at the option of the holder of the note upon default, sale or other conveyance of all or any portion of the property.	165,000	165,000
Noninterest bearing note payable to the City of Federal Way; forgiven June 30, 2038 provided compliance with terms and conditions of the loan agreement; otherwise, accrued interest of maximum rate allowable by law is due monthly and outstanding balance is due at the option of the holder of the note.	240,000	240,000
<u>ARCH</u>		
Noninterest bearing note payable to ARCH Sammamish, forgiven July 15, 2090 provided compliance with terms and conditions of the loan agreement, secured by a deeds of trust on land in King County, Washington.	400,000	400,000
<u>Habitat for Humanity - State of Washington</u>		
Note payable to the Habitat for Humanity - State of Washington; secured by participating interest in a pool of mortgage loans; interest at 3%; loan is for a 10 year term amortizing over 25 years, all principal and interest due August 12, 2026; the balance on the note may be renewed for an additional 10 year term with the interest rate being renegotiated upon renewal.	2,071,804	2,150,611
<u>Washington State Housing Trust Fund</u>		
Noninterest bearing note payable to State of Washington Department of Commerce Housing Trust Fund; forgiven May 31, 2041 provided compliance with terms and conditions of the loan agreement.	450,000	450,000
Noninterest bearing note payable to State of Washington Department of Commerce Housing Trust Fund; total available of \$600,000; forgiven May 31, 2045 provided compliance with terms and conditions of the loan agreement.	600,000	400,000

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES

Notes to Consolidated Financial Statements
For the Year Ended June 30, 2022 (With Comparative Totals for 2021)

Note 7 - Continued

	<u>2022</u>	<u>2021</u>
Noninterest bearing note payable to State of Washington Department of Commerce Housing Trust Fund; forgiven April 30, 2047 provided compliance with terms and conditions of the loan agreement.	588,000	588,000
<u>City of Seattle</u> Note payable to the City of Seattle; secured by deed of trust; interest at 1% simple interest until September 2014, interest is then forgiven at 5% of the total accrued interest annually; secured by deed of trust; maturity on September 19, 2034 with extensions available to September 19, 2069. if certain conditions are met. Principal and all interest are forgiven at the extended maturity date provided compliance with terms and conditions of the loan agreement.	266,169	266,169
<u>Mercedes-Benz Financial Services</u> Notes payable to Mercedes-Benz Financial Services; secured by vehicles purchased; daily simple interest at rates from 1.49% to 5.85%; loans amortize over 3 years and mature in June 2023 through March 2024.	48,355	80,295
<u>Yakima Federal Savings</u> Notes payable to Yakima Federal Savings; secured by deeds of trust; interest at rates ranging from 3.75% to 4.25%; principal and interest due monthly until maturity dates in September 2027 and September 2028.	98,120	112,099
<u>Mobile Fleet Services, Inc</u> Note payable to Mobile Fleet Services Inc; secured by truck purchased; payments of \$1,805 due monthly through maturity in November 2023.	30,444	52,111
<u>Northwest Bank Loan</u> Construction loan payable to Northwest Bank with available borrowings up to \$3,700,000; interest at Prime plus 0.25% (5% as of 6/30/22); interest only payments until maturity on March 31, 2023.	1,404,318	

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES

Notes to Consolidated Financial Statements
For the Year Ended June 30, 2022 (With Comparative Totals for 2021)

Note 7 - Continued

	<u>2022</u>	<u>2021</u>
<u>City of Ellensburg</u>		
Note payable to City of Ellensburg with a maximum available balance of \$1,105,000; non-interest bearing note. The principle will be forgiven upon satisfying the requirements of the Agreement between Habitat and the City of Ellensburg. The principle will become payable in the event that the homes are not sold to low-income buyers.	340,000	
<u>HFHI NMTC Sub-CDE IV, LLC</u>		
Note payable to HFHI NMTC Sub-CDE IV, LLC for \$2,883,224; interest rate is 0.737931% with semi-annual interest only payments through and including November 5, 2028. Amortization payments commence on May 5, 2029 where semi-annual payments are required in an amount to fully amortize the remaining principal balance over 23 years; maturity on July 30, 2051.	2,883,224	
<u>HFHI NMTC Sub-CDE V, LLC</u>		
Note payable to HFHI NMTC Sub-CDE V, LLC for \$320,359; interest rate is 0.737931% with semi-annual interest only payments through and including November 5, 2028. Amortization payments commence on May 5, 2029 where semi-annual payments are required in an amount to fully amortize the remaining principal balance over 23 years; maturity on July 30, 2051.	320,359	
	23,847,288	14,672,959
Less current portion	(150,929)	(146,952)
Less loan fees	(199,077)	
Total Notes Payable, Net of Current Portion	<u>\$ 23,497,282</u>	<u>\$ 14,526,007</u>

Future payments required on loans payable, excluding issuance costs, for the years ending June 30, are as follows:

For the Year Ending June 30,

2023	\$ 150,929
2024	160,652
2025	1,101,297
2026	1,104,509
2027	107,823
Thereafter	21,218,034
	<u>\$ 23,843,244</u>

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2022 (With Comparative Totals for 2021)

Note 7 - Continued

Interest has not been imputed on any of the above notes payable that carry below-market rate interest as they are payable to entities whose policies are affected by tax attributes or legal restrictions prescribed by a governmental agency. The restrictions require Habitat to use the loan to fund rehabilitation and construction of homes for low-income families in compliance with programs as provided by provisions of the Internal Revenue Code.

New Markets Tax Credit - In July 2021, Habitat entered into a New Markets Tax Credit (NMTC) transaction along with four other Habitat for Humanity International Affiliates. The New Markets Tax Credit Program was designed to stimulate investment and economic growth in low-income communities by offering a seven-year, 39% federal tax credit for Qualified Equity Investments (QEI) made through investment vehicles known as a Community Development Entity (CDE). CDEs make loans to or investments in businesses and projects in low-income areas, and recoup their capital from future tax credits.

As part of the transaction, Habitat made a capital investment of \$2,358,343 into a joint venture, HFHI NMTC Leverage Lender 2021, LLC (Leverage Lender). The leveraged lender then made a loan to HFHI-SA Investment Fund, LLC (The Fund) who in turn made an investment into the CDEs. Habitat does not control or have an economic interest in the assets of either the CDEs or the Fund. The Fund is controlled and partially financed by US Bancorp Community Development Corporation (USBCDC) and the Fund controls the CDEs.

Under the NMTC structure, Habitat then received debt financing of \$3,203,583 from HFHI NMTC Sub-CDE IV, LLC (\$2,883,224) and HFHI NMTC Sub-CDE V, LLC (\$320,359). The proceeds of the loans are to be used solely for constructing and selling qualified housing projects to low-income residents. The loans have a term of 30 years with interest only payments at 0.737931% for the initial 7 years. Thereafter, principal and interest are paid based on a 23-year amortization schedule of the balance. Habitat is required to meet certain financial covenants to be in compliance with the terms and conditions of the loan agreements for the two notes payable. Habitat was in compliance with these covenants at June 30, 2022.

There is an agreement in place where USBCDC has a put option for \$1,000 that would result in the leveraged lender obtaining the interest in the Fund. If the put option is not exercised the leveraged lender may exercise a call option. The options may be exercised at the end of the seven-year compliance period.

Line of Credit - The Organization has a line of credit with a financial institution with a credit limit equal to \$2,000,000. Borrowing under this line bears interest at the greater of the WSJ prime rate or 4.00%. There was no outstanding balance on the line of credit at June 30, 2022 and 2021, respectively. The line of credit matures in May 2023.

Note 8 - Secured Borrowing

As discussed in Note 5, Habitat has transferred, with recourse, mortgage notes to financial institutions. Under the terms of transfer and servicing agreements, Habitat retains full responsibility for any defaults or delinquencies. Under FASB Accounting Standards Codification Topic 860, *Accounting for Transfers and Servicing of Financial Assets*, the transfers are accounted for as secured borrowings and are included in the liability section of the statement of financial position. The present value of the liability for these transferred mortgage notes receivable was \$5,167,732 and \$5,808,661 at June 30, 2022 and 2021, respectively.

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2022 (With Comparative Totals for 2021)

Note 8 - Continued

Future principal payments of transferred mortgage notes for fiscal periods ending June 30 are as follows:

For the Year Ending June 30,

2023	\$	629,451
2024		644,013
2025		621,980
2026		595,340
2027		545,357
Thereafter		3,828,203
Discount on pledged notes		<u>(1,696,612)</u>
	\$	<u><u>5,167,732</u></u>

Note 9 - Leases

Habitat has an operating lease for office space in Renton, Washington, which expires November 30, 2022. Habitat also leases space for retail outlets, which expire through March 31, 2033. Rental expense under these leases was \$1,221,367 and \$1,012,226 for the years ended June 30, 2022 and, 2021, respectively. Habitat maintains copier leases; related rent was insignificant.

Future minimum payments due under the leases are as follows at June 30:

For the Year Ending June 30,

2023	\$	823,678
2024		764,797
2025		741,613
2026		678,917
2027		278,293
Thereafter		<u>1,575,904</u>
	\$	<u><u>4,863,202</u></u>

Subsequent to year end, Habitat entered into a new office lease which commences on October 1, 2022 and expires on February 28, 2033. The lease requires accelerating rent payments that increase annually and total approximately \$3,400,000 at the end of the lease term.

Note 10 - Related Party Transactions

As a Habitat for Humanity affiliate, Habitat is expected to tithe an amount to Habitat for Humanity International, to be used for international housing construction. Total tithes to Habitat for Humanity International for the years ended June 30, 2022 and 2021, were \$100,000.

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2022 (With Comparative Totals for 2021)

Note 11 - Concentration of Credit Risk

Habitat maintains cash, certificates of deposits and money market balances at several financial institutions. Interest bearing accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000; there is no insurance limit on noninterest bearing accounts with balances in excess of \$250,000. Habitat may occasionally have cash balances on deposit with financial institutions in excess of insured limits. Habitat has not experienced any losses in such accounts.

Habitat provides mortgage assistance primarily to low and moderate-income individuals living in King County. Loans receivable with undiscounted balances of \$15,856,828 and \$17,824,501 at June 30, 2022 and 2021, respectively, are secured by the property purchased.

Note 12 - Net Assets With Donor Restrictions

At June 30, 2022 and 2021, respectively, net assets with donor restrictions consisted of \$1,713,051 and \$2,368,550 restricted for time and for future home repair or construction activities in low income housing.

Note 13 - Pension Plan

Habitat adopted a 401(k) contribution retirement plan, effective January 1, 2014. Employees are eligible to participate in the 401(k) plan with one month of service. Habitat matches employee elective deferrals and during the year ended June 30, 2022, the match was increased from 50% to 100% of employee elective deferrals, up to a maximum of 6%. Habitat contributed \$110,041 and \$39,782 to the plan for the years ended June 30, 2022 and 2021, respectively. Habitat also maintains a 457(b) deferred compensation plan for highly compensated employees. No contributions were made to the plan for the years ended June 30, 2022 and 2021.

Note 14 - Commitments and Contingencies

Amounts received from grantor agencies are subject to audit and adjustments by the grantor agency. Any disallowed cost, including amounts already collected, may constitute a liability for Habitat. The amounts, if any, of expenditures that may be disallowed by the grantor are recorded at the time that such amounts can be reasonably determined, normally upon notification of the government agency. During the years ended June 30, 2022 and 2021, no such adjustments were made.

Habitat provides one to six-year warranties for home buyers purchasing homes through Habitat. Amounts paid on warranties for the years ended June 30, 2022 and 2021, were insignificant.

Habitat received funds for the acquisitions and rehabilitation of certain property located in Kent, Washington and Federal Way, Washington under the Neighborhood Stabilization Program. Under the terms of the agreements any proceeds from mortgages entered into associated with the sales of the acquired homes to qualified homebuyers are required to be reinvested in activities that benefit low and moderate income residents in the jurisdictions. At June 30, 2022 and 2021, restricted cash consisted of \$757,583 and \$663,315 for future qualifying activities in the jurisdictions, respectively. At June 30, 2022 and 2021, respectively, mortgage notes receivable, unpledged includes \$1,356,739 and \$1,451,006 for which the loan repayments are restricted to use for qualifying activities in the jurisdictions.

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2022 (With Comparative Totals for 2021)

Note 15 - Business Combination

On July 1, 2020, Habitat entered into an affiliation agreement with Kittitas County Habitat for Humanity resulting in Habitat becoming the sole corporate member of Kittitas County Habitat for Humanity. Habitat acquired the rights to all assets and assumed all liabilities of Kittitas County Habitat for Humanity and no consideration was transferred associated with the transaction. The following table summarizes the identifiable assets acquired, liabilities assumed, and inherent contributions recognized at the acquisition date, measured at fair value:

Other assets	\$	360,367	
Mortgages receivable		400,597	
Other liabilities		(3,976)	
Secured borrowings		(158,882)	
Notes payable		<u>(192,352)</u>	
Contribution Related to Acquisition of Not-for-Profit Entity	\$	<u>405,754</u>	

Note 16 - Prior Period Restatement

During the year ending June 30, 2022, it was determined that contribution revenue had not been recognized for the amounts earned in a prior period. As such, net assets and pledges receivable in the prior year had been understated. As such, the 2021 comparative totals have been adjusted as follows:

	<u>Previously Reported</u>	<u>Adjustments</u>	<u>As Restated</u>
Consolidated Statement of Financial Position-			
Pledges receivable	\$ 439,529	\$ 700,000	\$ 1,139,529
Pledges receivable, net of current portion	123,633	400,000	523,633
Total assets	49,140,157	1,100,000	50,240,157
Net assets with donor restrictions	1,268,550	1,100,000	2,368,550
Consolidated Statement of Activities-			
Contributions	\$ 4,171,135	\$ 1,100,000	\$ 5,271,135
Increase in net assets with donor restrictions	174,066	1,100,000	1,274,066
Net assets, beginning of year	27,058,318	1,100,000	28,158,318

Note 17 - Subsequent Events

Habitat has evaluated subsequent events through October 18, 2022, which is the date the consolidated financial statements were available to be issued and has determined that there are no subsequent events that require recognition or additional disclosure.

SINGLE AUDIT REPORTS

**Report on Internal Control Over Financial Reporting
And on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

Independent Auditor's Report

**To the Board of Directors
Habitat for Humanity Seattle-King County and Affiliates
Renton, Washington**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Habitat for Humanity Seattle-King County and Affiliates (Habitat), which comprise the consolidated statement of financial position as of June 30, 2022, the related consolidated statements of activities, functional expenses, and cash flows for year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 18, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Habitat's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Habitat's internal control. Accordingly, we do not express an opinion on the effectiveness of Habitat's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a material weakness.



T: 425-454-4919
T: 800-504-8747
F: 425-454-4620

10900 NE 4th St
Suite 1400
Bellevue WA
98004

clarknuber.com



Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Habitat's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Habitat's Response to Finding

Government Auditing Standards require the auditor to perform limited procedures on Habitat's response to the finding identified in our audit and described in the accompanying management's corrective action plan. Habitat's response was not subjected to other auditing procedures applied in the audit of the consolidated financial statements, and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Clark Nuber P.S.

Certified Public Accountants
October 18, 2022

**Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance
Required by the Uniform Guidance**

Independent Auditor's Report

**To the Board of Directors
Habitat for Humanity Seattle-King County and Affiliates
Renton, Washington**

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

Opinion on Each Major Federal Program

We have audited Habitat for Humanity Seattle-King County and Affiliates' (Habitat) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Habitat's major federal programs for the year ended June 30, 2022. Habitat's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Habitat complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Habitat and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Habitat's compliance with the compliance requirements referred to above.



T: 425-454-4919
T: 800-504-8747
F: 425-454-4620

10900 NE 4th St
Suite 1400
Bellevue WA
98004

clarknuber.com



Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Habitat's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Habitat's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Habitat's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Habitat's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Habitat's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Habitat's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.



REPORT ON INTERNAL CONTROL OVER COMPLIANCE

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Clark Nuber P.S.

Certified Public Accountants
October 18, 2022

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES

**Schedule of Expenditures of Federal Awards
For the Year June 30, 2022**

Federal Grantor/Pass-Through Grantor/Program Title	Assistance Listing Number	Grant Number/ Pass-Through Entity Identifying Number	Passed Through to Subrecipients **	Total Federal Expenditures
U.S. Department of Agriculture:				
Rural Economic Community Development- Direct Program:				
Rural Self-Help Housing Technical Assistance	10.420	None	\$ -	\$ 92,020
Total U.S. Department of Agriculture				92,020
U.S. Department of Housing and Urban Development:				
Passed through from King County Community and Human Services-				
Community Development Block Grants/Entitlement Grants	14.218	* D28048E		110,464
Community Development Block Grants/Entitlement Grants	14.218	* D05831D		18,775
Community Development Block Grants/Entitlement Grants	14.218	* D25413D		216,683
Community Development Block Grants/Entitlement Grants	14.218	C18624		30,046
Passed through from City of Federal Way-				
Community Development Block Grants/Entitlement Grants	14.218	* AG15-211		165,000
Community Development Block Grants/Entitlement Grants	14.218	* AG17-109		132,870
Community Development Block Grants/Entitlement Grants	14.218	* 2017-14		240,000
Total assistance listing number 14.218/ CDBG-entitlement grants cluster				913,838
Passed through from King County Community and Human Services-				
Home Investment Partnership Program	14.239	* D39877D		494,643
Home Investment Partnership Program	14.239	* D36650D		649,886
Home Investment Partnership Program	14.239	* D28048D		259,000
Home Investment Partnership Program	14.239	* D05814D		71,000
Home Investment Partnership Program	14.239	* D23686D		220,000
Home Investment Partnership Program	14.239	* 5858031		350,000
Home Investment Partnership Program	14.239	* 6169453		1,443,000
Total assistance listing number 14.239				3,487,529
Passed through from Community Frameworks-				
Self-Help Homeownership Opportunity Program	14.247	* HSKC-13-1		120,000
Self-Help Homeownership Opportunity Program	14.247	* HSKC-17-1		180,000
Total assistance listing number 14.247				300,000
Passed through from Habitat for Humanity International-				
Section 4 Capacity Building Community Development and Affordable Housing	14.252	B20CBGA001		40,245
Total U.S. Department of Housing and Urban Development				4,741,612
Total Expenditures of Federal Awards			\$ -	\$ 4,833,632

* Denotes an outstanding loan

**No federal assistance reported on the Schedule of Expenditures of Federal Awards was passed through to subrecipients during the year.

See notes to schedule of expenditures of federal awards and independent auditor's report.

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES

Notes to Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2022

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant and loan activity of Habitat for Humanity Seattle-King County and its affiliates, including HFHSC Community Housing Development Organization (Habitat). The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles Audit Requirements for Federal Awards*. Because the Schedule presents only a selected portion of the operations of the Habitat, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Habitat.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Habitat has elected not to use the 10 *percent de minimis* indirect cost rate allowed under the Uniform Guidance.

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES

**Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2022**

Note 3 - Loans and Grants With Continuing Compliance Requirements

Habitat received the following funding through loans and grants from the U.S. Department of Housing and Urban Development and other agencies. Loan documents require compliance with program regulations until the maturity date of the loan or the period of affordability expires. The loan balances outstanding as of the beginning of the year and current year additions to those loans are included in the federal expenditures presented in the Schedule. The grant and loan balances outstanding at June 30, 2022, are as follows:

Program	Identifying Number	Assistance Listing Number	Outstanding Balance
U.S. Department of Housing and Urban Development:			
Passed through from King County Community and Human Services-			
Community Development Block Grants/Entitlement Grants	D28048E	14.218	\$ 110,464
Community Development Block Grants/Entitlement Grants	D05831D	14.218	18,775
Community Development Block Grants/Entitlement Grants	D25413D	14.218	216,683
Passed through from City of Federal Way-			
Community Development Block Grants/Entitlement Grants	AG15-211	14.218	165,000
Community Development Block Grants/Entitlement Grants	AG17-109	14.218	132,870
Community Development Block Grants/Entitlement Grants	2017-14	14.218	240,000
Passed through from King County Community and Human Services-			
Home Investment Partnership Program	D39877D	14.239	494,643
Home Investment Partnership Program	D36650D	14.239	649,886
Home Investment Partnership Program	D28048D	14.239	259,000
Home Investment Partnership Program	D05814D	14.239	71,000
Home Investment Partnership Program	D23686D	14.239	220,000
Home Investment Partnership Program	5858031	14.239	350,000
Home Investment Partnership Program	6169453	14.239	1,443,000
Passed through from Community Frameworks-			
Self-Help Homeownership Opportunity Program	HSKC-13-1	14.247	120,000
Self-Help Homeownership Opportunity Program	HSKC-17-1	14.247	180,000
Total Loans Outstanding			\$ 4,671,321

Some of the loan balances under the HOME Investment Partnerships and Community Development Block Grant Programs for the period ended June 30, 2022, were awarded to HFHSC Community Housing Development Organization.

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2022**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? Yes No
- Significant deficiencies identified? Yes None reported.

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weaknesses identified? Yes No
- Significant deficiencies identified? Yes None reported.

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

Identification of Major Programs

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.239	Home Investment Partnership Program

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? Yes No

HABITAT FOR HUMANITY SEATTLE-KING COUNTY AND AFFILIATES

Schedule of Findings and Questioned Costs (Continued) For the Year June 30, 2022

Section II - Financial Statement Findings

Finding 2022-001

Material weakness in internal controls over financial reporting.

Criteria

Internal controls should ensure that Habitat's accounting records and financial statements are free of material errors and prepared in conformity with U.S. GAAP.

Condition/Context

It was identified that two promises to give totaling \$1,100,000 that were received during the year ended June 30, 2021, were improperly recognized as contribution revenue during the year ended June 30, 2022. In addition, it was identified a conditional award was recognized as unconditional which resulted in an overstatement of revenue of \$78,755 during the year ended June 20, 2022. Lastly, it was identified a \$3,000 contribution with donor restrictions was recognized as without donor restrictions. All items identified were corrected.

Cause

The issue was primarily caused by management turnover and the applicable accounting guidance not being applied to the contributions.

Effect

The effect of improperly recognizing the promises to give was an overstatement of revenue and an understatement of beginning net assets with donor restrictions for \$1,100,000. The effect of improperly recognizing the conditional award revenue was an overstatement of revenue and accounts receivable of \$78,755. The effect of improperly recognizing the contribution with donor restrictions is an understatement of contributions with donor restrictions and understatement net asset released from restriction of \$3,000.

Repeat Finding

Finding 2022-001 contains elements from Finding 2021-001.

Recommendation

We recommend management implement procedures and controls around pledges and contributions to ensure that transactions are recorded in compliance with U.S. GAAP.

Views of Responsible Individual

Management agrees with the finding and has provided the accompanying corrective action plan.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.



**Management's Corrective Action Plan
For the Year Ended June 30, 2022**

Finding 2022-001:

Contact Person

Patrick Duff

206.866.7607

Patrick.duff@habitatskc.org

Explanation and Specific Reasons for Disagreement With the Audit Finding or That Corrective Action is not Required (if Applicable)

No disagreement.

Corrective Action Planned

Management identified this weakness at the time of the FY21 audit. Processes were subsequently put in place to ensure the accuracy of booking contributions and pledges moving forward. Due to staff turnover shortly after the FY2021 audit, two donor pledge transactions, that were booked in early FY2022 prior to the process changes, were not reviewed for the timing of the donor commitment. It was identified during this year's audit that the two pledges were communicated to Habitat in May and June of 2021 for donations to be received in FY2022. Consequently, they should have been recognized as pledges in FY2021 rather than FY2022.

Management has reinforced the need to review all major pledges to ensure the commitment is recognized in the correct period. Donations and pledges will continue to be reviewed monthly by Resource Development and Accounting, prior to being booked. We have added an additional step where any transactions greater than \$25,000 or having unique requirements will be signed off by the Director of Finance.

Anticipated Completion Date

Immediately



**Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2022**

Prior Year Reportable Financial Statement Findings

Finding 2021-001

Significant deficiency in internal controls financial reporting related contributions recorded associated with a fundraising campaign were designated to another beneficiary. The effect of improperly recognizing the fundraising campaign revenues that were for the benefit of another organization was an overstatement of contribution revenue of \$329,150, pledges receivable of \$87,133 and grant expenses of \$242,017. The effect of improperly identifying restriction on the other fundraising campaigns revenue was an overstatement of contributions with donor restrictions and understatement of contributions without donor restrictions of \$187,678.

Current Status

The need for the corrective action was acknowledged by management. Habitat is continuing to strengthen controls in the contribution cycle as identified as part of the corrective action plan associated with finding 2022-001.

Prior Year Reportable Federal Compliance Findings

No matters were reported.