Consolidated Financial Statements and Report of Independent Certified Public Accountants

Habitat for Humanity International, Inc.

June 30, 2023 and 2022

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Governing Board
Habitat for Humanity International, Inc.:

Report on the financial statements

Opinion

We have audited the consolidated financial statements of Habitat for Humanity International, Inc. (a nonprofit organization) and its subsidiaries (collectively, "Habitat"), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Habitat as of June 30, 2023 and 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 of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of 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.

Emphasis of matter

As discussed in Note 15 to the consolidated financial statements, Habitat has adopted new accounting guidance on July 1, 2022 related to FASB Accounting Standard Codification Topic 842, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the 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.

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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 Habitat's ability to continue as a going concern for one year after the date 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 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 US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, 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 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 consolidated 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.

Grant Thornton LLP

New York, New York
November 20, 2023

Habitat for Humanity International, Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30,
(In thousands)

	2023	2022
Assets		
Cash and cash equivalents	$ 110,666	$ 152,005
Investments at fair value	275,081	233,318
Receivables:		
Contributions and grants, net	79,023	89,828
Affiliate notes, net	26,605	20,724
Due from affiliates, net	6,041	5,780
Loans to microfinance institutions, net	47,478	46,813
Institutional loans and mortgages receivable, net	4,762	4,117
Other, net	9,806	9,731
Total receivables	173,715	176,993
Inventories, net	6,043	9,052
Prepaids and other assets	4,778	5,107
Operating lease right of use assets	10,655	-
Land, buildings, and equipment - net of accumulated depreciation and amortization	7,897	10,236
Total assets	$ 588,835	$ 586,711
Liabilities and net assets		
Accounts payable and accrued expenses	$ 29,275	$ 32,051
Program advances	17,805	25,099
Finance lease liabilities	829	1,367
Operating lease liabilities	10,655	-
Due to affiliates	1,862	2,090
Notes payable, net of unamortized debt issuance costs	45,314	54,495
Charitable gift annuities	5,654	6,704
Investor notes payable	33,600	21,135
Total liabilities	144,994	142,941
Net assets:		
Without donor restrictions:		
Controlling interests	218,974	210,867
Noncontrolling interests	9,199	9,147
	228,173	220,014
With donor restrictions	215,668	223,756
Total net assets	443,841	443,770
Total liabilities and net assets	$ 588,835	$ 586,711

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

Habitat for Humanity International, Inc.

CONSOLIDATED STATEMENTS OF ACTIVITIES

(In thousands)

	Year ended June 30, 2023			Year ended June 30, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, support, and gains						
Contributions	$ 127,239	$ 113,879	$ 241,118	$ 169,243	$ 205,703	$ 374,946
Donated product, services and advertising	48,942	11,172	60,114	32,173	8,475	40,648
Government grants	16,972	-	16,972	17,459	-	17,459
Other income, net	33,508	-	33,508	16,292	-	16,292
Total revenues, support, and gains	226,661	125,051	351,712	235,167	214,178	449,345
Net assets released from restrictions	130,609	(130,609)	-	120,667	(120,667)	-
Total revenues, support, and gains	357,270	(5,558)	351,712	355,834	93,511	449,345
Expenses						
Program services:						
U.S. affiliates	159,722	-	159,722	139,912	-	139,912
International affiliates	82,249	-	82,249	69,041	-	69,041
Public awareness and education	20,891	-	20,891	17,472	-	17,472
Total program services	262,862	-	262,862	226,425	-	226,425
Supporting services:						
Fundraising	62,491	-	62,491	58,663	-	58,663
Management and general	23,758	-	23,758	20,922	-	20,922
Total supporting services	86,249	-	86,249	79,585	-	79,585
Total expenses	349,111	-	349,111	306,010	-	306,010
Losses on contributions receivable	-	2,530	2,530	-	4,589	4,589
Total expenses and losses on contributions receivable	349,111	2,530	351,641	306,010	4,589	310,599
Change in net assets	8,159	(8,088)	71	49,824	88,922	138,746
Net assets at beginning of year	220,014	223,756	443,770	170,190	134,834	305,024
Nets assets at end of year	$ 228,173	$ 215,668	$ 443,841	$ 220,014	$ 223,756	$ 443,770

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

Habitat for Humanity International, Inc.

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

(In thousands)

For the year ended June 30, 2023:	U.S. Affiliates	International Affiliates	Public Awareness and Education	Total Program Services	Fundraising	Management and General	Total Supporting Services	Total
Program and house building transfers	$ 60,926	$ 40,264	$ 2,707	$ 103,897	$ -	$ -	$ -	$ 103,897
Donated products and advertising distributed	46,786	240	1,173	48,199	-	-	-	48,199
Salaries and benefits	37,389	26,434	10,873	74,696	19,522	16,506	36,028	110,724
Professional services	5,601	5,373	2,480	13,454	36,840	2,801	39,641	53,095
Travel	1,440	2,426	562	4,428	649	557	1,206	5,634
Interest, service charges, and taxes	767	789	759	2,315	864	268	1,132	3,447
Office expenses	4,790	3,247	1,894	9,931	3,845	2,788	6,633	16,564
Depreciation and amortization	703	679	165	1,547	377	335	712	2,259
Other	1,320	2,797	278	4,395	394	503	897	5,292
Total	$ 159,722	$ 82,249	$ 20,891	$ 262,862	$ 62,491	$ 23,758	$ 86,249	$ 349,111

For the year ended June 30, 2022:	U.S. Affiliates	International Affiliates	Public Awareness and Education	Total Program Services	Fundraising	Management and General	Total Supporting Services	Total
Program and house building transfers	$ 59,207	$ 30,585	$ 1,440	$ 91,232	$ -	$ -	$ -	$ 91,232
Donated products and advertising distributed	31,125	29	677	31,831	-	-	-	31,831
Salaries and benefits	33,692	25,089	9,814	68,595	17,386	14,891	32,277	100,872
Professional services	4,664	5,160	2,315	12,139	36,168	1,555	37,723	49,862
Travel	421	1,053	162	1,636	133	310	443	2,079
Interest, service charges, and taxes	908	889	847	2,644	907	235	1,142	3,786
Office expenses	4,524	3,435	1,592	9,551	3,310	3,145	6,455	16,006
Depreciation and amortization	843	800	199	1,842	451	409	860	2,702
Other	4,528	2,001	426	6,955	308	377	685	7,640
Total	$ 139,912	$ 69,041	$ 17,472	$ 226,425	$ 58,663	$ 20,922	$ 79,585	$ 306,010

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

Habitat for Humanity International, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30,
(In thousands)

For the year ended June 30:	**2023**	**2022**
Operating activities		
Change in net assets	$ 71	$ 138,746
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,259	2,702
Loss (gain) on disposal of land, buildings, and equipment	877	(161)
Loss on contribution receivable	2,530	4,589
Losses on loans to microfinance institutions	2,374	808
Provision for loan losses	(157)	633
Losses on other receivables	-	53
Net realized and unrealized (gains) losses on investments	(3,705)	4,371
Support from the public restricted for long-term investments	(1,028)	(29,507)
Net realized and unrealized losses (gain) on derivative instrument	762	(933)
Unrealized (gain) loss from foreign exchange fluctuations	(3,177)	1,408
Contribution of securities	-	(5,822)
Changes in operating assets and liabilities:		
Decrease (increase) in receivables	8,081	(66,609)
Decrease in inventories	3,009	2,311
Decrease (increase) in prepaids and other assets	329	(885)
(Decrease) increase in accounts payable and accrued expenses	(2,777)	196
Decrease in program advances	(7,294)	(9,143)
Net cash provided by operating activities	2,154	42,757
Investing activities		
Purchases of investments	(223,263)	(183,541)
Proceeds from sales and maturities of investments	185,205	172,082
Loans to microfinance institutions	(22,991)	(21,474)
Repayments from microfinance institutions	22,367	37,663
Loans to affiliates	(38,393)	(25,180)
Repayments from affiliates	31,882	26,503
Purchases of equipment	(921)	(1,190)
Proceeds from sale of land, buildings, and equipment	125	167
Net cash (used in) provided by investing activities	(45,989)	5,030
Financing activities		
Principal repayments on finance lease obligations	(538)	(570)
Increase in due to affiliates	885	823
Payments on due to affiliates	(1,113)	(298)
Support from the public restricted for long-term investments	1,028	29,507
(Decrease) increase in annuity obligation	(742)	271
Payments of annuity obligations	(308)	(399)
Proceeds from issuance of notes payable	13,500	-
Payments on notes payable	(10,216)	(20,149)
Net cash provided by financing activities	2,496	9,185
(Decrease) increase in cash and cash equivalents	(41,339)	56,972
Cash and cash equivalents, beginning of year	152,005	95,033
Cash and cash equivalents, end of year	$ 110,666	$ 152,005
Supplemental disclosures		
Interest paid	$ 2,022	$ 2,298
Non-cash purchases of equipment through finance lease obligations	$ -	$ 835
Non-cash contribution of securities	$ -	$ 5,822
Non-cash refinancing MFI loans	$ 2,000	$ 1,800
Non-cash operating lease right of use assets obtained in exchange for lease liabilities	$ 11,651	$ -

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

NOTE 1 - ORGANIZATION AND PURPOSE

Driven by the vision that everyone needs a decent place to live, Habitat for Humanity found its earliest inspirations as a grassroots movement on an interracial community farm in South Georgia. Since its founding in 1976, the Christian housing organization has grown to become a leading global nonprofit organization working in local communities across all 50 states in the U.S. and in more than 70 countries. Families and individuals in need of a hand partner with Habitat for Humanity to build or improve a place they can call home. Habitat homeowners help build their own homes alongside volunteers and pay an affordable mortgage. Through financial support, volunteering or adding a voice to support affordable housing, everyone can help families achieve the strength, stability, and self-reliance they need to build better lives for themselves. Through shelter, we empower. To learn more, visit habitat.org.

Habitat is comprised of the organization's headquarters based in Georgia, U.S.A.; its area and regional offices worldwide; and the national organizations that are registered as branches of Habitat.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements as of and for the years ended June 30, 2023 and 2022, include the activities of:

1. Habitat's area and regional offices.

2. Eleven national organizations that are registered as part of Habitat for Humanity International, Inc.

3. Habitat for Humanity, Inc., Habitat Mortgage Solutions, Habitat for Humanity of Puerto Rico, LLC., and Habitat for Humanity-Middle East, which are wholly-owned subsidiaries.

4. MicroBuild I, LLC (MicroBuild) and Habitat MicroBuild India Housing Finance Company Private Limited (MicroBuild India), in which Habitat effectively has control and an economic interest.

All material intercompany accounts and transactions have been eliminated in preparing the accompanying consolidated financial statements.

Cash and Cash Equivalents

Habitat considers all highly liquid investments with an original maturity of three months or less, when purchased, to be cash equivalents, with the exception of cash held for reinvestment which is included in investments. Habitat maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. Habitat has not experienced any losses in such accounts. Included in cash and cash equivalents is restricted cash of $69,259,000 and $68,427,000 as of June 30, 2023 and 2022, respectively. As of June 30, 2023 and 2022, $21,012,000 and $33,346,000, respectively, was held in banks outside of the United States, and these amounts are not covered by insurance.

Investments

Realized and unrealized gains and losses on marketable securities are determined by using specific identification. Investment income and net increase (decrease) on investments of donor-restricted endowments are reported as follows:

1. As increases in net assets with donor restrictions if the terms of the gift or relevant state law require that they be added back to the principal of the contributions with donor restrictions held in perpetuity.

2. As decreases in net assets with donor restrictions when there are losses that reduce the fair value of the assets of endowment funds below the required level and as increases in net assets with donor restrictions when there are gains that restore the fair value of the assets of endowment funds to the required level.

3. As increases (decreases) in net assets with donor restrictions, in all other cases.

Contributions Receivable

Contributions receivable that are expected to be collected within one year after June 30, 2023 are recorded at net realizable value. Contributions receivable that are expected to be collected in future years are recorded at their fair value based on the present value of their estimated future cash flows and are discounted at the rate applicable to the year in which the contribution was made. The discount rates used reflect the assumptions about market risks that are not otherwise considered in the cash flows.

Habitat does not recognize conditional promises to give as receivables. Habitat recognizes a receivable only to the extent a condition (barrier) has been satisfied. As of June 30, 2023 and 2022, conditional promises to give amounted to $2,755,000 and $5,317,000, respectively, and are not recorded in the accompanying consolidated financial statements.

Investor Notes Payable

Investor notes payable are special obligations of Habitat secured solely by affiliate general obligation promissory notes (affiliate notes receivable), which are, in turn, secured by mortgages held by the affiliates. The notes are payable over five to 10 years. The proceeds received from investor notes payable were disbursed to those affiliates that signed affiliate notes receivable with Habitat. Affiliate notes receivable are collectible over five to 10 years and are secured by mortgages held by those affiliates. The investor notes payable and affiliate notes receivable have interest rates ranging as follows:

	2023	2022
Investor notes payable	2.0% to 5.0%	2.0% to 5.0%
Affiliate notes receivable	1.0% to 5.0%	0% to 5.5%

For issuances prior to June 30, 2015, Habitat required that each of its affiliates post a cash reserve equal to one quarter of the annual debt service to safeguard against potential nonpayment by the affiliate. The reserve funds are invested in money market funds or certificates of deposit and are recorded as cash and cash equivalents and investments in the consolidated statement of financial position.

The real estate securing these mortgages is concentrated in the states of Florida (21%), North Carolina (14%), Washington (11%), and Oregon (9%). The remaining balance is secured by real estate in cities located throughout the United States, with no city comprising more than 7% of the balance.

Due From/To Affiliates

Due from affiliates consists primarily of non-interest-bearing, unsecured, demand notes from Habitat affiliates in the U.S. An allowance for estimated doubtful accounts is provided, as considered appropriate, based on identification of specific uncollectible receivables and a general reserve that is based on the method of payment by the affiliate and past payment experience. A majority of these loans originated with affiliates that are participating in the Self-help Homeownership Opportunity Program (SHOP) grant. Habitat treats 25% of the grant disbursements as a loan to affiliates that must be paid back to Habitat without interest. The Department of Housing and Urban Development (HUD) has determined that the proceeds from the loans to affiliates must be disbursed as an additional SHOP grant. Amounts loaned and collected under SHOP loans are reflected as a liability (due to affiliates) until these proceeds are appropriately redistributed or until the appropriate financial closeout report is submitted to HUD. During the year ended June 30, 2023, financial closeout reports were submitted and accepted by HUD for the SHOP program year 2017, allowing $978,000 of this balance to be recognized as Other income, net in the 2023 consolidated statement of activities. During the year ended June 30, 2022, there were no additional funds redistributed or SHOP grants closed.

Other amounts due from affiliates consist of advances made to participating beneficiaries for European Union (EU) grants. The advances for EU grants are held as a receivable until the beneficiary provides satisfactory reporting of the program expenditures incurred, at which point the program transfer and related revenue is recognized.

Loans to Microfinance Institutions

Loans to microfinance institutions are recorded in the consolidated statement of financial position at their unpaid principal amounts. Interest income is accrued based on the outstanding principal amount and contractual terms of each individual loan. Interest is collected quarterly. Once a loan becomes six months delinquent in paying its obligations, interest is no longer accrued on that obligation until such time as the delinquency is cleared.

Allowance for Loan Losses

The allowance for loan losses is based on assessments of certain factors, including historical credit loss experience of similar type loans, MicroBuild’s credit loss experience, the amount of past due and nonperforming loans, specific known risks, and current and anticipated economic, country, regulatory and interest rate conditions.

Evaluation of these factors involves subjective estimates and judgments that may change. Additions to the allowance for loan losses are provided through the consolidated statement of activities. Subsequent recoveries, if any, are credited to the allowance for loan losses.

Derivative Instruments

MicroBuild, when deemed appropriate, uses derivatives as a risk management tool to mitigate the potential impact of certain market risks. The market risks managed by MicroBuild through the derivative instruments are foreign currency exchange rate risk and interest rate risk related to loans that are made in currencies other than the U.S. Dollar. The derivative instrument is carried at fair value in the consolidated statement of financial position and the related change in fair value is reflected in the consolidated statement of activities.

Inventories

Inventories represent building materials and materials to be used in construction of Habitat houses or sold in Habitat affiliate ReStores. Donated product inventory is recorded at the fair value on the date of receipt, and such items are expensed as program services expense when used or shipped to U.S. affiliates, based upon the specific identification method. Purchased inventory is recorded at the lower of cost or market determined by the specific identification method. Inventory is recorded net of any allowance for obsolescence on the consolidated statement of financial position. For the years ended June 30, 2023 and 2022, a loss for obsolescence of $914,000 and $182,000, respectively, is included in the donated products and advertising distributed in the accompanying consolidated statements of functional expenses.

Land, Buildings, Finance Leases, and Equipment

Land, buildings, finance leases, and equipment over $5,000 are recorded at acquisition cost for purchased items and fair value for contributed items, including costs necessary to get the asset ready for its intended use. Additionally, certain application development costs incurred to develop internal-use software are capitalized and amortized over the expected useful life of the software application. These costs are included in prepaids and other assets until they are placed in service. Depreciation and amortization of assets are provided on a straight-line basis over the estimated useful lives of the respective assets, as follows:

	Years
Buildings and leasehold improvements	20-30 years
Furniture and equipment	5-10 years
Computer hardware and software	3 years
Vehicles	3-5 years

Charitable Gift Annuities

Habitat has a gift annuity program whereby it enters into irrevocable contracts with certain donors. Habitat agrees to make payments to donors at prescribed intervals over the life of the donor. The assets received are recorded at fair value, and the related liability is recorded as an annuity obligation. For the years ended June 30, 2023 and 2022, annuity obligations are recorded at the present value of expected future payments based on the 2012 Individual Annuity Reserving Table and the prevailing interest rate. Habitat maintains charitable gift annuities in a separate portfolio, and the assets are invested in accordance with applicable state laws. Total cash and investments held in the gift annuity portfolio totaled $8,246,000 and $9,699,000 as of June 30, 2023 and 2022, respectively.

Habitat is required to hold reserves related to its gift annuity program based on the laws in certain states in which the gifts are solicited. Such reserves totaled $7,152,000 and $8,481,000 as of June 30, 2023 and 2022, respectively, and are included in investments at fair value on the accompanying consolidated statements of financial position.

Program Advances

Program advances relate to cash received directly from government and nongovernmental agencies, not yet expended on the program to which such funds relate. These amounts will be recognized as revenue as appropriate expenses are incurred. Habitat has recorded a program advance from a single nongovernmental agency of $4,957,000 and $18,014,000 as of June 30, 2023 and 2022, respectively. Additionally, Habitat has recorded program advances from a single government agency of $9,409,000 and $3,836,000 as of June 30, 2023 and 2022, respectively.

Net Assets

Habitat's revenues and gains are classified as net assets with donor restrictions and net assets without donor restrictions based on the existence or absence of donor-imposed restrictions. These classifications are defined as follows:

> Net assets with donor restrictions are subject to donor-imposed restrictions. The restrictions can contain donor-imposed restrictions that permit Habitat to use or expend the donated assets as specified and are satisfied either by the passage of time or by actions of Habitat. Net assets with donor restrictions also contain the principal amount of gifts that are required by donors to be held permanently.
>
> Net assets without donor restrictions do not contain donor restrictions or the donor-imposed restrictions have expired.

Contributions

Unconditional promises to give are recognized as revenue when the underlying promises are received by Habitat. Gifts of cash and other assets are reported as contributions with donor restrictions if they are received with donor stipulations that limit the use of the donated assets or are restricted as to time.

Certain grants and contracts from foundations and governmental entities are included in deferred revenue due to stipulations within the agreements that contain the right of return of funds and barriers (as defined by ASU 2018-08) that make these contributions conditional. These funds are recognized as eligible costs are incurred, that is, as the barriers to which entitlement depends are satisfied.

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.

Contributions with donor restrictions that are both received and satisfied within the same year are recorded as an increase in net assets with donor restrictions and as a satisfaction of program restrictions.

Government Grants

Habitat receives funding from several federal financial assistance programs that supplement its traditional funding sources. Grant revenue on cost-reimbursement grants is recognized after the program expenditures have been incurred. As such, Habitat recognizes revenue and records a receivable for the reimbursement amount from the respective granting agency. Such grant programs are subject to independent audit under the Office of Management and Budget's (OMB's) Uniform Guidance (2 CFR 200), as well as review by grantor agencies. Such review could result in disallowance of expenditures under the terms of the grant or reductions in future grant funds. Based on prior experience, Habitat's management believes costs ultimately disallowed, if any, would not materially affect the consolidated financial statements.

Donated Product and Contributed Services

Contributed nonfinancial assets recognized within the consolidated statement of activities included the following for the years ended June 30, 2023 and 2022 (in thousands):

		2023		2022
Donated product for use in construction	$	19,169	$	11,753
Cars for Home Contributions		15,329		11,017
Donated product for sale in ReStores		23,236		16,128
Media communication and production services		1,173		677
Contributed services requiring specialized skills		720		407
Other donated contributions		487		666
Total contributed services, merchandise, and other in-kind contributions at fair value	$	60,114	$	40,648

Habitat recognized contributed nonfinancial assets within Revenues, support, and gains in the consolidated statement of activities, consisting of contributed construction materials, vehicles, donated product to sell in ReStores, and services, including public service advertisements. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions, other than time restrictions for pledges, and vehicles donated under the Cars for Homes program that were restricted to the affiliate in the geographic area of the donor of the vehicle. It is Habitat's policy to sell all contributed vehicles immediately upon receipt at auction.

Habitat values the donated product for use in construction at the estimated fair value, which is based upon the manufacturer's suggested retail price for the product. Cars for Homes contributions are valued at the sales price received for the cars when they are sold at auction. Donated product for sale in ReStores is valued at 30% of the manufacturer's suggested retail price for the product.

Habitat produces and distributes public service television and radio announcements that focus attention on the programs Habitat provides. These Public Service Announcements (PSAs) are distributed to television stations and radio stations nationwide that then deliver the announcements to assist Habitat in its mission, free of charge. Habitat has contracted with independent outside agencies to track the date and time that each PSA displays and to estimate the fair value of the announcement based on the date, time, and market. Donated product revenue related to contributed PSAs and associated expense in the amount of $1,173,000 and $677,000 has been recognized in the consolidated statements of activities for the years ended June 30, 2023 and 2022, respectively.

Additionally, a substantial number of volunteers have made significant contributions of their time in furtherance of Habitat's program and supporting services. The value of this contributed time is not reflected in the consolidated financial statements since it does not require a specialized skill. However, certain other contributed services that require specialized skills, when provided by individuals possessing those skills and otherwise would have needed to be purchased if not provided by donation, are recognized as revenue and expense. Such amounts, which are included in the accompanying consolidated statements of activities, totaled $720,000 and $407,000 for the years ended June 30, 2023 and 2022, respectively.

Program Services

Program services expenses include direct transfers to affiliates and partners of cash and donated product, as well as payments to other vendors made on behalf of affiliates. For cash contributions, program services expenses are recorded when a promise to give is made by Habitat and received by the recipient organization. For donated product contributions, program services expenses are recorded upon delivery of the donated product to the affiliate by Habitat or the donor.

Methods Used for Allocation of Expenses

The consolidated statements of functional expenses present expenses by both function and natural classification. Expenses directly attributable to a specific functional area of Habitat are reported as expenses of those functional areas. A portion of management and general costs that benefit multiple functional areas have been allocated across program and other supporting services based on estimates of time and effort spent by staff. Depreciation and amortization are allocated using an allocation developed based on a review of the assets in service compared to the functions they support.

Estimates in the Financial Statements

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

Income Taxes

Habitat is organized as a nonprofit corporation under the laws of the State of Georgia and is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and corresponding Georgia provisions. Donors of cash and/or property are entitled to the maximum charitable contribution deduction allowed by law.

Habitat follows the guidance of Accounting Standards Codification (ASC) 740, *Accounting for Income Taxes*, related to uncertainties in income taxes, which prescribes a threshold of more likely than not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. There are no material uncertain tax positions for Habitat for the years ended June 30, 2023 and 2022.

Fair Value Measurements

Habitat reports financial instruments at fair value in accordance with Financial Accounting Standards Board (FASB) ASC 820, which clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

- Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - Other inputs that are directly or indirectly observable in the marketplace.
- Level 3 - Unobservable inputs that are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability developed from sources independent of the reporting entity, and unobservable inputs reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the valuation methods used by Habitat as compared to the prior year.

Certificates of deposit are recorded based on their carrying value, which approximates fair value.

Common stock and mutual funds are principally valued at the regular trading session closing price on the exchange or market in which such funds are principally traded, using the market approach.

Equity (stock) funds listed or traded on any national market or exchange are valued at the last sales price as of the close of the principal securities exchange on which such securities are traded.

Fixed income (bond) funds, other than money market instruments, are generally valued at the most recent bid price of the equivalent quoted yield for such securities (or those of comparable maturity, quality, and type).

Auction rate securities are valued using a market comparable and/or discounted cash flow valuation approach.

Forward foreign exchange contracts consist of contracts that are valued primarily based on the spot currency exchange rate and the interest rate differential.

Cross-currency interest rate swaps consist of contracts that are valued primarily based on the spot currency exchange rate and discount curves based on local government treasury bill and bond auctions. Cross-currency interest rate swaps consist of both Level 2 and Level 3 inputs, based on the availability of the market data for the underlying currencies.

Annuity obligations are recorded at fair value based on Level 3 inputs and other relevant market data based on the present value of the estimated future cash outflows. For the years ended June 30, 2023 and 2022, the assumptions used in the valuation of the annuity liability include mortality in accordance with the 2012 Individual Annuity Reserving Table and a discount rate of 6% for all annuities, compounded annually, net of expenses. These rates are commensurate with the risks associated with the ultimate payment of the obligation. For the years ended June 30, 2023 and 2022, Habitat recorded losses from the remeasurement of the gift annuity obligation to fair value of $80,000 and $25,000, respectively, included as part of other income in the accompanying consolidated statements of activities.

Fair Value of Financial Instruments

Habitat's financial instruments consist of cash and cash equivalents, investments, receivables, accounts payable and accrued expenses, finance lease obligations, notes payable, annuity obligations, and investor notes payable. Cash and cash equivalents, receivables, accounts payable and accrued expenses, finance lease liabilities, notes payable, and investor notes payable are stated at cost, which approximates fair value. Investments and the annuity obligations are recorded at their fair values.

New Accounting Pronouncements

Effective July 1, 2022, Habitat adopted ASU 2016-02, *Leases (Topic 842)*, which requires organizations to recognize assets and liabilities on the balance sheet for the rights and obligations created by the leases. A lessee is required to recognize assets and liabilities for leases with terms that exceed twelve months. The standard requires disclosures to help financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. The disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the consolidated financial statements. See Note 15.

Investments

Certain investments are held in debt securities with contractual maturities. Such investments mature as follows (in thousands):

	2023	2022
Due in less than one year	$ 179,878	$ 192,094
Due in more than five years	20,554	20,603
	$ 200,432	$ 212,697

Investment income and net realized and unrealized (losses) gains are included in other income, net, and consist of the following as of June 30, 2023 and 2022 (in thousands):

	2023	2022
Net decrease/ increase in fair value of investments, including realized and unrealized gains and (losses)	$ 3,705	$ (4,371)
Interest and dividends	3,023	478
Total investment gains (losses)	$ 6,728	$ (3,893)

NOTE 3 - FAIR VALUE MEASUREMENTS

In accordance with ASC 820, Habitat records cash and cash equivalents and marketable securities at fair value. As of June 30, 2023 and 2022, investments in marketable securities include auction rate securities, which are classified within Level 3 due to a lack of a liquid market for such securities. Management determined the value of these securities based on information regarding the quality of the security and the quality of the collateral, among other factors.

In accordance with the fair value hierarchy described above, the following tables present the fair value of Habitat's financial assets and liabilities that are required to be measured at fair value, on a recurring basis, as of June 30, 2023 and 2022 (in thousands):

	Fair Value at June 30, 2023	Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Certificates of deposit and other short-term investments	$ 179,878	$ 179,878	$ -	$ -
Common stock and mutual funds	74,649	65,354	2	9,293
Auction rate securities	20,554	-	-	20,554
	$ 275,081	$ 245,232	$ 2	$ 29,847
Derivative instruments:				
Forward foreign exchange contracts	$ (162)	$ -	$ (162)	$ -
Cross-currency interest rate swaps	(191)	-	(131)	(60)
Total derivative instruments	$ (353)	$ -	$ (293)	$ (60)
Liabilities:				
Charitable gift annuities	$ (5,654)	$ -	$ -	$ (5,654)

	Fair Value at June 30, 2022	Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Certificates of deposit and other short-term investments	$ 192,094	$ 192,044	$ 50	$ -
Common stock and mutual funds	20,621	13,361	1	7,259
Auction rate securities	20,603	-	-	20,603
	$ 233,318	$ 205,405	$ 51	$ 27,862
Derivative instruments:				
Forward foreign exchange contracts	$ 490	$ -	$ 490	$ -
Cross-currency interest rate swaps	172	-	46	126
Total derivative instruments	$ 662	$ -	$ 536	$ 126
Liabilities:				
Charitable gift annuities	$ (6,704)	$ -	$ -	$ (6,704)

Derivative instruments are included in loans to microfinance institutions, net, on the accompanying consolidated statements of financial position.

The following table provides a reconciliation of the beginning and ending balances for assets measured at fair value using significant unobservable inputs (Level 3) as defined in ASC 820 for the years ended June 30, 2023 and 2022 (in thousands):

	2023	2022
Balance at July 1	$ 27,862	$ 33,206
Purchases	2,781	5,203
Sales or redemptions	(350)	(11,100)
Net unrealized (losses) gains	(446)	553
Balance at June 30	$ 29,847	$ 27,862

The following table provides a reconciliation of the beginning and ending balances for derivative instruments measured at fair value using significant unobservable inputs (Level 3) as defined in ASC 820 for the years ended June 30, 2023 and 2022 (in thousands):

	2023	2022
Balance at July 1	$ 126	$ 1,374
Net (unrealized) and realized (losses) gains	(492)	344
Settlements	306	(1,592)
Balance at June 30	$ (60)	$ 126

The following table provides a reconciliation of the beginning and ending balances for liabilities measured at fair value using significant unobservable inputs (Level 3) as defined in ASC 820 for the years ended June 30, 2023 and 2022 (in thousands):

	2023	2022
Balance at July 1	$ (6,704)	$ (6,832)
Additions to liabilities	(196)	(360)
Payments to annuitants	308	399
Terminations of liabilities	1,018	114
Net unrealized losses	(80)	(25)
Balance at June 30	$ (5,654)	$ (6,704)

Marketable securities measured at fair value using Level 3 inputs consist of auction rate securities and equity investments in various enterprises related to the mission of Habitat.

Auction rate securities require the use of Level 3 inputs to determine their value due to the lack of market activity and liquidity. Additionally, should Habitat have to sell the underlying securities prior to their maturity date or in a secondary market, the price received upon sale will be subject to prevailing market conditions. The underlying assets of the auction rate securities are collateralized primarily by the underlying assets of certain AAA, AA, and A-rated securities. Management assessed the value of the auction rate securities as of June 30, 2023 and 2022, using market comparables and/or discounted cash flow valuation approach. Under the market comparables approach, indications of fair value from the secondary market are used to estimate the discount from par value based on trading activity for similar securities. The discounted cash flow approach utilizes a discounted cash flow model in which the expected future cash flows of the Student Loan Auction Rate Securities are discounted back to the measurement date using a yield that compensates for illiquidity. Both valuation methods described above take into consideration the risk and uncertainty associated with the pricing, given limited market activity and information. Management assessed the value of these securities as of June 30, 2023 and 2022, using a range of supportable market rates based upon an agreement with a reputable broker or purchaser to buy back these securities at the values stated.

NOTE 4 - CONTRIBUTIONS AND GRANTS RECEIVABLE, NET

Contributions and grants receivable, net, as of June 30 consist of the following (in thousands):

	2023	2022
Contributions	$ 100,921	$ 111,505
Government grants	623	1,360
	101,544	112,865
Less unamortized discount	(14,922)	(17,598)
	86,622	95,267
Less allowance for uncollectibles	(7,599)	(5,439)
	$ 79,023	$ 89,828

Discount rates ranged from 2.89 percent to 6.97 percent for the year ended June 30, 2023.

These receivables are due as follows as of June 30 (in thousands):

	2023	2022
Due in less than one year	$ 24,160	$ 24,015
Due in one to five years	54,863	65,813
	$ 79,023	$ 89,828

Contributions receivable include donated product amounts of $14,863,000 and $16,173,000 as of June 30, 2023 and 2022, respectively.

Net contributions receivable includes one donor in 2023 and one donor in 2022 whose individual net outstanding contributions receivable are greater than 10% of the total net outstanding contributions receivable. As of June 30, 2023 and 2022, the net contributions receivable associated with these gifts totaled $56,641,000 and $60,831,000, respectively.

NOTE 5 - LOANS TO MICROFINANCE INSTITUTIONS

Loans to microfinance institutions as of June 30, 2023, consist of interest-bearing loans, with interest rates ranging from 3.30% to 13.00% per annum over terms of five years.

Future principal payments are as follows as of June 30 (in thousands):

	2023
2024	$ 16,369
2025	21,333
2026	14,392
	52,094
Add value of derivative instruments	(355)
Less unrealized loss for currency exchange fluctuations	(118)
Less allowance for uncollectibles	(4,143)
	$ 47,478

As of June 30, 2022 total future principal payments were $52,164, the value of derivative instruments were $662,000, unrealized losses for currency exchange fluctuations were $1,398,000, and the allowance for uncollectibles was $4,615,000.

MicroBuild makes loans to microfinance institutions that are working in developing foreign markets and may be subject to increased risks due to political and regulatory environments, and overall market and economic factors in those countries. These risks are magnified in countries with emerging markets, since these countries may have relatively unstable governments and less established markets and economies. At June 30, 2023 and 2022, all of MicroBuild's loans to microfinance institutions are with twenty four and twenty five microfinance institutions in sixteen and seventeen countries, respectively. As of June 30, 2023 and 2022, loans to microfinance institutions in India comprised 8% and 12%, respectively, of the total outstanding portfolio.

In the event that a microfinance institution is unable to repay its loan according to its original schedule, MicroBuild pursues collection and workout plans including interest only payments, reduced payments and/or moratorium on payments, depending on the individual microfinance institution's circumstances. It is MicroBuild's preference not to provide any concession which reduces the loan's yield; however, there are some situations that warrant discontinuing interest payments for a certain period of time. Generally, MicroBuild discontinues interest accrual for all loans on which collection of interest is not reasonably expected (i.e., once the obligor becomes six months delinquent in paying its interest payments). Interest income on nonaccrual loans is recognized on a cash basis. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured. As of June 30, 2023 and 2022, MicroBuild had three loans of approximately $3,000,000 and $2,500,000, respectively, which are greater than 180 days outstanding. Each of the loans greater than 180 days outstanding were fully reserved at June 30, 2023 and 2022.

Activity in the allowance for loan losses on loans to microfinance institutions is as follows for the years ended June 30 (in thousands):

	2023	2022
Balance at beginning of year	$ 4,615	$ 3,805
Allowance for loan losses	109	1,065
Recovery of previous loan provision	(581)	(255)
Balance at end of year	$ 4,143	$ 4,615

Under ASC Topic 310-10, *Accounting by Creditors for Impairment of a Loan*, a loan is considered impaired when, based on current information, it is probable that an entity will not receive all amounts due in accordance with the contractual terms of the underlying loan agreement. The fair value of the loan is then compared with the recorded investment in the loan to determine whether or not a specific reserve is necessary.

The percentage of portfolio analysis for the impaired loans as of June 30, 2023 and 2022 is as follows (in thousands):

	June 30, 2023	Percent of Portfolio	June 30, 2022	Percent of Portfolio
Investment in impaired loans	$ 4,406	9%	$ 4,347	9%
Allowance for loan losses on impaired loans	3,862	8%	3,754	8%
Remaining potential exposure, as of June 30	544	1%	593	1%

MicroBuild makes loans in foreign currencies, subject to various limitations, to accommodate clients who do not have access to U.S. currency. The portfolio includes loans made in several foreign currencies as listed below with the U.S. Dollar ($) equivalent as of June 30, 2023 and 2022 as follows (in thousands):

Currency	2023	2022
U.S. Dollar	$ 31,974	$ 30,473
Euro	11,187	7,841
Indian Rupee	4,358	6,174
Guatemalan Quetzal	-	2,000
Peruvian New Sol	2,000	1,000
Moldovan Leu	1,122	1,122
Tunisian Dinar	703	1,054
Dominican Peso	-	1,000
Indonesian Rupiah	750	1,500
	$ 52,094	$ 52,164

NOTE 6 - DUE FROM AFFILIATES, NET

	2023	2022
SHOP grant	$ 3,321	$ 3,523
Advances for EU grants	950	1,521
Note receivable from national organization	845	167
Other	1,733	1,279
	6,849	6,490
Less allowance for uncollectibles	(808)	(710)
	$ 6,041	$ 5,780

Certain amounts included in the allowance for uncollectible accounts may be forgiven in the future and treated as program transfers to affiliates.

NOTE 7 - AVAILABILITY OF FINANCIAL ASSETS

Habitat's financial assets available within one year of the statement of financial position date for general expenditure are as follows (in thousands):

	2023	2022
Cash and cash equivalents	$ 110,666	$ 152,005
Investments	275,081	233,318
Receivables	24,160	24,015
Total financial assets available within one year	409,907	409,338
Less:		
Board-designated for operating reserve unavailable to management without Board approval	(68,356)	(67,523)
Management designation of unrestricted donation	(22,157)	(24,973)
Net assets with donor purpose restrictions	(103,807)	(102,854)
Program advances	(17,805)	(25,099)
Investments with maturities greater than one year	(20,554)	(20,603)
Restricted cash	(904)	(904)
	$ 176,324	$ 167,382

Habitat structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, Habitat maintained lines of credit in the aggregate amount of $10,000,000 during the year ended June 30, 2023, which was available to be drawn upon, but was not drawn upon during the year. Further, Habitat maintains an operating reserve included as part of cash and cash equivalents on the accompanying consolidated statements of financial position.

NOTE 8 - LAND, BUILDINGS, AND EQUIPMENT, NET

Land, buildings, and equipment, net, as of June 30 consist of the following (in thousands):

	2023	2022
Land	$ 221	$ 613
Buildings and leasehold improvements	12,793	13,915
Computer hardware and software	11,121	11,441
Computer hardware and software under finance leases	2,165	2,779
Furniture and equipment, other	4,846	5,076
Vehicles	2,259	2,168
	33,405	35,992
Less accumulated depreciation and amortization	(25,508)	(25,756)
	$ 7,897	$ 10,236

Other supplemental disclosures related to land, buildings, and equipment are as follows for the years ended June 30 (in thousands):

	2023	2022
Depreciation	$ 1,727	$ 2,134
Amortization on assets under finance leases	532	568
Accumulated amortization on finance leases	1,329	1,410

NOTE 9 - NOTES PAYABLE, NET

Notes payable, net, as of June 30 consist of the following (in thousands):

	2023	2022
Notes payable to U.S. International Development Finance Corporation (DFC) (formerly OPIC) secured by letters of credit, payable in quarterly installments of interest only at rates ranging from 2.17% to 3.84% per annum, with the principal sum due in full no later than January 15, 2025	$ 40,500	$ 49,600
Non-interest-bearing performance based note payable	4,900	4,900
Note payable to State Bank of India, secured by the receivables of MicroBuild India, payable in quarterly installments of principal and interest of 10.45% beginning August 31, 2021 with the final payment due July 31, 2024	26	140
	45,426	54,640
Less unamortized debt issuance costs	(112)	(145)
Notes payable, net of unamortized debt issuance costs	$ 45,314	$ 54,495

Future principal payments are as follows (in thousands):

	Amount
2024	$ 16,026
2025	24,500
2026	3,900
2027	1,000
	$ 45,426

The notes payable to Nabsamruddhi Finance Limited and State Bank of India are payable in the Indian Rupee (INR) and have been converted to United States Dollar (USD) for disclosure.

On June 22, 2012, MicroBuild, a limited liability company in which Habitat has a controlling interest, entered into a $45,000,000 limited liability loan agreement with the U.S. International Development Finance Corporation (DFC - formerly OPIC), an agency of the United States. MicroBuild's three equity investors are required to match the remaining $5,000,000 for this $50,000,000 project. Additionally, Habitat is required to provide $5,000,000 in guarantor letters of credit. These funds are then lent to microfinance institutions in various countries around the world. As of June 30, 2019, all of these commitments had been met by the three equity members, and the full amount had been drawn down from DFC.

Additionally, on May 18, 2016, MicroBuild entered into a second $45,000,000 loan agreement with DFC. One new investor was added during the year ended June 30, 2016. MicroBuild's equity members have committed to contribute the remaining $5,000,000 for this $50,000,000 project. Additionally, Habitat must provide $5,000,000 in guarantor letters of credit for the full loan agreement. As of June 30, 2021, all of these commitments had been met by the equity members, and the full amount had been drawn down from DFC.

MicroBuild is subject to certain covenants defined in the loan agreements with DFC, which include maintaining a specified ratio of the total of historical write-offs and the outstanding principal and interest accrued for nonperforming loans to the total assets of the fund. MicroBuild has received a waiver from DFC for this covenant through October 2023.

NOTE 10 - INVESTOR NOTES PAYABLE

Future principal payments on investor notes payable for the years ending June 30 are as follows (in thousands):

	Amount
2024	$ 1,041
2025	865
2026	17,531
2027	13,476
2028	556
Thereafter	131
	$ 33,600

Interest expense during the years ended June 30, 2023 and 2022, totaled $603,000 and $702,000, respectively.

Investor notes payable require Habitat to monitor the compliance by each affiliate participating in this program with the terms and conditions of the agreement.

NOTE 11 - ENDOWMENT NET ASSET CLASSIFICATION

Habitat's endowment increased by $26,013,000 during fiscal 2023, for a total of $58,978,000. Habitat's endowment consists of 30 individual funds established by donors to provide annual funding for a variety of purposes.

<u>Interpretation of Relevant Law</u> - The HFHI Board of Directors has interpreted the Georgia Uniform Prudent Management of Institutional Funds Act ("UPMIFA") of 2008 as requiring the assets of an endowment fund be donor-restricted until appropriated for spending, unless otherwise specifically stated in the gift instrument.

The Board believes its interpretation is consistent with its established board-approved investment and spending policy. In accordance with the investment policy and UPMIFA, all restricted endowment assets are invested on a pooled basis until appropriated for spending.

As a result of this interpretation, for accounting and financial reporting purposes, Habitat classifies the historic dollar value of assets received as its donor-restricted endowment, including any subsequent gifts and any accumulations to donor-restricted endowments made in accordance with the direction of the applicable donor gift instruments as net assets with donor restrictions.

In fiscal year 2023, the International Board of Directors approved and designated $20,000,000 as a quasi-endowment. The earnings on these funds are to function as unrestricted support of the general mission of Habitat.

<u>Funds with Deficiencies</u> - From time to time, certain donor-restricted endowment funds may have fair values less than the amount the donor or UPMIFA requires Habitat to retain as a fund of perpetual duration.

<u>Return Objectives and Risk Parameters</u> - Habitat has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the historic dollar value of the endowment assets. Endowment assets include those assets of donor-restricted funds the organization must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of benchmark indexes of similar asset classes while assuming a moderate level of investment risk. The targeted long-term rate of the return on net assets, net of fees, which is approximately 5.5 percentage points greater than the anticipated rate of inflation as measured by the Consumer Price Index. This return objective incorporates expectations of 3 - 5% spending and 1% growth. Actual returns in any given year may vary from this amount.

<u>Strategies Employed for Achieving Objectives</u> - To satisfy its long-term rate-of-return objectives, Habitat relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Habitat targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

<u>Spending Policy and How the Investment Objectives Related to Spending Policy</u> - In accordance with UPMIFA, Habitat considers the following factors in making a determination to appropriate and allocate assets for spending or accumulate assets of an endowment fund:

1. The duration and preservation of the endowment fund
2. The purposes of Habitat and its endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of endowment investments
6. Other resources of Habitat
7. The investment policies of Habitat

Endowment net asset changes for the years ended June 30, 2023 and 2022 (in thousands):

	2023	2022
Endowment net assets, beginning	$ 32,965	$ 4,420
Investment gain (loss), net	5,070	(786)
Endowment cash additions	21,167	29,507
Appropriation of endowment assets for expenditure	(224)	(176)
	$ 58,978	$ 32,965

Endowment net asset composition by type of fund as of June 30, 2023 and 2022 (in thousands):

	2023		
	Total	Without Donor Restrictions	With Donor Restrictions
Donor-restricted endowments	$ 38,978	$ -	$ 38,978
Funds functioning as endowments (board-designated)	20,000	20,000	-
	$ 58,978	$ 20,000	$ 38,978

	2022		
	Total	Without Donor Restrictions	With Donor Restrictions
Donor-restricted endowments	$ 32,965	$ -	$ 32,965
Funds functioning as endowments (board-designated)	-	-	-
	$ 32,965	$ -	$ 32,965

NOTE 12 - NET ASSETS

Net assets with donor restrictions consist of the following as of June 30 (in thousands):

	2023	2022
Geographically restricted	$ 21,131	$ 19,916
Programmatic restrictions for mission related projects	82,675	82,938
Time restricted (collections of pledges)	78,400	88,468
Endowment investment in perpetuity, the earnings thereon restricted to mission related projects	33,462	32,434
	$ 215,668	$ 223,756

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time for the years ended June 30, are as follows (in thousands):

	2023	2022
Release of net assets:		
Geographically restricted	$ 25,889	$ 17,561
Programmatic restrictions for mission-related projects	86,084	87,909
Time restrictions (collections of pledges)	18,636	15,197
	$ 130,609	$ 120,667

On May 12, 2016, the IKEA Foundation committed contributions to fund a project to improve the health and well-being of families with children by stimulating an affordable, accessible and environmentally responsible housing demand and supply chain in India and Kenya. The project is being completed in two phases, and for the years ended June 30, 2023 and 2022, the activity of the project was as follows (in thousands):

For the year ended June 30	2023	2022
Phase 1		
Released from restrictions	$ -	$ 25
Phase 2		
Released from restrictions	$ 10	$ 398

Net assets without donor restrictions consist of the following as of June 30 (in thousands):

	2023	2022
Undesignated controlling interests	$ 108,493	$ 118,371
Noncontrolling interests	9,167	9,147
Board-designated for operating reserve unavailable to management without Board approval	68,356	67,523
Quasi-endowment authorized by the board of directors	20,000	-
Management designation of unrestricted donation	22,157	24,973
	$ 228,173	$ 220,014

NOTE 13 - REVENUE FROM GOVERNMENT GRANTS AND SUBCONTRACTS

Federal awards received and expended for the years ended June 30 consist of the following (in thousands):

		2023		2022
SHOP	$	3,994	$	3,290
Capacity Build		5,237		6,336
Veterans Housing Rehabilitation and Modification Program		769		437
AmeriCorps/Vista		3,434		3,833
USAID		620		1,352
CDFI Institutions		2,577		2,140
Other		341		71
Government grants per the consolidated statements of activities		16,972		17,459
Increase (decrease) in USAID Fellows 3 due to credits to expense multi-year crossover		-		1
Increase in HUD due to closed grant		48		18
Increase in HUD due to pending approval of environmental review		52		(52)
Total expenditures of federal awards	$	17,072	$	17,426

NOTE 14 - EMPLOYEE BENEFITS

Full-time Habitat employees who elect to participate are provided health and death benefits through the Habitat for Humanity International Welfare Benefit Plan (the Plan). The Plan requires contributions by participants. Expenses incurred by Habitat in connection with the Plan, which is partially self-insured, totaled $9,242,000 and $10,441,000 for the years ended June 30, 2023 and 2022, respectively.

Habitat provides through the Habitat for Humanity Retirement Plan (the Retirement Plan), a defined contribution retirement plan to eligible plan participants. There are three components to the plan: (1) participant contributions, (2) a Habitat match equal to 100% of the first 6% of wages contributed by participants, and (3) a discretionary annual contribution by Habitat to each eligible participant's account. Participants are fully vested in Habitat's contributions after three years of service. Habitat's contributions to the Retirement Plan totaled $3,444,000 and $3,010,000 for the years ended June 30, 2023 and 2022, respectively.

NOTE 15 - LEASES

Upon adoption, ASC 842 *Leases* had an impact on Habitat's consolidated statement of financial position and on its consolidated statement of cash flows. As part of the transition, Habitat elected the following practical expedients:

- Package of practical expedients which eliminates the need to reassess (1) whether any expired or existing contracts are or contain leases; (2) the lease classification for any expired or existing leases; and (3) the initial direct costs for any existing leases.
- The practical expedient whereby the lease and non-lease components will not be separated for all classes of assets.
- Not to recognize right-of-use ("ROU") assets and corresponding lease liabilities with a lease term of 12 months or less from the lease commencement date.

- Use the rate implicit in the lease whenever that rate is readily determinable. Otherwise, the risk-free rate (such as government treasury bills) will be used.

Habitat assesses whether an arrangement qualifies as a lease (i.e., conveys the right to control the use of an identified asset for a period of time in exchange for consideration) at inception and only reassesses its determination if the terms and conditions of the arrangement are changed.

For existing leases, Habitat did not elect the use of hindsight and did not reassess lease term upon adoption.

Habitat adjusted the opening ROU asset balance based on its remaining deferred rent liabilities. On July 1, 2022, Habitat recorded $11,651,000 in operating lease ROU assets and related operating lease liabilities. The adoption of ASC 842 had no significant impact on Habitat's profit and loss.

The following summarizes the line items in the statements of financial position which include amounts for operating and finance leases as of June 30 (in thousands):

	2023	2022
Finance leases		
Property and equipment	$ 2,165	$ 2,779
Accumulated depreciation	(1,329)	(1,410)
Property and equipment, net	$ 836	$ 1,369

The following summarizes the line items in the statements of activities which include the components of lease expense for the year ended June 30 (in thousands):

	2023
Operating lease expense	$ 2,287
Finance lease costs	
Amortization of lease assets	532
Interest on lease liabilities	40
Total finance lease costs	$ 572

The following summarizes cash flow information related to leases for the year ended June 30 (in thousands):

	2023
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flow from operating leases	$ 2,287
Operating cash flow from finance leases	40
Financing cash flow from finance leases	538

Future minimum lease payments for lease ROU assets as of June 30, 2023 are as follows (in thousands):

	Operating	Finance
2024	$ 2,299	$ 513
2025	2,340	300
2026	2,257	133
2027	2,202	-
2028	2,263	-
Thereafter	3,294	-
Total lease payments	14,655	946
Less: interest	(4,000)	(117)
Present value of lease liabilities	$ 10,655	$ 829

The following table represents the weighted-average remaining lease term and discount rate as of June 30, 2023:

	2023
Operating leases:	
Weighted average remaining lease terms (years)	5.7
Weighted average discount rate	1.53%

The components of lease cost for operating leases as follows (in thousands) as of June 30, 2023:

	2023
Operating lease cost	$ 2,281
Short term lease cost	210
Variable lease costs	-
Total	$ 2,491

The lease costs are reflected in the Consolidated Statement of Functional Expenses in Office Expenses and have been functionally allocated based on the use of the office space.

Disclosures Related to Periods Prior to Adoption of ASC 842

Rent expense under operating leases amounted to $2,296,000 for the year ended June 30, 2022. Rent expense related to lease agreements was recognized on a straight-line basis over the lease term.

Future minimum lease payments under non-cancelable operating leases as of June 30, 2022 are as follows (in thousands):

		2022
2024	$	2,300
2025		2,332
2026		2,239
2027		2,171
2028		2,233
Thereafter		3,240
Total minimum payments	$	14,515

NOTE 16 - CONTINGENCIES

Habitat is a defendant with respect to various claims that have occurred in the normal course of its business. Management and legal counsel believe the ultimate resolution of these claims will not have a material impact on Habitat's consolidated financial statements.

NOTE 17 - AFFILIATE PROGRAMS

International and U.S. national organizations and affiliates are independent, not-for-profit groups that are approved by regional, area, or national offices of Habitat and operate under an affiliation agreement with Habitat. All affiliates are encouraged to be self-supporting in their fundraising efforts; however, Habitat also solicits contributions, both cash and donated product, on behalf of its affiliates. Habitat retains variance power with respect to these contributions. Habitat has transferred cash and donated assets totaling $148,216,000 and $120,946,000 in 2023 and 2022, respectively, to international and U.S. national organizations and affiliates.

Some affiliates in developing countries, where severely limited resources constrain local fundraising, receive the majority of their funding from Habitat. All U.S. affiliates are expected to contribute a portion of their unrestricted cash contributions to support Habitat's work outside their own country. These contributions totaled $18,563,000 and $24,404,000 in 2023 and 2022, respectively.

Habitat agreed to guarantee a $590,000 mortgage note made on February 1, 1999, for Uptown Habitat for Humanity, Inc. (Uptown). The obligation is payable to the Illinois Housing Development Authority (IHDA), a body created by and existing pursuant to the Illinois Development Act and is due and payable on August 1, 2028. The note is secured by mortgages that were assigned by Uptown to IHDA, pursuant to a prior loan agreement between Uptown and IHDA.

Habitat offers a program to U.S. affiliates to guarantee certain bond issuances in the event of default by an affiliate. The total amount guaranteed by Habitat under the program at June 30, 2023 and 2022 was $4,257,000 and $5,316,000, respectively.

NOTE 18 - RELATED-PARTY TRANSACTIONS

For the years ended June 30, 2023 and 2022, Habitat recorded $22,317,000 and $13,920,000 in contributions, respectively, and $8,176,000 and $5,028,000 in pledge payments, respectively, from members of Habitat's International Board of Directors (IBOD) and Habitat's Officers or from companies that they or their families represent. As of June 30, 2023 and 2022, Habitat had $81,060,000 and $80,900,000 of pledges receivable, respectively, from members of Habitat's IBOD or from companies that they or their families represent.

An officer of Habitat sits on the board of a digital marketing company that Habitat does business with. He has no engagement in any decisions to purchase their services. The total paid to this company in the years ending June 30, 2023 and 2022 was $1,592,000 and $389,000, respectively.

Several members of the IBOD are also on the Board of their respective national organizations. They all serve as volunteers and have no financial interest in the national organization.

NOTE 19 - SUBSIDIARY AND RELATED ENTITIES' STATEMENTS OF FINANCIAL POSITION AND STATEMENTS OF ACTIVITIES

On July 15, 2011, MicroBuild was formed. Habitat is a 51% owner of MicroBuild. The purpose of MicroBuild is to make loans to qualified microfinance institutions for the purpose of lending to housing projects in impoverished communities.

On March 25, 2011, MicroBuild India was formed. Habitat is a 74.79% owner of MicroBuild India. The purpose of MicroBuild India is to make loans to qualified microfinance institutions for the purpose of lending to housing projects in impoverished communities.

The statements of financial position of Habitat's subsidiary and related entities before elimination and consolidation entries as of June 30, 2023 are as follows (in thousands):

	MicroBuild	MicroBuild India	Total
Assets			
Cash and cash equivalents	$ 7,865	$ 2,115	$ 9,980
Restricted cash reserves	904	-	904
Loans to microfinance institutions, net	46,514	1,269	47,783
Other receivables and prepaids, net	815	4,711	5,526
Property and equipment, net	-	24	24
Total assets	$ 56,098	$ 8,119	$ 64,217
Liabilities and net assets			
Liabilities:			
Accounts payable and accrued expenses	$ 490	$ 68	$ 558
Derivative instruments, at fair value	354	-	354
Loans payable	40,388	26	40,414
Total liabilities	41,232	94	41,326
Net assets:			
Retained earnings and members' equity:			
Retained earnings and members' equity	7,638	6,085	13,723
Minority interest	7,228	1,940	9,168
Total retained earnings and members' equity	14,866	8,025	22,891
Total liabilities and net assets	$ 56,098	$ 8,119	$ 64,217

The statements of financial position of Habitat's subsidiary and related entities before elimination and consolidation entries as of June 30, 2022 are as follows (in thousands):

	MicroBuild	MicroBuild India	Total
Assets			
Cash and cash equivalents	$ 18,797	$ 1,508	$ 20,305
Restricted cash reserves	904	-	904
Loans to microfinance institutions, net	43,162	2,870	46,032
Derivative instruments, at fair value	661	-	661
Other receivables and prepaids, net	1,094	4,163	5,257
Property and equipment, net	-	31	31
Total assets	$ 64,618	$ 8,572	$ 73,190
Liabilities and net assets			
Liabilities:			
Accounts payable and accrued expenses	$ 403	$ 61	$ 464
Loans payable	49,455	362	49,817
Total liabilities	49,858	423	50,281
Net assets:			
Retained earnings and members' equity:			
Retained earnings and members' equity	7,584	6,178	13,762
Minority interest	7,176	1,971	9,147
Total retained earnings and members' equity	14,760	8,149	22,909
Total liabilities and net assets	$ 64,618	$ 8,572	$ 73,190

The statements of activities (income statements) for Habitat's subsidiary and related entities before elimination and consolidation entries for the year ended June 30, 2023 are as follows (in thousands):

	MicroBuild	MicroBuild India	Total
Operating revenue:			
Interest and other income, net	$ 3,093	$ 944	$ 4,037
Provision for loan loss	(109)	(370)	(479)
Total operating revenue, net	2,984	574	3,558
Operating expenses:			
Program services:			
Professional fees	23	34	57
Interest expense	1,348	7	1,355
Other expenses	1,076	519	1,595
Total program services	2,447	560	3,007
Supporting services:			
Fundraising	-	-	-
Management and general	-	-	-
Total supporting services	-	-	-
Total operating expenses	2,447	560	3,007
Net loss from operations	537	14	551
Non-operating gains and losses:			
Unrealized gain on derivative instrument	1,136	96	1,232
Unrealized loss on foreign exchange fluctuations	(1,567)	(234)	(1,801)
Non-operating (loss), net	(431)	(138)	(569)
Net gain/(loss)	$ 106	$ (124)	$ (18)

The statements of activities (income statements) for Habitat's subsidiary and related entities before elimination and consolidation entries for the year ended June 30, 2022 are as follows (in thousands):

	MicroBuild	MicroBuild India	Total
Operating revenue:			
Interest and other income, net	$ 3,450	$ 1,299	$ 4,749
Provision for loan loss	(102)	(366)	(468)
Total operating revenue, net	3,348	933	4,281
Operating expenses:			
Program services:			
Professional fees	8	41	49
Interest expense	1,663	32	1,695
Other expenses	783	904	1,687
Total program services	2,454	977	3,431
Supporting services:			
Fundraising	-	-	-
Management and general	-	-	-
Total supporting services	-	-	-
Total operating expenses	2,454	977	3,431
Net loss from operations	894	(44)	850
Non-operating gains and losses:			
Unrealized gain on derivative instrument	933	94	1,027
Unrealized loss on foreign exchange fluctuations	(1,408)	(497)	(1,905)
Non-operating (loss), net	(475)	(403)	(878)
Net gain/(loss)	$ 419	$ (447)	$ (28)

Interest and other income, net, is included in other income, net, in the accompanying consolidated statements of activities. Professional services are included in professional services - other in the accompanying consolidated statements of functional expenses. Interest expense is included in interest, service charges, and taxes in the accompanying consolidated statements of functional expenses. Program expenses are included in the appropriate natural classification in the accompanying consolidated statements of functional expenses.

NOTE 20 - CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

As of June 30, 2023, the consolidating statement of financial position of Habitat is as follows (in thousands):

June 30, 2023	Habitat for Humanity International, Inc.	Affiliates	Eliminations	Consolidated
Assets				
Cash and cash equivalents	$ 101,406	$ 9,260	$ -	$ 110,666
Investments at fair value	273,776	1,305	-	275,081
Receivables:				
Contributions and grants, net	79,023	-	-	79,023
Affiliate notes, net	26,605	-	-	26,605
Due from affiliates, net	6,041	-	-	6,041
Loans to microfinance institutions, net	46,209	1,269	-	47,478
Institutional loans and mortgages receivable, net	-	4,762		4,762
Other, net	6,860	3,073	(127)	9,806
Total receivables	164,738	9,104	(127)	173,715
Inventories, net	5,954	89	-	6,043
Prepaids and other assets	10,433	67	(5,722)	4,778
ROU assets	10,655	-	-	10,655
Land, buildings, and equipment - net	7,474	423	-	7,897
Total assets	$ 574,436	$ 20,248	$ (5,849)	$ 588,835
Liabilities and net assets				
Accounts payable and accrued expenses	$ 27,772	$ 1,503	$ -	$ 29,275
Program advances	16,666	1,139	-	17,805
Capitalized lease obligations	829	-	-	829
Lease liability, ROU assets	10,655	-	-	10,655
Due to affiliates	2,083	-	(221)	1,862
Notes payable, net	45,400	(86)	-	45,314
Charitable gift annuities	5,654	-	-	5,654
Investor notes payable	33,600	-	-	33,600
Total liabilities	142,659	2,556	(221)	144,994
Net assets:				
Without donor restrictions:				
Controlling interests	208,881	15,721	(5,628)	218,974
Noncontrolling interests	7,228	1,971	-	9,199
	216,109	17,692	(5,628)	228,173
With donor restrictions	215,668	-	-	215,668
Total net assets	431,777	17,692	(5,628)	443,841
Total liabilities and net assets	$ 574,436	$ 20,248	$ (5,849)	$ 588,835

"Affiliates" as used in the footnote presented above includes the following entities: eleven national organizations that are registered as part of Habitat, Habitat for Humanity - Middle East, and MicroBuild India.

NOTE 21 - SUBSEQUENT EVENTS

Habitat has evaluated the need for adjustments and/or disclosure resulting from subsequent events in these consolidated financial statements through November 20, 2023, the date that the consolidated financial statements were available to be issued. During this period, there were no subsequent events that required recognition in the consolidated financial statements.