

**HABITAT FOR HUMANITY
NORTHWEST HARRIS COUNTY**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

June 30, 2021 and 2020

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
June 30, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Habitat for Humanity Northwest Harris County

We have audited the accompanying financial statements of Habitat for Humanity Northwest Harris County (a nonprofit organization), which comprise the statements of financial position as of June 30, 2021 and 2020 and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Independent Auditor's Report
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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity Northwest Harris County as of June 30, 2021 and 2020, 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.

Fitts, Roberts, Kolkhorst & Co., P.C.

Houston, Texas
April 8, 2022



HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
STATEMENTS OF FINANCIAL POSITION
As of June 30, 2021

	2021	2020
ASSETS		
Cash	\$ 4,512,791	\$ 3,559,274
Cash held in escrow	189,867	195,400
Accounts receivable	8,784	4,805
Mortgage receivable, net	2,756,610	2,941,039
Prepaid expenses	45,482	56,277
Inventory	137,211	122,465
Construction in progress	177,438	288,110
Land held for future construction	132,201	370,308
Furniture, equipment, and leasehold improvements, net	351,905	325,270
	\$ 8,312,289	\$ 7,862,948
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 190,691	\$ 163,304
Accrued liabilities	147,388	129,202
Escrow funds	189,867	195,400
Note payable	-	367,432
	527,946	855,338
NET ASSETS		
Without donor restrictions		
Undesignated	7,525,045	6,922,202
Investment in land, net of related debt	132,201	2,876
With donor restrictions		
Purpose restriction - Home repair	127,097	82,532
	7,784,343	7,007,610
	\$ 8,312,289	\$ 7,862,948

See accompanying notes to the financial statements.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
STATEMENT OF ACTIVITIES
For the year ended June 30, 2021

	Without donor restrictions	With donor restrictions	Total
Public support and revenues			
Contributions	\$ 677,452	\$ 1,106,680	\$ 1,784,132
Special events	148,569	-	148,569
In-kind contributions	20,919	-	20,919
Home sales	673,729	-	673,729
Amortization of mortgage discount and interest	290,237	-	290,237
Merchandise sales	1,994,799	-	1,994,799
Deconstruction revenue	2,081,010	-	2,081,010
Miscellaneous	12,928	-	12,928
	<u>5,899,643</u>	<u>1,106,680</u>	<u>7,006,323</u>
Net assets released from restrictions:			
Restrictions satisfied by home repair payments	<u>1,062,115</u>	<u>(1,062,115)</u>	<u>-</u>
	<u>6,961,758</u>	<u>44,565</u>	<u>7,006,323</u>
Expenses			
Program services	5,757,818	-	5,757,818
Management and general	202,746	-	202,746
Fundraising	269,026	-	269,026
	<u>6,229,590</u>	<u>-</u>	<u>6,229,590</u>
Change in net assets	732,168	44,565	776,733
Net assets, beginning of year	<u>6,925,078</u>	<u>82,532</u>	<u>7,007,610</u>
Net assets, end of year	<u>\$ 7,657,246</u>	<u>\$ 127,097</u>	<u>\$ 7,784,343</u>

See accompanying notes to the financial statements.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
STATEMENT OF ACTIVITIES
For the year ended June 30, 2020

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Public support and revenues			
Contributions	\$ 181,487	\$ 502,040	\$ 683,527
Special events	90,676	-	90,676
In-kind contributions	116,348	-	116,348
Home sales	608,778	-	608,778
Amortization of mortgage discount and interest	330,602	-	330,602
Merchandise sales	2,079,111	-	2,079,111
Deconstruction revenue	2,720,252	-	2,720,252
Miscellaneous	64,009	-	64,009
	<u>6,191,263</u>	<u>502,040</u>	<u>6,693,303</u>
Net assets released from restrictions:			
Restrictions satisfied by home repair payments	<u>713,695</u>	<u>(713,695)</u>	<u>-</u>
	<u>6,904,958</u>	<u>(211,655)</u>	<u>6,693,303</u>
Expenses			
Program services	6,054,802	-	6,054,802
Management and general	509,341	-	509,341
Fundraising	205,584	-	205,584
	<u>6,769,727</u>	<u>-</u>	<u>6,769,727</u>
Change in net assets	135,231	(211,655)	(76,424)
Net assets, beginning of year	<u>6,789,847</u>	<u>294,187</u>	<u>7,084,034</u>
Net assets, end of year	<u>\$ 6,925,078</u>	<u>\$ 82,532</u>	<u>\$ 7,007,610</u>

See accompanying notes to the financial statements.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2021

	Construction	Restore	Family Services	Hurricane Harvey Relief	Total Program Services	Management and General	Fund Raising	Total
Compensation	\$ 238,514	\$ 1,035,175	\$ 165,322	\$ -	\$ 1,439,011	\$ 77,561	\$ 152,684	\$ 1,669,256
Construction costs	1,645,838	-	-	-	1,645,838	-	-	1,645,838
Cost of sales	-	48,668	-	-	48,668	-	-	48,668
Demolition costs	-	818,013	-	-	818,013	-	-	818,013
Depreciation expenses	22,103	115,066	-	-	137,169	-	-	137,169
Equipment rental	156	-	-	-	156	-	-	156
Insurance	53,714	54,862	2,617	-	111,193	4,290	3,006	118,489
Interest	-	-	-	-	-	1,690	-	1,690
Office expense	4,235	21,493	-	-	25,728	402	4,722	30,852
Postage	11	-	55	-	66	897	233	1,196
Printing and newsletters	13,996	-	-	-	13,996	-	6,596	20,592
Professional fees & contract labor	2,152	596,828	-	-	598,980	42,038	-	641,018
Project recycling	-	11,059	-	-	11,059	-	-	11,059
Public relations	-	2,564	-	-	2,564	-	78,987	81,551
Rent	13,647	528,406	13,647	-	555,700	8,188	13,647	577,535
Repairs and maintenance	17,652	12,528	-	-	30,180	-	-	30,180
Small tools	2,319	880	-	-	3,199	-	-	3,199
Supplies	7,821	44,616	88	-	52,525	29,994	-	82,519
Property taxes	-	-	-	-	-	-	-	-
Contribution to HFHI	-	9,000	-	-	9,000	-	3,000	12,000
Training and education	1,730	-	-	-	1,730	1,386	-	3,116
Travel	14,448	38,872	267	-	53,587	5,223	357	59,167
Utilities	1,513	52,264	6,070	-	59,847	3,161	1,759	64,767
Gain on sale of assets	-	-	-	-	-	(5,209)	-	(5,209)
Other	124,970	7,592	7,047	-	139,609	33,125	4,035	176,769
Total Expenses	\$ 2,164,819	\$ 3,397,886	\$ 195,113	\$ -	\$ 5,757,818	\$ 202,746	\$ 269,026	\$ 6,229,590

See accompanying notes to the financial statements.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2020

	Construction	Restore	Family Services	Hurricane Harvey Relief	Total Program Services	Management and General	Fund Raising	Total
Compensation	\$ 343,346	\$ 1,102,254	\$ 190,192	\$ -	\$ 1,635,792	\$ 111,306	\$ 137,999	\$ 1,885,097
Construction costs	851,108	-	-	458,523	1,309,631	-	-	1,309,631
Cost of sales	-	40,188	-	-	40,188	-	-	40,188
Demolition costs	-	1,162,371	-	-	1,162,371	-	-	1,162,371
Depreciation expenses	23,650	111,662	-	-	135,312	-	-	135,312
Equipment rental	351	2,611	-	-	2,962	-	-	2,962
Insurance	68,400	64,148	2,578	-	135,126	3,283	3,126	141,535
Interest	-	-	-	-	-	21,885	-	21,885
Office expense	5,799	23,002	-	-	28,801	1,442	4,393	34,636
Postage	92	-	44	-	136	832	244	1,212
Printing and newsletters	-	-	-	-	-	-	2,301	2,301
Professional fees & contract labor	9,256	619,840	-	-	629,096	111,584	-	740,680
Project recycling	-	17,592	-	-	17,592	-	-	17,592
Public relations	-	8,247	4,603	-	12,850	-	32,435	45,285
Rent	15,074	641,953	15,074	-	672,101	7,537	15,074	694,712
Repairs and maintenance	30,410	18,427	-	-	48,837	-	-	48,837
Small tools	2,794	5,116	-	-	7,910	-	-	7,910
Supplies	12,827	84,738	26	-	97,591	38,334	-	135,925
Property taxes	12,565	-	-	-	12,565	-	-	12,565
Contribution to HFHI	-	19,200	-	-	19,200	-	4,800	24,000
Training and education	1,400	-	-	-	1,400	887	64	2,351
Travel	17,805	51,471	28	-	69,304	8,064	751	78,119
Utilities	1,180	80,171	6,833	-	88,184	4,286	3,297	95,767
Gain on sale of assets	(127,495)	-	-	-	(127,495)	166,521	-	39,026
Other	5,969	50,148	(769)	-	55,348	33,380	1,100	89,828
Total Expenses	<u>\$ 1,274,531</u>	<u>\$ 4,103,139</u>	<u>\$ 218,609</u>	<u>\$ 458,523</u>	<u>\$ 6,054,802</u>	<u>\$ 509,341</u>	<u>\$ 205,584</u>	<u>\$ 6,769,727</u>

See accompanying notes to the financial statements.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
STATEMENTS OF CASH FLOWS
For the years ended June 30,

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 776,733	\$ (76,424)
Adjustments to reconcile net change in net assets to net cash provided by operating activities:		
Depreciation	137,169	135,312
Loss on disposal of assets	41,971	4,197
PPA Loan forgiveness	(367,432)	-
Amortization of mortgage discount	(116,776)	(54,662)
Changes in assets and liabilities		
Accounts receivable	(3,979)	32,247
Mortgage loans receivable	301,205	250,228
Prepaid expenses	10,795	(45,469)
Inventory	(14,746)	(3,466)
Home construction in progress	110,672	21,695
Land held for future construction	238,107	1,545,256
Other assets	-	42,996
Accounts payable	27,387	(154,343)
Accrued liabilities	18,186	71,465
Escrow funds	(5,533)	(74,945)
Net cash provided by operating activities	<u>1,153,759</u>	<u>1,694,087</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(205,775)	(21,781)
Net cash (used in) investing activities	<u>(205,775)</u>	<u>(21,781)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from SBA PPP Loan	-	367,432
Principal repayments made on note payable	-	(730,291)
Net cash (used in) financing activities	<u>-</u>	<u>(362,859)</u>
NET INCREASE IN CASH	\$ 947,984	\$ 1,309,447
CASH AND CASH IN ESCROW - beginning of year	<u>3,754,674</u>	<u>2,445,227</u>
CASH AND CASH IN ESCROW - end of year	<u>\$ 4,702,658</u>	<u>\$ 3,754,674</u>
Supplemental disclosures		
Interest paid	<u>\$ 1,690</u>	<u>\$ 21,885</u>

See accompanying notes to the financial statements.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Habitat for Humanity Northwest Harris County (the Organization or Habitat) is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles (GAAP) and have been consistently applied in the preparation of the financial statements.

Nature of Business

The Organization was incorporated on February 21, 1989 to encourage, promote, and assist in the building and redevelopment of low-income housing in Cypress-Fairbanks, Klein, Spring, and Tomball school districts. The Organization is an affiliate of Habitat for Humanity International, Inc. (HFHI), a nondenominational Christian non-profit organization whose purpose is to create affordable housing for those in need, and to make shelter a matter of conscience with people everywhere. Although HFHI assists with information, resources, training, publications and prayer support, the Organization is primarily and directly responsible for its operations.

The Organization's purpose is accomplished through a privately operated and financed program to sell such housing to low-income persons at or below actual cost utilizing non-interest bearing mortgage loans. The Organization expects to finance its operations through continuing contributions and mortgage payment receipts.

The Organization has established the ReStore program to operate a resale store in order to generate additional income and to extend the mission of the Organization by providing low cost donated materials for low income homeowners to repair and improve their houses. The Organization accepts donations of building materials, supplies, furniture and appliances for the store and receives inventory from deconstructed homes where the donor pays the Organization for deconstruction services and the Organization retains usable items from the deconstructed homes.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from the estimates.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Organization considers all unrestricted, highly liquid investments with a maturity of three months or less to be cash equivalents.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Mortgages Receivable, Net

Mortgages receivable, net represents the amount charged to the homeowner for houses built and secured with real estate that are to be paid back over a mutually established period of time. These mortgages are typically paid back on a monthly basis. Generally, the Organization's mortgages are non-interest-bearing. The mortgage receivable balance has been discounted to reflect the economic value using interest rates ranging from 7.4% to 8.5% in the year the mortgage was originated. This discount is recognized as income over the life of the mortgage, utilizing the straight-line method.

Habitat's allowance for loan losses is based on historical collection experience and a review of the status of the mortgage loans receivable. Habitat considers the majority of the mortgage loans receivable to be fully collectible, or if not fully collectible, the value of the homes collateralizing the loans exceeds the unpaid amount of the related receivable. Accordingly, no allowance for loan losses is included in Habitat's financial statements.

Concentrations of Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash and mortgages receivable. The Organization places its cash with high credit quality financial institutions. In monitoring this credit risk, the Organization periodically evaluates the stability of the financial institutions. The Organization maintains cash accounts in excess of \$250,000 at a single financial institution. The Federal Deposit Insurance Corporation (FDIC) standard insurance amount is \$250,000 and balances in excess of this amount are subject to risk. The balance in excess of FDIC coverage at June 30, 2021 was \$3,742,291.

Inventory

Inventory consists of purchased building materials, furniture, and other merchandise available for sale. Purchased goods are initially recorded at cost and donated goods are recorded at fair value at the time of donation. Inventory at December 31, 2021 and 2020 is recorded at the lower of cost or net realizable value.

Construction in Progress

Construction in progress includes direct costs of materials and labor incurred on homes while under the construction phase until the sale of the home to the homeowner is closed.

Land Held for Future Construction

Land held for future construction includes the cost of land and related construction site readiness costs such as concrete, security fencing and landscaping. When homes are completed and the sale of the home to the homeowner has closed, the applicable cost of the lot is reported as construction costs.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Asset Impairment

Real estate assets are evaluated for impairment if impairment indications are present. An impairment write-down to fair value less costs to sell occurs when management believes that events or changes in circumstances indicate that its carrying amount may not be recoverable. Not impairment charges were recorded for years ending June 30, 2021 or 2020.

Property and Equipment

Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Buildings and equipment used in operations are depreciated using the straight-line method based on the estimated useful lives of the assets as follows:

Computers and vehicles	3-5 years
Office equipment & furniture	5-7 years
Warehouse equipment	5-10 years
Leasehold improvements	5 years

Escrow Funds

Homeowner payments are held in escrow for insurance, real estate taxes, and homeowners association dues until remitted to the various vendors.

Income Taxes

The Organization is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). However, the Organization is subject to taxes on unrelated business income.

The Organization believes that all significant tax positions utilized will more likely than not be sustained upon examination. As of June 30, 2021, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the fiscal year 2017 forward (with limited exceptions). Tax penalties and interest, if any, would be accrued as incurred and would be classified as general and administrative expense in the statements of activities.

Advertising Costs

Advertising costs are expensed as incurred.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Assets

Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

Net assets without donor restrictions - represent net assets available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions - consist of contributed funds subject to donor-imposed restrictions related to a specific purpose or requiring a specific passage of time before the funds can be spent. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Organization had no perpetually restricted net assets as of June 30, 2021.

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. As of June 30, 2021 and 2020, restricted net assets totaled \$127,097 and \$294,187, respectively.

Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor for future periods or a specific purpose are reported as increases in donor restricted net assets. When a restriction expires, restricted net assets are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restriction. When a restriction is met in the same year as the restricted contribution, the contribution is treated as an unrestricted contribution. The Organization has no restricted amounts to be held perpetually, based on donor-imposed requirements.

Certain grants and contracts from foundations and governmental entities are included in deferred revenue due to stipulations within the agreements that contain right of return of funds and barriers that make these contributions conditional. These funds are recognized as eligible costs are incurred.

Unconditional promises to give that are expected to be collected within one year are recorded at their realizable value. Unconditional promises to give that are expected to be collected after one year or more are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included as contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. The Organization had no outstanding unconditional promises due as of June 30, 2021 or 2020.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Organization reports gifts of goods and services at the fair market value of the donation when a clear objective basis of determining the value is available. A substantial number of volunteers donate significant contributions of their time to the Organization in the areas of administration, fundraising and house construction. The Organization records the fair value of contributed services that require specialized skills and are provided by individuals with those skills and that would otherwise need to be purchased if not provided by donation. The value of the contributed time not meeting these criteria is not reflected in these financial statements. For the years ended June 30, 2021 and 2020, donated services that required specialized skills totaled \$0 and \$116,348, respectively.

Sale of Homes, Net

Sale of homes represents the sale of houses built and are recorded at the mortgage amount net of the interest discount.

Functional Expenses

Functional expenses which cannot readily be identified as being related to a specific program are charged to the various programs based upon hours worked, square footage, number of program staff or other reasonable methods for allocating the Organization's multiple functional expenditures.

Date of Management Evaluation

The Organization monitors significant events occurring after the statement of net asset date and prior to issuance of the financial statements to determine the impact, if any, of events on the financial statements to be issued. The Organization did not have any recognized or nonrecognized subsequent events occurring after June 30, 2021. Subsequent events have been evaluated through April 8, 2022, the date the financial statements were available to be issued.

New Accounting Pronouncements

Effective July 1, 2020, Habitat adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606) which requires entities to evaluate the accounting for transactions in which both parties directly receive commensurate value. The adoption of this standard did not have a material impact on the accompanying financial statements. Income from contracts or other exchange transactions under ASC 606 is satisfied at a point of time or over a period of less than one year, and typically is satisfied within the same fiscal year.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recently Issued Accounting Standards Not Yet Adopted

In February 2016, the FASB issued a new leasing standard (ASU 2016-02—Leases (Topic 842)). The ASU affects all companies and organizations that lease assets such as real estate and equipment. Under the new guidance, lessees will recognize a right-of-use asset and corresponding liability on the balance sheet for all leases with terms of more than 12 months. The effective date of the new standard for private companies is for fiscal years beginning December 15, 2021. The Organization will be evaluating its leases over the coming year to determine the effect the new guidance will have on the Organization’s financial statements.

Other accounting pronouncements recently issued by the FASB did not or are not believed by management to have a material impact on the Organization’s present or future financial statements.

NOTE B – MORTGAGES RECEIVABLE, NET

Mortgages receivable consist of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Receivables due in less than one year	\$ 474,930	\$ 507,544
Receivables due in two to five years	2,374,648	2,537,717
Thereafter	<u>4,166,329</u>	<u>4,271,851</u>
	7,015,907	7,317,112
Unamortized discount	<u>(4,259,297)</u>	<u>(4,376,073)</u>
Mortgages receivable, net	<u>\$ 2,756,610</u>	<u>\$ 2,941,039</u>

During the year ended June 30, 2017, the Organization began selling homes to qualified low income families with a second subordinate mortgage loan equal to the difference between the first mortgage loan and the appraised value of the home. Subordinate mortgages are no-interest instruments, and the payments are deferred (thus the common reference as “soft” or “silent” mortgage) until the maturity date or other triggering event, such as the sale or other transfer of title, default under the first mortgage, or refinancing of the first mortgage. When any funds related to the subordinate mortgages are received, the funds are recorded as income. Since the subordinate mortgage is forgiven if all monthly mortgage payments are made on time, the subordinate mortgage is considered a contingent asset, and it is therefore not recorded as an asset. The principal amount of subordinated mortgages as of June 30, 2021 and 2020 totaled \$990,277 and \$770,104, respectively.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS

NOTE C – FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

At June 30, 2021 and 2020, the cost and accumulated depreciation of furniture, equipment and leasehold improvement were as follows:

	2021	2020
Computer equipment	\$ 59,908	\$ 59,908
Office/Warehouse equipment	139,311	139,311
Furniture and fixtures	44,027	44,027
Vehicles	604,034	572,192
Leasehold improvements	271,041	220,178
	1,118,321	1,035,616
Accumulated depreciation	(766,416)	(710,346)
	\$ 351,905	\$ 325,270

Depreciation expense for years ended June 30, 2021 and 2020 was \$137,169 and \$135,312, respectively.

NOTE D – NOTES PAYABLE

During 2020 the Organization received a Small Business Association (“SBA”) 7(a) Paycheck Protection Program Loan (the “PPP Loan”) in the amount of \$367,432, bearing interest at 1% and maturing in May 2022. The PPP loan is pursuant to the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”). Under the terms of the PPP, certain amounts of the PPP Loan may be forgiven if they are used for qualifying expenses as described in the CARES Act.

In Accordance with FASB ASC 958-605, the timing of the recognition from a debt obligation to income depends on whether the terms are conditional or not. If conditional, the income is not recognized until the conditions are substantially met or explicitly waived. During fiscal year 2021 the Organization received notification that the loan had been forgiven by the SBA resulting in the Organization recording \$367,432 as contributions for year ending June 30, 2021.

During 2017 the Organization entered into an Acquisition and Development Loan Agreement with a bank proving for borrowings of up to \$1,950,000, at an interest rate of 4.25%, for 75% of the acquisition and development cost of 10.58 acres of undeveloped land. The land is located on Ella Boulevard south of FM 1960 on which the Organization is building 60 single family residential affordable housing units. Interest only payments were due monthly through February 5, 2019 when both principal and interest are due monthly based on the balance then outstanding, with a balloon payment of all unpaid principal due on January 5, 2022. The note was paid in-full by the Organization during year ending June 30, 2020.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS

NOTE E – RELATED PARTIES

The Organization elects to tith a portion of its annual contributions (excluding in-kind and restricted contributions) to Habitat for Humanity International (HFHI). These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2021 and 2020, the Organization contributed \$12,000 and \$24,000 to HFHI, respectively.

For years ending June 30, 2021 and 2020, the Organization received contributions from HFHI in the amount of \$636,995 and \$43,803, respectively.

The Organization received approximately \$11,500 and \$4,375 in contributions from Board Members in fiscal years 2021 and 2020, respectively.

NOTE F – LEASE COMMITMENTS

The Organization leases space for offices, the Restore resale store, and a donations collection center under an operating lease expiring in 2024 with future commitments by fiscal year as follows:

<u>Year ending June 30,</u>	
2022	\$ 635,363
2023	648,901
2024	<u>438,814</u>
	<u>\$ 1,723,078</u>

For the years ended June 30, 2021 and 2020, rent expense amounted to \$575,974 and \$688,087, respectively.

NOTE G – LITIGATION AND RISK MANAGEMENT

The organization is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year ended June 30, 2021, the Organization purchased commercial insurance for claims related to such risks.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS

NOTE H - AVAILABILITY AND LIQUIDITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of the financial position comprise the following:

Financial assets at year end:	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 4,512,791	\$ 3,559,274
Mortgage receivables due in 1 year	474,930	507,544
Accounts receivable, net	<u>8,784</u>	<u>4,805</u>
	<u>4,996,505</u>	<u>4,071,623</u>
Less amounts not available to be used within one year:		
Net assets with purpose restrictions to be met in less than one year	127,097	82,532
Financial assets available to meet general expenditures over the next 12 months	<u>\$ 4,869,408</u>	<u>\$ 3,989,091</u>