

**HABITAT FOR HUMANITY
NORTHWEST HARRIS COUNTY**

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

June 30, 2020 and 2019

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
June 30, 2020 and 2019

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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, 2020 and 2019 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.

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, 2020 and 2019, 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.

Houston, Texas
August 16, 2021

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
 STATEMENTS OF FINANCIAL POSITION
 As of June 30, 2020

ASSETS	2020	2019
Cash	\$ 3,559,274	\$ 2,174,882
Cash held in escrow	195,400	270,345
Accounts receivable	4,805	37,052
Mortgage receivable, net	2,941,039	3,136,605
Prepaid expenses	56,277	10,808
Inventory	122,465	118,999
Construction in progress	288,110	309,805
Land held for future construction	370,308	1,915,564
Furniture, equipment, and leasehold improvements, net	325,270	442,998
Other assets	-	42,996
	\$ 7,862,948	\$ 8,460,054
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 163,304	\$ 317,647
Accrued liabilities	129,202	57,737
Escrow funds	195,400	270,345
Note payable	367,432	730,291
	855,338	1,376,020
NET ASSETS		
Without donor restrictions		
Undesignated	6,922,202	5,604,574
Investment in land, net of related debt	2,876	1,185,273
With donor restrictions		
Purpose restriction - Home repair	82,532	294,187
	7,007,610	7,084,034
	\$ 7,862,948	\$ 8,460,054

See accompanying notes to the financial statements.

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

	Without donor restrictions	With donor restrictions	Total
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>
Public support and revenues			
	<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>
Total public support and revenues	<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>
Total expenses			
	<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 ACTIVITIES
For the year ended June 30, 2019

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Public support and revenues			
Contributions from donors and foundations	\$ 278,850	\$ 294,187	\$ 573,037
Special events	193,105	-	193,105
In-kind contributions	22,575	-	22,575
Home sales	241,584	-	241,584
Amortization of mortgage discount and interest	361,442	-	361,442
Merchandise sales	2,629,009	-	2,629,009
Deconstruction revenue	1,247,000	-	1,247,000
Miscellaneous	260,403	-	260,403
	<u>5,233,968</u>	<u>294,187</u>	<u>5,528,155</u>
Public support and revenues			
Net assets released from restrictions:			
Restrictions satisfied by home repair payments	<u>1,309,350</u>	<u>(1,309,350)</u>	<u>-</u>
Total public support and revenues	<u>6,543,318</u>	<u>(1,015,163)</u>	<u>5,528,155</u>
Expenses			
Program services	5,964,475	-	5,964,475
Management and general	241,954	-	241,954
Fundraising	240,565	-	240,565
	<u>6,446,994</u>	<u>-</u>	<u>6,446,994</u>
Total expenses			
Change in net assets	96,324	(1,015,163)	(918,839)
Net assets, beginning of year	<u>6,693,523</u>	<u>1,309,350</u>	<u>8,002,873</u>
Net assets, end of year	<u>\$ 6,789,847</u>	<u>\$ 294,187</u>	<u>\$ 7,084,034</u>

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	243	1,211
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	1,101	89,829
Total Expenses	\$ 1,274,531	\$ 4,103,139	\$ 218,609	\$ 458,523	\$ 6,054,802	\$ 509,341	\$ 205,584	\$ 6,769,727

See accompanying notes to the financial statements.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2019

	Construction	Restore	Family Services	Hurricane Harvey Relief	Total Program Services	Management and General	Fund Raising	Total
Compensation	\$ 439,128	\$ 1,032,067	\$ 72,353	\$ -	\$ 1,543,548	\$ 69,328	\$ 135,049	\$ 1,747,925
Construction costs	428,011	-	-	1,094,792	1,522,803	-	-	1,522,803
Cost of sales	-	97,432	-	-	97,432	-	-	97,432
Demolition costs	-	1,289,628	-	-	1,289,628	-	-	1,289,628
Depreciation expenses	15,180	110,950	-	-	126,130	-	-	126,130
Equipment rental	1,174	11,013	-	-	12,187	-	-	12,187
Insurance	61,776	57,897	-	-	119,673	4,391	2,519	126,583
Interest	-	-	-	-	-	32,704	-	32,704
Office expense	4,080	40,956	-	-	45,036	32,171	4,219	81,426
Postage	13	-	-	-	13	1,251	-	1,264
Printing and newsletters	87	-	-	-	87	1,309	5,879	7,275
Professional fees & contract labor	8,908	111,135	-	-	120,043	37,870	-	157,913
Project recycling	-	12,518	-	-	12,518	-	-	12,518
Public relations	-	-	-	-	-	-	69,773	69,773
Rent	14,121	568,161	13,809	-	596,091	4,467	13,809	614,367
Repairs and maintenance	28,397	17,114	-	-	45,511	226	-	45,737
Small tools	3,480	5,031	-	-	8,511	-	-	8,511
Supplies	21,176	76,099	-	-	97,275	-	-	97,275
Property taxes	13,024	-	-	-	13,024	-	-	13,024
Contribution to HFHI	-	20,000	-	-	20,000	-	-	20,000
Training and education	5,936	-	-	-	5,936	5,481	1,655	13,072
Travel	19,622	38,300	1,866	-	59,788	10,452	2,274	72,514
Utilities	1,331	99,989	86	-	101,406	1,023	1,666	104,095
Gain on sale of assets	7,197	-	-	-	7,197	-	-	7,197
Other	103,174	9,166	8,298	-	120,638	41,281	3,722	165,641
Total Expenses	<u>\$ 1,175,815</u>	<u>\$ 3,597,456</u>	<u>\$ 96,412</u>	<u>\$ 1,094,792</u>	<u>\$ 5,964,475</u>	<u>\$ 241,954</u>	<u>\$ 240,565</u>	<u>\$ 6,446,994</u>

See accompanying notes to the financial statements.

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

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (76,424)	\$ (918,839)
Adjustments to reconcile net change in net assets to net cash provided by (used in) operating activities:		
Depreciation	135,312	126,130
Loss on disposal of assets	4,197	-
Amortization of mortgage discount	(54,662)	(20,500)
Changes in assets and liabilities		
Accounts receivable	32,247	(37,052)
Mortgage loans receivable	250,228	114,942
Prepaid expenses	(45,469)	(6,425)
Inventory	(3,466)	11,571
Home construction in progress	21,695	(124,541)
Land held for future construction	1,545,256	(597,687)
Other assets	42,996	-
Accounts payable	(154,343)	214,185
Accrued liabilities	71,465	(28,179)
Escrow funds	(74,945)	15,850
Net cash provided by (used in) operating activities	1,694,087	(1,250,545)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(21,781)	(117,101)
Net cash (used in) investing activities	(21,781)	(117,101)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from SBA PPP Loan	367,432	-
Principal repayments made on note payable	(730,291)	(47,052)
Net cash (used in) financing activities	(362,859)	(47,052)
NET INCREASE (DECREASE) IN CASH	1,309,447	(1,414,698)
CASH AND CASH IN ESCROW - beginning of year	2,445,227	3,859,925
CASH AND CASH IN ESCROW - end of year	\$ 3,754,674	\$ 2,445,227
Supplemental disclosures		
Interest paid	\$ 21,885	\$ 32,704

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) 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, 2020 was \$3,218,958.

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, 2020 and 2019 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.

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, 2020, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the fiscal year 2016 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, 2020.

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, 2020 and 2019, restricted net assets totaled \$82,532 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 mounts to be held perpetually, based on donor-imposed requirements.

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 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, 2020 and 2019, donated services that required specialized skills totaled \$116,348 and \$39,801, respectively.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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

Subsequent events have been evaluated through August 16, 2021, the date the financial statements were available to be issued. Except as disclosed in Note D, management is of the opinion there are no subsequent events to disclose.

Recently Issued Accounting Standards Not Yet Adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued update 2014-09, ASC 606, "Revenue from Contracts with Customers". This guidance is a comprehensive new revenue recognition model that required a company to recognize revenue to depict transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. This standard is effective for annual periods beginning after December 15, 2019 for nonpublic organizations. Management is assessing the impact of adoption on its financial statements.

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 years 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.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS

NOTE B – MORTGAGES RECEIVABLE, NET

Mortgages receivable consist of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Receivables due in less than one year	\$ 507,544	\$ 521,277
Receivables due in two to five years	2,537,717	2,606,384
Thereafter	<u>4,271,851</u>	<u>4,439,679</u>
	7,317,112	7,567,340
Unamortized discount	<u>(4,376,073)</u>	<u>(4,430,735)</u>
Mortgages receivable, net	<u>\$ 2,941,039</u>	<u>\$ 3,136,605</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, 2020 and 2019 totaled \$770,104 and \$616,384, respectively.

NOTE C – FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

At June 30, 2020 and 2019, the cost and accumulated depreciation of furniture, equipment and leasehold improvement were as follows:

	<u>2020</u>	<u>2019</u>
Computer equipment	\$ 59,908	\$ 57,510
Office/Warehouse equipment	139,311	132,421
Furniture and fixtures	44,027	44,027
Vehicles	572,192	565,794
Leasehold improvements	<u>220,178</u>	<u>218,833</u>
	1,035,616	1,018,585
Accumulated depreciation	<u>(710,346)</u>	<u>(575,587)</u>
	<u>\$ 325,270</u>	<u>\$ 442,998</u>

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS

Depreciation expense for years ended June 30, 2020 and 2019 was \$135,312 and \$126,130, respectively.

NOTE D – NOTES PAYABLE

During 2017 the Organization entered into an Acquisition and Development Loan Agreement with a bank providing for borrowings of up to \$1,950,000, at 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 plans to build 60 single family residential affordable housing units. Interest only payments were due monthly until 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.

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. During fiscal year 2021 the Organization received notification that the loan had been forgiven by the SBA.

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, 2020 and 2019, the Organization contributed \$24,000 and \$20,000 to HFHI, respectively.

For years ending June 30, 2020 and 2019, the Organization received contributions from HFHI in the amount of \$43,803 and \$78,898, respectively. Of these amounts, approximately \$31,000 and \$30,000 was designated as disaster relief funding, respectively.

The Organization received approximately \$4,375 and \$50,005 in contributions from Board Members in fiscal years 2020 and 2019, respectively.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS

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>		
2021	\$	637,761
2022		638,383
2023		640,762
2024		<u>149,561</u>
	\$	<u><u>2,066,467</u></u>

For the years ended June 30, 2020 and 2019, rent expense amounted to \$614,367 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, 2020, the Organization purchased commercial insurance for claims related to such risks.

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:

	<u>2020</u>	<u>2019</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 3,559,274	\$ 2,174,882
Mortgage receivables due in 1 year	507,544	521,277
Accounts receivable, net	<u>4,805</u>	<u>37,052</u>
	<u>4,071,623</u>	<u>2,733,211</u>
Less amounts not available to be used within one year:		
Net assets with purpose restrictions to be met in less than one year	82,532	294,187
Financial assets available to meet general expenditures over the next 12 months	<u>\$ 3,989,091</u>	<u>\$ 2,439,024</u>