

HABITAT FOR HUMANITY  
NORTHWEST HARRIS COUNTY  
(a Texas Non-Profit Organization)

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

## CONTENTS

INDEPENDENT AUDITORS' REPORT.....	3
FINANCIAL STATEMENTS	
Statements of Financial Position .....	6
Statements of Activities .....	8
Statements of Functional Expenses .....	10
Statements of Cash Flows .....	12
Notes to the Financial Statements.....	14



**BENTLEY, BRATCHER & ASSOCIATES, P.C.**  
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
of Habitat for Humanity Northwest Harris County  
Houston, Texas

**Opinion**

We have audited the accompanying financial statements of Habitat for Humanity Northwest Harris County (the "Organization") (a Texas non-profit organization), which comprise the statement of financial positions as of June 30, 2023, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

**Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements free from material misstatement, whether due to fraud or error.

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



**BENTLEY, BRATCHER & ASSOCIATES, P.C.**  
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

**Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report which includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee an audit conducted in accordance with U.S. 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, including omissions, are considered material if there is a substantial likelihood, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with U.S. GAAS, we:

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



**BENTLEY, BRATCHER & ASSOCIATES, P.C.**  
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

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 we identified during the audit.

*Bentley, Bratcher & Associates, P.C.*

BENTLEY, BRATCHER & ASSOCIATES, P.C.  
Houston, Texas  
June 7, 2024

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2023 AND 2022

ASSETS

	2023	2022
<b>CURRENT ASSETS</b>		
Cash	\$ 5,603,380	\$ 4,954,315
Cash Held in Escrow	148,934	126,934
Accounts Receivable	4,682	4,714
Current Portion of Mortgage Receivable, Net	179,761	184,279
Inventory	277,517	290,030
Total Current Assets	6,214,274	5,560,272
<b>PROPERTY AND EQUIPMENT</b>		
Computer Equipment	59,908	59,908
Office and Warehouse Equipment	139,311	139,311
Furniture and Fixtures	44,027	44,027
Vehicles	706,327	640,512
Leasehold Improvements	324,589	321,064
	1,274,162	1,204,822
Accumulated Depreciation	(986,853)	(871,024)
Net Property and Equipment	287,309	333,798
<b>RIGHT-OF-USE ASSETS, OPERATING LEASES</b>	4,213,412	-
<b>OTHER ASSETS</b>		
Mortgage Receivable, Net	2,270,327	2,412,715
Construction in Progress	141,181	339,578
Land Held for Future Construction	531,203	423,341
Total Other Assets	2,942,711	3,175,634
<b>TOTAL ASSETS</b>	<b>\$ 13,657,706</b>	<b>\$ 9,069,704</b>

See the Accompanying Independent Auditors' Report and Notes to the Financial Statements

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2023 AND 2022

LIABILITIES AND NET ASSETS

	2023	2022
CURRENT LIABILITIES		
Accounts Payable	\$ 223,446	\$ 357,257
Accrued Liabilities	155,242	151,431
Escrow Funds	148,934	126,934
Current Portion of Operating Lease Liabilities	326,043	-
Total Current Liabilities	853,665	635,622
LONG-TERM LIABILITIES		
Operating Lease Liabilities	4,290,584	-
Current Portion of Operating Lease Liabilities	(326,043)	-
Total Long-Term Liabilities	3,964,541	-
TOTAL LIABILITIES	4,818,206	635,622
NET ASSETS		
Net Assets without Donor Restrictions		
Undersigned	8,734,237	8,010,741
Investment in Land, Net of Related Debt	105,263	423,341
Total Net Assets without Donor Restrictions	8,839,500	8,434,082
Net Assets with Donor Restrictions	-	-
Total Net Assets	8,839,500	8,434,082
TOTAL LIABILITIES AND NET ASSETS	\$ 13,657,706	\$ 9,069,704

See the Accompanying Independent Auditors' Report and Notes to the Financial Statements

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2023

	<u>Net Assets</u>	<u>Net Assets</u>	<u>Total</u>
<b>PUBLIC SUPPORT AND REVENUE</b>			
Contributions	\$ 353,145	\$ 12,595	\$ 365,740
Special Events	197,807	-	197,807
In-Kind Contributions	28,820	-	28,820
Home Sales	913,895	-	913,895
Merchandise Sales	2,338,072	-	2,338,072
Deconstruction Revenue	2,091,004	886,509	2,977,513
Miscellaneous	10,803	-	10,803
Net Assets Released from Restrictions Satisfied by Home Repair Payments	899,104	(899,104)	-
	<u>6,832,650</u>	<u>-</u>	<u>6,832,650</u>
<b>EXPENSES</b>			
Program Services	6,069,992	-	6,069,992
Management and General	340,501	-	340,501
Fundraising	319,264	-	319,264
	<u>6,729,757</u>	<u>-</u>	<u>6,729,757</u>
<b>OTHER INCOME (EXPENSES)</b>			
Amortization of Mortgage Discount	255,921	-	255,921
Interest Income	46,604	-	46,604
	<u>302,525</u>	<u>-</u>	<u>302,525</u>
<b>CHANGE IN NET ASSETS</b>	405,418	-	405,418
<b>NET ASSETS, BEGINNING</b>	<u>8,434,082</u>	<u>-</u>	<u>8,434,082</u>
<b>NET ASSETS, ENDING</b>	<u>\$ 8,839,500</u>	<u>\$ -</u>	<u>\$ 8,839,500</u>

See the Accompanying Independent Auditors' Report and Notes to the Financial Statements



HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2022

	<u>Net Assets</u>	<u>Net Assets</u>	<u>Total</u>
<b>PUBLIC SUPPORT AND REVENUE</b>			
Contributions	\$ 325,107	\$ 264,960	\$ 590,067
Special Events	257,206	-	257,206
Home Sales	856,584	-	856,584
Merchandise Sales	2,184,453	-	2,184,453
Deconstruction Revenue	2,457,845	-	2,457,845
Miscellaneous	19,144	-	19,144
Net Assets Released from Restrictions Satisfied by Home Repair Payments	<u>392,057</u>	<u>(392,057)</u>	<u>-</u>
Total Public Support and Revenue	6,492,396	(127,097)	6,365,299
<b>EXPENSES</b>			
Program Services	5,288,605	-	5,288,605
Management and General	441,357	-	441,357
Fundraising	<u>319,314</u>	<u>-</u>	<u>319,314</u>
Total Expenses	<u>6,049,276</u>	<u>-</u>	<u>6,049,276</u>
<b>OTHER INCOME (EXPENSES)</b>			
Amortization of Mortgage Discount	330,980	-	330,980
Gain on Sale of Property and Equipment	<u>2,736</u>	<u>-</u>	<u>2,736</u>
Total Other Income (Expenses)	<u>333,716</u>	<u>-</u>	<u>333,716</u>
CHANGE IN NET ASSETS	776,836	(127,097)	649,739
NET ASSETS, BEGINNING	<u>7,657,246</u>	<u>127,097</u>	<u>7,784,343</u>
NET ASSETS, ENDING	<u>\$ 8,434,082</u>	<u>\$ -</u>	<u>\$ 8,434,082</u>

See the Accompanying Independent Auditors' Report and Notes to the Financial Statements

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2023

	Program Service			Supporting Services		Total
	Construction	Restore	Family Services	Management and	Fund Raising	
Compensation	\$ 336,423	\$ 1,150,996	\$ 142,589	\$ 209,064	\$ 102,559	\$ 1,941,631
Construction Costs	1,050,861	-	-	-	-	1,050,861
Cost of Sales	-	143,276	-	-	-	143,276
Bank Service Charges	-	61,842	-	559	430	62,831
Demolition Costs	-	1,274,218	-	-	-	1,274,218
Depreciation	18,855	96,973	-	-	-	115,828
Dues and Subscriptions	3,636	-	-	29,376	20,270	53,282
Equipment Rental	1,039	366	-	-	-	1,405
Insurance	38,862	74,363	2,701	6,272	3,410	125,608
Licenses and Permits	-	67	-	-	-	67
Office Expenses	362	11,604	-	27,704	5,119	44,789
Operating Lease Cost	16,173	685,462	16,174	16,173	16,174	750,156
Postage	244	-	25	1,006	180	1,455
Printing and Newsletter	191	5,948	-	2,648	3,716	12,503
Professional Fees and Contract Labor	13,175	569,490	-	27,146	37,260	647,071
Public Relations	-	-	-	-	128,708	128,708
Repairs and Maintenance	20,120	36,599	-	-	-	56,719
Small Tools	1,217	-	-	-	-	1,217
Supplies	22,007	36,575	111	3,543	-	62,236
Contribution to HFHI	18,000	40,000	-	-	-	58,000
Telephone	4,815	19,661	3,216	2,914	-	30,606
Training and Education	2,134	350	178	4,423	-	7,085
Travel	14,260	65,824	72	8,352	827	89,335
Utilities	351	57,910	894	1,295	611	61,061
Other	-	8,231	1,552	26	-	9,809
<b>Total Expenses</b>	<b>\$ 1,562,725</b>	<b>\$ 4,339,755</b>	<b>\$ 167,512</b>	<b>\$ 340,501</b>	<b>\$ 319,264</b>	<b>\$ 6,729,757</b>

See the Accompanying Independent Auditors' Report and Notes to the Financial Statements

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2022

	Program Service			Supporting Services		Total
	Construction	Restore	Family Services	Management and	Fund Raising	
Compensation	\$ 234,976	\$ 999,778	\$ 197,127	\$ 270,579	\$ 132,323	\$ 1,834,783
Construction Costs	923,962	-	-	-	-	923,962
Cost of Sales	-	116,479	-	-	-	116,479
Bank Service Charges	-	54,429	-	950	300	55,679
Demolition Costs	-	996,049	-	-	-	996,049
Depreciation	22,272	110,477	-	-	-	132,749
Dues and Subscriptions	2,511	-	-	28,908	15,187	46,606
Equipment Rental	68	-	-	-	-	68
Insurance	33,043	56,251	2,752	5,854	3,221	101,121
Interest	-	49	-	-	-	49
Office Expenses	-	13,053	-	23,776	6,120	42,949
Postage	495	-	90	534	170	1,289
Printing and Newsletter	-	4,957	-	427	3,687	9,071
Professional Fees and Contract Labor	5,345	619,830	-	76,238	45,700	747,113
Public Relations	-	-	-	-	93,754	93,754
Rent	13,608	544,674	13,608	13,608	13,608	599,106
Repairs and Maintenance	9,554	21,802	-	-	-	31,356
Small Tools	1,871	-	-	-	-	1,871
Supplies	13,203	58,559	165	4,140	-	76,067
Contribution to HFHI	18,000	-	-	-	-	18,000
Telephone	4,904	17,119	4,678	3,928	-	30,629
Training and Education	2,688	-	267	2,714	-	5,669
Travel	11,931	72,181	22	7,803	2,986	94,923
Utilities	1,574	63,042	1,975	1,898	2,258	70,747
Other	-	15,163	4,024	-	-	19,187
<b>Total Expenses</b>	<b>\$ 1,300,005</b>	<b>\$ 3,763,892</b>	<b>\$ 224,708</b>	<b>\$ 441,357</b>	<b>\$ 319,314</b>	<b>\$ 6,049,276</b>

See the Accompanying Independent Auditors' Report and Notes to the Financial Statements

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 405,418	\$ 649,739
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	115,828	132,749
Reduction of Right-of-Use Assets, Operating Leases	399,833	-
Gain on Sale of Property and Equipment	-	(2,736)
Amortization of Mortgage Discount	(106,489)	(482,564)
Changes in Operating Assets and Liabilities:		
Accounts Receivable	33	4,072
Mortgage Loans Receivable	253,395	642,180
Prepaid Expenses	-	45,482
Inventory	12,513	(152,819)
Home Construction in Progress	198,397	(162,140)
Land Held for Future Construction	(107,862)	(291,140)
Accounts Payable	(133,811)	154,749
Accrued Liabilities	3,811	15,860
Escrow Funds	22,000	(62,933)
Operating Lease Liabilities	(322,661)	-
	740,405	490,499
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of Property and Equipment	(69,340)	(119,182)
Proceeds from Sale of Property and Equipment	-	7,274
	(69,340)	(111,908)
NET CASH USED IN INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES	-	-
NET INCREASE IN CASH	671,065	378,591
CASH, BEGINNING	5,081,249	4,702,658
CASH, ENDING	\$ 5,752,314	\$ 5,081,249

See the Accompanying Independent Auditors' Report and Notes to the Financial Statements

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY  
 STATEMENTS OF CASH FLOWS  
 FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
NON-CASH FINANCING ACTIVITIES:		
Right-of-Use Assets and Lease Obligations from the Implementation of ASC 842	\$ 4,613,245	\$ -
 SUPPLEMENTAL DISCLOSURES:		
Cash Paid for Interest	\$ -	\$ 49

See the Accompanying Independent Auditors' Report and Notes to the Financial Statements

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2023 AND 2022

**NOTE 1 – ORGANIZATION AND BACKGROUND**

Habitat for Humanity Northwest Harris County (the “Organization”) (a Texas Non-Profit Corporation) was originally chartered on February 21, 1989. The Organization was established 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 own 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 (“ReStore”) 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.

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies of the Organization are summarized below to assist the reader in reviewing the financial statements contained herein. The financial statements and notes are the representations of management, who is responsible for their integrity and objectivity. These accounting policies reflect industry practices which conform to the accounting principles generally accepted in the United States of America (“U.S. GAAP”) and have been consistently applied in the preparation of the financial statements.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2023 AND 2022

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**FINANCIAL STATEMENT PRESENTATION**

The Organization presents its financial statements under Financial Accounting Standards Board ASC 958-205, *Financial Statement of Not-For-Profit Entities*. Under FASB ASC 958-205, the Organization is required to report information regarding its financial position and activities according to two classifications of net assets as follows:

- Net Assets without Donor Restrictions – Net Assets which are not subject to donor-imposed stipulations. As of June 30, 2023 and 2022, net assets without donor restrictions totaled \$8,839,500 and \$8,434,082, respectively.
- Net Assets with Donor Restrictions – Net Assets subject to donor-imposed stipulations which may or will be met by actions of the Organization and/or the passing of time. As of June 30, 2023 and 2022, there was no restricted net assets.

The Organization is also required by FASB ASC Topic 958-205 to present statements of activities, functional expenses and cash flows.

**RECLASSIFICATIONS**

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

**USE OF ESTIMATES**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions which affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**CASH AND CASH EQUIVALENTS**

The Organization considers all short-term securities purchased with a maturity of three months or less to be cash equivalents. As of June 30, 2023 and 2022, the Organization did not have any cash equivalents.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2023 AND 2022

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**ESCROW FUNDS**

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

**ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS**

Accounts receivable are recorded at invoiced amounts. Accounts are deemed delinquent and considered for write-off based on the facts and circumstances surrounding the specific receivable. Management has evaluated the collectability of outstanding receivables and determined no allowance for doubtful accounts to be necessary at June 30, 2023 and 2022.

**MORTGAGES RECEIVABLE, NET**

Mortgages receivable, net represents the amount charged to the homeowner for houses built and secured with real estate, which are to be paid back over a mutually established period of time. These mortgages are typically paid back on a monthly basis and are generally non-interest-bearing. The mortgage receivable balance has been discounted to reflect the economic value using interest rates ranging from 7.23% to 8.18% in the year the mortgage originated. This discount is recognized as interest income over the life of the mortgage utilizing the straight-line method.

The Organization's allowance for mortgage losses is based on historical collection experience and a review of the status of the mortgage loans receivable. The Organization considers the majority of the mortgages 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 mortgage losses is included in the Organization's financial statements. See *Note 3* for further information of the Organization's mortgages receivable.

**INVENTORY**

Inventory consists of purchased and donated building materials, furniture as well as 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. Subsequently, all inventory is recorded at the lower of cost (using the average cost method) or market.



HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2023 AND 2022

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**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 events or changes in circumstances indicate its carrying amount may not be recoverable. No impairment charges were recorded for years ending June 30, 2023 and 2022.

**PROPERTY AND EQUIPMENT**

The Organization defines a capital asset as a unit of property acquired, produced, repaired or restored for a cost of more than \$1,000 with an economic useful life extending beyond a year. All capital assets are recorded at historical cost as of the date acquired.

Tangible assets with costs below the aforementioned threshold amount are recorded as an expense. Alternatively, tangible assets with an economic useful life of 12 months or less are required to be expensed, regardless of the acquisition, production or restoration cost. Depreciation is recorded using the straight-line method over the useful lives of the assets and totaled \$115,828 and \$132,749 for the years ended June 30, 2023 and 2022, respectively.

Useful lives for property and equipment are as follows:

	<u>Years</u>
Computers and Vehicles	3 – 5
Office Equipment & Furniture	5 – 7
Warehouse Equipment	5 – 10
Leasehold Improvements	5

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2023 AND 2022

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**LEASES**

The Organization adopted ASU 2016-02, Leases (“ASC 842”) as of July 1, 2022, using the effective date transition method per ASU No. 2018-11, whereby entities are allowed to apply the new leases standard at the adoption date and to recognize the cumulative effect of initially applying ASC 842, if any, as an adjustment to retained earnings at July 1, 2022. Accordingly, all periods prior to July 1, 2022 were presented in accordance with the previous ASC Topic 840 (“ASC 840”), Leases. The adoption of ASC 842 did not have any impact on the Organization’s net assets. The adoption of ASC 842 resulted in the recording of operating lease right-of-use (“ROU”) assets and operating lease liabilities of \$4,613,245. The adoption did not materially impact the Organization’s statement of activities or cash flows.

Upon adoption, the Organization elected the package of transition practical expedients which allowed the Organization to carry forward prior conclusions related to: (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases and (iii) initial direct costs for existing leases. Additionally, the Organization elected the practical expedient to not separate lease components from nonlease components for all leases within the portfolio. The Organization made an accounting policy election to not record leases with a term of 12 months or less on the accompanying statements of financial position and recognizes related lease payments in the statement of activities on a straight-line basis over the lease term. The Organization determines if an arrangement is a lease at inception of a contract.

Following the adoption of this standard, the Organization determines if an arrangement contains a lease at inception based on whether there is an identified asset and whether the Organization controls the use of the identified asset throughout the period of use. The Organization classifies leases as either financing or operating. The Organization has an operating lease for office space and does not have any financing lease. ROU assets are recognized at the lease commencement date and represent the Organization’s right to use an underlying asset for the lease term and lease liabilities represent the Organization’s obligation to make lease payments arising from the lease.

Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments over the remaining lease term. Present value of lease payments are discounted based on the Organization’s risk-free rate, when the interest rate implicit in the Organization’s leases is not readily determinable. See *Note 4* for further information on the Organization’s lease agreements.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2023 AND 2022

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**LEASES (CONTINUED)**

The Organization’s operating lease ROU assets are measured based on the corresponding operating lease liabilities adjusted for (i) payments made to the lessor at or before the commencement date, (ii) initial direct costs incurred and (iii) lease incentives under the lease. Options to renew or terminate the lease are recognized as part of the Organization’s ROU assets and lease liabilities when it is reasonably certain the options will be exercised. ROU assets are also assessed for impairments consistent with the Organization’s long-lived asset policy.

The Organization does not allocate consideration between lease and non-lease components, such as maintenance costs, as the Organization has elected to not separate lease and non-lease components for any leases within its existing classes of assets. Operating lease expense for fixed lease payments is recognized on a straight-line basis over the lease term. Variable lease payments for volume-based expenses are not included in the measurement of the ROU assets or lease liabilities and are expensed as incurred. For some leases, the Organization reimburses the landlord for non-lease components, or items that are not considered components of a contract, such as common area maintenance, property tax and insurance costs. While the Organization determined not to separate lease and non-lease components, these payments are based on actual costs, making them variable consideration and excluding them from the calculations of the ROU asset and lease liability. Operating leases are presented separately as operating lease ROU assets, current operating lease liabilities, and noncurrent operating lease liabilities in the accompanying statements of financial position.

**REVENUE RECOGNITION**

The Organization’s revenue which fall within the scope of ASC 606 are contributions of funds and materials received from general public, revenue from the sale of affordable houses and low cost donated materials for low-income households and homeowners. ReStore also provides deconstruction services to its customers under contract arrangements. Revenue disaggregated by type and timing of revenue recognition, for the years ended June 30, 2023 and 2022 was as follows:

	<u>2023</u>	<u>2022</u>
Recognize at Point of Time		
Contributions	\$ 592,367	\$ 847,273
Home Sales	913,895	856,584
Merchandise Sales	2,338,072	2,184,453
Deconstruction Revenue	2,977,513	2,457,845
Recognize Over Time	-	-
	<u>\$ 6,821,847</u>	<u>\$ 6,346,155</u>

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2023 AND 2022

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**REVENUE RECOGNITION (CONTINUED)**

**Contributions**

Contributions are recognized when the donor makes a promise to give to the Organization which is, in substance, unconditional. Contributions 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 which contain right of return of funds and barriers which make these contributions conditional. These funds are recognized as eligible costs are incurred.

Unconditional promises to give which are expected to be collected within one year are recorded at their realizable value. Unconditional promises to give 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, 2023 and 2022.

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 which require specialized skills and are provided by individuals with those skills and which 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, 2023 and 2022, there were no donated services which required specialized skills.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2023 AND 2022

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**REVENUE RECOGNITION (CONTINUED)**

**Home Sales**

Home sales represents the sale of residential houses built by the Organization. The Organization uses the full accrual method to recognize revenues and profits or loss from its home sales. Accordingly, revenue from home sales is recognized for the mortgage amount net of any interest discount at the time a buyer has closed on the sale in accordance with the Federal Real Estate Settlement Procedures Act and/or other applicable state laws.

**Merchandise Sales**

Sales of donated materials are recognized at time of sale when control of the goods transferred to the customers for the amount of proceeds received.

**Deconstruction Revenue**

Revenue from the Organization's deconstruction services are presented within deconstruction revenue and typically consists of two portions. One portion of the revenue is considered a contribution, which is due and recognized upon receipt of the signed contract and full access to the property to be deconstructed. The other portion of the revenue is due and recognized upon completion of the contract and represents a predetermined amount of expenditure reimbursement.

**COST OF SALES**

Cost of sales includes the carrying value of the properties, material and direct costs related to building and rehabilitation by the Organization or any third parties.

**INCOME TAX**

The Organization is tax exempt under Section 501(c)(3) of the Internal Revenue Code and accordingly, is not subject to federal income tax; however, the Organization is subject to taxes on unrelated business income. For the years ended June 30, 2023 and 2022, the Organization had no unrelated business income. The Organization is required to file annual information returns with the Internal Revenue Service, which generally remain open to potential examination for a period of three years after the returns are filed.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2023 AND 2022

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**REVENUE RECOGNITION (CONTINUED)**

**ADVERTISING COSTS**

Advertising costs are expensed as incurred. For the years ended June 30, 2023 and 2022, the advertising expense as \$1,373 and \$339, respectively.

**NOTE 3 – MORTGAGES RECEIVABLE, NET**

Mortgages receivable consist of the following at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Receivables Due in Less than One Year	\$ 418,240	\$ 429,395
Receivables Due in Two to Five Years	1,531,822	1,574,387
Thereafter	<u>4,170,270</u>	<u>4,369,945</u>
	6,120,332	6,373,727
Unamortized Discount	<u>(3,670,244)</u>	<u>(3,776,733)</u>
Mortgages Receivable, Net	<u>\$ 2,450,088</u>	<u>\$ 2,596,994</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 mortgages payments are made on time, the subordinate mortgage is considered a contingent asset and is therefore, not recorded as an asset. As of June 30, 2023 and 2022, the principal amount of subordinate mortgages totaled \$1,221,949.

**NOTE 4 – LEASE AGREEMENTS**

As of June 30, 2023, the Organization’s primary leasing activities were related to the office space in Houston, Texas. The lease provides for an expiration date of August 31, 2034 with monthly base rent payments ranging from \$26,933 to \$37,277.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2023 AND 2022

**NOTE 4 – LEASE AGREEMENTS (CONTINUED)**

Significant assumptions and judgements were made in the application of GAAP for leases, including those related to the lease discount rate. The interest rate used to determine the present value of the future lease payments is the Organization’s risk-free rate, when the interest rate implicit in the Organization's lease is not readily determinable. The risk-free rate is estimated to approximate the interest rate on a treasury bill with similar terms of the lease payments at commencement date, and in similar economic environments.

Upon adoption, ASC 842, Leases has an impact on the Organization’s statement of financial position and in its statement of activities. As part of the transition, the Organization 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 ROU assets and corresponding lease liabilities with a lease term of 12 months or less from the lease commencement date for all class of assets.

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

On July 1, 2022, the Organization recorded \$4,613,245 in operating lease ROU assets and operating lease liabilities. The adoption of ASC 842 had no significant impact on the Organization’s statement of activities.

The following summarizes the line items for leases in the statement of financial position as of June 30, 2023:

	<u>Amount</u>
Operating Leases	
Right-of-Use Assets, Operating Leases	\$ 4,213,412
Current Portion of Operating Lease Liabilities	\$ 326,043
Operating Lease Liabilities	3,964,541
Total Operating Lease Liabilities	\$ 4,290,584

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2023 AND 2022

**NOTE 4 – LEASE AGREEMENTS (CONTINUED)**

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

Weighted Average Remaining Lease Term	
Operating Lease	11 years
Weighted Average Discount Rate	
Operating Lease	1.1%

As of June 30, 2023, the maturities of operating lease liabilities for each of the fiscal years ended were as follows:

Year	Amount
2024	\$ 372,857
2025	381,058
2026	386,581
2027	397,626
2028	403,149
Thereafter	2,637,034
Total Lease Payments	4,578,305
Less Imputed Interest	(287,721)
Present Value of Lease	\$ 4,290,584

The components of lease costs for the fiscal year ended June 30, 2023 are as follows:

Item	Statement of Income Location	Amount
Operating Lease:		
Lease Costs	General & Administrative	\$ 445,928
Other:		
Variable Lease Cost*	General & Administrative	304,228
Total Lease Cost		\$ 750,156

\* Variable lease cost primarily consists of short-term rent, charges based on usage and maintenance.



HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2023 AND 2022

**NOTE 5 – RELATED PARTY TRANSACTIONS**

The Organization elects to tittle a portion of its annual contributions (excluding in-kind and restricted contributions) to its affiliate HFHI. These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2023 and 2022, the Organization contributed \$50,500 and \$18,000 to HFHI, respectively.

For the years ended June 30, 2023 and 2022, the Organization received contributions from HFHI in the amount of \$119,597 and \$316,506, respectively.

The Organization received approximately \$6,380 and \$4,070 in contributions from the board members for the years ended June 30, 2023 and 2022, respectively.

**NOTE 6 – CONCENTRATIONS AND CREDIT RISKS**

The Organization maintains cash balances at a U.S. financial institution. All accounts are insured by the Federal Deposit Insurance Corporation on aggregate balances up to \$250,000 per financial institution per depositor. As of June 30, 2023 and 2022, the Organization had uninsured banking cash in the amount of \$5,432,381 and \$4,843,020, respectively.

As of June 30, 2023, no customer accounted for a significant amount of the Organization's accounts receivable. As of June 30, 2023, one vendor accounted for 35% of the Organization's accounts payable. Management believes all customers and vendors are replaceable if necessary.

**NOTE 7 – FUNCTIONAL EXPENSES**

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of functional expenses. Direct costs are allocated based on specific identification and indirect costs allocated based on hours worked or other similar allocation methods.

**NOTE 8 – DEFINED CONTRIBUTION RETIREMENT PLAN**

The Organization sponsors a 403(b) defined contribution retirement plan (the "Plan"). The Plan was adopted in January 2015 and provides for age and length of service qualification in accordance with ERISA rules and regulations.

The Plan provides for a discretionary employer matching contribution based on a uniform percentage of employee contributions. For the years ended June 30, 2023 and 2022, the Organization contributed \$3,306 and \$5,149, respectively to the Plan.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2023 AND 2022

**NOTE 9 – LIQUIDITY AND AVAILABILITY**

The following table sets forth further information about the Organization’s financial assets reduced by amounts not available for general use because of donor-imposed restrictions or board designations within one year of June 30, 2023 and 2022:

	2023	2022
Current Assets, Excluding Non-Financial Assets		
Cash and Cash Equivalents	\$ 5,603,380	\$ 4,954,315
Mortgage Receivables Due in One Year	418,240	429,395
Accounts Receivable, Net	4,682	4,714
	6,026,302	5,388,424
Less: Donor Restricted for Specific Purposes	-	-
Less: Board Designated Net Assets		
Cash Held for Acquisition of Land	(385,756)	(853,236)
Financial Assets Available to Meet Cash Needs for General Expenditures within One Year	\$ 5,640,546	\$ 4,535,188

**NOTE 10 – SUBSEQUENT EVENTS**

The Organization has evaluated subsequent events through the date of the independent auditors’ report, the date which the financial statements were available to be issued. No matters were identified affecting the accompanying financial statements that have not been disclosed.