

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

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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.....	13



INDEPENDENT AUDITORS' REPORT

Board of Directors
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, 2022, 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, 2022, 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.

Prior Period Financial Statements

The financial statements of the Organization as of June 30, 2021 were audited by other auditors whose report dated April 8, 2022 expressed an unmodified opinion on those statements.

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.



INDEPENDENT AUDITORS' REPORT (CONTINUED)

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.

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.



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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

- 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.

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
February 25, 2023

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
 STATEMENTS OF FINANCIAL POSITION
 JUNE 30, 2022 AND 2021

ASSETS

	2022	2021
CURRENT ASSETS		
Cash	\$ 4,954,315	\$ 4,512,791
Cash Held in Escrow	126,934	189,867
Accounts Receivable	4,714	8,784
Current Portion of Mortgage Receivable, Net	184,279	214,116
Prepaid Expenses	-	45,482
Inventory	290,030	137,211
Total Current Assets	5,560,272	5,108,251
PROPERTY AND EQUIPMENT		
Computer Equipment	59,908	59,908
Office and Warehouse Equipment	139,311	139,311
Furniture and Fixtures	44,027	44,027
Vehicles	640,512	604,034
Leasehold Improvements	321,064	271,041
	1,204,822	1,118,321
Accumulated Depreciation	(871,024)	(766,416)
Net Property and Equipment	333,798	351,905
OTHER ASSETS		
Mortgage Receivable, Net	2,412,715	2,542,494
Construction in Progress	339,578	177,438
Land Held for Future Construction	423,341	132,201
Total Other Assets	3,175,634	2,852,133
TOTAL ASSETS	\$ 9,069,704	\$ 8,312,289

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

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
 STATEMENTS OF FINANCIAL POSITION
 JUNE 30, 2022 AND 2021

LIABILITIES AND NET ASSETS

	2022	2021
CURRENT LIABILITIES		
Accounts Payable	\$ 357,257	\$ 202,508
Accrued Liabilities	151,431	135,571
Escrow Funds	126,934	189,867
Total Current Liabilities	635,622	527,946
 NET ASSETS		
Net Assets without Donor Restrictions		
Undesignated	8,010,741	7,525,045
Investment in Land, Net of Related Debt	423,341	132,201
Total Net Assets without Donor Restrictions	8,434,082	7,657,246
Net Assets with Donor Restrictions	-	127,097
Total Net Assets	8,434,082	7,784,343
 TOTAL LIABILITIES AND NET ASSETS	 \$ 9,069,704	 \$ 8,312,289

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

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
PUBLIC SUPPORT AND REVENUE			
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	392,057	(392,057)	-
Total Public Support and Revenue	6,492,396	(127,097)	6,365,299
EXPENSES			
Program Services	5,288,605	-	5,288,605
Management and General	441,357	-	441,357
Fundraising	319,314	-	319,314
Total Expenses	6,049,276	-	6,049,276
OTHER INCOME (EXPENSES)			
Amortization of Mortgage Discount	330,980	-	330,980
Gain on Sale of Property and Equipment	2,736	-	2,736
Total Other Income (Expenses)	333,716	-	333,716
CHANGE IN NET ASSETS	776,836	(127,097)	649,739
NET ASSETS, BEGINNING	7,657,246	127,097	7,784,343
NET ASSETS, ENDING	\$ 8,434,082	\$ -	\$ 8,434,082

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, 2021

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
PUBLIC SUPPORT AND REVENUE			
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
Merchandise Sales	1,994,799	-	1,994,799
Deconstruction Revenue	2,081,010	-	2,081,010
Miscellaneous	12,929	-	12,929
Net Assets Released from Restrictions Satisfied by Home Repair Payments	1,062,115	(1,062,115)	-
Total Public Support and Revenue	6,671,522	44,565	6,716,087
EXPENSES			
Program Services	5,801,932	-	5,801,932
Management and General	203,604	-	203,604
Fundraising	266,026	-	266,026
Total Expenses	6,271,562	-	6,271,562
OTHER INCOME (EXPENSES)			
Amortization of Mortgage Discount	290,237	-	290,237
Gain on Sale of Property and Equipment	41,971	-	41,971
Total Other Income (Expenses)	332,208	-	332,208
CHANGE IN NET ASSETS	732,168	44,565	776,733
NET ASSETS, BEGINNING	6,925,078	82,532	7,007,610
NET ASSETS, ENDING	\$ 7,657,246	\$ 127,097	\$ 7,784,343

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 General	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
Licenses and Permits	-	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
Total Expenses	\$ 1,300,005	\$ 3,763,892	\$ 224,708	\$ 441,357	\$ 319,314	\$ 6,049,276

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, 2021

	Program Service			Supporting Services		Total
	Construction	Restore	Family Services	Management and General	Fund Raising	
Compensation	\$ 265,085	\$ 1,035,175	\$ 165,322	\$ 73,210	\$ 152,684	\$ 1,691,476
Construction Costs	1,646,100	-	-	-	-	1,646,100
Cost of Sales	-	48,668	-	-	-	48,668
Bank Service Charges	-	41,716	-	2,174	2,865	46,755
Demolition Costs	-	813,450	-	-	-	813,450
Depreciation	22,103	115,066	-	-	-	137,169
Dues and Subscriptions	1,978	-	-	30,951	6,833	39,762
Equipment Rental	156	-	-	-	-	156
Insurance	31,494	54,862	2,617	4,290	3,006	96,269
Interest	-	-	-	1,690	-	1,690
Office Expenses	624	5,865	-	28,780	4,722	39,991
Postage	11	-	55	897	233	1,196
Printing and Newsletter	13,996	2,788	-	402	6,596	23,782
Professional Fees and Contract Labor	2,152	601,528	-	42,038	-	645,718
Public Relations	-	-	-	-	73,324	73,324
Rent	13,647	526,845	13,647	8,188	13,647	575,974
Repairs and Maintenance	17,652	16,821	-	-	-	34,473
Small Tools	2,319	-	-	-	-	2,319
Supplies	7,821	44,669	88	1,214	-	53,792
Contribution to HFHI	3,000	9,000	-	-	-	12,000
Telephone	5,011	15,162	4,311	2,105	-	26,589
Training and Education	1,730	-	267	1,386	-	3,383
Travel	12,870	51,762	-	5,223	357	70,212
Utilities	1,513	52,730	1,759	1,056	1,759	58,817
Other	122,908	3,242	2,347	-	-	128,497
Total Expenses	\$ 2,172,170	\$ 3,439,349	\$ 190,413	\$ 203,604	\$ 266,026	\$ 6,271,562

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, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 649,739	\$ 776,733
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	132,749	137,169
Gain on Sale of Property and Equipment	(2,736)	(41,971)
Forgiven Loan under Paycheck Protection Program	-	(367,432)
Amortization of Mortgage Discount	(482,564)	(116,776)
Changes in Operating Assets and Liabilities:		
Accounts Receivable	4,072	(3,980)
Mortgage Loans Receivable	642,180	301,205
Prepaid Expenses	45,482	10,795
Inventory	(152,819)	(14,746)
Home Construction in Progress	(162,140)	110,672
Land Held for Future Construction	(291,140)	238,107
Accounts Payable	154,749	39,204
Accrued Liabilities	15,860	6,369
Escrow Funds	(62,933)	(5,533)
NET CASH PROVIDED BY OPERATING ACTIVITIES	490,499	1,069,816
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of Property and Equipment	(119,182)	(143,851)
Proceeds from Sale of Property and Equipment	7,274	22,019
NET CASH USED IN INVESTING ACTIVITIES	(111,908)	(121,832)
CASH FLOWS FROM FINANCING ACTIVITIES	-	-
NET INCREASE IN CASH	378,591	947,984
CASH, BEGINNING	4,702,658	3,754,674
CASH, ENDING	\$ 5,081,249	\$ 4,702,658
SUPPLEMENTAL DISCLOSURES:		
Cash Paid for Interest	\$ -	\$ 1,690

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, 2022 AND 2021

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, 2022 AND 2021

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, 2022 and 2021, net assets without donor restrictions totaled \$8,434,082 and \$7,657,246, 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, 2022 and 2021, net assets restricted for home repair totaled \$0 and \$127,097, respectively.

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, 2022 and 2021, the Organization did not have any cash equivalents.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2022 and 2021.

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.

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.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2022 and 2021.

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 \$132,749 and \$137,169 for the years ended June 30, 2022 and 2021, 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, 2022 AND 2021

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.

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, 2022 and 2021 was as follows:

	2022	2021
Recognize at Point of Time		
Contributions	\$ 847,273	\$ 1,953,620
Home Sales	856,584	673,729
Merchandise Sales	2,191,727	1,994,799
Deconstruction Revenue	2,457,845	2,081,010
Recognize Over Time	-	-
	\$ 6,353,429	\$ 6,703,158

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.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION (CONTINUED)

Contributions (Continued)

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, 2022 and 2021.

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, 2022 and 2021, there were no donated services which required specialized skills.

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.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION (CONTINUED)

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, 2022 and 2021, 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.

ADVERTISING COSTS

Advertising costs are expensed as incurred. For the years ended June 30, 2022 and 2021, the advertising expense as \$339 and \$150, respectively.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

In February 2016, the FASB issued an updated standard to add Accounting Standards Codification ("ASC") Topic 842, *Leases*, which will replace most of the existing leasing guidance in U.S. GAAP when it becomes effective. One of the most significant changes this update will institute for all leases is the lessees will be required to recognize at the commencement date: a lease liability and a right-of-use asset.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2022 AND 2021

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED (CONTINUED)

The lease liability represents the lessee’s financial obligation under the lease, which is measured on a discounted basis. The right-of-use asset represents the lessee’s right to use, or control the use of, the underlying leased asset during the term of the lease. Additionally, the guidance requires improved disclosures to help users of financial statements better understand the nature and magnitude of lessee’s lease obligations.

Entities were required to adopt the new leases standard using a modified retrospective transition method, initially applying the new lease standard (subject to specific transition requirements and optional practical expedients) at the beginning of the earliest period presented in the financial statements. In July 2018, the FASB issued updated guidance, which provided an additional transition option which allows companies to continue applying the guidance under the current lease standard in the comparative periods presented in the combined financial statements. Companies which elect this option would record a cumulative-effect adjustment to the opening balance of retained earnings on the date of adoption.

The amendments in this update are effective for the Organization for fiscal years beginning after December 15, 2021 and interim periods within fiscal years beginning after December 15, 2022, with early adoption permitted. 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 3 – MORTGAGES RECEIVABLE, NET

Mortgages receivable consist of the following at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Receivables Due in Less than One Year	\$ 429,395	\$ 474,930
Receivables Due in Two to Five Years	1,574,387	2,374,648
Thereafter	<u>4,369,945</u>	<u>4,166,329</u>
	6,373,727	7,015,907
Unamortized Discount	<u>(3,776,733)</u>	<u>(4,259,297)</u>
Mortgages Receivable, Net	<u>\$ 2,596,994</u>	<u>\$ 2,756,610</u>

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2022 AND 2021

NOTE 3 – MORTGAGES RECEIVABLE, NET (CONTINUED)

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, 2022 and 2021, the principal amount of subordinate mortgages totaled \$990,277.

NOTE 4 – 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 matured 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 loan, certain amounts of the PPP loan may be forgiven if they are used for qualifying expenses as described in the CARES Act.

During the fiscal year ended June 30, 2021, the Organization received notification the entire amount of the loan was forgiven by the SBA resulting in the Organization recording \$367,432 as contributions for the year ended June 30, 2021.

NOTE 5 – OPERATING LEASES

The Organization leases office space, resale store and a donation collection center from a third party. The lease provides for an expiration date of February 29, 2024 and monthly base rent of \$30,730. Rental expense for this lease totaled \$599,106 and \$575,974 for the years ended June 30, 2022 and 2021.

Future minimum rental payments required under this lease are as follows:

Year Ended June 30	Amount
2023	\$ 368,756
2024	245,838
	<u>\$ 614,594</u>

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 6 – RELATED PARTY TRANSACTIONS

The Organization elects to tithe 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, 2022 and 2021, the Organization contributed \$18,000 and \$12,000 to HFHI, respectively.

For the years ended June 30, 2022 and 2021, the Organization received contributions from HFHI in the amount of \$ 316,506 and \$636,995, respectively.

The Organization received approximately \$4,070 and \$11,500 in contributions from the board members for the years ended June 30, 2022 and 2021, respectively.

NOTE 7 – 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, 2022 and 2021, the Organization had uninsured banking cash in the amount of \$4,843,020 and \$3,742,291, respectively.

As of June 30, 2022, one vendor accounted for approximately 12% of the Organization's accounts payable. Management believes these vendors are replaceable if necessary.

NOTE 8 – 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 9 – 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, 2022 and 2021, the Organization contributed \$5,149 and \$5,949, respectively to the Plan.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 10 – 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, 2022 and 2021:

	2022	2021
Current Assets, Excluding Non-Financial Assets		
Cash and Cash Equivalents	\$ 4,954,315	\$ 4,512,791
Mortgage Receivables Due in One Year	429,395	474,930
Accounts Receivable, Net	4,714	8,784
	5,388,424	4,996,505
Less: Donor Restricted for Specific Purposes	-	(127,097)
Less: Board Designated Net Assets		
Cash Held for Acquisition of Land	(853,236)	(829,666)
Financial Assets Available to Meet Cash Needs for General Expenditures within One Year	\$ 4,535,188	\$ 4,039,742

NOTE 11 – SUBSEQUENT EVENTS

As of the date of the auditors’ report, there were three properties under foreclosure procedures. The outstanding mortgage balance on these properties totaled \$127,283 and total market value as of January 1, 2022 was \$500,230.

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.