

HABITAT FOR HUMANITY ABILENE, INC.

FINANCIAL STATEMENTS
and
INDEPENDENT AUDITORS' REPORT

YEARS ENDED JUNE 30, 2020 and 2019

HABITAT FOR HUMANITY ABILENE, INC.

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Merritt, McLane & Hamby, P.C.

401 Cypress Street, Suite 303
Abilene, TX 79601

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Habitat for Humanity Abilene, Inc.
Abilene, Texas

We have audited the accompanying financial statements of Habitat for Humanity Abilene, Inc. (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 Abilene, Inc. 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.

Merritt, McLane & Hamby, P.C.

MERRITT, MCLANE & HAMBY, P.C.

Abilene, Texas
August 20, 2020

FINANCIAL STATEMENTS

HABITAT FOR HUMANITY ABILENE, INC.

Statements of Financial Position

June 30, 2020 and 2019

	ASSETS	
	<u>2020</u>	<u>2019</u>
CURRENT ASSETS:		
Cash	\$ 35,105	\$ 57,260
Accounts receivable	1,651	2,462
Prepaid expense	5,263	6,141
Mortgage notes receivable - current portion	156,474	158,633
Construction in process	77,665	175,716
Inventory	38,065	28,727
Restricted cash - mortgage escrow deposits	148,806	328,994
Total current assets	<u>463,029</u>	<u>757,933</u>
FIXED ASSETS:		
Property and equipment	623,318	618,508
Less: accumulated depreciation	(400,760)	(377,839)
Total fixed assets	<u>222,558</u>	<u>240,669</u>
MORTGAGE ASSETS:		
Mortgage notes receivable - net of current portion	1,557,805	1,486,066
Less: Unamortized discount on mortgage notes	(893,465)	(839,292)
Total mortgage notes - net of discount	<u>664,340</u>	<u>646,774</u>
OTHER ASSETS:		
Land held for development	5,057	7,777
Total other assets	<u>5,057</u>	<u>7,777</u>
TOTAL ASSETS	<u>\$ 1,354,984</u>	<u>\$ 1,653,153</u>
	LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:		
Accounts payable	\$ 31,314	\$ 52,976
Accrued liabilities	13,414	10,469
Escrow deposits	93,119	87,835
Current portion of long-term debt	25,687	29,162
Total current liabilities	<u>163,534</u>	<u>180,442</u>
LONG-TERM LIABILITIES:		
Long-term debt, less current portion	163,357	109,749
Total long-term liabilities	<u>163,357</u>	<u>109,749</u>
Total liabilities	<u>326,891</u>	<u>290,191</u>
NET ASSETS:		
Without restrictions	997,358	1,332,227
With restrictions	30,735	30,735
Total net assets	<u>1,028,093</u>	<u>1,362,962</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,354,984</u>	<u>\$ 1,653,153</u>

The accompanying notes are an integral part of this statement.

HABITAT FOR HUMANITY ABILENE, INC.

Statements of Activities

Years Ended June 30, 2020 and 2019

	2020	2019
Net assets without restrictions		
Public support:		
Contributions	\$ 64,128	\$ 110,141
In-kind contributions	50,734	79,496
Grants	78,872	42,737
Total public support	<u>193,734</u>	<u>232,374</u>
Operating revenue:		
House sales	265,113	98,150
Mortgage discount amortization	75,719	78,393
ReStore sales	324,958	409,516
Interest income	53	99
Loan forgiveness		20,000
Loan origination fees	2,564	951
Net assets released from restriction		275,000
Other revenue	4,654	5,954
Total operating revenue	<u>673,061</u>	<u>888,063</u>
Total revenue	<u>866,795</u>	<u>1,120,437</u>
 EXPENSES:		
Program services:		
Construction	582,463	361,590
ReStore	191,272	202,667
Family services	71,130	77,178
Mortgage	207,319	123,163
Total program services	<u>1,052,184</u>	<u>764,598</u>
Supporting services:		
Management and general	64,915	76,186
Fundraising	84,565	99,811
Total supporting services	<u>149,480</u>	<u>175,997</u>
Total expenses	<u>1,201,664</u>	<u>940,595</u>
 Change in net assets without restrictions	<u>(334,869)</u>	<u>179,842</u>
 Net assets with restrictions		
Contributions		
Net assets released from restriction		<u>(275,000)</u>
 Change in net assets with restrictions		<u>(275,000)</u>
 Change in net assets	(334,869)	(95,158)
 NET ASSETS AT BEGINNING OF PERIOD	<u>1,362,962</u>	<u>1,458,120</u>
 NET ASSETS AT END OF PERIOD	<u>\$ 1,028,093</u>	<u>\$ 1,362,962</u>

The accompanying notes are an integral part of this statement.

HABITAT FOR HUMANITY ABILENE, INC.

Statement of Functional Expenses

Year Ended June 30, 2020

	Program Services				
	Construction	ReStore	Family Services	Mortgage	Total
PAYROLL RELATED EXPENSES:					
Salaries	\$ 42,935	\$ 104,272	\$ 39,868	\$ 46,002	\$ 233,077
Payroll taxes	3,221	7,822	2,991	3,451	17,485
Health insurance	4,202	10,203	3,902	4,502	22,809
Retirement	845	2,052	785	906	4,588
Workers compensation insurance	515	309	52		876
Total Payroll expenses	<u>51,718</u>	<u>124,658</u>	<u>47,598</u>	<u>54,861</u>	<u>278,835</u>
OTHER EXPENSES					
Building materials and supplies	496,818				496,818
Homeowner services			893		893
Mortgage discounts				129,892	129,892
Advertising and promotion	1,954	5,428	869	760	9,011
Contract labor					
Telephone and utilities	6,073	9,108	6,073	3,037	24,291
Interest				4,372	4,372
Repairs and maintenance	1,533	4,258	681	596	7,068
Vehicle	2,294	3,027	551	551	6,423
Insurance	3,401	9,448	1,512	1,323	15,684
Equipment and tools	1,716	4,768	763	667	7,914
Office supplies	898	898	2,694	898	5,388
Dues and subscriptions	3,337	9,268	1,483	1,298	15,386
Miscellaneous	653	1,812	290	254	3,009
Printing and stationary	118	118	177	236	649
Professional fees	3,748	10,410	1,666	1,457	17,281
Postage	349	349	1,048	349	2,095
Volunteer expenses	2,278				2,278
Conferences and meetings	846	846	2,539	846	5,077
Affiliate Payments					
Taxes and licenses	2,437				2,437
Special events, net					
Closing costs				3,630	3,630
Total other expenses before depreciation	<u>528,453</u>	<u>59,738</u>	<u>21,239</u>	<u>150,166</u>	<u>759,596</u>
Depreciation	<u>2,292</u>	<u>6,876</u>	<u>2,293</u>	<u>2,292</u>	<u>13,753</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 582,463</u>	<u>\$ 191,272</u>	<u>\$ 71,130</u>	<u>\$ 207,319</u>	<u>\$ 1,052,184</u>

The accompanying notes are an integral part of this statement.

Supporting Services

Management and General	Fundraising	Total Supporting Services	Total
\$ 30,668	\$ 42,935	\$ 73,603	\$ 306,680
2,301	3,221	5,522	23,007
3,001	4,202	7,203	30,012
604	845	1,449	6,037
52	103	155	1,031
<u>36,626</u>	<u>51,306</u>	<u>87,932</u>	<u>366,767</u>
			496,818
			893
			129,892
760	1,086	1,846	10,857
5,028		5,028	5,028
3,037	3,037	6,074	30,365
			4,372
596	852	1,448	8,516
	2,753	2,753	9,176
1,323	1,890	3,213	18,897
667	954	1,621	9,535
898	2,695	3,593	8,981
1,298	1,854	3,152	18,538
254	363	617	3,626
177	353	530	1,179
1,457	2,082	3,539	20,820
349	1,049	1,398	3,493
	569	569	2,847
846	2,539	3,385	8,462
2,500		2,500	2,500
			2,437
2,223	8,891	11,114	11,114
			<u>3,630</u>
<u>21,413</u>	<u>30,967</u>	<u>52,380</u>	<u>811,976</u>
<u>6,876</u>	<u>2,292</u>	<u>9,168</u>	<u>22,921</u>
<u>\$ 64,915</u>	<u>\$ 84,565</u>	<u>\$ 149,480</u>	<u>\$ 1,201,664</u>

HABITAT FOR HUMANITY ABILENE, INC.

Statement of Functional Expenses

Year Ended June 30, 2019

	Program Services				
	Construction	ReStore	Family Services	Mortgage	Total
PAYROLL RELATED EXPENSES:					
Salaries	\$ 41,648	\$ 101,144	\$ 38,673	\$ 44,622	\$ 226,087
Payroll taxes	3,187	7,738	2,959	3,414	17,298
Health insurance	3,272	7,945	3,038	3,505	17,760
Retirement	708	1,719	657	758	3,842
Workers compensation insurance	222	133	22		377
Total Payroll expenses	49,037	118,679	45,349	52,299	265,364
OTHER EXPENSES					
Building materials and supplies	273,610				273,610
Homeowner services			1,440		1,440
Mortgage discounts				43,492	43,492
Advertising and promotion	5,966	16,579	2,653	2,321	27,519
Contract labor					
Telephone and utilities	6,975	10,463	6,975	3,488	27,901
Interest				6,391	6,391
Repairs and maintenance	2,171	6,031	965	844	10,011
Vehicle	2,173	2,869	521	521	6,084
Insurance	2,843	7,896	1,263	1,105	13,107
Equipment and tools	1,322	3,674	588	514	6,098
Office supplies	2,015	2,015	6,044	2,015	12,089
Dues and subscriptions	3,491	9,696	1,552	1,358	16,097
Miscellaneous	863	2,397	383	335	3,978
Printing and stationary	151	151	227	303	832
Professional fees	4,773	13,257	2,121	1,856	22,007
Postage	708	708	2,122	708	4,246
Volunteer expenses	1,703				1,703
Conferences and meetings	834	834	2,502	834	5,004
Affiliate payments					
Special events, net					
Taxes and licenses	159				159
Transitional property expense	323				323
Closing costs				2,306	2,306
Total other expenses before depreciation	310,080	76,570	29,356	68,391	484,397
Depreciation	2,473	7,418	2,473	2,473	14,837
TOTAL FUNCTIONAL EXPENSES	\$ 361,590	\$ 202,667	\$ 77,178	\$ 123,163	\$ 764,598

The accompanying notes are an integral part of this statement.

Supporting Services

Management and General	Fundraising	Total Supporting Services	Total
\$ 29,748	\$ 41,648	\$ 71,396	\$ 297,483
2,276	3,187	5,463	22,761
2,337	3,272	5,609	23,369
506	708	1,214	5,056
22	44	66	443
<u>34,889</u>	<u>48,859</u>	<u>83,748</u>	<u>349,112</u>
			273,610
			1,440
			43,492
2,322	3,316	5,638	33,157
9,041		9,041	9,041
3,488	3,488	6,976	34,877
			6,391
844	1,206	2,050	12,061
	2,607	2,607	8,691
1,106	1,579	2,685	15,792
514	735	1,249	7,347
2,015	6,044	8,059	20,148
1,358	1,940	3,298	19,395
335	479	814	4,792
227	454	681	1,513
1,856	2,652	4,508	26,515
708	2,123	2,831	7,077
	426	426	2,129
834	2,502	3,336	8,340
4,500		4,500	4,500
4,732	18,928	23,660	23,660
			159
			323
			<u>2,306</u>
<u>33,880</u>	<u>48,479</u>	<u>82,359</u>	<u>566,756</u>
<u>7,417</u>	<u>2,473</u>	<u>9,890</u>	<u>24,727</u>
<u>\$ 76,186</u>	<u>\$ 99,811</u>	<u>\$ 175,997</u>	<u>\$ 940,595</u>

HABITAT FOR HUMANITY ABILENE, INC.Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (334,869)	\$ (95,158)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Amortization of mortgage discounts	(75,719)	(78,393)
Mortgage discounts (income) expense	129,892	43,492
Depreciation	22,921	24,727
Decrease (Increase) in:		
Contribution receivable		75,000
Accounts receivable	811	1,018
Prepaid expense	878	(1,165)
Inventory	(9,338)	(16,932)
Construction in process	98,051	(58,767)
Property held for development/sale	2,720	
(Decrease) Increase in:		
Accounts payable	(21,662)	28,758
Other current liabilities	8,229	4,972
Net cash used in operating activities	<u>(178,086)</u>	<u>(72,448)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Mortgage loans advanced	(256,426)	(95,150)
Mortgage loans repaid	186,846	196,678
Acquisition of fixed assets	(4,810)	(924)
Net cash provided by (used in) investing activities	<u>(74,390)</u>	<u>100,604</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Retirement of long-term debt	(26,061)	(51,668)
Advances on long-term debt	76,194	12,000
Net cash provided by (used in) financing activities	<u>50,133</u>	<u>(39,668)</u>
Net change in cash	(202,343)	(11,512)
Cash, Beginning of the Year	<u>386,254</u>	<u>397,766</u>
Cash, End of the Year	<u>\$ 183,911</u>	<u>\$ 386,254</u>
Cash held without restrictions	35,105	57,260
Cash held with restrictions	<u>148,806</u>	<u>328,994</u>
Total cash	<u>183,911</u>	<u>386,254</u>
Supplemental Disclosure:		
Interest paid	<u>\$ 4,372</u>	<u>\$ 6,391</u>

The accompanying notes are an integral part of this statement.

HABITAT FOR HUMANITY ABILENE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Organization and Nature of Activities

Habitat for Humanity Abilene, Inc. (Habitat) was incorporated on March 22, 1990. Habitat is an affiliate of Habitat for Humanity International, Inc. (HFHI), a non-denominational Christian, non-profit organization whose purpose is to create decent, affordable housing for those in need, and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists with information resources, training, publications, prayer support, and various other ways, Habitat is primarily and directly responsible for its own operations.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (U.S. GAAP). Under this basis of accounting, revenues are recognized when earned, and expenses are generally recognized when incurred.

Basis of Presentation

Net assets and support, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Habitat and changes therein are classified and reported as follow:

Net assets without donor restrictions - Net assets not subject to donor-imposed stipulations.

Net assets with donor restrictions - Net assets that are subject to donor-imposed stipulations that may or will be met, either by actions of Habitat and/or the passage of time. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions. Net assets that are subject to donor-imposed stipulations that they be maintained permanently by Habitat, are classified as net assets with restrictions in perpetuity. Generally, the donors of these assets permit Habitat to use all or part of the income earned on any related investments for general or specific purposes.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of assets.

With respect to net assets with donor restrictions, Habitat has adopted the following accounting policies as permitted by various provisions of authoritative guidance.

Habitat has adopted the provisions of authoritative guidance concerning release from restrictions on net assets with donor restrictions upon the incurring of an expense when both net assets with restrictions and without donor restrictions are available for that purpose.

Contributions and related gains and investment income received with donor-imposed restrictions that are met in the same year as received are reported as revenues of net assets without donor restrictions.

HABITAT FOR HUMANITY ABILENE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Contributions of land, building and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the net assets without donor restrictions class. Contributions of cash or other assets to be used to acquire land, building and equipment with such donor stipulations are reported as revenues of the net asset with donor restrictions class; the restrictions are considered to be released at the time of acquisition or substantial completion of construction of such long-lived assets.

Advertising Costs

All advertising and promotional costs are expensed as incurred. Advertising costs are included in the Statement of Functional Expenses and for the years ended June 30, 2020 and 2019, totaled \$10,857 and \$33,157, respectively.

Contributions

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received.

Cash

Cash consists of cash in banks and all short-term highly liquid investments that are readily convertible into cash within ninety (90) days of purchase.

Restricted Cash

Habitat services the mortgages on the homes it sells. Included in restricted cash are amounts received from the homeowners held in escrow for the payments of insurance premiums, and property taxes on their homes.

Property and Equipment

Purchased property and equipment are recorded at cost. Donated assets are recorded at estimated fair market value at the time of receipt. Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the assets, currently 3 to 10 years for equipment and 10 to 30 years for buildings and improvements. Habitat's policy is to capitalize individual asset additions of more than \$500.

Accounts and Notes Receivable

Accounts receivable are recorded at the amount Habitat expects to receive from grantors. Habitat has not recorded an allowance for uncollectible receivables at June 30, 2020 and 2019, because management estimates all balances to be collectible.

Mortgage receivables represent the sale of homes to qualified families of houses built in Abilene, Texas by Habitat. The home sales are financed by Habitat utilizing non-interest bearing 15-25 year mortgages due in monthly installments from the families. The mortgages are secured by the underlying real estate and are carried at the unpaid principal balances. All mortgages are carried at below-market rate (zero percent) interest, as part of the mission for providing low-cost housing to families in the Abilene area. The

HABITAT FOR HUMANITY ABILENE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1: *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued*

mortgages receivable are discounted based upon prevailing market interest rates for low-income housing at the inception of the mortgage. The financing discounts are amortized and reflected as revenue when mortgage payments are collected, which is included net of discount on mortgages expense within the mortgage program. The present value discount on mortgages for homes sold is shown as discount on mortgages expense within the mortgage program.

Habitat has adopted a formal policy to address mortgage delinquencies in an effort to maintain a fair but firm partnership with their homeowners. Mortgage payments are due on the first day of each month and are considered delinquent on the 16th of the month, and an overdue notice is sent including a late fee. When the payment is 30 days late, a letter is sent indicating what is owed, including late fees and they are reminded of the foreclosure policy. If they remain delinquent for 45 days, Habitat calls and sends certified written notice that explains the options available to the borrower. When a payment is 60 days late, the Organization will turn the file over to an attorney who will give legal notice of default and give 21 days to cure the default before initiating foreclosure proceedings.

There are also several ways in which Habitat can work with the homeowners that are unable to make payments. (1) Habitat may, but is not obligated to, enter a payment arrangement with the homeowner to help with reduced income and the inability to pay. Should the mortgage principal payment be reduced, then the life of the mortgage would be extended. (2) Habitat may also enter into an agreement to delay payments or defer principal payments for a set number of months and then allow the homeowner to make slightly higher payments in the following months.

Habitat monitors these loans on a monthly basis and considers all mortgages to be collectible, thus no allowance for the loan losses has been recorded. Habitat maintains a partner relationship with the mortgagees. However, Habitat will consider foreclosure proceedings on any delinquent accounts if the partner family ceases to have the ability to pay and make payments on the mortgage or no longer has a willingness to partner with the Organization. At June 30, 2020 and 2019, Habitat had no recorded investment in foreclosed loans.

ASC 310 defines a portfolio segment as the level at which an entity develops and documents a systematic methodology to determine the allowance for credit losses and a class of financing receivables as the level of disaggregation of portfolio segments based on the initial measurement attribute, risk characteristics, and methods for assessing risk. Habitat's mortgage receivable portfolio consists of a single segment and class (residential mortgage receivables). Although Habitat has not recorded an allowance on mortgage receivables, the discount to present value is included and presented by portfolio segment in Note 6.

Compensated Absences

Employees of Habitat are entitled to paid vacation and sick leave. Full-time employees are entitled to up to 15 working days per year of vacation time, depending on the length of employment. At termination, employees are paid for accrued vacation days, depending on length of employment and providing they have given two weeks' notice. All employees earn 10 working days of sick leave per year with a maximum accrual of 160 hours. No sick leave is paid at termination of employment. Habitat has accrued the estimated unpaid cost of providing these benefits that have been earned in the current period.

Program Services

Program services include construction and rehabilitation costs for homes transferred to buyers. The cost of home building and rehabilitation is charged to construction in process as incurred and recorded as program services expense when the respective homes are transferred to homeowners.

The mortgage program offers zero percent interest loans to homeowners for the homes that have been built by Habitat. Discounts on mortgage originations are recorded as an expense and the amortization of those discounts are recorded as revenue amortized over the life of the note.

HABITAT FOR HUMANITY ABILENE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

ReStore is the program utilized to raise additional funding to aid the mission and other programs offered by Habitat. The ReStore is a retail operation that obtains home improvement related items through contributions, or wholesale purchases, and sells them to the general public.

The family services program offers education and support for homeowners in order to better prepare them for financial independence and home ownership.

Allocated Expenses

The details of the costs of providing the various programs and other activities are reflected in the statement of functional expenses. Accordingly, certain indirect costs and expenses have been allocated among the programs and supporting services benefited based on management's estimates of time spent and by use of estimated square footage.

Income Taxes

The Internal Revenue Service has determined that Habitat for Humanity Abilene, Inc. is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying financial statements. In addition, Habitat has been identified as an entity that is not a "private foundation" within the meaning of section 509(a) of the Internal Revenue Code and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi). Habitat is liable for any federal income taxes resulting from certain unrelated business income. For the fiscal years ending June 30, 2020 and 2019, there were no liabilities for any federal income tax resulting from unrelated business income.

Habitat recognizes interest accrued on and penalties related to unrecognized tax benefits in tax expense. During the year ended June 30, 2020 and 2019, Habitat recognized no interest or penalties.

Use of Estimates

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

Donated Services

Habitat receives a significant amount of donated services from unpaid volunteers who assist in providing program services, fundraising and special projects. Habitat records in-kind revenue for volunteer services to help build homes. These services amounted to \$50,734 and \$79,496 for the years ended June 30, 2020 and 2019, respectively. The services are reported in income as "In-Kind Contributions" and in assets as "Construction in Process". Volunteer services unrelated to construction of homes have not been recognized in the statement of activities because the criteria for recognition in accordance with authoritative guidance have not been satisfied.

NOTE 2: LIQUIDITY

At June 30, 2020, the Organization has \$231,295 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures consisting of cash of \$35,105, accounts receivable of \$1,651, mortgage notes receivable – current portion of \$156,474, and inventory of \$38,065. Cash of \$148,806 is subject to donor or other contractual restrictions that make it unavailable for general expenditure within one year of the balance sheet date. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

HABITAT FOR HUMANITY ABILENE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 2: LIQUIDITY - continued

At June 30, 2019, the Organization had \$247,082 of financial assets available within one year to meet cash needs for general expenditures consisting of cash of \$57,260, accounts receivable of \$2,462, mortgage notes receivable – current portion of \$158,633, and inventory of \$28,727. Cash of \$328,994 is subject to donor or other contractual restrictions that make it unavailable for general expenditure within one year of the balance sheet date.

NOTE 3: PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30:

	2020	2019
Office building	\$ 479,968	\$ 479,968
Vehicles	65,714	65,714
Furniture and equipment	77,636	72,826
Total property and equipment	623,318	618,508
Accumulated depreciation	(400,760)	(377,839)
Property and equipment, net	\$ 222,558	\$ 240,669

Depreciation expense for the years ended June 30, 2020 and 2019, was \$22,921 and \$24,727, respectively.

NOTE 4: PROPERTY HELD FOR DEVELOPMENT AND SALE

Property held for development and sale consists of the following as of June 30:

	2020	2019
Land held for future construction development	\$ 5,057	\$ 7,777
Total property held for development and sale	\$ 5,057	\$ 7,777

NOTE 5: CONSTRUCTION IN PROCESS

Following is a summary of home building activity:

	Number	Costs
Construction in process, June 30, 2018	3	\$ 116,949
Additional costs incurred for the year, July 1, 2018 to June 30, 2019		\$ 113,779
Homes transferred from July 1, 2018 to June 30, 2019	(1)	(55,012)
Construction in process, June 30, 2019	2	\$ 175,716
Additional costs incurred for the year, July 1, 2019 to June 30, 2020	3	\$ 223,630
Homes transferred from July 1, 2019 to June 30, 2020	(3)	(321,681)
Construction in process, June 30, 2020	2	\$ 77,665

HABITAT FOR HUMANITY ABILENE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 6: FINANCING RECEIVABLES

In accordance with ASC 310 *Receivables*, Habitat's mortgage receivables are considered financing receivables, which represent a contractual right to receive money either on demand or on a fixed or determinable date.

Habitat sells homes to approved families who meet the selection criteria of (1) ability to pay; (2) willingness to partner with Habitat; and (3) in need of safe and decent housing. The loan repayment terms vary, generally, from fifteen to twenty-five years. The term of the loan is dependent on the family's ability to pay. All loans are non-interest bearing. The loans are repaid in monthly installments that include principal repayment and escrow account deposits.

The balance of financing receivables for non-interest-bearing mortgage loans as of June 30 was:

	<u>2020</u>	<u>2019</u>
Non-interest bearing mortgage loans - long-term	\$ 1,557,805	\$ 1,486,066
Non-interest bearing mortgage loans - current	<u>156,474</u>	<u>158,633</u>
Total non-interest bearing mortgage loans	1,714,279	1,644,699
Less discount on mortgages issued	<u>(893,465)</u>	<u>(839,292)</u>
Discounted loan value	<u>\$ 820,814</u>	<u>\$ 805,407</u>

Activity for the recorded investment in the mortgage receivable segment of financing receivables was as follows as of and for the years ended June 30, 2020 and 2019:

Mortgage loans outstanding, as of June 30, 2018	\$ 1,746,227	
New mortgage loans on properties sold	95,150	
Properties repossessed or bought back-loans	-	
Loan payments received	<u>(196,678)</u>	
Mortgage loans outstanding, as of June 30, 2019	1,644,699	
New mortgage loans on properties sold	302,925	
Properties repossessed or bought back-loans	(46,500)	
Loan payments received	<u>(186,845)</u>	
Mortgage loans outstanding, as of June 30, 2020	<u>\$ 1,714,279</u>	

Activity for the mortgage discount of the mortgage receivable segment of financing receivables was as follows as of and for the years ended June 30, 2020 and 2019:

Discounts on mortgage loans outstanding, as of June 30, 2018	\$ 874,193	
New mortgage discounts	44,978	
Mortgage discounts deleted	(1,486)	
Amortization of discounts	<u>(78,393)</u>	
Discounts on mortgage loans outstanding, as of June 30, 2019	839,292	
New mortgage discounts	129,892	
Mortgage discounts deleted		
Amortization of discounts	<u>(75,719)</u>	
Discounts on mortgage loans outstanding, as of June 30, 2020	<u>\$ 893,465</u>	

HABITAT FOR HUMANITY ABILENE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 6: FINANCING RECEIVABLES - continued

Mortgage receivables consisted of the following aging categories at June 30:

	Past Due			Current	Total
	30 - 59 Days	60 - 89 Days	> 90 Days		
2020	\$ 77,542	\$ 61,526	\$ 142,690	\$ 1,432,521	\$ 1,714,279
2019	\$ 313,549	\$ 113,326	\$ 88,713	\$ 1,129,111	\$ 1,644,699

Habitat does not have a formal credit risk rating process, nor records an allowance on mortgages, as all loans are processed as non-interest bearing and Habitat takes a partnering and mentoring role in working with the homeowners to insure payment is obtained. In the event that homeowners are unwilling to work through the payment process, Habitat will undergo foreclosure proceedings.

Habitat has no investment in impaired mortgage receivables as of and for the years ended June 30, 2020 and 2019.

NOTE 7: ESCROW DEPOSITS

Upon completion of construction and sale of a house to a particular family, Habitat serves as the mortgage company. The contracted sales price is agreed upon in the Letter of Intent that stipulates the monthly principal payment and escrowed items and amounts.

The escrowed amounts are held in trust for the owners for payment when required. The escrowed items under each mortgage include the following items: (1) property taxes and (2) property insurance.

The balance of escrow deposits as of June 30, 2020 and 2019, were \$93,119 and \$87,835, respectively.

NOTE 8: LONG-TERM DEBT

Habitat had the following notes payable outstanding as of June 30:

	2020	2019
On April 9, 2020, the Organization entered into a loan agreement with the First Financial Bank in the amount of \$76,194 for the purpose of paying payroll and related expenses during the COVID pandemic. The loan is expected to be forgiven, however, since the criteria has not yet been established and made known, we have recorded the amount as a loan. The loan matures on April 9, 2022.	\$ 76,194	\$ -
Various notes payable in original amounts of \$27,800 to \$30,000 each, to the Texas Department of Housing and Community Affairs (TDHCA), payable in monthly installments of \$125, non-interest bearing with final maturities ranging from June 2028 to June 2038, secured by deeds of trust. (TDHCA - Bootstrap)	59,618	67,009
Line of credit dated February 8, 2018, to First Financial Bank with the maximum credit line of \$100,000, payable in monthly installments, including interest at the quarterly ceiling with a final payment due February 8, 2019 secured by a deed of trust.	11,500	11,500

HABITAT FOR HUMANITY ABILENE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 8: LONG-TERM DEBT - continued

	<u>2020</u>	<u>2019</u>
Various notes payable in original amounts of \$17,000 to \$20,000 each, payable to the First Financial Bank of Abilene in monthly installments ranging from \$97 to \$103, including interest rates of 7.75% to 8.95%, with final maturities ranging from April 2022 through February 2023, secured by deeds of trust. (FFB)	11,479	27,140
Note payable originally dated October 17, 2007, to First Financial Bank in the original amount of \$50,000 and renewed in 2009 for \$24,768, including interest at 6.75% with a final payment due March 30, 2025, secured by a deed of trust. (FFB - Ice Rink)	10,711	12,555
Note payable originally dated October 3, 2014, to First Financial Bank in the original amount of \$25,785, including interest at 5.50%, with a final payment due October 3, 2029, secured by a deed of trust.	<u>19,542</u>	<u>20,707</u>
	189,044	138,911
Less current portion	<u>25,687</u>	<u>29,162</u>
Long-term portion	<u>\$ 163,357</u>	<u>\$ 109,749</u>

Principal payment requirements for long-term debt are as follows:

2021	\$	25,687
2022		90,906
2023		14,544
2024		11,145
2025		10,712
2026-2030		<u>36,050</u>
	\$	<u><u>189,044</u></u>

NOTE 9: TRANSACTIONS WITH HABITAT FOR HUMANITY INTERNATIONAL, INC.

Habitat for Humanity International, Inc. encourages its local affiliates to make a voluntary contribution of a percentage of local contributions to the international organization. During the years ended June 30, 2020 and 2019, Habitat made contributions to Habitat for Humanity International, Inc. for \$2,500 and \$4,500, respectively.

Habitat pays an annual fee towards the Stewardship and Organizational Sustainability Initiative to Habitat for Humanity International, Inc., which is based on the size of the operation and service territory. During the years ended June 30, 2020 and 2019, Habitat made contributions to Habitat for Humanity International, Inc. for \$7,500 and \$7,500, respectively.

NOTE 10: RESTORE

Habitat began the operation of its ReStore shop in 2001. The store is a resale shop that sells building materials, supplies, and used office furniture at reduced prices. The inventory consists of items donated to Habitat for its use in its programs as well as discounted purchased goods. The proceeds supplement the funding of construction operations. The value of donated materials has not been recorded in the financial statements.

HABITAT FOR HUMANITY ABILENE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 11: INVENTORY

Inventory consists of discounted purchased goods that Habitat purchases to sell in its ReStore shop.

NOTE 12: SIGNIFICANT CONCENTRATION OF CREDIT RISK

Habitat grants mortgage loans to borrowers located in Abilene, Texas. The borrowers' ability to honor their contracts is dependent upon the local and regional economy. The respective borrowers' residences secure the mortgage loans.

Cash includes cash in checking and savings accounts. Habitat carries cash with financial institutions which are subject to credit risk to the extent that the deposits exceed federal deposit insurance limits. At times during the year amounts exceeded FDIC limits.

NOTE 13: RETIREMENT PLAN

Habitat offers a Simple IRA retirement plan for employees who elect to participate in the plan. Participants may elect to contribute up to the maximum allowed by IRS annual limitations. Employees over 50 years of age may make an additional "catch-up" contribution. Habitat matches the elected deferral up to 3% of the employee's annual salary. Habitat's retirement plan expense during the years ended June 30, 2020 and 2019, was \$6,037 and \$5,056, respectively. A third-party administrator administers the plan.

NOTE 14: COMMITMENTS AND CONTINGENCIES

Grants and contracts require the fulfillment of certain conditions set forth in the instrument of the grant or contract. Failure to fulfill the conditions could result in the return of funds to the grantors. Although the possibility remains, management deems the contingency remote, as by accepting awards and their terms, it has accommodated the objectives of the organization to the provisions of the grant.

NOTE 15: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Net assets with donor restrictions:		
Shelton Foundation - house sponsorship	\$ 30,000	\$ 30,000
Local - education materials	<u>735</u>	<u>735</u>
Total	<u>\$ 30,735</u>	<u>\$ 30,735</u>

NOTE 16: NET ASSETS RELEASED FROM RESTRICTION

Net assets of \$0 and \$275,000 were released from restriction for the years ended June 30, 2020 and 2019, respectively, by incurring expenses satisfying the donor restriction of part-time hired help and capital acquisitions.

NOTE 17: SUBSEQUENT EVENTS

Subsequent events were evaluated through August 20, 2020, the date the financial statements were available to be issued.