

**HABITAT FOR HUMANITY ABILENE, INC.**

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FINANCIAL STATEMENTS  
and  
INDEPENDENT AUDITORS' REPORT

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YEARS ENDED JUNE 30, 2022 and 2021

**HABITAT FOR HUMANITY ABILENE, INC.**

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# Merritt, McLane & Hamby, P.C.

500 Chestnut Street, Suite 1645  
Abilene, TX 79602

## INDEPENDENT AUDITORS' REPORT

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

### **Opinion**

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, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years 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 Habitat for Humanity Abilene, Inc. as of June 30, 2022 and 2021, 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.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the audit of the Financial Statements section of our report. We are required to be independent of Habitat for Humanity of Abilene, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that 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 these financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Habitat for Humanity Abilene, Inc.'s ability to continue as a going concern within one year after the date that 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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 that, 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 generally accepted auditing standards, 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.

- Obtaining an understanding of internal control relevant to the audit 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 Habitat for Humanity Abilene, Inc.'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, that raise substantial doubt about Habitat for Humanity Abilene, Inc.'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 that we identified during the audit.

*Merritt, McLane & Hamby, P.C.*

**MERRITT, MCLANE & HAMBY, P.C.**

Abilene, Texas  
August 26, 2022

## **FINANCIAL STATEMENTS**

**HABITAT FOR HUMANITY ABILENE, INC.**

## Statements of Financial Position

June 30, 2022 and 2021

	<b>ASSETS</b>	<u>2022</u>	<u>2021</u>
<b>CURRENT ASSETS:</b>			
Cash		\$ 258,693	\$ 174,788
Accounts receivable		2,451	2,276
Prepaid expense		570	326
Mortgage notes receivable - current portion		149,267	147,299
Construction in process		75,089	183,484
Inventory		42,176	17,173
Restricted cash - mortgage escrow deposits		11,305	1,145
Total current assets		<u>539,551</u>	<u>526,491</u>
<b>FIXED ASSETS:</b>			
Property and equipment		550,114	623,318
Less: accumulated depreciation		(370,929)	(422,568)
Total fixed assets		<u>179,185</u>	<u>200,750</u>
<b>MORTGAGE ASSETS:</b>			
Mortgage notes receivable - net of current portion		1,527,325	1,399,527
Less: Unamortized discount on mortgage notes		(876,778)	(812,026)
Total mortgage notes - net of discount		<u>650,547</u>	<u>587,501</u>
<b>OTHER ASSETS:</b>			
Land held for development		28,304	13,057
Total other assets		<u>28,304</u>	<u>13,057</u>
<b>TOTAL ASSETS</b>		<u>\$ 1,397,587</u>	<u>\$ 1,327,799</u>
	<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>			
Accounts payable		\$ 16,814	\$ 13,179
Accrued liabilities		12,156	10,907
Escrow deposits		16,444	17,529
Current portion of long-term debt		32,253	20,168
Total current liabilities		<u>77,667</u>	<u>61,783</u>
<b>LONG-TERM LIABILITIES:</b>			
Long-term debt, less current portion		49,011	157,522
Total long-term liabilities		<u>49,011</u>	<u>157,522</u>
Total liabilities		<u>126,678</u>	<u>219,305</u>
<b>NET ASSETS:</b>			
Without restrictions		1,240,174	1,077,759
With restrictions		30,735	30,735
Total net assets		<u>1,270,909</u>	<u>1,108,494</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<u>\$ 1,397,587</u>	<u>\$ 1,327,799</u>

*The accompanying notes are an integral part of this statement.*

**HABITAT FOR HUMANITY ABILENE, INC.**

Statements of Activities

Years Ended June 30, 2022 and 2021

	2022	2021
Net assets without restrictions		
Public support:		
Contributions	\$ 114,399	\$ 127,014
In-kind contributions-service	41,356	19,128
In-kind contributions-material	7,936	5,540
Grants	187,508	15,833
Total public support	351,199	167,515
Operating revenue:		
House sales	325,400	
Mortgage discount amortization	(64,752)	81,439
ReStore sales	247,053	305,065
Interest income	35	14
Loan forgiveness	78,653	76,194
Loan origination fees	3,024	
Gain on disposal of assets	15,205	
Other revenue	54,229	14,408
Net assets released from restriction		
Total operating revenue	658,847	477,120
Total revenue	1,010,046	644,635
 EXPENSES:		
Program services:		
Construction	430,213	142,778
ReStore	167,426	166,276
Family services	61,208	57,905
Mortgage	60,729	62,536
Total program services	719,576	429,495
Supporting services:		
Management and general	53,099	52,229
Fundraising	74,956	82,510
Total supporting services	128,055	134,739
Total expenses	847,631	564,234
 Change in net assets without restrictions	162,415	80,401
 Net assets with restrictions		
Net assets released from restriction		
 Change in net assets with restrictions		
 Change in net assets	162,415	80,401
 NET ASSETS AT BEGINNING OF PERIOD	1,108,494	1,028,093
 NET ASSETS AT END OF PERIOD	\$ 1,270,909	\$ 1,108,494

*The accompanying notes are an integral part of this statement.*

**HABITAT FOR HUMANITY ABILENE, INC.**

Statement of Functional Expenses

Year Ended June 30, 2022

	Program Services				
	Construction	ReStore	Family Services	Mortgage	Total
<b>PAYROLL RELATED EXPENSES:</b>					
Salaries	\$ 34,153	\$ 82,943	\$ 31,714	\$ 36,593	\$ 185,403
Payroll taxes	1,881	4,568	1,746	2,015	10,210
Health insurance	2,870	6,969	2,665	3,075	15,579
Retirement	566	1,374	525	606	3,071
Workers compensation insurance	3,134	1,880	313		5,327
Total Payroll expenses	42,604	97,734	36,963	42,289	219,590
<b>OTHER EXPENSES</b>					
Building materials and supplies	355,500				355,500
Homeowner services			1,689		1,689
Advertising and promotion	1,898	5,272	843	738	8,751
Telephone and utilities	5,397	8,096	5,397	2,698	21,588
Interest				3,853	3,853
Repairs and maintenance	1,560	4,333	693	607	7,193
Vehicle	2,463	3,250	591	591	6,895
Insurance	3,066	8,516	1,362	1,192	14,136
Equipment and tools	602	1,674	268	234	2,778
Office supplies	867	868	2,602	867	5,204
Dues and subscriptions	1,988	5,524	884	773	9,169
Miscellaneous	1,271	3,529	565	494	5,859
Printing and stationary	57	56	86	114	313
Professional fees	7,637	21,212	3,394	2,970	35,213
Postage	923	923	2,768	923	5,537
Volunteer expenses	1,028				1,028
Conferences and meetings	359	359	1,076	359	2,153
Affiliate Payments					
Taxes and licenses	966				966
Special events, net					
Total other expenses before depreciation	385,582	63,612	22,218	16,413	487,825
Depreciation	2,027	6,080	2,027	2,027	12,161
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 430,213</b>	<b>\$ 167,426</b>	<b>\$ 61,208</b>	<b>\$ 60,729</b>	<b>\$ 719,576</b>

*The accompanying notes are an integral part of this statement.*



Supporting Services

Management and General	Fundraising	Total Supporting Services	Total
\$ 24,395	\$ 34,153	\$ 58,548	\$ 243,951
1,343	1,881	3,224	13,434
2,050	2,870	4,920	20,499
404	566	970	4,041
313	627	940	6,267
<u>28,505</u>	<u>40,097</u>	<u>68,602</u>	<u>288,192</u>
			355,500
			1,689
738	1,054	1,792	10,543
2,698	2,698	5,396	26,984
			3,853
607	867	1,474	8,667
	2,955	2,955	9,850
1,192	1,703	2,895	17,031
234	335	569	3,347
867	2,602	3,469	8,673
773	1,105	1,878	11,047
494	706	1,200	7,059
86	173	259	572
2,970	4,242	7,212	42,425
923	2,768	3,691	9,228
	257	257	1,285
359	1,076	1,435	3,588
4,000		4,000	4,000
			966
<u>2,573</u>	<u>10,291</u>	<u>12,864</u>	<u>12,864</u>
18,514	32,832	51,346	539,171
<u>6,080</u>	<u>2,027</u>	<u>8,107</u>	<u>20,268</u>
<u>\$ 53,099</u>	<u>\$ 74,956</u>	<u>\$ 128,055</u>	<u>\$ 847,631</u>

**HABITAT FOR HUMANITY ABILENE, INC.**

Statement of Functional Expenses

Year Ended June 30, 2021

	Program Services				
	Construction	ReStore	Family Services	Mortgage	Total
<b>PAYROLL RELATED EXPENSES:</b>					
Salaries	\$ 35,272	\$ 85,661	\$ 32,753	\$ 37,792	\$ 191,478
Payroll taxes	2,730	6,629	2,535	2,925	14,819
Health insurance	4,028	9,781	3,740	4,316	21,865
Retirement	663	1,612	616	711	3,602
Workers compensation insurance	581	348	58		987
Total Payroll expenses	43,274	104,031	39,702	45,744	232,751
<b>OTHER EXPENSES</b>					
Building materials and supplies	70,769				70,769
Homeowner services			668		668
Advertising and promotion	1,050	2,916	467	408	4,841
Telephone and utilities	5,150	7,725	5,150	2,575	20,600
Interest				4,281	4,281
Repairs and maintenance	1,566	4,352	696	609	7,223
Vehicle	2,197	2,899	527	527	6,150
Insurance	3,022	8,394	1,343	1,175	13,934
Equipment and tools	2,402	6,672	1,068	934	11,076
Office supplies	580	580	1,743	580	3,483
Dues and subscriptions	1,990	5,527	884	774	9,175
Miscellaneous	452	1,257	201	176	2,086
Printing and stationary	82	82	123	164	451
Professional fees	5,418	15,051	2,408	2,107	24,984
Postage	41	41	123	41	246
Volunteer expenses	994				994
Conferences and meetings	207	207	621	207	1,242
Affiliate Payments					
Taxes and licenses	1,403				1,403
Special events, net					
Closing costs				53	53
Total other expenses before depreciation	97,323	55,703	16,022	14,611	183,659
Depreciation	2,181	6,542	2,181	2,181	13,085
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 142,778</b>	<b>\$ 166,276</b>	<b>\$ 57,905</b>	<b>\$ 62,536</b>	<b>\$ 429,495</b>

*The accompanying notes are an integral part of this statement.*

Supporting Services

Management and General	Fundraising	Total Supporting Services	Total
\$ 25,195	\$ 35,272	\$ 60,467	\$ 251,945
1,950	2,730	4,680	19,499
2,877	4,028	6,905	28,770
474	663	1,137	4,739
58	116	174	1,161
<u>30,554</u>	<u>42,809</u>	<u>73,363</u>	<u>306,114</u>
			70,769
			668
408	583	991	5,832
2,575	2,575	5,150	25,750
			4,281
609	870	1,479	8,702
	2,636	2,636	8,786
1,175	1,679	2,854	16,788
934	1,335	2,269	13,345
580	1,742	2,322	5,805
774	1,105	1,879	11,054
176	251	427	2,513
123	247	370	821
2,107	3,011	5,118	30,102
41	122	163	409
	248	248	1,242
207	621	828	2,070
300		300	300
			1,403
5,124	20,495	25,619	25,619
			53
<u>15,133</u>	<u>37,520</u>	<u>52,653</u>	<u>236,312</u>
<u>6,542</u>	<u>2,181</u>	<u>8,723</u>	<u>21,808</u>
<u>\$ 52,229</u>	<u>\$ 82,510</u>	<u>\$ 134,739</u>	<u>\$ 564,234</u>

**HABITAT FOR HUMANITY ABILENE, INC.**

Statements of Cash Flows

Years Ended June 30, 2022 and 2021

	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 162,415	\$ 80,401
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Amortization of mortgage discounts	64,752	(81,439)
Mortgage discounts (income) expense		
Depreciation	20,268	21,808
Decrease (Increase) in:		
Accounts receivable	(175)	(625)
Prepaid expense	(244)	4,937
Inventory	(25,003)	20,892
Construction in process	108,395	(105,819)
Property held for development/sale	(15,247)	(8,000)
(Decrease) Increase in:		
Accounts payable	3,635	(18,135)
Other current liabilities	164	(78,097)
Net cash provided by (used) in operating activities	318,960	(164,077)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Mortgage loans advanced	(302,400)	
Mortgage loans repaid	172,634	167,453
Disposal of fixed assets	4,795	
Acquisition of fixed assets	(3,498)	
Net cash provided by (used in) investing activities	(128,469)	167,453
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Retirement of long-term debt	(96,426)	(103,423)
Advances on long-term debt		92,069
Net cash used in financing activities	(96,426)	(11,354)
Net change in cash	94,065	(7,978)
Cash, Beginning of the Year	175,933	183,911
Cash, End of the Year	\$ 269,998	\$ 175,933
Cash held without restrictions	258,693	174,788
Cash held with restrictions	11,305	1,145
Total cash	\$ 269,998	\$ 175,933
<b>Supplemental Disclosure:</b>		
Interest paid	\$ 3,853	\$ 4,281

*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, 2022 and 2021, totaled \$10,543 and \$5,832, 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

During the year ended June 30, 2021, Habitat contracted with an outside company to service the mortgages and escrow payments.

#### 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, 2022 and 2021, 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)

## HABITAT FOR HUMANITY ABILENE, INC.

### NOTES TO FINANCIAL STATEMENTS

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

interest, as part of the mission for providing low-cost housing to families in the Abilene area. The 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 16<sup>th</sup> 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, 2022 and 2021, Habitat had no investments recorded 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

## HABITAT FOR HUMANITY ABILENE, INC.

### NOTES TO FINANCIAL STATEMENTS

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

discounts are recorded as revenue amortized over the life of the note.

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 statements 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, 2022 and 2021, 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, 2022 and 2021, 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 \$41,356 and \$19,128 for the years ended June 30, 2022 and 2021, 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. In addition, Habitat receives materials for the construction of homes recorded as revenue and the related expense of building materials. These materials amounted to \$7,936 and \$5,540 for the years ended June 30, 2022 and 2021, respectively.

#### **NOTE 2: LIQUIDITY**

On June 30, 2022, the Organization has \$302,633 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures consisting of cash of \$108,739, accounts receivable of \$2,451, mortgage notes receivable – current portion of \$149,267, and inventory of \$42,176.



**HABITAT FOR HUMANITY ABILENE, INC.**

NOTES TO FINANCIAL STATEMENTS

**NOTE 2: LIQUIDITY - continued**

Cash of \$161,259 is subject to donor or other contractual restrictions that make it unavailable for general expenditure within one year of the balance sheet date.

On June 30, 2021, the Organization has \$341,536 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures consisting of cash of \$174,788, accounts receivable of \$2,276, mortgage notes receivable – current portion of \$147,299, and inventory of \$17,173. Cash of \$1,145 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.

**NOTE 3: PROPERTY AND EQUIPMENT**

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

	2022	2021
Office building	\$ 450,193	\$ 479,968
Vehicles	64,338	65,714
Furniture and equipment	35,583	77,636
Total property and equipment	550,114	623,318
 Accumulated depreciation	 (370,929)	 (422,568)
 Property and equipment, net	 \$ 179,185	 \$ 200,750

Depreciation expense for the years ended June 30, 2022 and 2021, was \$20,268 and \$21,808, respectively.

**NOTE 4: PROPERTY HELD FOR DEVELOPMENT AND SALE**

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

	2022	2021
Land held for future construction development	\$ 28,304	\$ 13,057
Total property held for development and sale	\$ 28,304	\$ 13,057

**NOTE 5: CONSTRUCTION IN PROCESS**

Following is a summary of home building activity:

	Number	Costs
Construction in process, June 30, 2020	2	\$ 77,665
Additional costs incurred for the year, July 1, 2020 to June 30, 2021		\$ 105,819
Homes transferred from July 1, 2020 to June 30, 2021		
Construction in process, June 30, 2021	2	\$ 183,484
Additional costs incurred for the year, July 1, 2021 to June 30, 2022	2	\$ 255,805
Homes transferred from July 1, 2021 to June 30, 2022	(3)	(364,200)
Construction in process, June 30, 2021	1	\$ 75,089

**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>2022</u>	<u>2021</u>
Non-interest bearing mortgage loans - long-term	\$ 1,527,325	\$ 1,399,527
Non-interest bearing mortgage loans - current	<u>149,267</u>	<u>147,299</u>
Total non-interest bearing mortgage loans	1,676,592	1,546,826
Less discount on mortgages issued	<u>(876,778)</u>	<u>(812,026)</u>
Discounted loan value	\$ <u>799,814</u>	\$ <u>734,800</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, 2022 and 2021:

Mortgage loans outstanding, as of June 30, 2020	\$ 1,714,279	
Loan payments received	<u>(167,453)</u>	
Mortgage loans outstanding, as of June 30, 2021	1,546,826	
New mortgage loans on properties sold	302,400	
Loan payments received	<u>(172,634)</u>	
Mortgage loans outstanding, as of June 30, 2022	\$ <u>1,676,592</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, 2022 and 2021:

Discounts on mortgage loans outstanding, as of June 30, 2020	\$ 893,465	
New mortgage discounts		
Amortization of discounts	<u>(81,439)</u>	
Discounts on mortgage loans outstanding, as of June 30, 2021	812,026	
New mortgage discounts	146,282	
Amortization of discounts	<u>(81,530)</u>	
Discounts on mortgage loans outstanding, as of June 30, 2022	\$ <u>876,778</u>	

**HABITAT FOR HUMANITY ABILENE, INC.**

NOTES TO FINANCIAL STATEMENTS

**NOTE 6: FINANCING RECEIVABLES - continued**

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

		Past Due				
		30 - 59	60 - 89	> 90	Current	Total
		Days	Days	Days		
2022	\$	105,927	\$ 127,171	\$ 101,552	\$ 1,341,942	\$ 1,676,592
2021	\$	126,948	\$ 209,128	\$ 193,829	\$ 1,016,921	\$ 1,546,826

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 ensure 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, 2022 and 2021.

**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, 2022 and 2021, were \$11,305 and \$1,145, respectively.

**NOTE 8: LONG-TERM DEBT**

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

	2022	2021
On February 10, 2021, the Organization entered into a loan agreement with the First Financial Bank in the amount of \$78,653, for the purpose of paying payroll and related expenses during the COVID pandemic. The loan was recorded as notes payable at June 30, 2021 and shown as forgiven during the fiscal year ended June 30, 2022.	\$	\$ 78,653
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)	35,713	42,094
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.	22,416	22,416

**HABITAT FOR HUMANITY ABILENE, INC.**

NOTES TO FINANCIAL STATEMENTS

**NOTE 8: LONG-TERM DEBT - continued**

	2022	2021
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). The loans were fully paid during the fiscal year 2022.		7,722
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)	6,622	8,725
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.	16,513	18,080
	81,264	177,690
Less current portion	32,253	20,168
Long-term portion	\$ 49,011	\$ 157,522

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

2023	\$	32,253
2024		10,089
2025		9,688
2026		7,868
2027		7,979
2028-2030		13,387
	\$	81,264

**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, 2022 and 2021, Habitat made contributions to Habitat for Humanity International, Inc. for \$4,000 and \$300, 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, 2022 and 2021, Habitat made contributions to Habitat for Humanity International, Inc. for \$5,625 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, 2022 and 2021, was \$4,041 and \$4,739, 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>2022</u>	<u>2021</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 were released from restriction for the years ended June 30, 2022 and 2021, 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 26, 2022, the date the financial statements were available to be issued.