

HABITAT FOR HUMANITY ABILENE, INC.

FINANCIAL STATEMENTS
and
INDEPENDENT AUDITORS' REPORT

YEARS ENDED JUNE 30, 2023 and 2022

HABITAT FOR HUMANITY ABILENE, INC.

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position.....	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows.....	7
Notes to Financial Statements.....	8

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, 2023 and 2022, 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, 2023 and 2022, 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.

- Obtain 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.

Abilene, Texas
August 23, 2023

FINANCIAL STATEMENTS

HABITAT FOR HUMANITY ABILENE, INC.**STATEMENTS OF FINANCIAL POSITION**

June 30, 2023 and 2022

	ASSETS		<u>2023</u>	<u>2022</u>
CURRENT ASSETS:				
Cash	\$		155,680	\$ 227,958
Accounts receivable			8,006	2,451
Prepaid expense			1,327	570
Mortgage notes receivable - current portion			139,966	149,267
Construction in process			236,873	77,768
Inventory			14,113	39,497
Restricted cash - house sponsorship and education materials			60,278	30,735
Restricted cash - mortgage escrow deposits			5,235	11,305
Total current assets			<u>621,478</u>	<u>539,551</u>
FIXED ASSETS:				
Property and equipment			550,114	550,114
Less: accumulated depreciation			(387,269)	(370,929)
Total fixed assets			<u>162,845</u>	<u>179,185</u>
MORTGAGE ASSETS:				
Mortgage notes receivable - net of current portion			1,483,478	1,527,325
Less: Unamortized discount on mortgage notes			(844,630)	(876,778)
Total mortgage notes - net of discount			<u>638,848</u>	<u>650,547</u>
OTHER ASSETS:				
Land held for development			46,754	28,304
Total other assets			<u>46,754</u>	<u>28,304</u>
TOTAL ASSETS	\$		<u>1,469,925</u>	\$ <u>1,397,587</u>
		LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:				
Accounts payable	\$		44,517	\$ 16,814
Accrued liabilities			15,601	12,156
Escrow deposits			15,781	16,444
Current portion of long-term debt			32,972	32,253
Total current liabilities			<u>108,871</u>	<u>77,667</u>
LONG-TERM LIABILITIES:				
Long-term debt, less current portion			39,380	49,011
Total long-term liabilities			<u>39,380</u>	<u>49,011</u>
Total liabilities			<u>148,251</u>	<u>126,678</u>
NET ASSETS:				
Without restrictions			1,261,396	1,240,174
With restrictions			60,278	30,735
Total net assets			<u>1,321,674</u>	<u>1,270,909</u>
TOTAL LIABILITIES AND NET ASSETS	\$		<u>1,469,925</u>	\$ <u>1,397,587</u>

The accompanying notes are an integral part of this statement.

HABITAT FOR HUMANITY ABILENE, INC.

STATEMENTS OF ACTIVITIES

Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Net assets without restrictions		
Public support:		
Contributions	\$ 89,004	\$ 114,399
In-kind contributions-service	38,497	41,356
In-kind contributions-material	5,995	7,936
Sponsorships	212	
Grants	223,949	187,508
Total public support	<u>357,657</u>	<u>351,199</u>
Operating revenue:		
House sales	103,500	325,400
Mortgage discount amortization	32,148	(64,752)
ReStore sales	337,040	247,053
Interest income	527	35
Loan forgiveness		78,653
Loan origination fees	900	3,024
Gain on disposal of assets		15,205
Other revenue	8,108	54,229
Net assets released from restriction	55,457	
Total operating revenue	<u>537,680</u>	<u>658,847</u>
Total revenue	<u>895,337</u>	<u>1,010,046</u>
 EXPENSES:		
Program services:		
Construction	273,405	430,213
ReStore	208,565	167,426
Family services	73,049	61,208
Mortgage	77,990	60,729
Total program services	<u>633,009</u>	<u>719,576</u>
Supporting services:		
Management and general	79,317	53,099
Fundraising	161,789	74,956
Total supporting services	<u>241,106</u>	<u>128,055</u>
Total expenses	<u>874,115</u>	<u>847,631</u>
 Change in net assets without restrictions	<u>21,222</u>	<u>162,415</u>
 Net assets with restrictions		
Contributions	85,000	
Net assets released from restriction	<u>(55,457)</u>	
 Change in net assets with restrictions	<u>29,543</u>	
 Change in net assets	50,765	162,415
 NET ASSETS AT BEGINNING OF PERIOD	<u>1,270,909</u>	<u>1,108,494</u>
 NET ASSETS AT END OF PERIOD	<u>\$ 1,321,674</u>	<u>\$ 1,270,909</u>

The accompanying notes are an integral part of this statement.

HABITAT FOR HUMANITY ABILENE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2023

	Program Services				
	Construction	ReStore	Family Services	Mortgage	Total
PAYROLL RELATED EXPENSES:					
Salaries	\$ 47,017	\$ 114,184	\$ 43,659	\$ 50,375	\$ 255,235
Payroll taxes	3,411	8,284	3,168	3,655	18,518
Health insurance	3,798	9,222	3,526	4,069	20,615
Retirement	798	1,939	741	855	4,333
Workers compensation insurance	2,785	1,671	278		4,734
Total Payroll expenses	57,809	135,300	51,372	58,954	303,435
OTHER EXPENSES					
Building materials and supplies	183,980				183,980
Homeowner services			1,542		1,542
Advertising and promotion	1,514	4,203	673	589	6,979
Telephone and utilities	5,237	7,856	5,237	2,618	20,948
Interest				4,091	4,091
Repairs and maintenance	1,064	2,956	473	414	4,907
Vehicle	2,777	3,666	666	666	7,775
Insurance	3,388	9,412	1,506	1,318	15,624
Equipment and tools	1,542	4,283	685	599	7,109
Office supplies	488	488	1,464	488	2,928
Dues and subscriptions	2,567	7,133	1,141	998	11,839
Miscellaneous	734	2,040	326	285	3,385
Printing and stationary	37	36	56	74	203
Professional fees	9,203	25,565	4,090	3,579	42,437
Postage	155	155	466	155	931
Volunteer expenses	425				425
Conferences and meetings	573	570	1,718	573	3,434
Affiliate payments					
Taxes and licenses	278				278
Special events, net					
Closing costs				955	955
Total other expenses before depreciation	213,962	68,363	20,043	17,402	319,770
Depreciation	1,634	4,902	1,634	1,634	9,804
TOTAL FUNCTIONAL EXPENSES	\$ 273,405	\$ 208,565	\$ 73,049	\$ 77,990	\$ 633,009

The accompanying notes are an integral part of this statement.

Supporting Services

Management and General	Fundraising	Total Supporting Services	Total
\$ 33,584	\$ 47,017	\$ 80,601	\$ 335,836
2,437	3,411	5,848	24,366
2,713	3,798	6,511	27,126
570	798	1,368	5,701
278	557	835	5,569
<u>39,582</u>	<u>55,581</u>	<u>95,163</u>	<u>398,598</u>
			183,980
			1,542
589	841	1,430	8,409
2,618	2,618	5,236	26,184
			4,091
414	591	1,005	5,912
	3,332	3,332	11,107
1,318	1,882	3,200	18,824
599	856	1,455	8,564
488	1,464	1,952	4,880
998	1,426	2,424	14,263
285	408	693	4,078
56	112	168	371
3,579	5,112	8,691	51,128
155	466	621	1,552
	106	106	531
573	1,718	2,291	5,725
2,250		2,250	2,250
			278
20,911	83,642	104,553	104,553
			955
<u>34,833</u>	<u>104,574</u>	<u>139,407</u>	<u>459,177</u>
<u>4,902</u>	<u>1,634</u>	<u>6,536</u>	<u>16,340</u>
<u>\$ 79,317</u>	<u>\$ 161,789</u>	<u>\$ 241,106</u>	<u>\$ 874,115</u>

HABITAT FOR HUMANITY ABILENE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2022

	Program Services				
	Construction	ReStore	Family Services	Mortgage	Total
PAYROLL RELATED EXPENSES:					
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
OTHER EXPENSES					
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
TOTAL FUNCTIONAL EXPENSES	\$ 430,213	\$ 167,426	\$ 61,208	\$ 60,729	\$ 719,576

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
6,080	2,027	8,107	20,268
<u>\$ 53,099</u>	<u>\$ 74,956</u>	<u>\$ 128,055</u>	<u>\$ 847,631</u>

HABITAT FOR HUMANITY ABILENE, INC.

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 50,765	\$ 162,415
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Amortization of mortgage discounts	(32,148)	64,752
Mortgage discounts (income) expense		
Depreciation	16,340	20,268
Decrease (Increase) in:		
Accounts receivable	(5,555)	(175)
Prepaid expense	(757)	(244)
Inventory	25,384	(25,003)
Construction in process	(159,105)	108,395
Property held for development/sale	(18,450)	(15,247)
(Decrease) Increase in:		
Accounts payable	27,703	3,635
Other current liabilities	2,782	164
Net cash provided by (used) in operating activities	(93,041)	318,960
CASH FLOWS FROM INVESTING ACTIVITIES:		
Mortgage loans advanced	(102,500)	(302,400)
Mortgage loans repaid	155,648	172,634
Disposal of fixed assets		4,795
Acquisition of fixed assets		(3,498)
Net cash provided by (used in) investing activities	53,148	(128,469)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Retirement of long-term debt	(8,912)	(96,426)
Advances on long-term debt		
Net cash used in financing activities	(8,912)	(96,426)
Net change in cash	(48,805)	94,065
Cash, Beginning of the Year	269,998	175,933
Cash, End of the Year	\$ 221,193	\$ 269,998
Cash held without restrictions	155,680	227,958
Cash held with restrictions	65,513	42,040
Total cash	\$ 221,193	\$ 269,998
Supplemental Disclosure:		
Interest paid	\$ 4,091	\$ 3,853

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.

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.

HABITAT FOR HUMANITY ABILENE, INC.

NOTES TO FINANCIAL STATEMENTS

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

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, 2023 and 2022, totaled \$8,409 and \$10,543, 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

Beginning in 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, 2023 and 2022, 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 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

HABITAT FOR HUMANITY ABILENE, INC.

NOTES TO FINANCIAL STATEMENTS

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

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, 2023 and 2022, 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 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

HABITAT FOR HUMANITY ABILENE, INC.

NOTES TO FINANCIAL STATEMENTS

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

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, 2023 and 2022, 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, 2023 and 2022, 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 \$38,497 and \$41,356 for the years ended June 30, 2023 and 2022, respectively. The services are reported in income as "In-Kind Contributions" and in assets as "Construction in Process". They are not included in the purchase price of the home when sold. 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 \$5,995 and \$7,936 for the years ended June 30, 2023 and 2022, respectively.

NOTE 2: *LIQUIDITY*

On June 30, 2023, the Organization has \$317,765 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures consisting of cash of \$155,680, accounts receivable of \$8,006, mortgage notes receivable – current portion of \$139,966, and inventory of \$14,113. Cash of \$35,970 is subject to donor or other contractual restrictions that make it unavailable for general expenditure within one year of the balance sheet date.

HABITAT FOR HUMANITY ABILENE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 2: LIQUIDITY - continued

On June 30, 2022, the Organization has \$419,173 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures consisting of cash of \$227,958, accounts receivable of \$2,451, mortgage notes receivable – current portion of \$149,267, and inventory of \$39,497. Cash of \$42,040 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:

	2023	2022
Office building	\$ 450,193	\$ 450,193
Vehicles	64,338	64,338
Furniture and equipment	35,583	35,583
Total property and equipment	550,114	550,114
Accumulated depreciation	(387,269)	(370,929)
Property and equipment, net	\$ 162,845	\$ 179,185

Depreciation expense for the years ended June 30, 2023 and 2022, was \$16,340 and \$20,268, respectively.

NOTE 4: PROPERTY HELD FOR DEVELOPMENT AND SALE

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

	2023	2022
Land held for future construction development	\$ 46,754	\$ 28,304
Total property held for development and sale	\$ 46,754	\$ 28,304

NOTE 5: CONSTRUCTION IN PROCESS

Following is a summary of home building activity:

	Number	Costs
Construction in process, June 30, 2021	2	\$ 183,484
Additional costs incurred for the year, July 1, 2021 to June 30, 2022	2	\$ 258,484
Homes transferred from July 1, 2021 to June 30, 2022	(3)	(364,200)
Construction in process, June 30, 2023	1	\$ 77,768
Additional costs incurred for the year, July 1, 2022 to June 30, 2023	5	\$ 292,389
Homes transferred from July 1, 2022 to June 30, 2023	(1)	(133,284)
Construction in process, June 30, 2023	5	\$ 236,873

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>2023</u>	<u>2022</u>
Non-interest bearing mortgage loans - long-term	\$ 1,483,478	\$ 1,527,325
Non-interest bearing mortgage loans - current	139,966	149,267
Total non-interest bearing mortgage loans	<u>1,623,444</u>	<u>1,676,592</u>
Less discount on mortgages issued	<u>(844,630)</u>	<u>(876,778)</u>
Discounted loan value	<u>\$ 778,814</u>	<u>\$ 799,814</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, 2023 and 2022:

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	1,676,592	
New mortgage loans on properties sold	102,500	
Loan payments received	<u>(155,648)</u>	
Mortgage loans outstanding, as of June 30, 2023	<u>\$ 1,623,444</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, 2023 and 2022:

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	876,778	
New mortgage discounts	50,866	
Mortgage discounts deleted	(3,232)	
Amortization of discounts	<u>(79,782)</u>	
Discounts on mortgage loans outstanding, as of June 30, 2023	<u>\$ 844,630</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		
2023	\$	69,409	\$ 29,995	\$ 267,362	\$ 1,256,678	\$ 1,623,444
2022	\$	105,927	\$ 127,171	\$ 101,552	\$ 1,341,942	\$ 1,676,592

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, 2023 and 2022.

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, 2023 and 2022, were \$5,235 and \$11,305, respectively.

NOTE 8: LONG-TERM DEBT

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

	2023	2022
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)	\$ 30,314	\$ 35,713
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
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)	4,359	6,622
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.	15,263	16,513
	72,352	81,264
Less current portion	32,972	32,253
Long-term portion	\$ 39,380	\$ 49,011

HABITAT FOR HUMANITY ABILENE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 8: LONG-TERM DEBT – continued

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

2024	\$	32,972
2025		9,669
2026		7,841
2027		7,951
2028		7,441
2029-2030		6,478
	\$	<u>72,352</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, 2023 and 2022, Habitat made contributions to Habitat for Humanity International, Inc. for \$2,250 and \$4,000, 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, 2023 and 2022, Habitat made contributions to Habitat for Humanity International, Inc. for \$7,500 and \$5,625, 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.

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.

HABITAT FOR HUMANITY ABILENE, INC.

NOTES TO FINANCIAL STATEMENTS

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, 2023 and 2022, was \$5,701 and \$4,041, 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>2023</u>	<u>2022</u>
Net assets with donor restrictions:		
Shelton Foundation - house sponsorship	\$	\$ 30,000
Local - education materials		735
First Baptist Church - 1242 Cedar	10,278	
Director's Investors Group - 1141 Plum	50,000	
Total	<u>\$ 60,278</u>	<u>\$ 30,735</u>

NOTE 16: NET ASSETS RELEASED FROM RESTRICTION

Net assets of \$55,457 and \$0 were released from restriction for the years ended June 30, 2023 and 2022, 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 23, 2023, the date the financial statements were available to be issued.