

WACO HABITAT FOR HUMANITY
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2021 AND 2020
WITH INDEPENDENT AUDITOR'S REPORT

WACO HABITAT FOR HUMANITY

TABLE OF CONTENTS

	<u>Page Number</u>
Independent Auditor’s Report	1 – 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities.....	4
Statement of Functional Expenses Year Ended June 30, 2021	5
Statement of Functional Expenses Year Ended June 30, 2020	6
Statements of Cash Flows	7
Notes to Financial Statements.....	8 – 16



INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Waco Habitat for Humanity

We have audited the accompanying financial statements of Waco Habitat for Humanity (a nonprofit organization), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, cash flows, and functional expenses for the year 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 audit. We conducted our audit 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 Waco Habitat for Humanity as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston
NEW MEXICO | Albuquerque

Report on Summarized Comparative Information

We have previously audited Waco Habitat for Humanity's 2020 financial statements, and our report dated May 17, 2021, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented on the statement of activities for the year ended June 30, 2020, is consistent, in all material respects, with the audited statement of activities from which it has been derived.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
December 16, 2021

FINANCIAL STATEMENTS

WACO HABITAT FOR HUMANITY
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2021 AND 2020

	2021	2020
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,031,246	\$ 722,269
Current installments of non-interest bearing mortgage loans	<u>140,000</u>	<u>136,200</u>
Total current assets	<u>1,171,246</u>	<u>858,469</u>
PROPERTY AND EQUIPMENT		
Land	187,751	187,751
Buildings	1,324,613	1,324,613
Equipment	117,524	140,809
ReStore equipment	104,535	104,535
Less: accumulated depreciation	<u>(613,343)</u>	<u>(588,400)</u>
Total property and equipment	<u>1,121,080</u>	<u>1,169,308</u>
OTHER ASSETS		
Homes under construction	190,946	211,065
Vacant lots	41,564	92,112
Escrow receivable	144,878	130,428
Beneficial interest in assets held by Waco Foundation	137,126	106,887
Non-interest bearing mortgage loans, less current installments	1,989,374	1,974,639
Less: discount on mortgages	<u>(1,228,353)</u>	<u>(1,213,868)</u>
Total other assets	<u>1,275,535</u>	<u>1,301,263</u>
Total assets	<u>\$ 3,567,861</u>	<u>\$ 3,329,040</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Sales tax payable	\$ 3,949	\$ 3,921
Other payables	75,568	66,849
Current maturities of notes payable	<u>308,122</u>	<u>70,549</u>
Total current liabilities	<u>387,639</u>	<u>141,319</u>
LONG-TERM DEBT, LESS CURRENT MATURITIES	<u>150,981</u>	<u>539,002</u>
Total liabilities	<u>538,620</u>	<u>680,321</u>
NET ASSETS		
Without donor restriction:		
Board designated for endowment	137,126	106,887
Undesignated	<u>2,892,115</u>	<u>2,541,832</u>
Total without donor restrictions	<u>3,029,241</u>	<u>2,648,719</u>
Total net assets	<u>3,029,241</u>	<u>2,648,719</u>
Total liabilities and net assets	<u>\$ 3,567,861</u>	<u>\$ 3,329,040</u>

The accompanying notes are an integral part of these financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

WACO HABITAT FOR HUMANITY

STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2021

(With Summarized Financial Information for the Year Ended June 30, 2020)

	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
REVENUE, GAINS AND OTHER SUPPORT				
Foundation contributions	\$ 148,154	\$ -	\$ 148,154	\$ 281,753
Public contributions	18,000	-	18,000	92,879
Other contributions	228,314	-	228,314	300,188
ReStore:				
ReStore sales	615,710	-	615,710	537,244
ReStore expenses	<u>(437,161)</u>	<u>-</u>	<u>(437,161)</u>	<u>(404,269)</u>
ReStore net gain	<u>178,549</u>	<u>-</u>	<u>178,549</u>	<u>132,975</u>
Mortgage loans on homes	382,500	-	382,500	132,725
Repair and ramps	9,532	-	9,532	11,298
In-kind donations	13,002	-	13,002	5,557
Discount amortization	81,251	-	81,251	77,439
Gain on extinguishment of debt	273,800	-	273,800	-
Other income	<u>160,817</u>	<u>-</u>	<u>160,817</u>	<u>40,242</u>
Total revenue, gains and other support	<u>1,493,919</u>	<u>-</u>	<u>1,493,919</u>	<u>1,075,056</u>
EXPENSES				
Program Services				
New home construction and rehabs	688,146	-	688,146	361,883
Critical home repair and ramps	92,719	-	92,719	9,975
Family services	72,938	-	72,938	77,691
Supporting Services				
Management and general expenses	202,314	-	202,314	292,826
Fundraising expenses	<u>57,280</u>	<u>-</u>	<u>57,280</u>	<u>97,615</u>
Total expenses	<u>1,113,397</u>	<u>-</u>	<u>1,113,397</u>	<u>839,990</u>
CHANGE IN NET ASSETS	380,522	-	380,522	235,066
NET ASSETS, BEGINNING OF YEAR	2,648,719	-	2,648,719	2,522,301
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>-</u>	<u>-</u>	<u>(108,648)</u>
NET ASSETS, END OF YEAR	<u>\$ 3,029,241</u>	<u>\$ -</u>	<u>\$ 3,029,241</u>	<u>\$ 2,648,719</u>

The accompanying notes are an integral part of these financial statements.

WACO HABITAT FOR HUMANITY

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2021

	Program Services			Support Services		Total
	New Home Construction and Rehabs	Critical Home Repair and Ramps	Family Services	Management and General	Fundraising	
House construction	\$ 379,548	\$ -	\$ -	\$ -	\$ -	\$ 379,548
Home repairs and ramps	-	87,039	-	-	-	87,039
Tithe for international homes	13,500	-	-	-	-	13,500
Salaries	91,690	4,200	45,219	87,482	36,884	265,475
Retirement	1,116	126	1,093	1,386	1,063	4,784
Employee benefits	10,149	-	874	543	(769)	10,797
Payroll taxes	3,922	294	3,419	5,962	2,307	15,904
Accounting and legal fees	4,518	-	498	17,764	-	22,780
Advertising and promotion	-	-	-	189	-	189
Office expenses	9,956	194	3,684	4,611	1,886	20,331
Information technology	8,646	381	4,624	5,228	1,407	20,286
Occupancy	7,148	126	2,900	9,473	883	20,530
Travel	7,821	-	186	703	-	8,710
Conferences, conventions, and meetings	1,000	-	3,752	1,498	-	6,250
Depreciation and amortization	12,422	-	6,689	9,438	1,911	30,460
Insurance	2,530	-	-	9,787	249	12,566
Mortgage discount	95,736	-	-	-	-	95,736
In-kind expense	13,002	-	-	-	-	13,002
Other expenses	<u>25,442</u>	<u>359</u>	<u>-</u>	<u>48,250</u>	<u>11,459</u>	<u>85,510</u>
Total expenses	<u>\$ 688,146</u>	<u>\$ 92,719</u>	<u>\$ 72,938</u>	<u>\$ 202,314</u>	<u>\$ 57,280</u>	<u>\$ 1,113,397</u>

The accompanying notes are an integral part of these financial statements.

WACO HABITAT FOR HUMANITY

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2020

	Program Services			Support Services		Total
	New Home Construction and Rehabs	Critical Home Repair and Ramps	Family Services	Management	Fundraising	
House construction	\$ 96,755	\$ -	\$ -	\$ -	\$ -	\$ 96,755
Home repairs and ramps	-	979	-	-	-	979
Tithe for international homes	4,500	-	-	-	-	4,500
Salaries	108,267	-	47,329	145,231	52,396	353,223
Retirement	125	-	94	1,988	1,605	3,812
Employee benefits	10,091	-	392	19,299	5,260	35,042
Payroll taxes	1,750	-	3,572	10,114	3,132	18,568
Accounting and legal fees	-	-	707	19,361	-	20,068
Advertising and promotion	-	-	457	-	1,158	1,615
Office expenses	6,975	245	6,019	45,672	3,432	62,343
Information technology	2,872	-	3,587	1,965	6,842	15,266
Occupancy	12,181	-	2,763	4,847	4,854	24,645
Travel	4,733	1,794	446	1,969	-	8,942
Conferences, conventions, and meetings	10	-	4,350	380	-	4,740
Depreciation and amortization	-	5,890	7,975	6,071	2,024	21,960
Insurance	5,396	1,067	-	4,687	1,074	12,224
Mortgage discount	93,082	-	-	-	-	93,082
In-kind expense	5,557	-	-	-	-	5,557
Other expenses	9,589	-	-	31,242	15,838	56,669
Total expenses	\$ 361,883	\$ 9,975	\$ 77,691	\$ 292,826	\$ 97,615	\$ 839,990

The accompanying notes are an integral part of these financial statements.

WACO HABITAT FOR HUMANITY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 380,522	\$ 235,066
Depreciation and amortization	48,228	48,562
Loss on disposition of fixed assets	-	5,709
Disposition of vacant lots and donated buildings	50,548	(62,390)
Unrealized gain on investments	(30,239)	(567)
Gain on extinguishment of debt	(273,800)	-
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
(Increase) decrease in mortgage receivables, net	(4,050)	(118,071)
(Increase) decrease in receivables	-	1,575
(Increase) decrease in houses under construction	20,119	(88,087)
Increase (decrease) in other payables	8,747	22,045
Increase (decrease) in escrow accounts	(14,450)	(14,161)
Net cash provided by operating activities	<u>185,625</u>	<u>29,681</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	141,125	612,144
Payments on notes payable	(17,773)	(14,727)
Net cash (used) provided by financing activities	<u>123,352</u>	<u>597,417</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of fixed assets	-	(18,000)
Disposition of equipment	-	4,500
Decrease in net investment of certificate of deposit	-	81,025
Net cash provided by investing activities	<u>-</u>	<u>67,525</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	308,977	694,623
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>722,269</u>	<u>27,646</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ <u>1,031,246</u>	\$ <u>722,269</u>

The accompanying notes are an integral part of these financial statements.

WACO HABITAT FOR HUMANITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

1. ORGANIZATION AND NATURE OF ACTIVITIES

Waco Habitat for Humanity, Inc. ("WHFH", or the "Habitat") is a not-for-profit organization registered in the state of Texas and headquartered in Waco, Texas. It is an affiliate of Habitat for Humanity International, Inc., which is a nonprofit, nondenominational Christian housing organization. WHFH, with the help of volunteer labor and donations of money and materials, brings communities and people together to create and sustain home ownership in McLennan County.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of WHFH have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities, in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Adoption of New Accounting Standard

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09 to Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers. The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Habitat adopted the new standard effective July 1, 2020, the first day of the Habitat's fiscal year, using the modified retrospective approach.

Adoption of ASC 606 had no impact to the recognition of revenue in the Habitat's financial statements. The Habitat recognized no cumulative effect adjustment upon adoption. Adoption of the standard resulted in enhanced revenue-related disclosures that provide information with respect to the Habitat's analysis of certain contracts.

Although ASC 606 is not expected to have a material impact to the Habitat's ongoing net income, the Habitat implemented changes to its processes and procedures related to revenue recognition and the control activities within them.

Basis of Presentation

Net assets, revenues, gains and losses are classified on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and the changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Such net assets are available for any purpose consistent with the Habitat's mission. Designations of net assets by the governing board do not have the same legal requirements as do restrictions of funds and are included in this category.

Net Assets With Donor Restrictions – Net assets subject to specific, donor-imposed restrictions that must be met by actions of the Habitat and/or passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Recognition of Donor Restrictions

Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions depending on the nature of the restriction. When the restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Significant Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates included in the financial statements are the useful lives of property and equipment, fair value of investments, and the discount on mortgages. Actual results could differ from those estimates.

Income Tax Status

WHFH has been granted exemptions from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. As such, no provision for income taxes is reflected in the financial statements.

The accounting standards on accounting for uncertainty in income taxes address the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, WHFH may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of WHFH and various positions related to the potential sources of unrelated business taxable income. The tax benefits recognized in the financial statements from a tax position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for fiscal years 2021 and 2020. The previous three years remain subject to examination by tax jurisdictions.

Cash and Cash Equivalents

For purposes of the statements of cash flows, WHFH considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. There were no cash equivalents for the years ended June 30, 2021 and 2020.

Mortgages Receivable

Mortgages receivable consist of non-interest bearing mortgages, which are secured by real estate and payable in monthly installments. The mortgages have an original maturity of 20 to 30 years. These mortgages have been discounted at various rates ranging from 0% to 9.0%, based on prevailing market rates at the inception of the mortgages. Mortgage discount expense (amortization of the discount) is recorded using the interest method over the lives of the mortgages.

Vacant Lots

Vacant lots consists of home lots to be developed and costs incurred in conjunction with lot preparation. They are capitalized until the completion of each home. Home lot inventory was \$41,564 and \$92,112 as of June 30, 2021 and 2020, respectively.

Buildings and Equipment

Property and equipment are capitalized at cost if they exceed the \$500 capitalization threshold. Donations of fixed assets are capitalized at fair market value at the date of donation. All assets are depreciated on the straight-line basis over 5 to 39 years.

Support and Cost

Grants, gifts of cash, and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of net activities as net assets released from restrictions.

Donations of goods and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Donation of permanent assets with explicit restrictions that specify how the assets are to be used are reported as restricted support. In the absence of explicit donor stipulations about how long-lived assets must be maintained, WHFH reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

ReStore revenue is recognized when the donated goods are sold. ReStore expenses are recognized when incurred.

Homes under Construction

Homes under construction are recorded at cost and includes all direct material, labor, and equipment costs and those indirect costs related to home construction such as indirect labor, supplies and tool costs. Land costs included in construction in progress are stated at cost or fair value at the date of the contribution. Included in land costs are any costs incurred in development. When revenue from the sale of a home is recognized, the corresponding costs are then expensed in the statements of activities as program services.

Sale to Homeowners

Sales of homes to homeowners are recorded at the gross mortgage. The mortgages do not bear interest, but have been discounted based upon applicable rates of interest published by Habitat for Humanity International, Inc. Using the interest method of amortization, these discounts will be recognized as mortgage loan amortization over the term of the mortgages.

Home Construction Costs

Costs incurred in conjunction with home construction are capitalized. Construction costs are expensed during the year a home is sold and included in program services.

Prior Year Summarized Information

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with WHFH's financial statements for the year ended June 30, 2020, from which the summarized information was derived.

Functional Allocation of Expenses

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Habitat.

3. MORTGAGE RECEIVABLES

Mortgages receivable consists of non-interest bearing loans, payable monthly over 20 to 30 years and secured by certain real estate in connection with WHFH's homebuilding initiatives in the Waco, Texas area. The closing costs are included in the mortgage, and an escrow account is held for taxes and insurance.

The mortgages are non-interest bearing for the life of the loan; however, a discount (calculated based on the imputed interest rate provided annually by Habitat for Humanity International) is recognized by WHFH at each sale so the financial statements only reflect, at any point in time, the present value of future principal payments to be received. The discount is presented on the balance sheet as a reduction to mortgages receivable and is amortized over the life of the mortgage. Discount rates range from 0% to 9.0% based on the applicable interest rate published by Habitat for Humanity International, Inc. for the year the loan was made.

In addition to the reported mortgage receivables described above, a subordinate lien is established at the closing of each home for the difference between the appraised value and the actual sales price of the home. The amount of the subordinate lien is forgiven over 20 to 30 years; however, no amounts associated with the subordinate lien are reflected in these financial statements. The subordinate lien, or a portion thereof, is collected only under specific circumstances; therefore, the amount collectible is unknown.

The balance of current installments on non-interest bearing mortgage loans as of June 30, 2021 and 2020, of \$140,000 and \$136,200, respectively, represents the installments due within one year. The remaining balance of the non-interest bearing mortgage loans as of June 30, 2021 and 2020, of \$1,989,374 and \$1,974,639 respectively, is represented as other assets.

The discount on mortgage receivables must also be amortized under GAAP. Amortization for the years ended June 30, 2021 and 2020 was \$81,251 and \$77,439, respectively.

4. PROPERTY AND EQUIPMENT

The summary of property and equipment for the years ended June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Land	\$ 187,751	\$ 187,751
Buildings and improvements	1,324,613	1,324,613
Equipment and tools	117,524	140,809
ReStore equipment	<u>104,535</u>	<u>104,535</u>
	1,734,423	1,757,708
Less accumulated depreciation	<u>(613,343)</u>	<u>(588,400)</u>
Total property and equipment	<u>\$ 1,121,080</u>	<u>\$ 1,169,308</u>

Depreciation expense for the years ended June 30, 2021 and 2020 was \$48,228 and \$48,562, respectively.

5. NOTES PAYABLE

At June 30, 2021 and 2020, the following debt was outstanding:

	<u>2021</u>	<u>2020</u>
Note payable to a bank, non-interest bearing, due in monthly installments of \$133 for 240 months, maturing October 5, 2020.	\$ -	\$ 534
Note payable, with and interest rate of 5.75%, due in monthly installments of \$1,580, maturing January 27, 2022.	218,541	224,606
Note payable, with and interest rate of 3.5%, due in monthly installments of \$1,200, maturing April 1, 2022.	86,093	97,267
SBA Economic Injury Disaster loan payable, with and interest rate of 2.75%, due in monthly installments of \$641, beginning one year from the loan date and maturing June 18, 2050.	<u>154,469</u>	<u>150,244</u>
	459,103	472,651
Less current installments	<u>(308,122)</u>	<u>(70,549)</u>
Long-term Debt, Excluding Current Installments	<u>\$ 150,981</u>	<u>\$ 402,102</u>

The debt service requirements for the next five years and thereafter are as follows:

Fiscal Year Ending June 30,

2022	\$ 308,122
2023	3,585
2024	3,685
2025	3,787
2026	3,893
Thereafter	<u>136,031</u>
	<u>\$ 459,103</u>

6. SMALL BUSINESS ADMINISTRATION LOAN

Small business administration loans at June 30, 2021 and 2020, consists of the following:

	<u>2021</u>	<u>2020</u>
SBA Paycheck Protection Program loan payable, with and interest rate of 1.0%, due in monthly installments of \$7,706 if not forgiven, maturing May 1, 2022.	<u>-</u>	<u>136,900</u>
SBA Loans, net of current maturities	<u>\$ -</u>	<u>\$ 136,900</u>

In 2020, the Habitat received loan proceeds in the amount of \$136,900 under the Paycheck Protection Program ("PPP"). The Habitat received loan proceeds from a second PPP loan in January 2021 in the amount of \$136,900. The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES ACT"), provides loans for qualifying businesses to be used on qualifying expenses. The loan is eligible to turn into a grant provided the funds are used for the appropriate expenses. Any amount not used for the appropriate expenses would be repaid by the Habitat at a 1% interest rate over an 18-month period. The Habitat received forgiveness in February and June 2021, respectively, of both PPP loans and has recognized the \$273,800 in revenue from the extinguishment of debt in the statement of activities.

7. SALES TO HOMEOWNERS

During the years ended June 30, 2021 and 2020, four and one homes, respectively, were sold to qualifying applicants. The resulting mortgages are non-interest bearing and the presentation of their book value has been discounted based upon the prevailing market rates for low-income housing at the inception of the mortgages (current year's rate 7.23%). The discount totaled \$94,125 and \$22,724 for 2021 and 2020.

8. REVENUE RECOGNITION

The Habitat earns revenue from a variety of sources. The Habitat's principal sources of revenue are grants, contributions, ReStore sales and sales to homeowners, as discussed above in note 2.

Sales to homeowners and ReStore sales are exchange transactions within the scope of and accounted for under ASC 606. ASC 606 requires revenue to be recognized when the Habitat satisfies the related performance obligations by transferring a good or service to a customer through a 5-step process:

- 1) Identify the contract with the customer,
- 2) Identify the associated performance obligations,
- 3) Determine the transaction price,
- 4) Allocate the transaction price to the performance obligations, and
- 5) Recognize revenue when the performance obligations have been satisfied and the good or service has been transferred.

Sales to homeowners satisfy performance obligations at a point in time, on the date when the sale formally closes. ReStore sales also satisfy performance obligations at a point in time when control of the goods transfers to the customer at the point-of-sale.

Contributions and the composition of grants received by the Habitat are not exchange transactions and therefore, fall outside the scope of ASC 606. These revenue streams are recognized in accordance with ASC 958, Not-for-profit Entities.

9. INVESTMENTS

The Habitat has an investment account under the management of the Waco Foundation. The funds are the property of the Waco Foundation held by it in its trust capacity. Income earned (less investment fees incurred) accumulates for distribution at the request of the Habitat. The income may, if both the Habitat and the Waco Foundation agree, remain and accumulate with the corpus. The Habitat may request distributions of principal. However, distributions of principal are at the sole discretion of the Waco Foundation. It is intended that assets be held for the benefit of the Habitat as long as the need for funds exist. If, for any reason, the Waco Foundation is terminated, dissolves, ceases to exist or ceases to hold or administer the Habitat's investment fund or otherwise function under the agreement, then the net assets of the investment fund, after allowance for liabilities and expenses, shall be distributed to the Habitat. If the Habitat is not then in existence, funds will be distributed to such organization having similar purposes as the Habitat as the governing board of the Waco Foundation may select.

The Habitat's beneficial interest in assets held by the Waco Foundation was \$137,126 and \$106,887 as of June 30, 2021 and 2020, respectively.

10. FAIR VALUE MEASUREMENTS

FASB ASC 820, Fair Value Measurement, clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this guidance are described below.

- Level 1 – Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

- Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

In estimating fair value, the Habitat utilizes valuation techniques that are consistent with the market approach, the income approach, and/or the cost approach. Such valuation techniques are consistently applied.

The fair value of the investment held at the Waco Foundation (*see Investments footnote above*) is based on the fair value of the fund's net assets as determined by the trustee of the fund, primarily using quoted prices for similar assets in active markets. The following summarizes how the fair values of the investments were determined.

Fair values of assets measured on a recurring basis at June 30, 2021 and 2020 are as follows:

Fair Value Measurements at Reporting Date Using

<u>June 30, 2021</u>	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Quoted Prices for Similar Assets (Level 2)</u>
Assets at Waco Foundation	\$ <u>137,126</u>	\$ <u>-</u>	\$ <u>137,126</u>
Total at June 30, 2021	\$ <u><u>137,126</u></u>	\$ <u><u>-</u></u>	\$ <u><u>137,126</u></u>
 <u>June 30, 2020</u>			
Assets at Waco Foundation	\$ <u>106,887</u>	\$ <u>-</u>	\$ <u>106,887</u>
Total at June 30, 2020	\$ <u><u>106,887</u></u>	\$ <u><u>-</u></u>	\$ <u><u>106,887</u></u>

11. DONATED SERVICES AND MATERIALS

A number of unpaid volunteers have made contributions of their time, materials and services in conjunction with the Habitat's programs and services. The value of services provided by the Habitat's many volunteers are not reflected in these financial statements. The value of the contributions meeting the requirements for recognition was \$13,002 and \$5,557 for the years ended June 30, 2021 and 2020, respectively.

ReStore inventory consists of donated home furnishings, building supplies, paint and paint supplies, flooring, and other home improvement items. No amounts have been recognized in the accompanying statements of activities for these goods, however, the revenue generated by donated ReStore items is recognized at the selling price at the time of the sale.

12. CONCENTRATION OF CREDIT AND MARKET RISK

WHFH maintains cash balances at several financial institutions located in Texas. Accounts at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. At June 30, 2021 and 2020, WHFH had approximately \$308,293 and \$78,377, respectively, in cash balances not covered by FDIC insurance coverage.

WHFH's purpose is to provide housing for low-income homeowners. As such, it is likely that the mortgage holders would be unable to qualify for a mortgage from a traditional financial institution. This poses an inherent risk to WHFH that the mortgages receivable will be partially uncollectible. To mitigate the risk of overstating the ability of WHFH to fully collect the mortgages, the notes receivable have been discounted using the prevailing market rate for low-income housing at the inception of the note. Additionally, all notes receivable are collateralized by the real estate associated with the mortgage.

13. TRANSACTIONS WITH HABITAT FOR HUMANITY INTERNATIONAL

WHFH will annually remit a percentage of its unrestricted contributions (excluding in-kind contributions) to Habitat for Humanity International. For the years ended June 30, 2021 and 2020, WHFH contributed \$7,500 and \$7,500, respectively. In addition to these unrestricted contributions to Habitat for Humanity International, WHFH also paid a tithe in the amount of \$13,500 for the year ended June 30, 2021 and \$4,500 for the year ended June 30, 2020. These funds are used to construct homes in economically depressed areas around the world.

14. NET ASSETS – ENDOWMENT FUNDS

The Habitat's endowment consists of board designated quasi-endowments invested in funds managed by the Waco Foundation. The funds are the property of the Waco Foundation held by it in its trust capacity. Net distributable income of the funds, defined as the net realized and unrealized appreciation of the funds over the historic dollar value of the assets in the funds is to be distributed to the Habitat at least on an annual basis, unless otherwise requested by the Habitat. The income may, if both the Habitat and the Waco Foundation agree, remain and accumulate with the corpus.

As required by GAAP, net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. As of June 30, 2021, the Habitat does not have any donor restricted endowment funds, and as such, the endowments are not subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

Endowment net asset classification by Type of Fund as of June 30, 2021:

Endowment Type	Without Donor Restriction	With Donor Restriction	Total
Donor Restricted	\$ -	\$ -	\$ -
Board Designated	137,126	-	137,126
Total Endowments	<u>\$ 137,126</u>	<u>\$ -</u>	<u>\$ 137,126</u>

Changes in endowment net assets for the fiscal year ended June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 106,887	\$ -	\$ 106,887
Investment return, net	30,239	-	30,239
Contributions to endowment	-	-	-
Appropriation of endowment assets for expenditure	-	-	-
Endowment net assets, end of year	<u>\$ 137,126</u>	<u>\$ -</u>	<u>\$ 137,126</u>

Endowment net asset classification by Type of Fund as of June 30, 2020:

Endowment Type	Without Donor Restriction	With Donor Restriction	Total
Donor Restricted	\$ -	\$ -	\$ -
Board Designated	106,887	-	106,887
Total Endowments	<u>\$ 106,887</u>	<u>\$ -</u>	<u>\$ 106,887</u>

Changes in endowment net assets for the fiscal year ended June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 106,320	\$ -	\$ 106,320
Investment return, net	567		567
Contributions to endowment	-	-	-
Appropriation of endowment assets for expenditure	-	-	-
Endowment net assets, end of year	<u>\$ 106,887</u>	<u>\$ -</u>	<u>\$ 106,887</u>

15. LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the Habitat's financial assets as of June 30, 2021 and 2020, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. Amounts not available could include amounts set aside for long-term investing in quasi-endowments that could be drawn upon if the governing board approves that action.

	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash & cash equivalents	\$ 1,031,246	\$ 722,269
Beneficial interest in assets held by Waco Foundation	137,126	106,887
Current installments of non-interest bearing mortgage loans	<u>140,000</u>	<u>136,200</u>
Financial assets, at year-end	1,308,372	965,356
Less:		
Board-designated net assets	<u>(137,126)</u>	<u>(106,887)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,171,246</u>	<u>\$ 858,469</u>

16. RELATED PARTIES

In the normal course of business, the Habitat has business dealings with individuals who are associated with the Habitat. In the opinion of Management, all business dealings are conducted in an arm's length manner.

17. SUBSEQUENT EVENTS

The Habitat has evaluated subsequent events from the financial position date through December 16, 2021, the date the financial statements were available to be issued and noted no items requiring disclosure or recognition.

THIS PAGE LEFT BLANK INTENTIONALLY