

**WACO HABITAT FOR HUMANITY**  
**FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED**  
**JUNE 30, 2022 AND 2021**  
**WITH INDEPENDENT AUDITOR'S REPORT**

# WACO HABITAT FOR HUMANITY

## TABLE OF CONTENTS

	<b><u>Page Number</u></b>
Independent Auditor's Report .....	1 – 2
<b>FINANCIAL STATEMENTS</b>	
Statements of Financial Position .....	3
Statements of Activities .....	4
Statement of Functional Expenses Year Ended June 30, 2022 .....	5
Statement of Functional Expenses Year Ended June 30, 2021 .....	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

### ***Opinion***

We have audited the financial statements of Waco Habitat for Humanity (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of Waco Habitat for Humanity as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS); 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 Waco Habitat for Humanity 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 the 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 Waco Habitat for Humanity's ability to continue as a going concern for one year after the date that the financial statements are issued.

### ***Auditor's 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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

### **OFFICE LOCATIONS**

**TEXAS** | Waco | Temple | Hillsboro | Houston

**NEW MEXICO** | Albuquerque

Misstatements 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 GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Waco Habitat for Humanity'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 Waco Habitat for Humanity'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.

#### ***Report on Summarized Comparative Information***

We have previously audited Waco Habitat for Humanity's June 30, 2021 financial statements, and our report dated December 16, 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, 2021, 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  
January 10, 2023



## **FINANCIAL STATEMENTS**

**WACO HABITAT FOR HUMANITY**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,059,031*	\$ 1,031,246
Grants receivable	500,000	-
Other receivables	18,236	-
Prepaid expenses	4,298	-
Current installments of non-interest bearing mortgage loans	<u>140,000</u>	<u>140,000</u>
Total current assets	<u>1,721,565</u>	<u>1,171,246</u>
<b>PROPERTY AND EQUIPMENT</b>		
Land	187,751	187,751
Buildings	1,324,613	1,324,613
Equipment	117,524	117,524
ReStore equipment	109,886	104,535
Construction in progress	7,179	-
Less: accumulated depreciation	<u>( 656,483)</u>	<u>( 613,343)</u>
Total property and equipment	<u>1,090,470</u>	<u>1,121,080</u>
<b>OTHER ASSETS</b>		
Homes under construction	405,093	190,946
Vacant lots	37,998	41,564
Escrow receivable	110,272	144,878
Beneficial interest in assets held by Waco Foundation	122,371	137,126
Non-interest bearing mortgage loans, less current installments	1,814,409	1,989,374
Less: discount on mortgages	<u>( 1,130,189)</u>	<u>( 1,228,353)</u>
Total other assets	<u>1,359,954</u>	<u>1,275,535</u>
Total assets	<u>\$ 4,171,989</u>	<u>\$ 3,567,861</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Sales tax payable	\$ 4,936	\$ 3,949
Other payables	73,944	75,568
Current maturities of notes payable	<u>3,460</u>	<u>308,122</u>
Total current liabilities	<u>82,340</u>	<u>387,639</u>
<b>LONG-TERM DEBT, LESS CURRENT MATURITIES</b>	<u>151,995</u>	<u>150,981</u>
Total liabilities	<u>234,335</u>	<u>538,620</u>
<b>NET ASSETS</b>		
Without donor restriction:		
Board designated for endowment	122,371	137,126
Undesignated	<u>3,815,283</u>	<u>2,892,115</u>
Total without donor restrictions	<u>3,937,654</u>	<u>3,029,241</u>
Total net assets	<u>3,937,654</u>	<u>3,029,241</u>
Total liabilities and net assets	<u>\$ 4,171,989</u>	<u>\$ 3,567,861</u>

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

# WACO HABITAT FOR HUMANITY

## STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2022

(With Summarized Financial Information for the Year Ended June 30, 2021)

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
<b>REVENUE, GAINS AND OTHER SUPPORT</b>				
Foundation contributions	\$ 10,170	\$ -	\$ 10,170	\$ 148,154
Public contributions	4,500	-	4,500	18,000
Other contributions	1,204,063	-	1,204,063	228,314
ReStore:				
ReStore sales	603,891	-	603,891	615,710
ReStore expenses	( 459,412)	-	( 459,412)	( 437,161)
ReStore net gain	144,479	-	144,479	178,549
 Mortgage loans on homes	85,201	-	85,201	382,500
Repair and ramps	11,829	-	11,829	9,532
In-kind donations	46,509	-	46,509	13,002
Discount amortization	116,536	-	116,536	81,251
Gain on extinguishment of debt	-	-	-	273,800
Other income	59,994	-	59,994	160,817
 Total revenue, gains and other support	1,683,281	-	1,683,281	1,493,919
<b>EXPENSES</b>				
<b>Program Services</b>				
New home construction and rehabs	371,888	-	371,888	688,146
Critical home repair and ramps	50,415	-	50,415	92,719
Family services	91,286	-	91,286	72,938
<b>Supporting Services</b>				
Management and general expenses	215,789	-	215,789	202,314
Fundraising expenses	45,490	-	45,490	57,280
 Total expenses	774,868	-	774,868	1,113,397
 <b>CHANGE IN NET ASSETS</b>	908,413	-	908,413	380,522
 <b>NET ASSETS, BEGINNING OF YEAR</b>	3,029,241	-	3,029,241	2,648,719
 <b>NET ASSETS, END OF YEAR</b>	\$ 3,937,654	\$ -	\$ 3,937,654	\$ 3,029,241

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, 2022**

	Program Services			Support Services		
	New Home Construction and Rehabs	Critical Home Repair and Ramps	Family Services	Management and General	Fundraising	Total
House construction	\$ 113,598	\$ -	\$ -	\$ -	\$ -	\$ 113,598
Home repairs and ramps	-	50,415	-	-	-	50,415
Tithe for international homes	18,000	-	-	-	-	18,000
Salaries	88,918	-	58,842	96,699	21,630	266,089
Retirement	282	-	1,765	1,933	649	4,629
Employee benefits	8,178	-	4,250	2,108	-	14,536
Payroll taxes	13,612	-	4,352	3,325	1,449	22,738
Accounting and legal fees	-	-	36	18,825	-	18,861
Advertising and promotion	50	-	39	500	-	589
Office expenses	12,544	-	7,164	8,799	1,375	29,882
Information technology	3,217	-	2,627	2,511	392	8,747
Occupancy	8,152	-	3,502	13,049	796	25,499
Travel	7,489	-	-	2,620	-	10,109
Conferences, conventions, and meetings	990	-	2,111	1,464	134	4,699
Depreciation and amortization	11,099	-	5,976	7,952	1,708	26,735
Insurance	3,528	-	-	10,366	-	13,894
Mortgage discount	18,372	-	-	-	-	18,372
In-kind expense	46,509	-	-	-	-	46,509
Other expenses	17,350	-	622	45,638	17,357	80,967
Total expenses	\$ 371,888	\$ 50,415	\$ 91,286	\$ 215,789	\$ 45,490	\$ 774,868

**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		
	New Home Construction and Repairs	Critical Home Repair and Ramps	Family Services	Management	Fundraising	Total
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	25,442	359	-	48,250	11,459	85,510
Total expenses	\$ 688,146	\$ 92,719	\$ 72,938	\$ 202,314	\$ 57,280	\$ 1,113,397

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, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 908,413	\$ 380,522
Depreciation and amortization	43,140	48,228
Disposition of vacant lots and donated buildings	3,566	50,548
Unrealized (gain) loss on investments	14,755	( 30,239)
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	76,801	( 4,050)
(Increase) decrease in receivables	( 518,236)	-
(Increase) decrease in prepaid expenses	( 4,298)	-
(Increase) decrease in houses under construction	( 214,147)	20,119
Increase (decrease) in other payables	( 637)	8,747
Increase (decrease) in escrow accounts	<u>34,606</u>	<u>( 14,450)</u>
Net cash provided by operating activities	<u>343,963</u>	<u>185,625</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from notes payable	-	141,125
Payments on notes payable	<u>( 303,648)</u>	<u>( 17,773)</u>
Net cash (used) provided by financing activities	<u>( 303,648)</u>	<u>123,352</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of fixed assets	<u>( 12,530)</u>	<u>-</u>
Net cash used by investing activities	<u>( 12,530)</u>	<u>-</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	27,785	308,977
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>1,031,246</u>	<u>722,269</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ <u>1,059,031</u>	\$ <u>1,031,246</u>

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

# WACO HABITAT FOR HUMANITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 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 2022 and 2021. 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, 2022 and 2021.

### **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 \$37,998 and \$41,564 as of June 30, 2022 and 2021, 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, 2021, 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, 2022 and 2021, of \$140,000 and \$140,000, respectively, represents the installments due within one year. The remaining balance of the non-interest bearing mortgage loans as of June 30, 2022 and 2021, of \$1,814,409 and \$1,989,374 respectively, is represented as other assets.

The discount on mortgage receivables must also be amortized under GAAP. Amortization for the years ended June 30, 2022 and 2021 was \$116,536 and \$81,251, respectively.

#### 4. ACCOUNTS RECEIVABLE

For the years ended June 30, 2022 and 2021, accounts receivable consist of:

	2022	2021
Grants receivable	\$ 500,000	\$ -
Other receivables	18,236	-
Less allowance for doubtful accounts	-	-
Total	<u>\$ 518,236</u>	<u>\$ -</u>

#### 5. PROPERTY AND EQUIPMENT

The summary of property and equipment for the years ended June 30, 2022 and 2021 are as follows:

	2022	2021
Land	\$ 187,751	\$ 187,751
Buildings and improvements	1,324,613	1,324,613
Equipment and tools	117,524	117,524
ReStore equipment	109,886	104,535
Construction in progress	7,179	-
	<u>1,746,953</u>	<u>1,734,423</u>
Less accumulated depreciation	( 656,483)	( 613,343)
Total property and equipment	<u>\$ 1,090,470</u>	<u>\$ 1,121,080</u>

Depreciation expense for the years ended June 30, 2022 and 2021 was \$43,140 and \$48,228, respectively.



## 6. NOTES PAYABLE

At June 30, 2022 and 2021, the following debt was outstanding:

	<u>2022</u>	<u>2021</u>
Note payable, with and interest rate of 5.75%, due in monthly installments of \$1,580, maturing January 27, 2022.	-	218,541
Note payable, with and interest rate of 3.5%, due in monthly installments of \$1,200, maturing April 1, 2022.	-	86,093
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>155,455</u>	<u>154,469</u>
	155,455	459,103
Less current installments	<u>( 3,460)</u>	<u>( 308,122)</u>
Long-term Debt, Excluding Current Installments	<u>\$ 151,995</u>	<u>\$ 150,981</u>

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

Fiscal Year Ending June 30,

2023	\$ 3,460
2024	3,557
2025	3,656
2026	3,758
2027	3,862
Thereafter	<u>137,162</u>
	<u>\$ 155,455</u>

## 7. SMALL BUSINESS ADMINISTRATION LOAN

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.

## 8. SALES TO HOMEOWNERS

During the years ended June 30, 2022 and 2021, one and four 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 7.49%). The discount totaled \$18,372 and \$94,125 for 2022 and 2021.

## 9. 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.

## **10. 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 \$122,371 and \$137,126 as of June 30, 2022 and 2021, respectively.

## **11. 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, 2022 and 2021 are as follows:

Fair Value Measurements at Reporting Date Using

		Quoted Prices in Active Markets for Identical Assets (Level 1)	Quoted Prices for Similar Assets (Level 2)
<u>June 30, 2022</u>	<u>Fair Value</u>		
Assets at Waco Foundation	\$ <u>122,371</u>	\$ <u>-</u>	\$ <u>122,371</u>
Total at June 30, 2022	\$ <u>122,371</u>	\$ <u>-</u>	\$ <u>122,371</u>
 <u>June 30, 2021</u>			
Assets at Waco Foundation	\$ <u>137,126</u>	\$ <u>-</u>	\$ <u>137,126</u>
Total at June 30, 2021	\$ <u>137,126</u>	\$ <u>-</u>	\$ <u>137,126</u>

## 12. 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 \$46,509 and \$13,002 for the years ended June 30, 2022 and 2021, 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.

## 13. 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, 2022 and 2021, WHFH had approximately \$360,507 and \$308,293, 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.

## 14. 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, 2022 and 2021, 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 \$18,000 for the year ended June 30, 2022 and \$13,500 for the year ended June 30, 2021. These funds are used to construct homes in economically depressed areas around the world.



## 15. 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, 2022 and 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, 2022:

Endowment Type	Without Donor Restriction	With Donor Restriction	Total
Donor Restricted	\$ -	\$ -	\$ -
Board Designated	122,371	-	122,371
Total Endowments	\$ 122,371	\$ -	\$ 122,371

Changes in endowment net assets for the fiscal year ended June 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 137,126	\$ -	\$ 137,126
Investment return, net	( 14,755)	-	( 14,755)
Contributions to endowment	-	-	-
Appropriation of endowment assets for expenditure	-	-	-
Endowment net assets, end of year	\$ 122,371	\$ -	\$ 122,371

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	\$ 137,126	\$ -	\$ 137,126

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	\$ 137,126	\$ -	\$ 137,126

## 16. LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the Habitat's financial assets as of June 30, 2022 and 2021, 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.

	2022	2021
Financial assets:		
Cash & cash equivalents	\$ 1,059,031	\$ 1,031,246
Beneficial interest in assets held by Waco Foundation	122,371	137,126
Grants receivable	500,000	-
Other receivables	18,236	-
Current installments of non-interest bearing mortgage loans	140,000	140,000
Financial assets, at year-end	1,839,638	1,308,372
Less:		
Board-designated net assets	( 122,371)	( 137,126)
Financial assets available to meet cash needs for general expenditures within one year	\$ 1,717,267	\$ 1,171,246

## 17. 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.

## 18. SUBSEQUENT EVENTS

The Habitat has evaluated subsequent events from the financial position date through January 10, 2023, the date the financial statements were available to be issued and noted no items requiring disclosure or recognition.