

**HABITAT FOR HUMANITY
OF WILLIAMSON COUNTY TEXAS, INC.**

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

JUNE 30, 2020 AND 2019

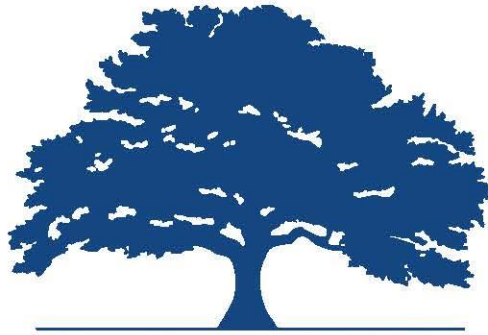
WITH INDEPENDENT AUDITOR'S REPORT

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HABITAT FOR HUMANITY OF WILLIAMSON COUNTY TEXAS, INC.

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MAESE FULMER CPAs, PLLC

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Habitat for Humanity of Williamson County Texas, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses and cash flows 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 controls 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 controls 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 controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Williamson County, Texas, Inc. as of June 30, 2020, 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.

Report on Summarized Comparative Information

Diane Fulmer, CPA audited Habitat for Humanity of Williamson County Texas, Inc's 2019 financial statements, and expressed an unmodified audit opinion on those audited financial statements in her report dated October 3, 2019. In our opinion, the summarized comparative information presented on the Statement of Activities and Changes in Net Assets for the year ended June 30, 2019, is consistent, in all material respects, with the audited Statement of Activities and Changes in Net Assets from which it has been derived.

Maese Fulmer CPAs, PLLC
Round Rock, Texas
January 6, 2021

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY TEXAS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019

| ASSETS | 2020 | 2019 |
|---|--------------|--------------|
| Current Assets | | |
| Cash and cash equivalents - unrestricted | \$ 345,479 | \$ 324,542 |
| Mortgages receivable, current portion (net of discount) | 70,079 | 82,103 |
| Accounts receivable | 198,739 | 145,772 |
| Prepaid expenses | 62,674 | 44,560 |
| Inventory | 16,980 | 16,985 |
| Total Current Assets | 693,951 | 613,962 |
| Property and Equipment | | |
| Furniture and fixtures | 15,087 | 15,087 |
| Equipment | 124,564 | 120,328 |
| Leasehold improvements | 129,805 | 115,054 |
| Less accumulated depreciation | (126,695) | (98,505) |
| Net Property and Equipment | 142,761 | 151,964 |
| Other Assets | | |
| Construction in progress | 106,592 | 104,689 |
| Home held for sale | - | 212,487 |
| Land for development | 489,868 | 97,130 |
| Mortgages receivable, long-term portion (net of discount) | 1,149,351 | 1,121,391 |
| Deposits | 9,213 | 9,213 |
| Total Other Assets | 1,755,024 | 1,544,910 |
| Total Assets | \$ 2,591,736 | \$ 2,310,836 |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities | | |
| Accounts payable | \$ 40,587 | \$ 31,954 |
| Line of credit | 63,512 | - |
| City of Round Rock payable | - | 1,513 |
| Williamson County payable | 30,796 | 24,297 |
| Notes payable, current portion (net of discount) | 201,316 | 67,018 |
| Homeowners downpayment | - | 1,000 |
| Homeowners escrow accounts | 135,708 | 121,077 |
| Accrued expenses | 12,743 | 9,133 |
| Deferred revenue | 91,269 | 92,235 |
| Total Current Liabilities | 575,931 | 348,227 |
| Long-Term Debt (net of discount and current portion) | 453,769 | 254,665 |
| Total Liabilities | 1,029,700 | 602,892 |
| Net Assets | | |
| Without donor restrictions | 1,389,440 | 1,568,936 |
| With donor restrictions | 172,596 | 139,008 |
| Total Net Assets | 1,562,036 | 1,707,944 |
| Total Liabilities and Net Assets | \$ 2,591,736 | \$ 2,310,836 |

See accompanying notes.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY TEXAS, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2020
(With Summarized Financial Information for the Year Ended June 30, 2019)

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>2020 Total</u> | <u>2019 Total</u> |
|--|---|------------------------------------|----------------------------|----------------------------|
| REVENUES AND GAINS | | | | |
| Support and revenue: | | | | |
| Grant revenue | \$ - | \$ 228,394 | \$ 228,394 | \$ 149,906 |
| Contributions | 186,399 | 142,139 | 328,538 | 242,465 |
| In-kind contributions | 503,738 | - | 503,738 | 705,316 |
| ReStore income | 427,841 | - | 427,841 | 424,777 |
| Sale to homeowners | 168,000 | - | 168,000 | 242,760 |
| Mortgage discount income | 39,231 | - | 39,231 | 37,837 |
| Mortgage discount amortization | 132,454 | - | 132,454 | 113,719 |
| Other program income | 87,459 | - | 87,459 | 39,217 |
| Interest income | 1,205 | - | 1,205 | 718 |
| Gain (Loss) from sale of home | <u>(23,297)</u> | <u>-</u> | <u>(23,297)</u> | <u>29,711</u> |
| | 1,523,030 | 370,533 | 1,893,563 | 1,986,426 |
| Net assets released from restrictions: | | | | |
| Satisfaction of purpose restrictions | <u>336,945</u> | <u>(336,945)</u> | <u>-</u> | <u>-</u> |
| TOTAL REVENUES AND GAINS | \$ 1,859,975 | \$ 33,588 | \$ 1,893,563 | \$ 1,986,426 |
| EXPENSES AND LOSSES | | | | |
| Program Services | | | | |
| Home Ownership | 507,696 | - | 507,696 | 557,076 |
| Home Repair | 255,959 | - | 255,959 | 157,403 |
| ReStore | <u>969,852</u> | <u>-</u> | <u>969,852</u> | <u>962,709</u> |
| Total program services | 1,733,507 | - | 1,733,507 | 1,677,188 |
| Supporting Services: | | | | |
| General and administrative | 151,149 | - | 151,149 | 119,952 |
| Development and fundraising | <u>154,815</u> | <u>-</u> | <u>154,815</u> | <u>136,193</u> |
| Total supporting services | <u>305,964</u> | <u>-</u> | <u>305,964</u> | <u>256,145</u> |
| TOTAL EXPENSES | \$ 2,039,471 | \$ - | \$ 2,039,471 | \$ 1,933,333 |
| INCREASES (DECREASES) IN NET ASSETS | (179,496) | 33,588 | (145,908) | 53,093 |
| NET ASSETS, BEGINNING OF YEAR | <u>1,568,936</u> | <u>139,008</u> | <u>1,707,944</u> | <u>1,654,851</u> |
| NET ASSETS (DEFICIT), END OF YEAR | \$ <u>1,389,440</u> | \$ <u>172,596</u> | \$ <u>1,562,036</u> | \$ <u>1,707,944</u> |

See accompanying notes.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY TEXAS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

| | Program Services | | | Supporting Services | | Total |
|--|-------------------|----------------|------------|-------------------------------|-----------------------------------|--------------|
| | Home Ownership | Home Repair | ReStore | General and Administrative | Development and Fundraising | |
| Advertising | \$ 262 | \$ - | \$ 9,496 | \$ 138 | \$ 8,328 | \$ 18,224 |
| Automobile | 181 | 114 | 6,188 | 102 | 163 | 6,748 |
| Bank charges | - | 6 | 7,389 | - | 9,160 | 16,555 |
| Community awareness | 789 | - | - | - | - | 789 |
| Construction | - | 185,707 | - | - | - | 185,707 |
| Contract labor | - | - | 83,243 | - | 966 | 84,209 |
| Cost of goods sold | - | - | 425,543 | - | - | 425,543 |
| Cost of land transferred | 41,273 | - | - | - | - | 41,273 |
| Cost of homes transferred | 181,314 | - | - | - | - | 181,314 |
| Home dedications | 31 | - | - | - | - | 31 |
| Depreciation | 7,340 | - | 12,779 | 10,071 | - | 30,190 |
| Donor recognition | - | - | - | - | 707 | 707 |
| Future homeowner application/education | 827 | - | - | - | - | 827 |
| HFH International SOSI | 3,000 | 3,000 | 3,000 | 3,000 | 3,000 | 15,000 |
| HFH International Tithe | - | - | - | - | - | - |
| Impact research | 8,092 | - | - | - | - | 8,092 |
| Insurance | 11,350 | 310 | 9,972 | 2,773 | 611 | 25,016 |
| Interest expense | 25,836 | 905 | 2,103 | - | - | 28,844 |
| Legal and professional | 1,563 | - | - | 8,616 | 1,200 | 11,379 |
| Loan servicing | 16,003 | - | - | - | - | 16,003 |
| Mortgage discount expense | 31,630 | - | - | - | - | 31,630 |
| Mortgage assistance | 12,518 | - | - | - | - | 12,518 |
| Other employee benefits | 10,113 | 5,305 | 25,223 | 6,272 | 5,305 | 52,218 |
| Other expense | 922 | - | - | 143 | - | 1,065 |
| Payroll expenses | 8,281 | 3,759 | 15,543 | 12,733 | 8,271 | 48,587 |
| Postage | 182 | - | - | 516 | 536 | 1,234 |
| Rent | 15,243 | 3,708 | 137,160 | 3,708 | 3,708 | 163,527 |
| Repairs and maintenance | 2,001 | 934 | 11,098 | 1,163 | 950 | 16,146 |
| Salaries | 109,735 | 49,626 | 172,538 | 88,073 | 107,899 | 527,871 |
| Small tools | 342 | - | - | - | - | 342 |
| Supplies | 2,347 | 791 | 10,832 | 3,855 | 867 | 18,692 |
| Telephone and fax | 1,031 | 190 | - | 3,984 | 1,024 | 6,229 |
| Training | 1,596 | 41 | 113 | 79 | 293 | 2,122 |
| Travel | 7,627 | - | 2,182 | 429 | 485 | 10,723 |
| Utilities & occupancy expenses | 859 | 1,342 | 34,090 | 5,494 | 1,342 | 43,127 |
| Volunteer expenses | 5,408 | 221 | 1,360 | - | - | 6,989 |
| | \$ 507,696 | \$ 255,959 | \$ 969,852 | \$ 151,149 | \$ 154,815 | \$ 2,039,471 |

See accompanying notes.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY TEXAS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

| | Program Services | | | Supporting Services | | Total |
|--|-------------------|-------------------|-------------------|-------------------------------|-----------------------------------|---------------------|
| | Home Ownership | Home Repair | ReStore | General and Administrative | Development and Fundraising | |
| Advertising | \$ 538 | \$ 375 | \$ 2,419 | \$ 498 | \$ 6,733 | \$ 10,563 |
| Automobile | 108 | 23 | 8,341 | 23 | 23 | 8,518 |
| Bank charges | 22 | 7 | 7,130 | - | 4,411 | 11,570 |
| Community awareness | 455 | - | - | - | - | 455 |
| Construction | 901 | 104,311 | - | - | - | 105,212 |
| Contract labor | - | - | 82,009 | - | 1,200 | 83,209 |
| Cost of goods sold | - | - | 423,600 | - | - | 423,600 |
| Cost of land transferred | 74,112 | - | - | - | - | 74,112 |
| Cost of homes transferred | 168,927 | - | - | - | - | 168,927 |
| Home dedications | 80 | - | - | - | - | 80 |
| Depreciation | 16,030 | - | - | 1,330 | - | 17,360 |
| Donor recognition | - | - | - | - | 5,133 | 5,133 |
| Future homeowner application/education | 372 | - | - | - | - | 372 |
| HFH International SOSI | 2,500 | 2,500 | 5,000 | 2,500 | 2,500 | 15,000 |
| HFH International Tithe | 3,750 | - | - | - | - | 3,750 |
| Impact research | 2,000 | - | - | - | - | 2,000 |
| Insurance | 8,060 | 2,328 | 11,463 | 6,917 | 1,816 | 30,584 |
| Interest expense | 25,599 | - | 2,892 | - | - | 28,491 |
| Legal and professional | 1,928 | - | - | 7,331 | 1,200 | 10,459 |
| Loan servicing | 18,010 | - | - | - | - | 18,010 |
| Mortgage discount expense | 85,755 | - | - | - | - | 85,755 |
| Other employee benefits | 4,996 | 2,753 | 20,350 | 7,692 | 6,054 | 41,845 |
| Other expense | 644 | - | - | 335 | - | 979 |
| Payroll expenses | 8,039 | 2,880 | 16,131 | 9,686 | 7,461 | 44,197 |
| Postage | 461 | 2 | - | 468 | 343 | 1,274 |
| Rent | 14,871 | 1,422 | 135,131 | 6,148 | 2,618 | 160,190 |
| Repairs and maintenance | 1,259 | 206 | 13,002 | 335 | 140 | 14,942 |
| Salaries | 95,306 | 37,820 | 182,515 | 61,952 | 91,894 | 469,487 |
| Small tools | 205 | - | - | - | - | 205 |
| Supplies | 2,099 | 666 | 9,784 | 6,563 | 1,732 | 20,844 |
| Telephone and fax | 1,098 | 269 | - | 3,623 | 1,201 | 6,191 |
| Training | 2,097 | 52 | 58 | 649 | 327 | 3,183 |
| Travel | 6,988 | - | 2,140 | 1,006 | 400 | 10,534 |
| Utilities & occupancy expenses | 1,775 | 1,006 | 38,622 | 2,896 | 1,007 | 45,306 |
| Volunteer expenses | 8,091 | 783 | 2,122 | - | - | 10,996 |
| | <u>\$ 557,076</u> | <u>\$ 157,403</u> | <u>\$ 962,709</u> | <u>\$ 119,952</u> | <u>\$ 136,193</u> | <u>\$ 1,933,333</u> |

See accompanying notes.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY TEXAS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

| | 2020 | 2019 |
|--|--------------|------------|
| Cash Flows From Operating Activities: | | |
| Increase (Decrease) in Net Assets | \$ (145,908) | \$ 53,093 |
| Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by (Used in) Operating Activities: | | |
| Depreciation | 30,190 | 17,360 |
| (Increase) and Decrease in Operating Assets: | | |
| Accounts receivable | (52,967) | 24,330 |
| Mortgages receivable-net | (15,936) | 1,753 |
| Prepaid expenses | (18,114) | (5,616) |
| Inventory | 5 | 2,520 |
| Construction in progress | (1,903) | 6,113 |
| Homes held for sale | 212,487 | - |
| Land for development | (392,738) | 22,740 |
| Deposits | - | 300 |
| (Decrease) and Increase in Operating Liabilities: | | |
| Accounts payable | 8,634 | (1,988) |
| City of Round Rock payable | (1,513) | (994) |
| Williamson County payable | 6,499 | 5,609 |
| Accrued expenses | 3,610 | (3,769) |
| Deferred revenue | (966) | 29,682 |
| Homeowner escrow and deposits | 14,631 | 13,698 |
| Homeowner downpayment | (1,000) | (1,000) |
| Net Cash Provided by (Used in) Operating Activities | (354,989) | 163,831 |
| Cash Flows From Investing Activities: | | |
| Purchase of fixed assets | (20,988) | (75,621) |
| Net Cash Provided by (Used in) Investing Activities | (20,988) | (75,621) |
| Cash Flows From Financing Activities: | | |
| Proceeds from long-term debt | 563,947 | 122,258 |
| Payments made on long-term debt | (167,033) | (215,074) |
| Net Cash Provided by (Used in) Financing Activities | 396,914 | (92,816) |
| Net Increase (Decrease) in Cash and Cash Equivalents - Unrestricted | 20,937 | (4,606) |
| Cash and Cash Equivalents at Beginning of Year - Unrestricted | 324,542 | 329,148 |
| Cash and Cash Equivalents at End of Year - Unrestricted | \$ 345,479 | \$ 324,542 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the year for: | | |
| Interest | \$ 28,844 | \$ 28,491 |
| Income Taxes | - | - |

Disclosure of accounting policy:

For purposes of the statement of cash flows, the company considers all highly liquid investments with a maturity date of three months or less to be cash equivalents.

See accompanying notes.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY TEXAS, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

Summary of HFHWC and Activities

Habitat for Humanity of Williamson County Texas, Inc. (HFHWC) is a Texas nonprofit organization. HFHWC's headquarters is located in Georgetown, Texas. It is an affiliate of Habitat for Humanity International, Inc., which is a nonprofit, nondenominational Christian housing organization. HFHWC, with the help of volunteer labor and donations of money and materials, brings communities and people together to create and sustain home ownership in Williamson County. Home ownership opportunity is created for a qualified family through new construction or rehab/recycle of an existing home. Sustaining home ownership opportunity is provided for a qualified family who owns their home but does not have the skills or resources to repair the home.

Since 2004, HFHWC has operated the ReStore program through one ReStore location in Georgetown. Beginning in July 2016, an additional ReStore is operating in Round Rock. The ReStore is a retail center that provides donated new and gently used building materials, appliances and furniture to the general public at reduced prices. Proceeds from the ReStore program financially support the other programs and mission of HFHWC.

HFHWC is a non-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes and has been classified as a publicly supported organization as described in Section 509(a)(1) and 170(b)(A)(VI). HFHWC was incorporated on February 11, 1999, pursuant to the Texas Non-Profit Corporation Act of the State of Texas. On July 1, 2007, Habitat for Humanity of Greater Round Rock merged with Habitat for Humanity of Greater Georgetown, the surviving corporation, and changed its name to Habitat for Humanity of Williamson County Texas, Inc.

NOTE 1: Summary of Significant Accounting Policies

The accompanying financial statements of HFHWC have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States. That is, revenues are recognized when earned and expenses are recognized when incurred.

HFHWC follows Statement of Financial Accounting Standards (FASC ASC 958), Financial Statements for Not-for-Profit Organization. Under FASC ASC 958, net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Without Donor Restrictions:

Net assets are not subject to donor-imposed stipulations which consist of the following:

Undesignated – funds which have no donor or Board of Director recommendation, designation or preference.

Board designated – funds designated by the Board of Directors for a specific purpose.

With Donor Restrictions:

Net assets subject to donor-imposed restrictions that are maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part to specific programs or activities.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY TEXAS, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

Grants, gifts of cash, and other assets are reported as with donor restrictions 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 without donor restrictions and reported in the statement of net activities as net assets released from restrictions. The board has the ability to internally designate or release from designation contributions as needed.

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, HFHWC reports expirations of donor restrictions when the donated or acquired permanent assets are placed in service or completed.

For the purpose of the Statements of Cash Flows, HFHWC considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Certificate of Deposits are included in this definition as any penalties for early withdrawal would not have a material effect on the financial statements. Invested cash, cash in accounts of investment custodians, is excluded from this definition.

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 7.38% to 8.18%, based on prevailing market rates at the inception of the mortgages. Mortgage discount expense (amortization of the discount) is recorded using the straight-line method over the lives of the mortgages.

Property and equipment are capitalized at cost if they exceed the \$2,500 capitalization threshold. Fixed assets donated are capitalized at fair market value at the date of donation. All assets are depreciated on the straight-line basis over 3 to 15 years. Depreciation expense amounted to \$30,190 and \$17,360 for the years ended June 30, 2020 and 2019, respectively.

Land inventory consists of home lots to be developed and costs incurred in conjunction with home construction. They are capitalized until completion and sale of each home. Home lot inventory was \$489,868 and \$97,130 as of June 30, 2020 and 2019, respectively. As of June 30, 2019, there was one home held for sale that was acquired as a foreclosure. This home was sold during the year ending June 30, 2020 leaving a balance of \$0 at that date.

Revenue is recognized in the period in which it is earned. As of June 30, 2020, and 2019, HFHWC received contributions for future periods amounting to \$91,269 and \$92,235, respectively.

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

Costs have been summarized on a functional basis in the Statements of Activities and in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY TEXAS, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

A substantial number of volunteers have made significant contributions of their time to HFHWC's program and supporting services. The value of this contributed time is not reflected in these financial statements since it is susceptible to objective measurement or valuation.

Construction in progress is 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 or purchase. Included in land costs are any costs incurred in acquisition or development. When revenue from the sale of the home is recognized, the corresponding costs are then expensed in the statement of activities as program services.

Each house sale to a qualified family is recorded as a transfer to homeowner at the gross mortgage. These mortgages do not bear interest, but have been discounted based upon applicable rates of interest published by Habitat for Humanity International, Inc. Then using the interest method of amortization, the discount will be recognized as mortgage loan amortization over the term of the mortgages.

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

The preparation of financial statements in conformity with the U.S. generally accepted accounting principles 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 and the unamortized discount for non-interest bearing mortgage loans receivable and payable. Actual results could differ from those estimates.

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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with HFHWC's financial statements for the year ended June 30, 2019 from which the summarized information was derived.

HFHWC files its forms 990 in the U.S. federal jurisdiction. HFHWC is no longer subject to examination by the Internal Revenue Service for years before 2017.

HFHWC has been granted exemptions from federal income tax under Section 501(c)(3) of the Internal Revenue Code. As such, no provision for income tax 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, HFHWC 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 HFHWC and various positions related to the potential sources of unrelated business taxable income (UBIT). 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 2020 and 2019.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY TEXAS, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 2: Operating Leases

In Georgetown, HFHWC leases two warehouses for administration, program activities, equipment storage, and the Georgetown ReStore. In Round Rock, space is leased for the Round Rock ReStore. The leases are strict operating leases that expire on May 31, 2022, and July 31, 2021, respectively. Operating lease expenses of \$163,527 and \$160,191 were incurred during fiscal year 2020 and 2019, respectively. Total future minimum lease payments are as follows as of June 30, 2020:

| Year Ending June 30, | Minimum Lease Rentals |
|----------------------|-----------------------------|
| 2021 | \$ 161,925 |
| 2022 | 68,569 |
| 2023 | - |
| 2024 | - |
| 2025 | - |
| 2026 and beyond | - |
| | \$ 230,494 |

NOTE 3: Long-Term Debt

Long-term debt, net of discount, consists of the following at June 30, 2020 and 2019:

| | 2020 | 2019 |
|--|------------|------------|
| Notes payable to Texas Department of Housing and Community Affairs (TDHCA) in the original amount \$848,500 as of June 30, 2020 and \$824,500 as of June 30, 2019, non-interest bearing, discount calculated based on a hypothetical imputed interest rate ranging between 7.38% and 8.14%, the rate is provided annually by Habitat for Humanity International resulting in a discount of \$291,212 and \$277,138 as of June 30, 2020 and 2019, respectively. HFHWC remits monthly payments of \$3,335 and the loans mature February 2027 through January 2040. | \$ 298,502 | \$ 266,759 |
| Note payable to an anonymous lender; interest rate at 1.5%; due April 1, 2025. Secured by land at 502 W 21st St. | 212,928 | - |
| Note payable to SouthStar Bank for Paycheck Protection Plan loan. Loan is forgivable if certain parameters are met. | 106,765 | - |
| Note payable to Bancorp South; interest rate at 4.5%; due April 5, 2022. Secured by mortgages. | 36,890 | 54,924 |
| Total outstanding balance | 655,085 | 321,683 |
| Less current portion | (201,316) | (67,018) |
| Total long-term debt | \$ 453,769 | \$ 254,665 |

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FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 3: Long-Term Debt (continued)

Future scheduled maturities of long-term debt are as follows:

| | |
|-----------------|-------------------|
| 2021 | \$ 201,316 |
| 2022 | 58,307 |
| 2023 | 58,963 |
| 2024 | 59,629 |
| 2025 | 52,684 |
| 2026 and beyond | <u>224,184</u> |
| | <u>\$ 655,085</u> |

NOTE 4: Mortgages Receivable

Mortgages receivable consists of non-interest bearing loans, payable monthly over 20 or 30 years and secured by certain real estate in connection with the HFHWC's homebuilding initiatives in Williamson County, Texas. An escrow 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 HFHWC at each sale so the financial statements only reflect, at any point in time, the present value of future payments to be received. It 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 7.38% to 8.18% 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 the life of the loan; however, no amounts associated with the subordinate lien, or a portion thereof, is collected unless the home is sold by the homeowner or sold at foreclosure; therefore, the amount collectible is unknown.

Future minimum principal payments due are as follows:

| <u>Year Ending June 30,</u> | <u>Gross receipts</u> | <u>Discount amortization</u> | <u>Net minimum principal payments</u> |
|-----------------------------|-----------------------|----------------------------------|---|
| 2021 | \$ 202,533 | \$ 132,454 | \$ 70,079 |
| 2022 | 202,533 | 132,454 | 70,079 |
| 2023 | 202,533 | 132,454 | 70,079 |
| 2024 | 202,533 | 132,454 | 70,079 |
| 2025 | 202,533 | 132,454 | 70,079 |
| 2026 and beyond | <u>1,475,547</u> | <u>606,514</u> | <u>869,033</u> |
| | <u>\$ 2,488,212</u> | <u>\$ 1,268,782</u> | <u>\$ 1,219,430</u> |

The future minimum principal payments noted above are as of June 30, 2020. The receivable balance at each respective fiscal year end is based on current mortgage payments. Management expects the balance to increase during future periods.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY TEXAS, INC.
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 5: Concentrations of Credit Risk and Market Risk

HFHWC maintains cash balances in several financial institutions located in Texas. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2020 and 2019, HFHWC had no uninsured cash balances.

HFHWC home ownership program'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 HFHWC that the mortgages receivable will be partially uncollectible. To mitigate the risk of overstating the ability of HFHWC 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.

As of June 30, 2020, HFHWC has a 93% success rate of its homeowners maintaining home ownership. HFHWC has completed the foreclosure process six times since the organization's inception in 1999.

NOTE 6: Home Construction and Repairs

Real estate costs, building materials and contract labor are recorded at cost when incurred. Repairs were done on owner occupied houses throughout Williamson County.

New home construction activity for the year ended June 30, 2020 and 2019 is as follows:

| | <u>New Home Construction</u> | |
|--|------------------------------|----------------------|
| | <u>June 30, 2020</u> | <u>June 30, 2019</u> |
| New homes started in prior years, sold in current year | 0 | 2 |
| New homes started, completed, and sold | 0 | 0 |
| New homes started, completed, and not sold | 1 | 0 |
| New homes started, not completed | 1 | 2 |

Rehabilitated home construction activity for the year ended June 30, 2020 and 2019 is as follows:

| | <u>Rehabilitated Home Construction</u> | |
|--|--|----------------------|
| | <u>June 30, 2020</u> | <u>June 30, 2019</u> |
| Rehabilitated homes started in prior years, sold in current year | 0 | 0 |
| Rehabilitated homes started, completed, and sold | 0 | 0 |
| Rehabilitated homes started, completed, and not sold | 0 | 0 |
| Rehabilitated homes started, not completed | 0 | 0 |

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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 6: Home Construction and Repairs (continued)

Home repair activity for the year ended June 30, 2020 and 2019 is as follows:

| | Home Repairs | |
|--|---------------|---------------|
| | June 30, 2020 | June 30, 2019 |
| Home repairs started in prior years, completed in current year | 3 | 3 |
| Home repairs started and completed in current year | 20 | 23 |
| Home repairs started in current year but not completed | 20 | 3 |

NOTE 7: Sales to Homeowners

During the years ended June 30, 2020 and 2019, 2 and 2 homes were sold to qualifying applicants, respectively. 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 is 7.38%). The discount totaled \$132,454 for 2020 and \$113,719 for 2019.

NOTE 8: Advertising

HFHWC uses advertising to promote its programs and fundraising through public advertising, end of year campaigns, and electronic newsletters. Advertising expenses are expensed as incurred. For the year ended June 30, 2020 and 2019, advertising expenses of \$18,224 and \$10,563 was incurred, respectively.

NOTE 9: Net Assets With Donor Restrictions

Net assets with donor restrictions consisted of the following as of June 30, 2020 and 2019:

| | 2020 | 2019 |
|--|------------|------------|
| Net assets with donor restrictions: | | |
| Grants | \$ 140,290 | \$ 92,235 |
| Home Construction Sponsorships | 32,306 | 46,773 |
| Total net assets with donor restrictions | \$ 172,596 | \$ 139,008 |

NOTE 10: Line of Credit

HFHWC has an available revolving line of credit at Bancorp South in the amount of \$150,000 expiring in August 2020. The line of credit is used for short-term loans for amounts that will be reimbursed by an outside source and is secured by mortgages. There was \$63,512 and \$0 outstanding on this line of credit as of June 30, 2020 and 2019.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY TEXAS, INC.
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NOTE 11: Transactions with Habitat for Humanity International

HFHWC annually remits a Board of Directors approved amount per house sold to a qualified family to Habitat for Humanity International as a tithe. These funds are used to construct homes in economically depressed areas around the world. For the year ended June 30, 2020 and 2019, Habitat contributed \$0 and \$3,750, respectively. In addition to these unrestricted contributions to Habitat for Humanity International, HFHWC also paid a Stewardship & Organizational Sustainability Fee (SOSI) in the amount of \$15,000 for each of the years ended June 30, 2020 and 2019.

NOTE 12: Foreclosure on homes

If a homeowner is in default on a mortgage loan and HFHWC determines that loss mitigation is not reasonable under the circumstances, HFHWC may decide to foreclose and recycle the house for another qualified family if financially possible. In these transactions, HFHWC must establish a fair market value of the house by obtaining an appraisal for the house “as is”. No houses were foreclosed during year ending June 30, 2020 or 2019.

NOTE 13: Liquidity and Availability of Financial Assets

The following reflects HFHWC’s financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

| | 2020 | 2019 |
|---|------------|------------|
| Financial assets at year-end | \$ 614,297 | \$ 666,136 |
| Less those unavailable for general expenditures within one year, due to: | | |
| Donor-restricted to home repairs | 29,291 | 19,844 |
| Donor-restricted to home construction | 32,306 | 99,773 |
| Donor-restricted to painting of leased buildings in GT | - | 10,000 |
| Donor-restricted to purchase of scaffolding & trailer | 554 | 2,191 |
| Donor-restricted to volunteer expenses | 452 | 1,240 |
| Donor-restricted to land purchase | 34,917 | - |
| Donor-restricted to mortgage assistance | 2,576 | - |
| Donor-restricted to operating expenses | 50,000 | - |
| Donor-restricted to payroll expenses | 22,500 | - |
| Donor-restricted to travel expense for HFHI team | - | 5,960 |
| Financial assets available to meet cash needs for general expenditure within one year | \$ 441,701 | \$ 527,128 |

NOTE 14: Restricted Cash and Cash Equivalents

HFHWC has no cash or cash equivalents restricted as of years ending June 30, 2020 or 2019. For purposes of the audited financial statements and related notes, HFHWC considers all highly liquid investments with a maturity date of three months or less to be cash or cash equivalents.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY TEXAS, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 15: Evaluation of Subsequent Events

HFHWC has evaluated events through January 6, 2021, the date of which the financial statements were available to be issued. Note 16 explains a subsequent event found.

NOTE 16: Paycheck Protection Program Loan Forgiveness

During the year ending June 30, 2020, HFHWC received a loan of \$106,765 from the Paycheck Protection Program per the program rules, the loan would be forgivable provided that the funds were used for applicable costs such as payroll, rent, utilities, etc. In November 2020, \$96,765 of the loan was forgiven. \$10,000 of the loan was not forgiven due to HFHWC receiving an Economic Injury Disaster Loan grant from the Small Business Administration. The \$10,000 owed was paid in November 2020.

NOTE 17: Correction of an Error

During the audit, it was found that the mortgage receivable current and long-term portions were incorrect for year ending June 30, 2019. There is no effect on the current period financial statements for the year ending June 30, 2020.

NOTE 18: Restatement of Prior Year Financials

As per Note 17, HFHWC had a correction of an error regarding the current and long-term portions of mortgage receivables for year ending June 30, 2019. This correction resulted in the restatement of the statement of financial position for the prior year ending June 30, 2019. Accordingly, the following statement of financial position items are being presented. There was no effect of the restatement on the statement of activities or cash flows for the year ending June 30, 2019.

| | Original | Restated | Change |
|---|-----------|-----------|-----------|
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents - unrestricted | 324,542 | 324,542 | - |
| Mortgages receivable, current portion (net of discount) | 195,822 | 82,103 | (113,719) |
| Accounts receivable | 145,772 | 145,772 | - |
| Prepaid expenses | 44,560 | 44,560 | - |
| Inventory | 16,985 | 16,985 | - |
| Total Current Assets | 727,681 | 613,962 | (113,719) |
| Other Assets | | | |
| Construction in progress | 104,689 | 104,689 | - |
| Home held for sale | 212,487 | 212,487 | - |
| Land for development | 97,130 | 97,130 | - |
| Mortgages receivable, long-term portion (net of discount) | 1,007,672 | 1,121,391 | 113,719 |
| Inventory | 9,213 | 9,213 | - |
| Total Other Assets | 1,431,191 | 1,544,910 | 113,719 |