

HABITAT FOR HUMANITY
OF WILLIAMSON COUNTY TEXAS, INC.

INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

HABITAT FOR HUMANITY
OF WILLIAMSON COUNTY TEXAS, INC.

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Independent Auditors' Report

To the Board Of Directors
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, 2021, and the related statements of activities and changes in net assets, 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 control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 of 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 auditors' 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.

Other Matter

The financial statements of Habitat for Humanity of Williamson County Texas, Inc. for the year ended June 30, 2020, were audited by another auditor who expressed an unmodified opinion on those statements on January 6, 2021.

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, 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.

A handwritten signature in cursive script that reads "Atchley & Associates, LLP".

Austin, Texas

November 3, 2021

**HABITAT FOR HUMANITY
OF WILLIAMSON COUNTY TEXAS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2021 AND 2020**

Assets	2021	2020
Current Assets:		
Cash and cash equivalents - unrestricted	\$ 418,325	\$ 345,479
Mortgages receivable, current portion (net of discount)	96,739	70,079
Accounts receivable	164,164	198,739
Prepaid expenses	2,523	62,674
Inventory	16,110	16,980
Total Current Assets	697,861	693,951
Property and Equipment		
Furniture and fixtures	10,679	15,087
Equipment	112,653	124,564
Leasehold improvements	113,982	129,805
Less accumulated depreciation	(123,605)	(126,695)
Net Property and Equipment	113,709	142,761
Other Assets		
Construction in progress	44,432	106,592
Land for development	389,841	489,868
Mortgages receivable, long-term portion (net of discount)	1,125,360	1,149,351
Leasehold deposits	1,000	9,213
Total Other Assets	1,560,633	1,755,024
Total Assets	\$ 2,372,203	\$ 2,591,736
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 56,944	\$ 40,587
Line of Credit	46,372	63,512
Williamson County CDBG program payable	37,256	30,796
Notes payable, current portion (net of discount)	37,023	201,316
Homeowners' down payment	1,500	-
Homeowners' escrow accounts	144,809	135,708
Accrued expenses	12,800	12,743
Deferred revenue	50,000	91,269
Total Current Liabilities	386,704	575,931
Notes Payable (net of discount and current portion)	254,454	453,769
Total Liabilities	641,158	1,029,700
Net Assets:		
Without donor restrictions	1,486,392	1,389,440
With donor restrictions	244,653	172,596
Total Net Assets	1,731,045	1,562,036
Total Liabilities and Net Assets	\$ 2,372,203	\$ 2,591,736

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

**HABITAT FOR HUMANITY
OF WILLIAMSON COUNTY TEXAS, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2021**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and Gains			
Support and revenue			
Grant revenue	\$ -	\$ 331,090	\$ 331,090
Contributions	129,535	229,030	358,565
In-kind contributions	642,365	-	642,365
ReStore income	567,281	-	567,281
Sale to homeowners	147,360	-	147,360
Mortgage discount income	(23,867)	-	(23,867)
Mortgage discount amortization	217,511	-	217,511
Other program income	198,884	-	198,884
Interest income	880	-	880
Gain (loss) from sale of home	3,502	-	3,502
Total Support and Revenue	<u>1,883,451</u>	<u>560,120</u>	<u>2,443,571</u>
Net assets released from restrictions			
Satisfaction of purpose restrictions	<u>488,063</u>	<u>(488,063)</u>	<u>-</u>
Total Revenue and Gains	<u>2,371,514</u>	<u>72,057</u>	<u>2,443,571</u>
Expenses and Losses			
Program services			
Home Ownership	493,491	-	493,491
Home Preservation/Repair	334,553	-	334,553
ReStore	<u>1,140,718</u>	<u>-</u>	<u>1,140,718</u>
Total Program Services	1,968,762	-	1,968,762
Supporting services			
General and administrative	157,000	-	157,000
Development and fundraising	<u>148,800</u>	<u>-</u>	<u>148,800</u>
Total Supporting Services	<u>305,800</u>	<u>-</u>	<u>305,800</u>
Total Expenses and Losses	<u>2,274,562</u>	<u>-</u>	<u>2,274,562</u>
Increases (decreases) in net assets	96,952	72,057	169,009
Net Assets, Beginning of the Year	<u>1,389,440</u>	<u>172,596</u>	<u>1,562,036</u>
Net Assets, End of the Year	<u>\$ 1,486,392</u>	<u>\$ 244,653</u>	<u>\$ 1,731,045</u>

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

**HABITAT FOR HUMANITY
OF WILLIAMSON COUNTY TEXAS, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2020**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and Gains			
Support and revenue			
Grant revenue	\$ -	\$ 228,394	\$ 228,394
Contributions	186,399	142,139	328,538
In-kind contributions	503,738	-	503,738
ReStore income	427,841	-	427,841
Sale to homeowners	168,000	-	168,000
Mortgage discount income	39,231	-	39,231
Mortgage discount amortization	132,454	-	132,454
Other program income	87,459	-	87,459
Interest income	1,205	-	1,205
Gain (loss) from sale of home	<u>(23,297)</u>	<u>-</u>	<u>(23,297)</u>
Total Support and Revenue	1,523,030	370,533	1,893,563
Net assets released from restrictions			
Satisfaction of purpose restrictions	<u>336,945</u>	<u>(336,945)</u>	<u>-</u>
Total Revenue and Gains	<u>1,859,975</u>	<u>33,588</u>	<u>1,893,563</u>
Expenses and Losses			
Program services			
Home Ownership	507,696	-	507,696
Home Preservation/Repair	255,959	-	255,959
ReStore	<u>969,852</u>	<u>-</u>	<u>969,852</u>
Total Program Services	1,733,507	-	1,733,507
Supporting services			
General and administrative	151,149	-	151,149
Development and fundraising	<u>154,815</u>	<u>-</u>	<u>154,815</u>
Total Supporting Services	<u>305,964</u>	<u>-</u>	<u>305,964</u>
Total Expenses and Losses	<u>2,039,471</u>	<u>-</u>	<u>2,039,471</u>
Increases (decreases) in net assets	(179,496)	33,588	(145,908)
Net Assets, Beginning of the Year	<u>1,568,936</u>	<u>139,008</u>	<u>1,707,944</u>
Net Assets, End of the Year	<u>\$ 1,389,440</u>	<u>\$ 172,596</u>	<u>\$ 1,562,036</u>

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

**HABITAT FOR HUMANITY
OF WILLIAMSON COUNTY TEXAS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2021**

	Program Services			Supporting Services		Total
	Home Ownership	Home Preservation/ Repair	ReStore	General and Administrative	Development and Fundraising	
Advertising	\$ 898	\$ -	\$ 18,049	\$ 816	\$ 2,359	\$ 22,122
Automobile	35	-	5,484	136	-	5,655
Bank charges	-	-	10,310	-	8,627	18,937
Community awareness	-	-	-	-	-	-
Construction	-	255,571	-	-	-	255,571
Contract labor	-	-	43,953	-	4,600	48,553
Cost of goods sold	-	-	566,631	-	-	566,631
Cost of land transferred	115,487	-	-	-	-	115,487
Cost of homes transferred	172,089	-	-	-	-	172,089
Depreciation	3,475	-	13,474	8,864	-	25,813
Donor recognition	-	-	-	-	348	348
Future homeowner application/education	710	-	-	-	-	710
HFH International SOSI	3,000	3,000	3,000	3,000	3,000	15,000
HFH International Tithe	1,250	-	-	-	-	1,250
Home dedications	69	-	-	-	-	69
Impact research	-	-	-	-	-	-
Insurance	17,382	1,324	12,029	4,247	2,297	37,279
Interest	5,273	1,575	1,272	-	-	8,120
Legal and professional	2,678	-	-	10,858	1,263	14,799
Loan servicing	13,434	-	-	-	-	13,434
Mortgage discount	(33,443)	-	-	-	-	(33,443)
Mortgage assistance	21,750	-	-	-	-	21,750
Other employee benefits	7,377	7,377	28,387	10,640	7,206	60,987
Other expense	4,199	-	10,733	1,897	-	16,829
Payroll expenses	8,749	4,072	17,065	15,724	7,879	53,489
Postage	450	-	-	484	1,089	2,023
Rent	15,544	4,411	114,917	4,411	4,411	143,694
Repairs and maintenance	1,249	78	26,244	1,494	-	29,065
Salaries	114,801	52,921	213,772	81,192	101,724	564,410
Small tools	-	-	-	-	-	-
Supplies	1,784	812	12,286	4,185	860	19,927
Telephone and fax	1,082	198	-	4,379	819	6,478
Training	1,777	-	77	2,086	229	4,169
Travel	5,375	428	1,849	-	98	7,750
Utilities & occupancy	1,990	1,991	40,182	2,587	1,991	48,741
Volunteer expenses	5,027	795	1,004	-	-	6,826
	<u>\$ 493,491</u>	<u>\$ 334,553</u>	<u>\$1,140,718</u>	<u>\$ 157,000</u>	<u>\$ 148,800</u>	<u>\$2,274,562</u>

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

**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 Preservation/ 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
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	-	-	-	-	-	-
Home dedications	31	-	-	-	-	31
Impact research	8,092	-	-	-	-	8,092
Insurance	11,350	310	9,972	2,773	611	25,016
Interest	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	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	859	1,342	34,090	5,494	1,342	43,127
Volunteer expenses	5,408	221	1,360	-	-	6,989
	<u>\$ 507,696</u>	<u>\$ 255,959</u>	<u>\$ 969,852</u>	<u>\$ 151,149</u>	<u>\$ 154,815</u>	<u>\$2,039,471</u>

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

**HABITAT FOR HUMANITY
OF WILLIAMSON COUNTY TEXAS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

	2021	2020
Cash Flows from Operating Activities:		
Change in net assets	\$ 169,009	\$ (145,908)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities		
Depreciation expense	25,813	30,190
(Gain) loss on disposal of property	9,035	-
Forgiveness of PPP loan	(106,765)	-
(Increase) decrease in operating assets:		
Accounts receivable	34,575	(52,967)
Mortgages receivable-net	(2,669)	(15,936)
Prepaid expenses	60,151	(18,114)
Inventory	870	5
Construction in progress	62,160	(1,903)
Homes held for sale	-	212,487
Land for development	100,027	(392,738)
Leasehold deposits	8,213	-
(Decrease) increase in operating liabilities		
Accounts payable	16,357	8,634
City of Round Rock CDBG program payable	-	(1,513)
Williamson County CDBG program payable	6,460	6,499
Accrued expenses	57	3,610
Deferred revenue	(41,269)	(966)
Homeowner escrow and deposits	9,101	14,631
Homeowner down payment	1,500	(1,000)
Net cash provided by (used in) operating activities	352,625	(354,989)
Cash Flows from Investing Activities:		
Proceeds from sale of property	7,000	-
Purchase of property and equipment	(12,796)	(20,988)
Net cash provided by (used in) investing activities	(5,796)	(20,988)
Cash Flows from Financing Activities:		
Net change in line of credit	-	-
Proceeds from new notes payable	121,059	563,947
Principal payments made on notes payable	(395,042)	(167,033)
Net cash provided by (used in) financing activities	(273,983)	396,914
Net increase (decrease) in cash and cash equivalents - unrestricted	72,846	20,937
Cash and cash equivalents, beginning of year - unrestricted	345,479	324,542
Cash and cash equivalents, end of year - unrestricted	\$ 418,325	\$ 345,479
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 8,120	\$ 28,844
Income taxes	-	-

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

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY TEXAS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 and 2020

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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. HFHWC operated an additional ReStore in Round Rock from July 30, 2016, until March 27, 2021. 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.

Summary of Significant Accounting Policies

Basis of Presentation

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 (GAAP). That is, revenues are recognized when earned and expenses are recognized when incurred.

HFHWC follows Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958, *Financial Statements for Not-for-Profit Organization*. Under FASB 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.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY TEXAS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 and 2020

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Presentation - continued

With Donor Restrictions - net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. HFHWC did not have any net assets with perpetual restrictions at June 30, 2021 and 2020.

Contributions

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.

Cash and Equivalents

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

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 7.23% 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

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 \$25,813 and \$30,190 for the years ended June 30, 2021 and 2020, 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 \$389,841 and \$489,868 as of June 30, 2021 and 2020, respectively.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY TEXAS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 and 2020

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Construction in Progress

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.

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.

Revenue Recognition

Revenue is recognized in the period in which it is earned. As of June 30, 2021, and 2020, HFHWC received contributions for future periods amounting to \$50,000 and \$91,269, respectively.

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

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.

Functional Accounting

The costs of providing the various programs and activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses that can be identified with a specific program or that relate to a specific source of revenue are allocated directly to that program. Allocation of other expenses is based on time and effort.

Federal Income Taxes

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 on or before June 30, 2018.

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.

HABITAT FOR HUMANITY OF WILLIAMSON COUNTY TEXAS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 and 2020

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 2021 and 2020.

Use of Estimates

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

Subsequent Events

Subsequent events are events or transactions that occur after the Statement of Financial Position date but before the financial statements are issued. Management has evaluated subsequent events for disclosure through the date of the independent auditor's report, which is the date the financial statements were available to be issued (See Note 14.)

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. This ASU requires that a lease liability and related right-of-use-asset representing the lessee's right to use or control the asset be recorded on the Statement of Financial Position upon the commencement of all leases, except for short-term leases. In 2020, the FASB delayed the effective date for nonpublic entities to fiscal years beginning after December 15, 2021. Early adoption is permitted. HFHWC is currently evaluating the full effect that the adoption of this standard will have on the financial statements.

2. 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.

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2. MORTGAGES RECEIVABLE - continued

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 7.23% 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:

Year ending June 30	Gross Receipts	Discount Amortization	Net Minimum Principal Payments
2022	\$ 191,067	\$ (94,328)	\$ 96,739
2023	185,163	(89,850)	95,313
2024	178,098	(87,134)	90,964
2025	173,727	(84,331)	89,396
2026	171,381	(81,207)	90,174
2027 and beyond	1,340,491	(580,978)	759,513
	<u>\$ 2,239,927</u>	<u>\$ (1,017,828)</u>	<u>\$ 1,222,099</u>

The future minimum principal payments noted above are as of June 30, 2021. The receivable balance at each respective fiscal year end is based on current mortgage payments. Management expects the balance to increase during future periods.

3. LINE OF CREDIT

HFHWC has an available revolving line of credit at BancorpSouth in the amount of \$150,000 which was renewed to have a maturity date of August 1, 2021. 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 \$46,372 and \$63,512 outstanding on this line of credit as of June 30, 2021 and 2020.

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4. NOTES PAYABLE

Notes payable, net of discount, consists of the following at June 30, 2021 and 2020:

	2021	2020
Notes payable to Texas Department of Housing and Community Affairs (TDHCA) in the original amount \$773,500 as of June 30, 2020 and \$848,500 as of June 30, 2019, non-interest bearing, discount calculated based on a hypothetical imputed interest rate ranging between 7.23% and 8.14%, the rate is provided annually by Habitat for Humanity International resulting in a discount of \$262,234 and \$291,212 as of June 30, 2021 and 2020, respectively. HFHWC remits monthly payments of \$3,125 and the loans mature February 2027 through January 2040.	\$ 273,453	\$ 298,501
Note payable to an anonymous lender; interest rate at 1.5%; due April 1, 2025. Secured by land at 502 W 21st St. The note was paid off during the year ending June 30, 2021.	-	212,929
Note payable to SouthStar Bank for Paycheck Protection Plan loan. This Loan was forgiven on March 2, 2021.	-	106,765
Note payable to Bancorp South; interest rate at 4.5%; due April 5, 2022. Secured by mortgages.	18,024	36,890
Total outstanding balance	291,477	655,085
Less: current portion	(37,023)	(201,316)
Total long-term debt	\$ 254,454	\$ 453,769

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

Year ending June 30,	
2022	\$ 37,023
2023	18,999
2024	18,999
2025	18,999
2026	19,000
Thereafter	178,457
	\$ 291,477

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5. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following as of June 30, 2021 and 2020:

	2021	2020
Net assets with donor restrictions:		
Grants	\$ 127,709	\$ 140,290
Home construction contributions	116,944	32,306
Total net assets with donor restrictions	\$ 244,653	\$ 172,596

6. SALES TO HOMEOWNERS

During each of the years ended June 30, 2021 and 2020, 2 homes 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 is 7.23%). The discount totaled \$217,511 for 2021 and \$132,454 for 2020.

7. OPERATING LEASES

In Georgetown, HFHWC leases two warehouses for administration, program activities, equipment storage, and the Georgetown ReStore. In Round Rock, space was leased for the Round Rock ReStore through March 2021. The leases are strict operating leases with expirations through May 31, 2022. Operating lease expenses of \$143,694 and \$163,527 were incurred during fiscal years 2021 and 2020, respectively. Total future minimum lease payments are as follows as of June 30, 2021:

Year ending June 30,	Minimum Lease Rentals
2022	\$ 60,456

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, 2021 and 2020, advertising expenses of \$22,122 and \$18,224 was incurred, respectively.

9. FORECLOSURE ON HOMES

If a homeowner is in default on a mortgage loan and HFHWC determines that further 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 years ending June 30, 2021 or 2020.

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10. 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, 2021 and 2020, HFHWC had no uninsured cash balances.

HFHWC home ownership programs 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, 2021, 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.

11. HOME CONSTRUCTION AND HOME PRESERVATION/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, 2021 and 2020, is as follows:

	New Home Construction	
	June 30, 2021	June 30, 2020
New homes started in prior years, sold in current year	1	2
New homes started, completed, and sold	1	-
New homes started, completed, and not sold	-	1
New homes started, not completed	2	1

Rehabilitated home construction activity for the year ended June 30, 2021 and 2020, is as follows:

	Rehabilitated Home Construction	
	June 30, 2021	June 30, 2020
Rehabilitated homes started in prior years, sold in current year	-	-
Rehabilitated homes started, completed, and sold	-	-
Rehabilitated homes started, completed, and not sold	-	-
Rehabilitated homes started, not completed	-	-

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11. HOME CONSTRUCTION AND HOME PRESERVATION/REPAIRS - continued

Home repair activity for the year ended June 30, 2021 and 2020, is as follows:

	Home Repairs	
	June 30, 2021	June 30, 2020
Home preservation/repairs started in prior years, completed in current year	20	3
Home preservation/repairs started and completed in current year	31	20
Home preservation/repairs started in current year but not completed	21	20

12. 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.

	2021	2020
Financial assets at year end		
Cash and cash equivalents	\$ 418,325	\$ 345,479
Mortgages receivable (net of discount)	1,222,099	1,219,430
Accounts receivable	164,164	198,739
	1,804,588	1,763,648
Less those unavailable for general expenditures within one year, due to:		
Mortgages receivables due after one year	1,125,360	1,149,351
Donor-restricted to home preservation/repairs	73,510	29,291
Donor-restricted to home construction	116,944	32,306
Donor-restricted to purchase of scaffolding & trailer	-	554
Donor-restricted to volunteer expenses	-	452
Donor-restricted to land purchase	-	34,917
Donor-restricted to mortgage assistance	-	2,576
Donor-restricted to operating expenses	50,000	50,000
Donor-restricted to payroll expenses	4,199	22,500
	1,370,013	1,321,947
Financial assets available to meet cash needs for general expenditure within one year	\$ 434,575	\$ 441,701

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13. TRANSACTIONS WITH HABITAT FOR HUMANITY INTERNATIONAL

HFHWC annually remits a Board of Directors approved amount per house sold for 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 years ended June 30, 2021 and 2020, Habitat contributed \$1,250 and \$0, 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, 2021 and 2020.

14. EVALUATION OF SUBSEQUENT EVENTS

HFHWC was approved for a federal grant for land acquisition in the amount of \$636,000 in August 2021. The agreement for this grant has not yet been received.

HFHWC also secured an additional line of credit at SouthStar Bank in July 2021 in the amount of \$150,000 for land acquisition. No draws have been made on this line of credit yet so the balance is zero.