

**MONTGOMERY COUNTY HABITAT FOR HUMANITY INC.
dba HABITAT FOR HUMANITY MONTGOMERY COUNTY, TX**

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023

MONTGOMERY COUNTY HABITAT FOR HUMANITY INC.
dba HABITAT FOR HUMANITY MONTGOMERY COUNTY, TX
Conroe, Texas

CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	3
CONSOLIDATED STATEMENT OF ACTIVITIES.....	4
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES.....	5
CONSOLIDATED STATEMENT OF CASH FLOWS	6
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.....	7

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Montgomery County Habitat for Humanity Inc.
dba Habitat for Humanity Montgomery County, TX
Conroe, Texas

Opinion

We have audited the consolidated financial statements of Montgomery County Habitat for Humanity Inc. dba Habitat for Humanity Montgomery County, TX (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the fiscal year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Montgomery County Habitat for Humanity Inc. dba Habitat for Humanity Montgomery County, TX as of June 30, 2023, and the changes in its net assets and its cash flows for the fiscal 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 Montgomery County Habitat for Humanity Inc. dba Habitat for Humanity Montgomery County, TX 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Montgomery County Habitat for Humanity Inc. dba Habitat for Humanity Montgomery County, TX's ability to continue as a going concern for one year from the date the consolidated financial statements are available to be issued.

(Continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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. 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 consolidated 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 consolidated 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 consolidated 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 Montgomery County Habitat for Humanity Inc. dba Habitat for Humanity Montgomery County, TX'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Montgomery County Habitat for Humanity Inc. dba Habitat for Humanity Montgomery County, TX'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.

Crowe LLP

Crowe LLP

The Woodlands, Texas
February 23, 2024

MONTGOMERY COUNTY HABITAT FOR HUMANITY INC.
dba HABITAT FOR HUMANITY MONTGOMERY COUNTY, TX
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2023

ASSETS

Cash	\$ 2,641,160
Investments	1,057,733
Mortgage loans receivable, net	4,079,535
Other receivables	30,683
Home construction in progress	498,654
Capitalized infrastructure costs	830,748
Land held for development	964,408
Property and equipment, net	3,149,265
Other assets	<u>72,965</u>
Total assets	<u>\$ 13,325,151</u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable	\$ 63,553
Accrued liabilities	65,709
Deferred revenue	12,022
Notes payable	<u>1,731,254</u>
Total liabilities	1,872,538
Net assets	
Without donor restrictions	11,402,037
With donor restrictions	<u>50,576</u>
Total net assets	<u>11,452,613</u>
Total liabilities and net assets	<u>\$ 13,325,151</u>

See accompanying notes to consolidated financial statements.

MONTGOMERY COUNTY HABITAT FOR HUMANITY INC.
 dba HABITAT FOR HUMANITY MONTGOMERY COUNTY, TX
 CONSOLIDATED STATEMENT OF ACTIVITIES
 Fiscal year ended June 30, 2023

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
Revenues and other support			
Affordable housing sales	\$ 3,776,855	\$ -	\$ 3,776,855
ReStore sales, net	957,643	-	957,643
In-kind ReStore donated goods	938,419	-	938,419
Home sponsorship contributions	-	517,045	517,045
In-kind donated homes	287,679	-	287,679
Home repair contributions	-	55,000	55,000
General contributions and grants	429,518	-	429,518
Fundraising events, net (revenues of \$786,626 less expenses of \$180,184)	606,442	-	606,442
Investments interest and dividends	65,330	-	65,330
Other income	225,086	-	225,086
Net assets released from restrictions	637,576	(637,576)	-
Total revenues and other support	<u>7,924,548</u>	<u>(65,531)</u>	<u>7,859,017</u>
Expenses			
Program expenses			
Affordable housing	5,804,476	-	5,804,476
ReStore	1,723,743	-	1,723,743
Supporting services			
Management and general	319,031	-	319,031
Fundraising	362,886	-	362,886
Total expenses	<u>8,210,136</u>	<u>-</u>	<u>8,210,136</u>
Change in net assets	(285,588)	(65,531)	(351,119)
Net assets, beginning of fiscal year	<u>11,687,625</u>	<u>116,107</u>	<u>11,803,732</u>
Net assets, end of fiscal year	<u>\$ 11,402,037</u>	<u>\$ 50,576</u>	<u>\$ 11,452,613</u>

See accompanying notes to consolidated financial statements.

MONTGOMERY COUNTY HABITAT FOR HUMANITY INC.
dba HABITAT FOR HUMANITY MONTGOMERY COUNTY, TX
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Fiscal year ended June 30, 2023

	Program Services		Supporting Services		Total
	Affordable Housing	ReStore	Management and General	Fundraising	
Program and home building	\$ 3,037,353	\$ -	\$ -	\$ -	\$ 3,037,353
Amortization of mortgage discount	1,684,032	1,940	-	-	1,685,972
Salaries, taxes, and benefits	587,558	447,941	188,912	219,867	1,444,278
Advertising and marketing	9,572	28	-	7,862	17,462
Bad debt expense	112	-	-	-	112
Bank and credit card fees	-	23,971	918	22,509	47,398
Conferences and meetings	428	75	4,324	854	5,681
Depreciation	30,015	68,930	619	1,298	100,862
Dues and subscriptions	6,506	9,477	37,453	14,024	67,460
In-kind donated goods	-	938,419	-	-	938,419
In-kind donated homes	287,679	-	-	-	287,679
Insurance	58,169	41,612	2,711	4,519	107,011
Interest	1,562	97,816	-	-	99,378
International tithe contribution	10,000	-	-	-	10,000
Office supplies	5,523	2,271	4,967	3,058	15,819
Postage and printing	4,414	4,021	3,446	21,868	33,749
Professional and contracted services	20,544	1,928	54,911	39,856	117,239
Program supplies	6,833	9,565	599	8,267	25,264
Repairs and maintenance	17,497	28,902	2,766	2,833	51,998
Staff development and training	2,285	2,401	1,684	1,145	7,515
Travel and transportation	6,118	3,299	3,883	6,151	19,451
Utilities	11,246	40,279	4,371	3,929	59,825
Other	17,030	868	7,467	4,846	30,211
Total expenses	<u>\$ 5,804,476</u>	<u>\$ 1,723,743</u>	<u>\$ 319,031</u>	<u>\$ 362,886</u>	<u>\$ 8,210,136</u>

See accompanying notes to consolidated financial statements.

MONTGOMERY COUNTY HABITAT FOR HUMANITY INC.
 dba HABITAT FOR HUMANITY MONTGOMERY COUNTY, TX
 CONSOLIDATED STATEMENT OF CASH FLOWS
 Fiscal year ended June 30, 2023

Cash flows from operating activities	
Change in net assets	\$ (351,119)
Adjustments to reconcile change in net assets to net cash from operating activities:	
Amortization of mortgage discount	1,685,972
Bad debt expense	112
Depreciation	100,862
Amortization of deferred loan issuance costs	1,940
Realized gain on investments	(57,778)
Change in operating assets and liabilities:	
Mortgage loans receivable, net	(2,723,299)
Other receivables	102,787
Home construction in progress	910,110
Capitalized infrastructure costs	817,036
Land held for development	(120,934)
Other assets	(35,291)
Accounts payable	(199,008)
Accrued liabilities	22,371
Deferred revenue	(16,981)
Net cash from (used in) operating activities	<u>136,780</u>
Cash flows from investing activities	
Purchases of property and equipment	(62,779)
Purchase of investments	(999,955)
Net cash from (used in) investing activities	<u>(1,062,734)</u>
Cash from financing activities	
Payments on note payable	(1,890,709)
Proceeds from notes payable	1,845,000
Loan issuance costs	(34,916)
Net cash from (used in) financing activities	<u>(80,625)</u>
Net decrease in cash	(1,006,579)
Cash, beginning of fiscal year	<u>3,647,739</u>
Cash, end of fiscal year	<u><u>\$ 2,641,160</u></u>

See accompanying notes to consolidated financial statements.

MONTGOMERY COUNTY HABITAT FOR HUMANITY INC.
dba HABITAT FOR HUMANITY MONTGOMERY COUNTY, TX
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Formed in 1989, Montgomery County Habitat for Humanity Inc. dba Habitat for Humanity Montgomery County, TX (“Montgomery County Habitat”) is a nonprofit corporation (NFP) that works in partnership with God and people from all walks of life to improve the quality of life in Montgomery County, Texas by building and repairing homes so that everyone has a decent place to live and prosper. Montgomery County Habitat is an affiliate of Habitat for Humanity International located in Americus, Georgia.

Montgomery County Habitat’s mission is accomplished through a privately operated and financed program to sell affordable housing to low-income persons at fair market value, using zero interest rate mortgage loans. Montgomery County Habitat builds homes in Montgomery County using volunteer labor, donated materials, and contributed funds. Since 2009, Montgomery County Habitat has been building homes in the all-Habitat Cedar Creek neighborhood in Conroe, Texas. The homes are sold to pre-qualified, low-income persons that are selected based on need, ability to pay a long-term mortgage, and willingness to partner. Homes sold to approved, qualified buyers are financed by Montgomery County Habitat for terms ranging from 20 to 30 years.

Montgomery County Habitat repairs homes affected by natural disasters as well as general home repairs for low-income persons. Montgomery County Habitat provides repairs necessary to make homes safe, sanitary, and secure, including mold testing and remediation. Montgomery County Habitat helps preserve Montgomery County’s affordable housing and revitalize neighborhoods.

Montgomery County Habitat operates its Habitat ReStore (the “ReStore”), a home improvement outlet and donation center that accepts and sells new and gently used items to the public at a reduced retail price while simultaneously reducing reusable material from going to area landfills. Items accepted and sold include rebuilding material, furniture, appliances, lighting fixtures, and other home goods.

In July 2021, Montgomery County Habitat formed HFH Magnolia, LLC, a wholly-owned limited liability company, as a holding entity for donated land received for future home development.

Basis of Consolidation: These consolidated financial statements include the assets, liabilities, net assets, and activities of Montgomery County Habitat and HFH Magnolia, LLC (collectively, the “Organization”). All balances and transactions between Montgomery County Habitat and its wholly-owned entity have been eliminated. The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis of Accounting: The Organization uses the accrual basis of accounting in accordance with GAAP. Revenues are recognized when they are earned. Expenses are recognized when they are incurred.

Basis of Presentation: In accordance with GAAP, the Organization is required to report information regarding its financial position and activities according to the following net asset classifications:

- *Net Assets Without Donor Restrictions* – Net assets that are not subject to donor-imposed restrictions even though their use may be limited in other respects, including by contract or Board designation.
- *Net Assets With Donor Restrictions* – Net assets subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

(Continued)

MONTGOMERY COUNTY HABITAT FOR HUMANITY INC.
dba HABITAT FOR HUMANITY MONTGOMERY COUNTY, TX
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Contributions of long-lived assets and of assets restricted for acquisition of long-lived assets are released when those assets are placed in service.

Estimates: Management makes estimates and assumptions in preparing consolidated financial statements in accordance with GAAP. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues, and expenses; the disclosure of contingent assets and liabilities; and the allocation of expenses among various functions. Actual results could vary from these estimates.

Fair Value of Financial Instruments: Montgomery County Habitat uses fair value to measure financial assets and liabilities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value hierarchy prioritizes fair value measurements into three levels based on the nature of the inputs. The hierarchy gives the highest priority to observable inputs based on market data from independent sources (Level 1) and the lowest priority to the Organization's assumptions based on the best information available when external market data is limited or unavailable (Level 3).

The fair value option allows entities to choose, at specified election dates, to measure eligible financial assets and financial liabilities at fair value that are not otherwise required to be measured at fair value. If an organization elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. Montgomery County Habitat did not elect the fair value option for the measurement of any eligible assets or liabilities.

Montgomery County Habitat's financial instruments consist of cash and cash equivalents, receivables, investments, and other short-term assets and liabilities. Management believes the carrying amounts of these financial instruments approximate their fair values.

Income Taxes: Montgomery County Habitat is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code (IRC). Contributions to Montgomery County Habitat are tax deductible to donors under §170 of the IRC. Tax years 2020, 2021, and 2022 remain open for audit. Montgomery County Habitat is not classified as a private foundation.

Home Construction in Progress and Capitalized Infrastructure Costs: Costs for construction of homes and community infrastructure are stated at lower of cost or net realizable value and consist of labor, materials, property taxes, and land preparation costs incurred under a development plan, including incomplete homes in progress and completed homes not yet conveyed to a recipient family. These costs are expensed to cost of homes sold within the affordable housing program when the home is sold to the recipient family and are reflected in program and home building in the consolidated statement of functional expenses.

Homes acquired through repurchase, loan repossession, or foreclosure are included in home construction in progress. These homes are prepared for resale after performing necessary repairs and modifications and are initially recorded at fair value incurred less estimated costs to sell at the date acquired.

Mortgage Loans Receivable: Mortgage loans receivable primarily consist of zero interest mortgages, which are secured by improved real estate and are payable in monthly installments over terms ranging from 20 to 30 years. Mortgage loans receivable are discounted based upon prevailing market interest rates for low-income housing at mortgage inception. The discount is amortized using the effective interest method.

(Continued)

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Management estimates the allowance balance required based on past loan loss experience, nature and volume of the portfolio, information about specific borrower situations, and estimated values, economic conditions, and other factors. Montgomery County Habitat considers its mortgage loans receivable to be fully collectible, or if not fully collectible that the value of the homes collateralizing the loans exceeds the unpaid related mortgage loans receivable. Accordingly, no allowance for loan losses is reflected in these consolidated financial statements.

A second lien note may be required from some home purchasers at the time of sale. The terms of the second lien notes provide that no payments of principal or interest are payable on these notes as long as the purchaser performs each obligation of the first lien mortgage. After each anniversary of payments on the first lien mortgage, one tenth of the original balance of the second lien note is forgiven until it is reduced to zero. Second lien notes not yet forgiven of \$807,213 at June 30, 2023 have no allowance and are not reflected in these consolidated financial statements.

Land Held for Development: The Organization has undeveloped land held for future home and neighborhood development or sale. Purchased land is recorded at cost and donated land is recorded at the fair market value at the time it is received. Early-stage engineering and development costs are temporarily capitalized to land held for development prior to being transferred to capitalized infrastructure costs upon finalization of the development or building plan and commencement of home construction.

Asset Impairment: Real estate assets are evaluated for impairment if an impairment indicator is present. The carrying value of an asset is impaired to fair value less costs to sell when management believes that events or changes in circumstances indicate that its carrying amount may not be recoverable.

Property and Equipment: The Organization capitalizes property and equipment in excess of \$500. Capitalized assets are reported at cost if purchased and at fair value at date of gift if donated, net of accumulated depreciation. Depreciation is computed using the straight-line method over estimated useful lives of 20 to 39 years for buildings and improvements and 5 to 10 years for furniture, equipment, and vehicles.

Revenue Recognition: The Organization first determines if a transaction represents an exchange transaction and if so, accounts for the transaction in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts with Customers, which provides a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when or as performance obligations are satisfied.

The Organization's revenue from contracts with customers consists of transfers to homeowners and ReStore sales. The Organization's contracts have a single performance obligation. The transaction price is the amount of consideration to which the Organization expects to be entitled in exchange for transferring goods to the customer. Revenue is recorded based on transaction price, which is a fixed consideration.

(Continued)

MONTGOMERY COUNTY HABITAT FOR HUMANITY INC.
dba HABITAT FOR HUMANITY MONTGOMERY COUNTY, TX
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

The Organization recognizes ReStore sales when control of the goods is passed to the customer, which typically occurs at the point of sale when customer payment is collected.

The Organization recognizes revenue from home sales when a closing occurs. A closing is considered to occur when title, possession, and other attributes of ownership transfer to the buyer; and the Organization is not obligated to perform significant activities and changes in net assets after the sale. Revenue from the sale of homes is reflected in the consolidated statement of activities as affordable housing sales.

Federal, state and local government and other grant transactions within the scope of Topic 606, if any, are recognized as support when performance occurs pursuant to the contract agreement. The Organization performs an evaluation at contract inception focused on whether a performance obligation is satisfied over time or at a point in time. Performance obligations meeting certain specific criteria, are recognized over time as the customer consumes and receives the benefit of the Organization's services as they are performed. If certain criteria is not met, the revenue is recognized at a point in time.

All revenue recognized under Topic 606 is recognized at a point in time.

Affordable Housing Sales: Homes are sold to qualified buyers at the appraised value or fair market value of the home. Zero interest rate mortgages are provided to qualified persons to pay for their purchased home. Home sales are recorded at loan value at the time of sale and are discounted based upon prevailing market interest rates for low-income housing at the inception of the mortgage, with revenue recognized upon closing a home sale. Some qualified persons may receive down payment assistance from other agencies to reduce their loan amount. During the fiscal year ended June 30, 2023, 23 homes were sold by Montgomery County Habitat. At June 30, 2023, there were 22 remaining lots either under construction or available for Montgomery County Habitat to build a future home in the Cedar Creek neighborhood.

ReStore Sales: Sales of items from Montgomery County Habitat's resale shop are reported as revenue at the point of sale.

Contributions and Grants: Revenue recognition on contracts and grants deemed to be non-exchange transactions follow FASB ASC Topic 958-605, Revenue Recognition. Unconditional contributions received, including promises to give, cash, other assets and grants and contracts deemed to be non-exchange transactions, are recorded as support to net assets with or without donor restrictions, at estimated fair value, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purposes restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the consolidated statement of activities as net assets released from restrictions.

Conditional contributions are those contributions that certain donor-imposed rights of refund/return and barriers (performance obligations and/or controlling stipulations). Conditional contributions are recognized into revenue when conditions are satisfied and then follow the above policies for unconditional contributions. Conditional contributions received in advance of satisfying conditions are recorded as deferred revenue.

Cash contributions are recognized at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations limiting use are classified as restricted support.

(Continued)

MONTGOMERY COUNTY HABITAT FOR HUMANITY INC.
dba HABITAT FOR HUMANITY MONTGOMERY COUNTY, TX
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Noncash Contributions: Donated properties, equipment, or use of facilities are recognized at estimated fair value as contributions upon receipt of an unconditional commitment from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, provided by individuals possessing those skills that would typically need to be purchased if not donated. Volunteers provided approximately 14,680 hours in the fiscal year ended June 30, 2023, assisting Montgomery County Habitat with home construction and repair services which are not reflected in the consolidated financial statements since the services do not meet the recognition criteria under GAAP.

Advertising: Costs for advertising and marketing are expensed as incurred.

Functional Allocation of Expenses: Expenses are reported by their functional classification as program services or supporting activities. Program services are the direct conduct or supervision of activities that fulfill the Organization's purposes. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one program or supporting activity are allocated among the benefitting activities. Salaries and related costs are allocated on the basis of estimated time and effort expended.

Concentration of Credit Risk: Financial instruments that potentially subject the Organization to a significant concentration of credit risk relate to bank deposits at one of the Organization's financial institutions exceeding the federally insured limit. Management does not consider the solvency of the financial institution to be a concern at this time.

NOTE 2 – LIQUIDITY

Financial assets available for general expenditures, without donor or other restrictions, over the next fiscal year as of June 30, 2023 are as follows:

Financial assets	
Cash	\$ 2,641,160
Investments	1,057,733
Mortgage loans receivable, net	4,079,535
Other receivables	<u>30,683</u>
Total financial assets	7,809,111
Less: amounts not available within one year:	
Mortgage loans receivable due in more than one year	(3,838,466)
Net assets with donor restrictions	<u>(50,576)</u>
 Financial assets available to meet general expenditures over the next fiscal year	 <u>\$ 3,920,069</u>

(Continued)

MONTGOMERY COUNTY HABITAT FOR HUMANITY INC.
dba HABITAT FOR HUMANITY MONTGOMERY COUNTY, TX
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023

NOTE 2 – LIQUIDITY (Continued)

In analyzing liquidity available to meet general expenditures for an upcoming fiscal year, the Organization considers general expenditures to include ongoing activities of building and repairing affordable housing as well as the related program services and administrative costs to support those activities. In managing its liquidity, the Organization maintains a significant cash position to pay general expenditures and liabilities as they come due.

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value three tier hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are as follows:

- *Level 1* – Quoted market prices in active markets for identical assets or liabilities.
- *Level 2* – Inputs other than Level 1 inputs that are either directly or indirectly observable such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable; or other inputs not directly observable, but derived principally from, or corroborated by market data.
- *Level 3* – Unobservable inputs that are supported by little or no market activity.

The Organization utilizes the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Investments in U.S. Treasury Securities traded in active markets are classified as Level 2. There have been no changes in valuation techniques and related inputs. The value of fixed income securities measured at fair value under Level 2 is \$1,057,733 as of June 30, 2023. These securities earned interest of \$57,778 during the fiscal year ended June 30, 2023.

NOTE 4 – MORTGAGE LOANS RECEIVABLE

Mortgage loans receivable consists of the following at June 30, 2023:

Mortgage loans receivable, par value	\$ 8,341,045
Less: unamortized discount based on imputed interest, at rates ranging from 7.23% to 8.18%	<u>(4,261,510)</u>
Mortgage loans receivable, net	4,079,535
Less: current portion due within one year	<u>(241,069)</u>
 Long-term portion of mortgage loans receivable, net	 <u><u>\$ 3,838,466</u></u>

(Continued)

MONTGOMERY COUNTY HABITAT FOR HUMANITY INC.
 dba HABITAT FOR HUMANITY MONTGOMERY COUNTY, TX
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2023

NOTE 4 – MORTGAGE LOANS RECEIVABLE (Continued)

A mortgage loan receivable is considered delinquent if the scheduled installment payment is unpaid 30 days after its due date. Delinquent principal amounts of mortgage loans receivable, net at June 30, 2023 were \$8,095 or 0.10%.

Mortgage loans receivable maturities are as follows for the fiscal years ended June 30:

2024	\$	241,069
2025		232,054
2026		232,054
2027		230,009
2028		226,704
Thereafter		<u>7,179,155</u>
 Total		 <u>\$ 8,341,045</u>

NOTE 5 – CAPITALIZED INFRASTRUCTURE COSTS

Capitalized infrastructure costs activity during the fiscal year ended June 30, 2023 is as follows:

Capitalized infrastructure costs, beginning of year	\$	1,647,784
Additions		11,917
Expense to program and home building for home sales		<u>(828,953)</u>
 Capitalized infrastructure costs, end of year		 <u>\$ 830,748</u>

NOTE 6 – LAND HELD FOR DEVELOPMENT

Land held for development consists of the following at June 30, 2023:

West Montgomery County (“WMC”) land	\$	651,000
Early stage engineering and design costs - WMC		304,622
Cedar Creek land		<u>8,786</u>
 Total		 <u>\$ 964,408</u>

In August 2021, the Organization received an unrestricted donation of 81 acres of undeveloped land in West Montgomery County for development as a future neighborhood of Habitat homes. This land was recorded at its appraised fair market value of \$651,000 at the time of donation. Since receipt of the land donation, the Organization has incurred costs for early stage engineering studies and design plans. A formal plan of development for the WMC land is pending approval by the Organization’s Board of Directors.

(Continued)

MONTGOMERY COUNTY HABITAT FOR HUMANITY INC.
 dba HABITAT FOR HUMANITY MONTGOMERY COUNTY, TX
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2023

NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2023:

Land (including \$814,376 related to the ReStore)	\$ 841,298
Buildings (including \$2,483,487 related to the ReStore)	2,691,991
Equipment	130,424
Vehicles	85,630
Mineral interest rights	86,734
Total property and equipment	3,836,077
Less: accumulated depreciation	(686,812)
Total property and equipment, net	\$ 3,149,265

Depreciation expense during the fiscal year June 30, 2023 was \$100,862.

NOTE 8 – NOTES PAYABLE

ReStore Note Payable: Montgomery County Habitat executed a loan agreement on September 17, 2014 payable to a financial institution bearing interest at the rate of 4% and secured with the ReStore land, facility, furniture, fixtures, equipment, and inventory. The note was payable in monthly installments of principal and interest, with the remaining principal and interest payable due in full on September 20, 2025. In May 2022, the Organization used \$400,000 of the proceeds from the sale of unused ReStore land to make accelerated payments on the note. The Organization paid off this ReStore loan on August 26, 2022.

On August 26, 2022, the Organization executed a refinanced ReStore loan agreement for \$1,845,000 with the same financial institution at an interest rate of 4%, which resets at 5 and 10 years at .5% over prime, and extended the maturity date to August 26, 2037. This loan is secured with the ReStore land, facility, furniture, fixtures, equipment, and inventory. Monthly principal and interest payments began in September 2022. The balance of the ReStore note payable as of June 30, 2023 was \$1,712,423.

Vehicle Note Payable: In September 2021, the Organization financed the purchase of a vehicle with a note payable to a financial institution with an interest rate of 7.49% and secured by the vehicle. The note is payable in monthly installments of principal and interest until maturity on September 30, 2027. The vehicle note payable as of June 30, 2023 was \$18,831.

As of June 30, 2023, maturities of the notes payable were as follows for the fiscal years ended June 30:

2024	\$ 98,032
2025	102,448
2026	106,872
2027	111,191
2028	111,796
Thereafter	1,200,915
Total	\$ 1,731,254

(Continued)

MONTGOMERY COUNTY HABITAT FOR HUMANITY INC.
dba HABITAT FOR HUMANITY MONTGOMERY COUNTY, TX
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets of \$50,576 are donor restricted for Disaster Home Repairs as of June 30, 2023.

NOTE 10 – IN-KIND CONTRIBUTIONS

The Organization’s financial statements reflect the following revenue and other support from in-kind contributions during the fiscal year ended June 30, 2023:

Donated goods	\$ 938,419
Donated homes	<u>287,679</u>
 Total	 <u>\$ 1,226,098</u>

Gently used household items from individual donors and corporations are donated to the Organization for resale in its ReStore thrift shop. Donated goods are sold to customers at their fair market value as determined by the sales prices.

The Organization held a Home Builders Blitz event in which various third-party contractors donated labor and build materials in the construction and completion of four homes. The value of the donated homes is based on identical properties built in the Cedar Creek neighborhood.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

The Organization entered into a consulting agreement related to future fundraising. The agreement is for services from July 1, 2023 through June 30, 2025 and requires the Organization to pay a monthly retainer fee of \$19,500 plus travel expenses for the first 12 months and \$10,000 per month plus travel expenses for the second 12 months.

The Organization depends on volunteers to perform a significant portion of the construction labor as well as management functions. A significant reduction in the level of volunteer support could have a significant effect on the cost or achievement of the Organization’s major programs. Increasing costs, disruptions in the availability of building materials, and deteriorating economic conditions impacting donors and future fundraising and development efforts could adversely impact the Organization’s future program services and its financial results of operations and cash flows.

NOTE 12 – SUBSEQUENT EVENTS

The Organization has determined that no events or transactions occurred subsequent to February 23, 2024, the date these consolidated financial statements were available to be issued, that require recognition or disclosure.