

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

CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2024**

WITH INDEPENDENT AUDITOR'S REPORT

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

TABLE OF CONTENTS

	<u>Page Number</u>
Independent Auditor’s Report	1 – 2
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 the Consolidated Financial Statements.....	7 – 16

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

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, 2024 and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements 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, 2024, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of 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 after the date that the consolidated financial statements are issued.

OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston

NEW MEXICO | Albuquerque

Auditor's Responsibilities for the Audit of the 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.

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

Waco, Texas
March 25, 2025

CONSOLIDATED FINANCIAL STATEMENTS

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2024

ASSETS

CURRENT ASSETS

Cash	\$ 3,466,110
Pledges receivable, current portion	297,800
Other receivables	45,893
Grant receivable	44,277
Non-interest bearing mortgages receivable, current portion	<u>255,417</u>
Total current assets	<u>4,109,497</u>

LONG-TERM ASSETS

Pledges receivable, long-term portion, net	877,496
Non-interest bearing mortgages receivable, long-term portion, net	4,256,652
Property and equipment, net	3,129,501
Home construction in progress	595,950
Capitalized infrastructure costs	435,361
Land held for development	960,658
Other assets	<u>53,876</u>
Total long-term assets	<u>10,309,494</u>
Total assets	<u>\$ 14,418,991</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 138,141
Accrued liabilities	89,096
Deferred revenue	18,568
Notes payable, current portion	<u>104,557</u>
Total current liabilities	<u>350,362</u>

LONG-TERM LIABILITIES

Notes payable, long-term portion	1,529,819
Total long-term liabilities	<u>1,529,819</u>
Total liabilities	<u>1,880,181</u>

NET ASSETS

Without donor restriction	11,235,810
With donor restriction	<u>1,303,000</u>
Total net assets	<u>12,538,810</u>
Total liabilities and net assets	<u>\$ 14,418,991</u>

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

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

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2024

	Without Donor Restriction	With Donor Restriction	Total
REVENUES AND OTHER SUPPORT			
Affordable housing sales	\$ 1,955,153	\$ -	\$ 1,955,153
ReStore sales, net	938,816	-	938,816
Home sponsorship contributions	-	485,831	485,831
Home repair contributions	-	60,725	60,725
General contributions and grants	594,870	1,303,000	1,897,870
Fundraising events	798,018	-	798,018
Investment interest and dividends	131,715	-	131,715
Other income	51,861	-	51,861
Net assets released from restrictions	<u>597,132</u>	<u>(597,132)</u>	<u>-</u>
Total revenue and other support	<u>5,067,565</u>	<u>1,252,424</u>	<u>6,319,989</u>
EXPENSES			
Program services			
Affordable housing	3,245,342	-	3,245,342
ReStore	838,329	-	838,329
Supporting services			
Management and general	371,137	-	371,137
Fundraising	<u>778,984</u>	<u>-</u>	<u>778,984</u>
Total expenses	<u>5,233,792</u>	<u>-</u>	<u>5,233,792</u>
CHANGE IN NET ASSETS	(166,227)	1,252,424	1,086,197
NET ASSETS, BEGINNING OF YEAR	<u>11,402,037</u>	<u>50,576</u>	<u>11,452,613</u>
NET ASSETS, END OF YEAR	<u>\$ 11,235,810</u>	<u>\$ 1,303,000</u>	<u>\$ 12,538,810</u>

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

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

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2024

	Program Services		Supporting Services		Total
	Affordable	ReStore	Management		
	Housing		and General	Fundraising	
Program and house building	\$ 1,722,289	\$ -	\$ -	\$ -	\$ 1,722,289
Amortization of mortgage discount	563,659	2,328	-	-	565,987
Salaries, taxes, and benefits	745,593	522,834	191,857	170,780	1,631,064
Advertising and marketing	-	131	-	456	587
Bank and credit card fees	-	2,157	3,336	22,356	27,849
Conferences and meetings	5,053	1,294	4,813	4,811	15,971
Depreciation	31,314	69,743	1,115	1,665	103,837
Dues and subscriptions	4,408	7,607	45,101	16,095	73,211
Event venue rentals	-	-	-	162,640	162,640
Insurance	47,948	32,440	2,372	2,074	84,834
Interest	1,277	69,227	-	-	70,504
International tithe contribution	10,000	-	-	-	10,000
Office supplies	4,897	2,997	2,010	3,034	12,938
Postage and printing	7,179	2,499	907	15,676	26,261
Professional and contracted services	16,929	24,314	88,787	359,553	489,583
Program supplies	10,434	6,109	8	3,128	19,679
Repairs and maintenance	34,260	50,580	4,986	4,869	94,695
Staff development and training	1,494	32	3,031	1,361	5,918
Travel and transportation	5,811	1,745	3,717	4,297	15,570
Utilities	12,273	41,848	7,439	3,245	64,805
Other	20,524	444	11,658	2,944	35,570
Total expenses	\$ 3,245,342	\$ 838,329	\$ 371,137	\$ 778,984	\$ 5,233,792

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2024

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 1,086,197
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Amortization of mortgage discount	565,987
Depreciation	103,837
Amortization of deferred loan issuance costs	2,327
Realized gain on investments	(30,029)
Effect of changes in assets and liabilities:	
(Increase) decrease in mortgages receivable, net	(998,521)
(Increase) decrease in pledges receivable, net	(1,175,296)
(Increase) decrease in grant and other receivables	(59,487)
(Increase) decrease in home construction in progress	(97,296)
(Increase) decrease in capitalized infrastructure costs	395,387
(Increase) decrease in land held for development	3,750
(Increase) decrease in other assets	19,089
Increase (decrease) in accounts payable	74,588
Increase (decrease) in accrued liabilities	23,387
Increase (decrease) in deferred revenue	<u>6,546</u>
Net cash used by operating activities	(79,534)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of property and equipment	(124,073)
Proceeds from sale of property and equipment	40,000
Purchase of investments	(1,010,400)
Proceeds from sale of investments	<u>2,098,162</u>
Net cash provided by investing activities	1,003,689

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on notes payable	(<u>99,205</u>)
Net cash used by financing activities	(99,205)

NET CHANGE IN CASH AND CASH EQUIVALENTS

824,950

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

2,641,160

CASH AND CASH EQUIVALENTS, END OF YEAR

\$ 3,466,110

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2024

1. NATURE OF ACTIVITIES

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. 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 Habitat for terms ranging from 20 to 30 years.

Since 2009, Montgomery County Habitat has been building homes in the all-Habitat Cedar Creek neighborhood in Conroe, Texas. Cedar Creek's full build out of 129 homes is expected in Spring of 2026. In May 2024, Montgomery County Habitat's Board of Directors approved a plan to develop donated land in West Montgomery County into the future Marble Creek all-Habitat neighborhood.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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" or "Montgomery County Habitat"). All balances and transactions between Montgomery County Habitat and its wholly-owned entity have been eliminated.

Basis of Accounting

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

Basis of Presentation

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

Net Assets Without Donor Restrictions – Net assets 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 perpetuity.

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.

Significant Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain 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. These significant estimates include the useful lives of property and equipment, allocation of expenses among various functions, and the amortization of discounts on mortgage loans receivable based on the estimated life of the notes as a method that approximates effective interest rates. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The Organization 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. The Organization did not elect the fair value option for the measurement of any eligible assets or liabilities.

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

Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Organization had no cash equivalents at June 30, 2024.

Pledges Receivable

Unconditional promises to give are recognized when pledged and recorded as assets with or without donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Unconditional promises with payments due in future years have an implied time restriction to be used in the year the payment is due, and therefore are reported as assets with donor restrictions. See Note 4 for further details. Conditional promises to give are recognized only when the condition on which they depend is substantially met making the promise unconditional. There were no conditional promises to give recorded in the year ended June 30, 2024.

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 consist of zero interest 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 8.14% based on the prevailing market interest rate for low-income housing at mortgage inception. Interest income (amortization of the discount) is recorded using the effective interest method.

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. The Organization 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 may be required from some home purchasers at the time of sale. The terms of the second lien notes provide that no payments or 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 \$727,890 at June 30, 2024 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.

Investments

During the year ended June 30, 2024, the Organization had investments in U.S. Treasury Securities. Investment income (including gains and losses on investments, interest and dividends) is included in the consolidated statement of activities as increases or decreases in net assets without donor restriction unless the income or loss is restricted by donor or law. As of June 30, 2024, all investments held by the Organization had been sold.

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 and 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.

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 year ended June 30, 2024, 11 homes were sold by Montgomery County Habitat. At June 30, 2024, there were 13 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. Donated inventory for sale in the ReStore is not recorded in the consolidated financial statements, as most are miscellaneous items from construction or remodeling projects, used items nearing obsolescence, or furniture and other items with an indeterminable value. As such, the fair market value of items is best determined at the time of resale.

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 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.

Noncash Contributions

Donated properties, equipment, or use of facilities are recognized at estimated fair value as contribution upon receipt of an unconditional commitment from the donor. The related expenses 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 13,322 hours in the year ended June 30, 2024, 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 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.

Compensated Absences

Employees of the Organization are entitled to paid vacations, sick days, and personal days off, depending on job classification, length of service, and other factors. Unused vacation time is paid to employees at the end of employment. As of June 30, 2024, accrued compensated absences of \$24,657 are included in other payables.

Income Taxes

Montgomery County Habitat is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements. The Organization's Federal Returns of Organization Exempt from Income Tax (Form 990) for the prior three years are subject to examination by the Internal Revenue Service.

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, the Organization 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 the Organization and various positions related to the potential sources of unrelated business taxable income. There were no unrecognized tax benefits identified or recorded as assets or liabilities for the year ended June 30, 2024.

3. MORTGAGE LOANS RECEIVABLE

Mortgage loans receivable consists of the following at June 30, 2024:

Mortgage loans receivable, par value	\$ 9,337,239
Less: unamortized discount bases on imputed interest, at rates ranging from 7.23% to 8.14%	(4,825,170)
Mortgage loans receivable, net	4,512,069
Less: current portion due within one year	(255,417)
Long-term portion of mortgage loans receivable, net	\$ <u>4,256,652</u>

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, 2024 were \$9,120 or 0.10%.

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

2025	\$ 475,009
2026	475,009
2027	471,272
2028	466,046
2029	460,785
Thereafter	<u>6,989,118</u>
Total	\$ <u>9,337,239</u>

4. PLEDGES RECEIVABLE

Pledges receivable at June 30, 2024 primarily relate to funding for the development and construction of the future Marble Creek neighborhood in West Montgomery County, the 2025 Gala fundraising event, home sponsorships, and general contribution commitments. Pledges receivable consist of the following at June 30, 2024:

Pledges without donor restrictions	\$ 1,299,000
Pledges with donor restrictions	<u>5,000</u>
Total pledges receivable	1,304,000
Unamortized discount on pledges	<u>(128,704)</u>
Less: current portion of pledges due within one year	<u>(297,800)</u>
Long-term portion of discounted pledges receivable	\$ <u><u>877,496</u></u>

In calculating the present value of the long-term pledges, the Organization used the Risk-Free discount rate as of the date the pledges were received.

As of June 30, 2024, total contributions from pledges receivable expected to be received within one year is \$297,800 and within two and five years is \$1,006,200.

In management's opinion, an allowance for uncollectible pledges was not needed as of June 30, 2024.

5. CAPITALIZED INFRASTRUCTURE COSTS

Capitalized infrastructure costs activity during the year ended June 30, 2024 related to the Cedar Creek neighborhood is as follows:

Capitalized infrastructure costs, beginning of year	\$ 830,748
Additions	35,414
Expense to program and house building for home sales	<u>(430,801)</u>
Capitalized infrastructure costs, end of year	\$ <u><u>435,361</u></u>

6. LAND HELD FOR DEVELOPMENT

In August 2021, the HFH Magnolia, LLC received an unrestricted donation of 81 acres of undeveloped land in West Montgomery County for development as a future neighborhood of homes. This land was recorded at its appraised fair market value of \$651,000 at the time of donation. Upon receipt of the land donation, the Organization incurred costs for early-stage engineering studies and design plans.

In May 2024, the Organization's Board of Directors approved a plan of development of the donated land in West Montgomery County into the future Marble Creek neighborhood. See Note 10 for information about the Marble Creek development activities since June 30, 2024.

Land held for development consists of the following at June 30, 2024:

Marble Creek	
Land	\$ 651,000
Engineering and design costs	307,296
Cedar Creek	
Land	<u>2,362</u>
Total	\$ <u><u>960,658</u></u>

7. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2024:

Land (including \$814,376 related to the ReStore)	\$ 841,298
Buildings (including \$2,483,487 related to the ReStore)	2,701,915
Equipment	139,689
Vehicles	150,514
Mineral interest rights	<u>86,734</u>
Total property and equipment	3,920,150
Less: accumulated depreciation	<u>(790,649)</u>
Total property and equipment, net	<u>\$ 3,129,501</u>

Depreciation expense for the year ended June 30, 2024 was \$103,837.

8. NOTES PAYABLE

ReStore Note Payable: Montgomery County Habitat executed a loan agreement for \$1,845,000 on August 26, 2022 payable to a financial institution bearing interest at the rate of 4%, which resets after 5 and 10 years at 0.5% over prime, and is secured with ReStore land, facility, furniture, fixtures, equipment, and inventory. The note is payable in monthly installments of principal and interest, with the remaining principal and interest payable due in full on August 26, 2037. Monthly principal and interest payments began in September 2022. The balance of the ReStore note payable as of June 30, 2024 was \$1,619,550.

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 is secured by the vehicle. The note is payable in monthly installments of principal and interest until maturity on September 30, 2027. The balance of the vehicle note payable as of June 30, 2024 was \$14,826.

As of June 30, 2024, maturities of the notes payable were as follows for the years ending June 30:

2025	\$ 104,557
2026	106,646
2027	111,258
2028	111,519
2029	115,274
Thereafter	<u>1,085,122</u>
Total	<u>\$ 1,634,376</u>

9. NET ASSETS WITH DONOR RESTRICTIONS

As of June 30, 2024, the Organization recorded pledges from donors to fund the development and construction of the future Marble Creek neighborhood in West Montgomery County, the Gala fundraising event, and home sponsorships. These donations both receivable and unspent have been classified as net assets with donor restrictions of \$1,303,000.

10. COMMITMENTS AND CONTINGENCIES

Marble Creek

Following the Board of Directors formal approval in May 2024, the Organization has progressed a project plan to develop the donated land in West Montgomery County into the future all-Habitat Marble Creek neighborhood. Land development (including mass grading, drainage, and early utilities infrastructure), streets, water and sewer utility facilities, and construction of the initial 25 Habitat houses are estimated to cost \$16.4 million. Marble Creek is plotted to ultimately have 200 houses, with initial house construction scheduled to commence in the Summer of 2026.

In August 2024, the Organization entered into an agreement valued at \$1.3 million for the multi-year effort to design, permit, and build water and sewer facilities to serve the Marble Creek neighborhood.

In December 2024, the Organization entered into an agreement with a contractor to perform land clearing, drainage, and initial utility installation to commence the development of Marble Creek. This contract is valued at \$1.2 million and is being performed in the first half of calendar 2025.

Additional bids are being solicited and contracts will be let for the completion of other components of the approved Marble Creek project.

The Organization continues its efforts to raise funds for the land development and construction of homes in Marble Creek. In January 2025, the Organization received a \$1.5 million loan from Habitat Capital LLC, an affiliate of Habitat for Humanity International. This loan matures on December 31, 2027, with monthly 4.75% interest only payments, and principal payments of at least \$500,000 by March 31, 2027, including an amount payable upon the sale of each of the initial homes in Marble Creek.

Other

The Organization entered into a consulting agreement related to fundraising for the future Marble Creek neighborhood. The agreement was for services from July 1, 2023 through June 30, 2025 and required 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 agreement was terminated in September 2024.

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 of achievement of the Organization’s major programs. Increasing costs, disruptions in the availability of building materials, and deteriorating economic conditions impacting donor and future fundraising and development efforts could adversely impact the Organization’s future program services and its financial results of operations and cash flows.

11. LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the Organizations’ financial assets as of June 30, 2024, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

Financial assets	
Cash	\$ 3,466,110
Mortgage loans receivable, current portion	255,417
Pledges receivable	1,304,000
Grant receivable	44,277
Other receivables	<u>45,893</u>
Total financial assets	<u>5,115,697</u>
Less: amounts not available within one year	
Net assets with donor restrictions	<u>1,303,000</u>
Financial assets available to meet general expenditures over the next fiscal year	<u>\$ 3,812,697</u>

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

12. RELATED PARTIES

In the normal course of business, the Organization has business dealings with individuals who are members of the Board or associated with the Organization. In the opinion of management, all business dealings are conducted at arm's length.

13. SUBSEQUENT EVENTS

The Organization has determined that no additional events or transactions occurred subsequent to March 25, 2025, the date these consolidated financial statements were available to be issued, that required recognition or disclosure.

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