

BAY AREA HABITAT FOR HUMANITY – HOUSTON, INC.

FINANCIAL STATEMENTS

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

WITH INDEPENDENT AUDITOR'S REPORT

BAY AREA HABITAT FOR HUMANITY – HOUSTON, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Management of
Bay Area Habitat for Humanity – Houston, Inc.

Opinion

We have audited the financial statements of Bay Area Habitat for Humanity – Houston, Inc. ("BAHFH", a nonprofit organization), which comprise the statement of financial position as of June 30, 2024, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of BAHFH 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 BAHFH and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about BAHFH's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of BAHFH's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about BAHFH'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
February 25, 2025

FINANCIAL STATEMENTS

BAY AREA HABITAT FOR HUMANITY - HOUSTON, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2024

	<u>2024</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 499,566
Investments	14,966
Accounts receivable, net allowance of \$0	49,750
Pledges receivable	3,500
Other receivables	22,641
Homes under construction	147,632
Inventory - land held for development	174,030
Prepaid expense	5,994
TDHCA agency receivable, current portion	14,173
Mortgages receivable sold with recourse, current portion	32,259
Non-interest bearing mortgages receivable, current portion	<u>196,210</u>
Total current assets	<u>1,160,721</u>
LONG-TERM ASSETS	
Property and equipment, net	4,432
Right of use asset	25,026
TDHCA agency receivable, long-term portion	237,922
Mortgages receivable sold with recourse, long-term portion	370,675
Non-interest bearing mortgages receivable, long-term portion	2,340,709
Discount on non-interest bearing mortgages	(1,543,912)
Other assets	<u>4,638</u>
Total other assets	<u>1,439,490</u>
Total assets	<u>\$ 2,600,211</u>
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable	\$ 53,046
Payroll and related liabilities	11,590
Accrued expenses and other payables	9,195
Right of use liability	25,026
Due to TDHCA	252,095
Mortgages receivable sold with recourse	438,075
SBA economic injury disaster loan payable	<u>150,000</u>
Total liabilities	<u>939,027</u>
NET ASSETS	
Without donor restriction:	
Undesignated	1,276,514
Board designated	76,915
With donor restriction	<u>307,755</u>
Total net assets	<u>1,661,184</u>
Total liabilities and net assets	<u>\$ 2,600,211</u>

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

BAY AREA HABITAT FOR HUMANITY - HOUSTON, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2024

	Without Donor Restriction	With Donor Restriction	2024 Total
REVENUE, GAINS AND OTHER SUPPORT			
General contributions	\$ 251,447	\$ 475,000	\$ 726,447
Special events (net of expense of \$42,206)	80,113	-	80,113
Interest and dividends	10,357	-	10,357
Unrealized gain on investments	4,941	-	4,941
Sale to homeowners	515,781	-	515,781
In-kind donations	15,301	-	15,301
Mortgage discount amortization	166,163	-	166,163
Revenue from escrow recoveries	17,273	-	17,273
Rental income	9,000	-	9,000
Other income	8,207	-	8,207
Net assets released from restriction:	167,245	(167,245)	-
Total revenue, gains and other support	<u>1,245,828</u>	<u>307,755</u>	<u>1,553,583</u>
EXPENSES			
Program services	1,278,576	-	1,278,576
Management and general	214,933	-	214,933
Fundraising	<u>42,858</u>	<u>-</u>	<u>42,858</u>
Total expenses	<u>1,536,367</u>	<u>-</u>	<u>1,536,367</u>
CHANGE IN NET ASSETS	(290,539)	307,755	17,216
NET ASSETS, BEGINNING OF YEAR	<u>1,643,968</u>	<u>-</u>	<u>1,643,968</u>
NET ASSETS, END OF YEAR	<u>\$ 1,353,429</u>	<u>\$ 307,755</u>	<u>\$ 1,661,184</u>

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

BAY AREA HABITAT FOR HUMANITY - HOUSTON, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2024

		<u>Supporting Services</u>		
	<u>Program</u>	<u>Management</u>	<u>Fundraising</u>	<u>Total</u>
	<u>Services</u>	<u>and General</u>		
Salaries	\$ 156,704	\$ 96,820	\$ 21,569	\$ 275,093
Payroll taxes	10,308	5,609	5,305	21,222
Employee benefits	<u>5,082</u>	<u>5,082</u>	<u>1,129</u>	<u>11,293</u>
Total personnel expenses	<u>172,094</u>	<u>107,511</u>	<u>28,003</u>	<u>307,608</u>
Insurance	952	6,138	-	7,090
Amortization expense	18,872	-	-	18,872
Depreciation expense	-	19,945	-	19,945
Car and truck expense	13,653	18,243	3	31,899
Computer and software	3,074	3,074	6,747	12,895
Dues and subscriptions	1,601	1,638	356	3,595
Home sales	736,846	-	-	736,846
Homeowner expenses	-	-	2,877	2,877
Homeowner mortgage expense	263,526	-	-	263,526
Home repairs	2,291	-	-	2,291
Office expense	2,152	2,341	642	5,135
Professional services	23,688	22,741	-	46,429
Rent expense	11,765	11,765	2,614	26,144
Storage	1,779	3,646	-	5,425
Travel and training	1,465	1,015	225	2,705
Utilities	2,315	2,470	515	5,300
Interest expense	-	4,536	-	4,536
HFHI tithe and fees	3,825	3,825	850	8,500
In-Kind expenses	15,301	-	-	15,301
Advertising	1,234	1,676	-	2,910
Other expenses	<u>2,143</u>	<u>4,369</u>	<u>26</u>	<u>6,538</u>
Total expenses	\$ <u>1,278,576</u>	\$ <u>214,933</u>	\$ <u>42,858</u>	\$ <u>1,536,367</u>

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

BAY AREA HABITAT FOR HUMANITY - HOUSTON, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2024

	<u>2024</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 17,216
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	38,817
Gain on investments	(1,023)
Effect of changes in assets and liabilities:	
(Increase) decrease in mortgage receivables, net	(99,898)
(Increase) decrease in receivables	(76,298)
(Increase) decrease in houses under construction	439,758
(Increase) decrease in prepaids	(293)
(Increase) decrease in land held for development	(88,750)
(Increase) decrease in other assets	(1,625)
Increase (decrease) in accrued liabilities	(2,126)
Increase (decrease) in accounts payable	28,662
Increase (decrease) in due to agencies	<u>77,977</u>
Net cash provided by operating activities	<u>332,417</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Net acquisitions of fixed assets	(1,906)
Net cash used by investing activities	<u>(1,906)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	330,511
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>169,055</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 499,566</u>

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

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BAY AREA HABITAT FOR HUMANITY – HOUSTON, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2024

1. NATURE OF ACTIVITIES

Bay Area Habitat for Humanity – Houston, Inc. (“BAHFH” or the “Habitat”) is a Texas nonprofit organization founded on April 1, 1991, to provide affordable home ownership in Galveston, Northern Brazoria, and Southeast Harris counties in Texas, for families who cannot otherwise afford a decent place to live. BAHFH is primarily funded through contributions from corporations, foundations, and individuals. BAHFH is an affiliate of Habitat for Humanity International, Inc., an ecumenical Christian nonprofit organization whose purpose is to create decent, affordable housing for those in need, and to make decent shelter a matter of conscience with people everywhere. Although Habitat for Humanity International, Inc. assists with information resources, training, publications, prayer support, etc., BAHFH is primarily responsible for its own operations.

BAHFH’s primary program activity is the construction of homes for sale to eligible families. BAHFH builds houses utilizing volunteer labor and donated materials, in addition to paid services and materials. The houses are sold to qualified homebuyers at no profit through noninterest-bearing mortgages.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Adoption of New Accounting Standard

Leases

On July 1, 2023, the Habitat adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-02 *Leases (Codified as Accounting Standards Codification (ASC) 842*, which resulted in recording operating lease liabilities and right of use assets in the statement of financial position. The operating lease liabilities and right of use asset balances were \$25,026 and \$25,026 as of June 30, 2024, respectively. The balance is recorded based on the present value of the remaining minimum rental payments under the leasing standard for the existing operating lease. The key estimates for those leases include the discount rate used to discount the unpaid lease payments to present value. The Habitat’s leases generally do not include a readily determinable implicit rate, therefore, BAHFH utilized the U.S. risk free rate to discount the lease payments based on the information available at lease commencement.

Leases include the noncancellable period of the lease plus any additional periods covered by either an option to extend the lease that the Habitat is reasonably certain to exercise, or an option to extend the lease controlled by the lessor.

Current Expected Credit Losses

On July 1, 2023, the Habitat adopted FASB ASU 2016-13, *Financial Instruments – Credit Losses* (Topic 326): *Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost (including loans, trade receivables, and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses.

In accordance with ASC Topic 326, The Habitat makes ongoing estimates relating to the collectability of mortgages receivable and records an allowance for estimated losses expected from the inability of its customers to make required payments. The Habitat establishes expected credit losses by evaluating historical levels of credit losses, current economic conditions that may affect a customer's ability to pay, and creditworthiness of significant customers. These inputs are used to determine a range of expected credit losses, and an allowance is recorded within the range. Mortgages receivable are written off when there is no reasonable expectation of recovery. As of June 30, 2024, the allowance for credit losses was immaterial to the overall financial statements and as such \$0 is recorded in the statement of financial position.

Basis of Presentation

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Such net assets are available for any purpose consistent with the Habitat's mission. Designations of net assets by the governing board do not have the same legal requirements as do restrictions of funds and are included in this category.

Net Assets With Donor Restrictions – Net assets subject to specific, donor-imposed restrictions that must be met by actions of the Habitat and/or passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates those resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Recognition of Donor Restrictions

Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions depending on the nature of the restriction. When the restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Significant Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect 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. The Habitat's significant estimates include the useful lives of property and equipment, fair market value of investments, and the amortization of discounts on mortgage loans based on the estimated life of the notes as a method that approximates effective interest rates. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

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 16 to 30 years. These mortgages have been discounted at various rates ranging from 7.23% to 8.14% based on the prevailing market rates at the inception of the mortgages. Interest income (amortization of the discount) is recorded using the straight-line method over the lives of the mortgages.

Property and Equipment

Property and equipment costing over \$500 are capitalized. Purchases of property and equipment are recorded at cost or, if donated, at fair value on the date of donation. Property and equipment are depreciated using the straight-line method over their estimated useful lives ranging from 5 to 7 years.

Homes Under Construction

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 the lower of cost or the fair value at the date of the contribution. Included in land costs are any costs incurred in development. When revenue from the sale of a home is recognized, the corresponding costs are then expensed in the statements of activities as program services.

Land Held for Development

Land held for homes construction is recorded at cost unless it is determined to be impaired, in which case the impaired land is written down to fair value. Donated land is recorded at the donor's appraised amount of the property appraiser's value. All related carrying costs for these properties such as maintenance, required assessments, real estate taxes, etc. are capitalized into the cost of the properties.

Donated Materials and Services

FASB ASC Topic 958-605, Non-For-Profit Entities – Revenue Recognition, requires that contributed services should be recognized at their estimated fair values in the period received only if (1) they create or enhance nonfinancial assets or (2) if they require specialized skills, the services are provided by individuals possessing those skills, and the service would typically need to be purchased by the Habitat if not provided by donation.

A substantial number of volunteers donated a significant amount of time and performed a variety of services that assisted BAHFH in its programs and supporting services during the year ended June 30, 2024; however, these services were not recorded in the financial statements as they did not satisfy the revenue recognition criteria of FASB ASC Topic 958-605.

The Habitat did recognize donated materials for the year ended June 30, 2024, in the amount of \$15,301, mostly from fundraising efforts.

Revenue Recognition

Contributions

Contributions received are recognized as revenue when received or unconditionally promised. In accordance with FASB ASC Topic 958-605, *Not-for-Profit Entities – Revenue Recognition*, contributions received are recorded as increases in net assets without donor restrictions or as net assets with donor restrictions, depending on the existence and nature of any donor restrictions.

Home Sales

Revenue from home sales is recognized in accordance with the requirements of FASB ASC Topic 606, *Revenue from Contracts with Customers*. ASC Topic 606 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition.

Revenue from the sale of homes is recognized at the point in time when control of the home transfers to the homebuyer, which generally occurs when the sale is closed upon completion of construction, all requirements are met, and the deed is transferred to the homebuyer.

Sale to Homeowners

Sales of homes to homeowners are recorded at the gross mortgage. The mortgages do not bear interest, but have been discounted based upon applicable rates of interest published by Habitat for Humanity International, Inc. Using the interest method of amortization, these discounts will be recognized as mortgage loan amortization over the term of the mortgages.

Functional Allocation of Expenses

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Habitat.

Compensated Absences

Full-time employees of BAHFH are entitled to paid time off in accordance with an eligibility schedule depending on their length of service. Employees are allowed to carry forward a maximum of 40 unused paid time off hours into the next year and will be paid out up to a maximum of 80 hours upon honorable separation from the Habitat. BAHFH elected to accrue \$6,114 for the year ended June 30, 2024, to estimate for potential payouts.

Income Taxes

BAHFH is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code (IRC) pursuant to the group 501(c)(3) tax exemption granted by the Internal Revenue Service (IRS) to Habitat for Humanity International, Inc. on February 13, 1987. Accordingly, no provision for income taxes has been made in the financial statements. In addition, BAHFH qualifies for the charitable contribution deduction under Section 170(b)(1)(a) and has been qualified as an organization that is not a private foundation under Section 509(a)(2) of the IRC.

FASB ASC 740, Income Taxes, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. BAHFH's management has evaluated the impact of this guidance to its financial statements and concluded that there were no uncertain tax positions and that revenues recorded in the statement of activities have been properly classified as exempt for the year ended June 30, 2024.

BAHFH files Form 990, Return of Organization Exempt from Income Tax, with the IRS annually. Organizations' federal information returns are generally open to examination by the IRS for a period of three years from the date they were filed.

3. PROPERTY AND EQUIPMENT

The summary of property and equipment for the year ended June 30, 2024, are as follows:

	Cost	Accumulated Depreciation	Net Book Value
Furniture and equipment	\$ 32,708	\$ 28,736	\$ 3,972
Vehicles	93,805	93,345	460
Total property and equipment	<u>\$ 126,513</u>	<u>\$ 122,081</u>	<u>\$ 4,432</u>

Depreciation expense for the year ended June 30, 2024, was \$19,945.

4. INVESTMENTS

Investments as of June 30, 2024, consisted of common stocks with a fair market value of approximately \$14,966.

Dividends and unrealized investment gain recorded for the year ended June 30, 2024, were approximately \$401 and \$4,941, respectively.

5. FAIR VALUE MEASUREMENTS

ASC 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1 – Valuation is based on unadjusted quoted prices for identical assets or liabilities in active markets that are accessible to the Habitat at the measurement date.

Level 2 – Valuation is based on quoted prices for similar assets or liabilities or on inputs that are observable, either directly or indirectly, through collaboration with observable market data for similar assets or liabilities at the measurement date.

Level 3 – Valuation is based on unobservable inputs and reflect management's best estimate of what market participants would use in estimating fair value at the measurement date.

Fair value measurement hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. The Habitat utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

The following table presents the Habitat's financial assets measured at fair value on a recurring basis at June 30, 2024:

Fair Value Measurements at Reporting Date				
<u>June 30, 2024</u>	<u>Fair Value</u>	<u>Quoted Prices in Active Markts for Identical Assets (Level 1)</u>	<u>Quoted Prices for Similar Assets (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Common stocks	\$ 14,966	\$ 14,966	\$ -	\$ -
Total at June 30, 2024	\$ 14,966	\$ 14,966	\$ -	\$ -

The Habitat may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. There were no assets measured at fair value on a nonrecurring basis in 2024 that were still held in the statement of financial position at year-end.

6. HOMES UNDER CONSTRUCTION

Real estate costs, building materials and contract labor are recorded at cost when incurred. The administrative costs of developing projects are allocated to the respective projects. Homes under construction as of June 30, 2024, consisted of the following:

Property Location	Balance 7/1/2023	Current Year Additions	Balance 6/30/2024
1605 Maple St, La Marque	\$ 145	\$ 113,281	\$ 113,426
6111 Anderson, Texas City	-	1,275	1,275
821 S Virginia St (Lot 13 & 14), La Porte	-	4,214	4,214
0000 Shady Ln, La Marque	-	383	383
0000 Ben Drive, Alvin	159	2,044	2,203
1277 Ben Dr, Alvin	16,640	1,540	18,180
1846 Thompson (Lot 20), La Marque	-	2,673	2,673
226 3rd Ave, Texas City	829	763	1,592
713 Shady Ln (Lot 3), La Marque	1,700	555	2,255
717 Shady Ln (Lot 6), La Marque	<u>1,000</u>	<u>431</u>	<u>1,431</u>
	<u>\$ 20,473</u>	<u>\$ 127,159</u>	<u>\$ 147,632</u>

7. MORTGAGES RECEIVABLE

BAHFH sells homes to qualifying families and provides interest free mortgages, secured by the home itself, for up to 30 years. Mortgage payments are applied to reduce the mortgages receivable. Mortgages are recorded at present value based on rates provided by Habitat for Humanity, International, at the inception of the mortgages. The difference between the face amount of each mortgage and its present value is accounted for as a discount and amortized over the life of the mortgage using the straight-line method. The notes have been discounted at various rates, ranging from 7.23% to 8.14%. Mortgages receivable are reported net of unamortized discounts in the financial statements. As of June 30, 2024, the Habitat outstanding mortgage note receivables with original maturities ranging from 16 to 30 years.

In order to protect against the resale of BAHFH's homes, BAHFH holds a "silent" mortgage on every home that represents the difference between the estimated fair market value of the home and the mortgage receivable as of the transfer date. As long as the homeowner makes timely payments on the mortgage, the Habitat will forgive a portion of the outstanding principal balance of the "silent" mortgage ratably over the course of the mortgage loan. No payments are made on these "silent" mortgages unless a house is resold, in which case BAHFH holds the right of first refusal. As gain contingencies are not likely to be realized, these "silent" mortgages are not recorded as assets on the statement of financial position.

The Habitat's mortgages receivable as of June 30, 2024, are as follows:

	Due Within One Year	Due Beyond One Year	Total
Mortgages receivable (at face value)	\$ 196,210	\$ 2,340,709	\$ 2,536,919
Unamortized discount on mortgages	(106,556)	(1,437,356)	(1,543,912)
	<u>\$ 34,396</u>	<u>\$ 903,353</u>	<u>\$ 993,007</u>

Future collections, net of discount, on these mortgages will be received over the next five years as follows:

<u>Year Ending June 30,</u>	
2025	\$ 89,654
2026	89,654
2027	89,654
2028	89,654
2029	89,654
2030 and thereafter	<u>544,737</u>
	<u>\$ 993,007</u>

Mortgages are considered delinquent when the monthly mortgage payment is at least 31 days past due. As of June 30, 2024, thirteen mortgages totaling \$489,262 were past due. The Habitat is in the process of making arrangements with the individual homeowners to bring their balance to current. All balances are believed to be collectible, and no allowance has been recognized.

8. TDHCA AGENCY RECEIVABLES

Some of the homeowners who have mortgages with the Habitat have entered into a secondary loan agreement with the Texas Department of Housing and Community Affairs ("TDHCA") Texas Boot Strap Loan Program. The Habitat continues to collect and manage these mortgages, and then remits the amount collected to the agency. These amounts are reported as agency receivables and agency payables on the statement of financial position and normally do not have any effect on the change in net assets. As of June 30, 2024, the balance in the agency receivables and payables is \$252,095, respectively.

9. MORTGAGES RECEIVABLE SOLD WITH RECOURSE

BAHFH sold certain mortgages receivable to a financial institution with recourse; as such, BAHFH has an obligation to repurchase the loans if certain conditions of the sale are not met, including the requirement for each homeowner to make timely payments under the terms of the mortgage notes. The recourse is in place until each loan has been repaid in full by the homeowner. As a result of the obligation for BAHFH to repurchase these loans, these transactions are not treated as sales to the financial institution but are instead treated as secured borrowings. Additionally, BAHFH is still responsible for the servicing of the outstanding mortgages receivable sold with recourse. The outstanding balances of the mortgages receivable that were transferred to the financial institution are therefore reported as an asset on the statement of financial position. A corresponding long-term debt obligation to the financial institution is recorded for the same amount of these transferred mortgages receivable. These long-term debt obligations are noninterest-bearing, with maturities that correspond with the future principal payments due on the related mortgages receivable and are secured by noninterest-bearing first mortgages held by BAHFH with a discounted value of \$147,494 as of June 30, 2024. The notes payable have an undiscounted balance of \$402,934 as of June 30, 2024. Discount rates ranging from 7.23% to 8.01% provided by Habitat for Humanity, International, were applied to arrive at the net present value of the notes payable at issuance. The discount is amortized to interest expenses using the straight-line method over the respective terms of the underlying notes. The unamortized discount as of June 30, 2024, amounted to approximately \$255,440.

Future collections, net of discount, on these mortgages sold will be received over the next five years as follows:

<u>Year Ending June 30,</u>	
2025	\$ 13,387
2026	13,387
2027	13,387
2028	13,387
2029	13,387
2030 and thereafter	<u>80,559</u>
	<u>\$ 147,494</u>

10. SALES TO HOMEOWNERS

During the year ended June 30, 2024, four 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. The discount rate for the year ended June 30, 2024, was 8.02%. The discounts on homes sold during the year totaled \$244,058 for 2024.

11. NOTE PAYABLE – ECONOMIC INJURY DISASTER LOAN

On June 30, 2020, BAHFH obtained a 30-year Economic Injury Disaster Loan (EIDL) of \$150,000 from the U.S. Small Business Administration for working capital purposes during the COVID-19 Pandemic, secured by a security interest in BAHFH's assets granted to SBA, at an annual interest rate of 2.75% and a monthly payment of approximately \$641 from December 1, 2023, through June 1, 2050.

Principal and interest payments for EIDL as of June 30, 2024, are as follows:

<u>Year Ending June 30,</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Payment</u>
2025	\$ -	\$ 7,692	\$ 7,692
2026	3,192	4,500	7,692
2027	3,701	3,991	7,692
2028	3,804	3,888	7,692
2029	3,910	3,782	7,692
2030 and thereafter	<u>135,393</u>	<u>48,907</u>	<u>184,300</u>
	<u>\$ 150,000</u>	<u>\$ 72,760</u>	<u>\$ 222,760</u>

12. TRANSACTIONS WITH HABITAT INTERNATIONAL

The Habitat will annually remit a percentage of its unrestricted contributions (excluding in-kind contributions) to Habitat for Humanity International. These funds are used to construct homes in economically depressed areas around the world. For the year ended June 30, 2024, the Habitat contributed \$8,500. This amount is included as a program services expense in the statement of activities.

13. BOARD DESIGNATED NET ASSETS

BAHFH's Board of Directors has the ability to designate a portion of the net assets without donor restrictions to support the Habitat's working capital. As of June 30, 2024, the Board designated \$76,915 for this purpose.

14. CONCENTRATION OF CREDIT RISK

As of June 30, 2024, and at various times during the year, the Habitat maintained cash balances at financial institutions in excess of federally insured limits. Given the economic environment and risks in the banking industry, there is a risk that these deposits may not be readily available or covered by insurance. As of June 30, 2024, no losses have been incurred.

The Habitat's programs are concentrated in the Bay Area region of Texas. The Habitat receives donations, home sales and collection of mortgages receivable in this area. Changes in economic conditions may impact the Habitat.

The Habitat's purpose is to provide housing for low-income homeowners. As such, it is likely that the mortgage holders would be unable to qualify for a mortgage from a traditional financial institution. This poses an inherent risk to Habitat that the mortgages receivable will be partially uncollectible. To mitigate the risk of overstating the ability of the Habitat 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.

15. LEASES

The Habitat determines whether a contract contains a lease at the inception of a contract by determining if the contract conveys the right to control the use of identified property, plant, or equipment for a period of time in exchange for consideration. The Habitat leases certain equipment and buildings for varying periods. The U.S. risk-free treasury rate utilized to calculate the lease liabilities is based on the information available at commencement date, as most of the leases do not provide an implicit borrowing rate. The operating lease agreements do not contain any material guarantees or restrictive covenants.

As of June 30, 2024, the Habitat has one operating lease, no finance leases, and no sublease activities. Short-term leases, defined as leases with initial terms of 12 months or less, are not reflected on the statement of financial position and expenses are shown as short-term lease cost in the table below. For the purposes of calculating lease liabilities, all lease and non-lease components, if applicable, are combined.

During fiscal year 2024, the Habitat recognized rent expense associated with leases under ASC 842 as follows:

	For the year ended June 30, 2024
Operating lease cost:	
Fixed expense	\$ 20,203
Short-term lease cost	<u>5,942</u>
Total lease cost:	<u>\$ 26,145</u>

Supplemental information related to leases is as follows:

	As of June 30, 2024
Supplemental information:	
Weighted average remaining lease term:	
Operating leases	1.16 years
Weighted average discount rate:	
Operating leases	5.03%

The future payments due under operating leases as of June 30, 2024 are as follows:

2025	\$ 22,530
2026	<u>3,755</u>
	<u>\$ 26,285</u>

16. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Habitat's financial assets that are available for general expenditures within one year of the date of the statement of financial position are as follows:

	2024
Cash & cash equivalents	\$ 499,566
Current portion of mortgages receivable	196,210
Other receivables	53,250
Investments	<u>14,966</u>
	<u>763,992</u>
Less:	
Assets restricted by donor	307,755
Assets designated by the board	<u>76,915</u>
Financial assets available to meet cash needs	\$ <u>379,322</u>

BAHFH primarily relies on contributions throughout the year to fund its operations and its cash needs on a regular basis to maintain sufficient financial assets to cover general obligations as they arise.

17. REVENUE RECOGNITION

The Habitat earns revenue from a variety of sources. The Habitat's principal sources of revenue are grants, contributions, and sales to homeowners, as discussed above in note 2.

Sales to homeowners are exchange transactions within the scope of and accounted for under ASC 606. ASC 606 requires revenue to be recognized when the Habitat satisfies the related performance obligations by transferring a good or service to a customer through a 5-step process:

- 1) Identify the contract with the customer,
- 2) Identify the associated performance obligations,
- 3) Determine the transaction price,
- 4) Allocate the transaction price to the performance obligations, and
- 5) Recognize revenue when the performance obligations have been satisfied and the good or service has been transferred.

Sales to homeowners satisfy performance obligations at a point in time, on the date when the sale formally closes.

Contributions and the composition of grants received by the Habitat are not exchange transactions and therefore, fall outside the scope of ASC 606. These revenue streams are recognized in accordance with ASC 958, *Not-for-profit Entities*.

18. SUBSEQUENT EVENTS

The Habitat has determined that no events or transactions occurred subsequent to February 25, 2025, the date these financial statements were available to be issued, that required recognition or disclosure in the financial statements.