

Houston Habitat for Humanity, Inc.

Consolidated Financial Statements
with Supplementary Information
and Independent Auditors' Report
for the years ended December 31, 2017 and 2016

Houston Habitat for Humanity, Inc.

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements:	
Consolidated Statements of Financial Position as of December 31, 2017 and 2016	2
Consolidated Statement of Activities for the year ended December 31, 2017	3
Consolidated Statement of Activities for the year ended December 31, 2016	4
Consolidated Statement of Functional Expenses for the year ended December 31, 2017	5
Consolidated Statement of Functional Expenses for the year ended December 31, 2016	6
Consolidated Statements of Cash Flows for the years ended December 31, 2017 and 2016	7
Notes to Consolidated Financial Statements for the years ended December 31, 2017 and 2016	8
Supplementary Information:	
Graphical Information for the year ended December 31, 2017	18

Independent Auditors' Report

To the Board of Directors of
Houston Habitat for Humanity, Inc.:

We have audited the accompanying financial statements of Houston Habitat for Humanity, Inc. (Habitat), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016 and the related consolidated statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

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

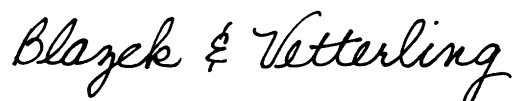
Auditors' Responsibility – Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion – In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Habitat as of December 31, 2017 and 2016 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information – Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. Supplementary information in the graphical information for the year ended December 31, 2017 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.



September 27, 2018

Houston Habitat for Humanity, Inc.

Consolidated Statements of Financial Position as of December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets:		
Cash and cash equivalents (<i>Notes 2 and 4</i>)	\$ 13,897,897	\$ 5,894,761
Cash held in escrow for taxes and insurance (<i>Note 2</i>)	1,394,959	515,724
Pledges receivable	118,816	146,112
Current portion of mortgage loans receivable, net (<i>Note 5</i>)	1,633,597	1,684,761
ReStore inventory	270,560	183,271
Investments (<i>Notes 3 and 4</i>)	46,310	41,257
Other assets	<u>329,993</u>	<u>257,119</u>
Total current assets	17,692,132	8,723,005
Long-term assets:		
Homes available for sale	1,625,597	1,817,709
Home construction in progress	3,486,423	2,439,130
Lots and land held for development	2,799,216	2,755,818
Long-term portion of mortgage loans receivable, net (<i>Note 5</i>)	11,264,384	11,999,148
Property, plant and equipment, net (<i>Note 6</i>)	912,672	917,619
Investments designated for endowment (<i>Notes 3 and 4</i>)	<u>5,871,635</u>	<u>5,305,753</u>
TOTAL ASSETS	<u>\$ 43,652,059</u>	<u>\$ 33,958,182</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 518,998	\$ 341,697
Escrow for taxes and insurance	1,394,959	515,724
Note payable (<i>Note 7</i>)	<u>196,081</u>	<u>231,081</u>
Total current liabilities	<u>2,110,038</u>	<u>1,088,502</u>
Commitments and contingencies (<i>Notes 8 and 9</i>)		
Net assets:		
Unrestricted (<i>Note 10</i>)	34,307,259	31,594,488
Temporarily restricted (<i>Note 11</i>)	7,233,654	1,274,084
Permanently restricted (<i>Note 10</i>)	<u>1,108</u>	<u>1,108</u>
Total net assets	<u>41,542,021</u>	<u>32,869,680</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 43,652,059</u>	<u>\$ 33,958,182</u>

See accompanying notes to consolidated financial statements.

Houston Habitat for Humanity, Inc.

Consolidated Statement of Activities for the year ended December 31, 2017

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
REVENUE, GAINS AND SUPPORT:				
Low-cost housing income:				
Home sales	\$ 786,650			\$ 786,650
Mortgage discount amortization and interest	981,535			981,535
Rental income	238,764			238,764
In-kind contributions of materials	151,194			151,194
Other fees	<u>82,505</u>			<u>82,505</u>
Total low-cost housing income	<u>2,240,648</u>			<u>2,240,648</u>
Contributions and other:				
Contributions (<i>Note 12</i>)	2,311,112	\$ 9,627,194		11,938,306
In-kind contributions of inventory	850,490			850,490
Investment return, net (<i>Note 3</i>)	775,026			775,026
Special events	121,597			121,597
Cost of direct donor benefits	(43,281)			(43,281)
Other income	<u>30,647</u>			<u>30,647</u>
Subtotal contributions and other	4,045,591	9,627,194		13,672,785
Satisfaction of donor restrictions:				
Expenditures for property, plant and equipment	180,147	(180,147)		
Expenditures for program restrictions	<u>3,487,477</u>	<u>(3,487,477)</u>		
Total contributions and other	<u>7,713,215</u>	<u>5,959,570</u>		<u>13,672,785</u>
ReStore revenues:				
ReStore sales of inventory	3,458,778			3,458,778
ReStore cost of goods sold	<u>(2,391,984)</u>			<u>(2,391,984)</u>
Total ReStore revenues, net	<u>1,066,794</u>			<u>1,066,794</u>
Total revenue, gains and support	<u>11,020,657</u>	<u>5,959,570</u>		<u>16,980,227</u>
EXPENSES:				
Low-cost housing program	5,794,330			5,794,330
ReStore program	928,727			928,727
Management and general	290,960			290,960
Fundraising	<u>821,349</u>			<u>821,349</u>
Total expenses	<u>7,835,366</u>			<u>7,835,366</u>
CHANGES IN NET ASSETS BEFORE INVOLUNTARY CONVERSION				
	3,185,291			9,144,861
Loss on involuntary conversion (<i>Note 13</i>)	<u>(472,520)</u>			<u>(472,520)</u>
CHANGES IN NET ASSETS	2,712,771	5,959,570		8,672,341
Net assets, beginning of year	<u>31,594,488</u>	<u>1,274,084</u>	\$ 1,108	<u>32,869,680</u>
Net assets, end of year	<u>\$ 34,307,259</u>	<u>\$ 7,233,654</u>	<u>\$ 1,108</u>	<u>\$ 41,542,021</u>

See accompanying notes to consolidated financial statements.

Houston Habitat for Humanity, Inc.

Consolidated Statement of Activities for the year ended December 31, 2016

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
REVENUE, GAINS AND SUPPORT:				
Low-cost housing income:				
Home sales	\$ 4,704,887			\$ 4,704,887
Mortgage discount amortization and interest	937,327			937,327
Rental income	249,300			249,300
In-kind contributions of materials	179,427			179,427
Other fees	<u>187,782</u>			<u>187,782</u>
Total low-cost housing income	<u>6,258,723</u>			<u>6,258,723</u>
Contributions and other:				
Contributions (Note 12)	1,072,954	\$ 2,117,121	\$ 1,108	3,191,183
In-kind contributions of inventory	872,884			872,884
Investment return, net (Note 3)	366,126			366,126
Government contract income (Note 9)	66,000			66,000
Other income	<u>93,968</u>			<u>93,968</u>
Subtotal contributions and other	2,471,932	2,117,121	1,108	4,590,161
Satisfaction of donor restrictions:				
Expenditures for program restrictions	<u>1,930,261</u>	<u>(1,930,261)</u>		
Total contributions and other	<u>4,402,193</u>	<u>186,860</u>	<u>1,108</u>	<u>4,590,161</u>
ReStore revenues:				
ReStore sales of inventory	1,925,808			1,925,808
ReStore cost of goods sold	<u>(1,496,901)</u>			<u>(1,496,901)</u>
Total ReStore revenues, net	<u>428,907</u>			<u>428,907</u>
Total revenue, gains and support	<u>11,089,823</u>	<u>186,860</u>	<u>1,108</u>	<u>11,277,791</u>
EXPENSES:				
Low-cost housing program	9,016,174			9,016,174
ReStore program	862,975			862,975
Management and general	224,091			224,091
Fundraising	<u>721,705</u>			<u>721,705</u>
Total expenses	<u>10,824,945</u>			<u>10,824,945</u>
CHANGES IN NET ASSETS	264,878	186,860	1,108	452,846
Net assets, beginning of year	<u>31,329,610</u>	<u>1,087,224</u>	<u>0</u>	<u>32,416,834</u>
Net assets, end of year	<u>\$ 31,594,488</u>	<u>\$ 1,274,084</u>	<u>\$ 1,108</u>	<u>\$ 32,869,680</u>

See accompanying notes to consolidated financial statements.

Houston Habitat for Humanity, Inc.

Consolidated Statement of Functional Expenses for the year ended December 31, 2017

<u>EXPENSES</u>	LOW-COST HOUSING PROGRAM	RESTORE PROGRAM	MANAGEMENT AND GENERAL	FUNDRAISING	<u>TOTAL</u>
Salaries and related benefits	\$ 1,840,142	\$ 557,730	\$ 124,200	\$ 633,621	\$ 3,155,693
Disaster construction relief	1,833,878				1,833,878
Cost of homes sold	901,586				901,586
Property taxes and insurance	271,417	55,372	20,024	26,697	373,510
Home repair program	259,759				259,759
Repairs and maintenance	162,519	15,974	5,718	1,893	186,104
Depreciation	52,846	83,595	11,760	15,680	163,881
Utilities, telephone and trash	73,830	55,932	8,159	9,437	147,358
Tithes to other non-profits	125,500				125,500
Legal and professional fees	51,701	17,470	53,670		122,841
Computer and technology	41,622	26,085	10,829	30,932	109,468
Equipment	45,985	29,630	17,087	5,669	98,371
Travel and auto	42,634	24,925	1,698	3,052	72,309
Credit card fees		34,858	90	13,613	48,561
Supplies	19,186	6,383	11,028	10,722	47,319
Advertising and marketing		3,000	5,000	35,913	43,913
Security	22,436	2,249	3,467	1,870	30,022
Postage, delivery and printing	9,383	362	3,094	11,455	24,294
Professional development	5,427	3,844		4,463	13,734
Interest	6,164				6,164
Discount on mortgages issued	1,152				1,152
Other	<u>27,163</u>	<u>11,318</u>	<u>15,136</u>	<u>16,332</u>	<u>69,949</u>
Total expenses	<u>\$ 5,794,330</u>	<u>\$ 928,727</u>	<u>\$ 290,960</u>	<u>\$ 821,349</u>	7,835,366
ReStore cost of goods sold					2,391,984
Cost of direct donor benefits					43,281
Investment expenses					<u>22,800</u>
Total					<u>\$10,293,431</u>
Percent of total expenses	74%	12%	4%	10%	100%

See accompanying notes to consolidated financial statements.

Houston Habitat for Humanity, Inc.

Consolidated Statement of Functional Expenses for the year ended December 31, 2016

<u>EXPENSES</u>	LOW-COST HOUSING PROGRAM	RESTORE PROGRAM	MANAGEMENT AND GENERAL	FUNDRAISING	<u>TOTAL</u>
Salaries and related benefits	\$ 1,676,849	\$ 534,596	\$ 113,547	\$ 574,985	\$ 2,899,977
Cost of homes sold	4,628,938				4,628,938
Property taxes and insurance	317,567	45,469	8,913	22,163	394,112
Home repair program	183,146				183,146
Repairs and maintenance	158,978	14,962	1,870	1,194	177,004
Depreciation	64,265	85,161	8,435	9,960	167,821
Utilities, telephone and trash	83,438	62,255	5,196	7,292	158,181
Tithes to other non-profits	123,000				123,000
Legal and professional fees	25,635	2,500	66,294	1,000	95,429
Computer and technology	51,896	29,098	4,477	23,154	108,625
Equipment	59,532	25,535	676	2,989	88,732
Travel and auto	59,044	17,346	2,847	5,258	84,495
Credit card fees		24,783		5,954	30,737
Supplies	40,773	5,615	420	2,885	49,693
Advertising and marketing				14,110	14,110
Security	14,957	2,069	427	658	18,111
Postage, delivery and printing	9,158	1,327	171	5,644	16,300
Professional development	3,314	2,086	3,143	4,269	12,812
Interest	5,975				5,975
Discount on mortgages issued	1,482,601				1,482,601
Other	<u>27,108</u>	<u>10,173</u>	<u>7,675</u>	<u>40,190</u>	<u>85,146</u>
Total expenses	<u>\$ 9,016,174</u>	<u>\$ 862,975</u>	<u>\$ 224,091</u>	<u>\$ 721,705</u>	10,824,945
ReStore cost of goods sold					1,496,901
Investment expenses					<u>21,009</u>
Total					<u>\$12,342,855</u>
Percent of total expenses	83%	8%	2%	7%	100%

See accompanying notes to consolidated financial statements.

Houston Habitat for Humanity, Inc.

Consolidated Statements of Cash Flows for years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 8,672,341	\$ 452,846
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contributions restricted for property, plant and equipment	(220,000)	
Depreciation	163,881	167,821
Discount on mortgages issued	1,152	1,482,601
Mortgage discount amortization	(954,401)	(907,544)
Loss on involuntary conversion	472,520	
Net realized and unrealized gain on investments	(689,612)	(286,183)
Changes in operating assets and liabilities:		
Pledges receivable	27,296	140,538
Mortgage loans receivable	1,739,177	(1,575,022)
ReStore inventory	(87,289)	(29,090)
Other assets	(72,874)	(29,854)
Homes available for sale	192,112	82,696
Home construction in progress	(1,450,017)	371,348
Lots and land held for development	(43,398)	775,222
Accounts payable and accrued expenses	177,301	(130,433)
Escrow for taxes and insurance	<u>879,235</u>	<u>(132,402)</u>
Net cash provided by operating activities	<u>8,807,424</u>	<u>382,544</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(228,730)	(41,597)
Purchases of investments	(881,539)	(539,941)
Net proceeds from sale or maturity of investments	1,001,882	574,758
Net change in money market mutual fund held as investments	<u>(1,666)</u>	<u>(11,420)</u>
Net cash used by investing activities	<u>(110,053)</u>	<u>(18,200)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for property, plant and equipment	220,000	
Payments on note payable	<u>(35,000)</u>	<u>(55,000)</u>
Net cash provided (used) by financing activities	<u>185,000</u>	<u>(55,000)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	8,882,371	309,344
Cash and cash equivalents, beginning of year	<u>6,410,485</u>	<u>6,101,141</u>
Cash and cash equivalents, end of year	<u>\$15,292,856</u>	<u>\$ 6,410,485</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$6,164	\$5,975

See accompanying notes to consolidated financial statements.

Houston Habitat for Humanity, Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2017 and 2016

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Houston Habitat for Humanity, Inc. (Houston Habitat) is a non-profit corporation founded in 1987 whose purpose is to encourage, promote and assist in the building and redevelopment of low-income housing in Houston, Texas. Houston Habitat is an affiliate of Habitat for Humanity International (HFHI) located in Americus, Georgia.

Houston Habitat's purpose is accomplished through a privately operated and financed program to sell housing to low-income persons at fair market value, utilizing zero-interest equivalent mortgage loans. Houston Habitat builds homes in the Houston metropolitan area utilizing volunteer labor, donated materials and contributed funds; the homes are sold to pre-qualified, low-income persons. Homebuyers are selected based on need, ability to repay the Houston Habitat mortgage, and willingness to partner. Long-term mortgage financing is a key component in making Houston Habitat homes affordable. Homes sold to approved qualified buyers are financed by Houston Habitat for a term ranging from 10 to 30 years at 0% interest. Monthly mortgage payments collected by Houston Habitat are used to further the mission of Houston Habitat.

Houston Habitat also operates The ReStore, a building supply outlet that is open to the public. The ReStore accepts donations from individuals, corporations and retail stores in the area and purchases some material for resale.

Family Housing Development Corporation (Family Housing) is incorporated as a non-profit organization in accordance with the laws of the State of Texas. Family Housing is sponsored by Houston Habitat and has been certified by Harris County, Texas as a Community Housing Development Organization (CHDO). This means that Family Housing has met the requirements as specified by the U. S. Department of Housing and Urban Development to act in the capacity of a CHDO. As such, Family Housing is eligible to participate in government programs that provide special set-aside funds that can be used to provide safe, affordable housing to low and moderate-income families within Harris County. The board of Family Housing is composed of employees of Houston Habitat.

The Endowment for Houston Habitat for Humanity (the Endowment) was incorporated in 1999 as a Texas non-profit corporation to receive and maintain contributed funds to support Houston Habitat. Houston Habitat is the sole member of the Endowment.

Basis of consolidation – These financial statements include the assets, liabilities, net assets, and activities of Houston Habitat, Family Housing and the Endowment (collectively Habitat). All balances and transactions between the consolidated entities have been eliminated.

Federal income tax status – Houston Habitat, Family Housing and the Endowment are exempt from federal income tax under §501(c)(3) of the Internal Revenue Code. Houston Habitat is classified as a public charity under §509(a)(1). Family Housing is classified as a private foundation. The Endowment is classified as a Type I supporting organization under §509(a)(3).

Cash equivalents include highly liquid investments with original maturities of three months or less.

Cash held in escrow for taxes and insurance are escrow funds collected from homeowners for payment of their property taxes, homeowner's association dues and homeowner's insurance. These custodial funds are held in a fiduciary capacity by Habitat and a corresponding liability is reported in the statement of financial position.

Pledges receivable that are expected to be collected within one year are reported at net realizable value. Amounts that are expected to be collected in future years are discounted to estimate the present value of future cash flows. All pledges receivable are expected to be collected in 2018.

Mortgage loans receivable primarily consist of zero-interest equivalent mortgages, which are secured by improved real estate and are payable in monthly installments over a 10 to 30 year period. The mortgage loans receivable are discounted based upon prevailing market interest rates for low-income housing at the inception of the mortgage. The discount is amortized using the effective interest method.

Habitat's allowance for loan losses is based on historical collection experience and a review of the status of the mortgage loans receivable. Habitat considers the majority of the mortgage loans receivable to be fully collectible, or if not fully collectible, that the value of the homes collateralizing the loans exceeds the unpaid amount of the related receivable. Accordingly, no allowance for loan losses is included in Habitat's financial statements.

The ReStore inventory consists primarily of donated and purchased building materials. Purchased goods are valued at cost or using the first-in, first-out method and donated goods are valued at fair value at the time of donation.

Investments in marketable securities are reported at fair value. Investment return is reported in the statement of activities as an increase in unrestricted net assets unless its use is limited by donor-imposed restrictions.

Homes available for sale and lots and land held for development are stated at lower of cost or fair value less costs to sell and include land under development, developed lots held for development and available for sale, and foreclosed and repossessed homes available for sale. Homes acquired through loan repossession or foreclosure are held for sale and/or rent and are initially recorded at fair value less estimated costs to sell at the date acquired.

Home construction in progress is stated at lower of cost or fair value less costs to sell and consists of labor, materials, property taxes, land costs and land development costs incurred during the development period incurred on incomplete homes in progress and completed homes not yet conveyed to a recipient family. Cost is determined by the specific identification method. Construction in progress is expensed to cost of homes sold within the low-cost housing program when the home is transferred to the recipient family.

Asset impairment – Real estate assets are evaluated for impairment if impairment indications are present. An impairment write-down to fair value less costs to sell occurs when management believes that events or changes in circumstances indicate that its carrying amount may not be recoverable.

Property, plant and equipment is reported at cost if purchased and at fair value at date of gift if donated. Depreciation is computed using the straight-line method over estimated useful lives of 20 years for building and improvements and 3 to 5 years for furniture, equipment and vehicles.

Net asset classification – Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.
- *Temporarily restricted net assets* include contributions restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.
- *Permanently restricted net assets* are non-expendable endowment funds that have been restricted by the donor to investment in perpetuity. The investment return may be used to support the activities of Houston Habitat as specified by the donor.

Home sales – Homes are sold to qualified buyers at the appraised value or fair market value of the home. Zero-interest equivalent mortgages are generally provided to qualified persons as payment for the homes sold. Home sales are recorded at the discounted value of payments to be received over the lives of the mortgages. Some qualified persons may receive down payment assistance from other agencies to reduce their loan amount. During the years ended December 31, 2017 and 2016, 4 and 31 homes were sold by Habitat, respectively. Habitat recognizes revenue from home sales when a closing occurs.

Rental income on homes available for sale is recognized as rent becomes due. Rental payments received in advance are deferred until earned and reported as prepaid rent.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations limiting their use are classified as restricted support. Conditional contributions are recognized in the same manner when the conditions are substantially met.

Non-cash contributions – Donated materials and use of facilities are recognized at estimated fair value as contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Volunteers provide more than 26,000 hours a year to assist Houston Habitat in providing home construction services for which no amount has been recorded in the financial statements because the services did not meet the criteria for recognition under the generally accepted accounting principles.

Government contract income – Habitat receives funding through various grants, cost reimbursement and performance-based contracts. Revenue is recognized on grants and cost reimbursement contracts subject to the terms of the contract or agreement; generally, when the specifications of the agreement have been met and the grant or reimbursement has been approved by the grantor.

The ReStore revenue is reported as revenue at the point of sale.

Advertising costs are expensed as incurred.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts

of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Restatement of statement of cash flows – During 2017, Houston Habitat adopted Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows – Restricted Cash*, which requires the statement of cash flows to explain the change in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Prior to adoption, cash held in escrow for taxes and insurance were excluded from beginning and ending cash and cash equivalents in the statement of cash flows. The statement of cash flows for the year ended December 31, 2016 was restated to reflect the retrospective adoption. This change had no impact on net assets or changes in net assets.

Recent financial accounting pronouncements – In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU are aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions* and underwater endowments will be grouped with *net assets with donor restrictions*. New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. Houston Habitat is required to adopt this ASU for fiscal year 2018. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which replaces most existing revenue recognition guidance for exchange transactions not specifically covered by other guidance. This ASU does not apply to non-exchange transactions such as contributions. The core principle of the new guidance is that an entity should recognize revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for transferred goods or services and establishes a 5-step process to determine when performance obligations are satisfied and revenue is recognized. Houston Habitat is required to, and plans to, adopt this ASU effective fiscal year 2019 using an appropriate retrospective method. Management has not yet determined the impact adoption of this ASU will have on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction and provide additional guidance on determining whether a contribution is conditional or unconditional. This ASU could impact the timing of revenue recognition and the financial statement disclosures related to such transactions. Houston Habitat is required to apply the amendments in its December 31, 2019 financial statements. The amendments should be applied on a modified prospective basis, but retrospective application also is permitted. Management has not determined the eventual method of adoption of the ASU or the impact on the financial statements.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents reported in the statements of financial position are reconciled to cash and cash equivalents reported in the statements of cash flows as follows:

	<u>2017</u>	<u>2016</u>
Demand deposits	\$ 15,292,856	\$ 5,969,334
Money market mutual fund		<u>441,151</u>
Total cash and cash equivalents reported in the statements of cash flows	15,292,856	6,410,485
Less: Cash held in escrow for taxes and insurance	<u>(1,394,959)</u>	<u>(515,724)</u>
Cash and cash equivalents	<u>\$ 13,897,897</u>	<u>\$ 5,894,761</u>

Demand deposits exceed the federally insured limit per depositor per institution.

NOTE 3 – INVESTMENTS AND INVESTMENT RETURN

Investments consist of the following:

	<u>2017</u>	<u>2016</u>
Equity mutual funds	\$ 3,551,141	\$ 3,283,076
Fixed-income mutual funds	2,203,013	1,901,809
Money market mutual fund	<u>163,791</u>	<u>162,125</u>
Total investments	<u>\$ 5,917,945</u>	<u>\$ 5,347,010</u>

Investments are exposed to various risks such as interest rate, market, and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

Investment return includes earnings on demand deposits and consists of the following:

	<u>2017</u>	<u>2016</u>
Net realized and unrealized gain on investments	\$ 689,612	\$ 286,183
Interest and dividend income	108,214	100,952
Investment expenses	<u>(22,800)</u>	<u>(21,009)</u>
Investment return, net	<u>\$ 775,026</u>	<u>\$ 366,126</u>

NOTE 4 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.

- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at December 31, 2017 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity mutual funds:				
Large-cap blend	\$ 735,519			\$ 735,519
International	727,038			727,038
Large-cap value	607,909			607,909
Large-cap growth	567,403			567,403
Mid-cap blend	494,331			494,331
Small-cap	238,701			238,701
Emerging markets	180,240			180,240
Intermediate-term bond mutual funds	2,203,013			2,203,013
Money market mutual fund	<u>163,791</u>			<u>163,791</u>
Total assets measured at fair value	<u>\$ 5,917,945</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,917,945</u>

Assets measured at fair value at December 31, 2016 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity mutual funds:				
Large-cap blend	\$ 763,205			\$ 763,205
International	633,799			633,799
Large-cap value	543,172			543,172
Large-cap growth	498,633			498,633
Mid-cap blend	468,569			468,569
Small-cap	217,818			217,818
Emerging markets	157,880			157,880
Intermediate-term bond mutual funds	1,901,809			1,901,809
Money market mutual fund	<u>162,125</u>			<u>162,125</u>
Total investments measured at fair value	5,347,010			5,347,010
Cash and cash equivalents:				
Money market mutual fund	<u>441,151</u>			<u>441,151</u>
Total assets measured at fair value	<u>\$ 5,788,161</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,788,161</u>

Mutual funds are valued at the reported net asset value. This valuation method may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Habitat believes its valuation method is appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

NOTE 5 – MORTGAGE LOANS RECEIVABLE

Mortgage loans receivable consists of the following:

	<u>2017</u>	<u>2016</u>
Mortgage loans receivable, at par value	\$ 20,738,522	\$ 22,477,699
Less: Unamortized discount based on imputed interest, at rates ranging from 7.39% to 8.64%	<u>(7,840,541)</u>	<u>(8,793,790)</u>
Mortgage loans receivable, net	12,897,981	13,683,909
Less: Current portion due within one year	<u>(1,633,597)</u>	<u>(1,684,761)</u>
Long-term portion of mortgage loans receivable, net	<u>\$ 11,264,384</u>	<u>\$ 11,999,148</u>

Prior to June 30, 2004, the initial amount of each mortgage loan approximated Habitat's cost to build the house, plus mortgage discount expense. Habitat also obtained a second mortgage that approximated the difference between this cost and market value. Beginning in the fiscal year ending June 30, 2005, the difference between cost and market value is included in the first mortgage. Both this difference and the second mortgage, which are forgiven subject to conditions, are assumed to have no economic value and, accordingly, are not recognized in Habitat's financial statements.

A mortgage receivable is considered delinquent if the scheduled installment payment remains unpaid 30 days after its due date. Delinquent principal amounts of mortgage loans receivable at December 31, 2017 were approximately \$208,180.

The annual collection of mortgage loans receivable at December 31, 2017 is as follows:

2018	\$ 1,638,012
2019	1,624,963
2020	1,612,658
2021	1,612,658
2022	1,599,673
Thereafter	<u>12,650,558</u>
Total	<u>\$ 20,738,522</u>

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	<u>2017</u>	<u>2016</u>
Land	\$ 189,030	\$ 189,030
Building and improvements	2,148,691	2,148,691
Construction equipment and vehicles	437,208	329,544
Furniture and office equipment	<u>154,148</u>	<u>131,619</u>
Total property, plant and equipment, at cost	2,929,077	2,798,884
Accumulated depreciation	<u>(2,016,405)</u>	<u>(1,881,265)</u>
Property, plant and equipment, net	<u>\$ 912,672</u>	<u>\$ 917,619</u>

NOTE 7 – NOTE PAYABLE

Habitat has a line of credit agreement with Northern Trust Bank (NTB) that allows for borrowings up to \$2.5 million. Borrowings under this agreement bear interest at variable rates based on LIBOR. As of December 31, 2017 and 2016, this rate was 3.28% and 2.54% per annum, respectively. The agreement is collateralized by deeds of trust and beneficial interest in certain mortgage loans receivable. The outstanding balance at December 31, 2017 was \$196,081 and the par value of the mortgage loans securing this debt as of that date was \$2,578,661. The outstanding balance at December 31, 2016 was \$231,081 and the par value of the mortgage loans securing this debt as of that date was \$2,866,492. The agreement matures on June 30, 2018. It is management's intent to renew the line of credit.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Habitat has sold certain of its mortgage loans receivable to NTB with full recourse to Habitat at par value, excluding the portion of the note that was forgiven. In accordance with the terms of the agreement, Habitat provides the servicing of the mortgages and remits payments to NTB; any delinquencies or defaults are retained by Habitat. As of December 31, 2017, NTB held mortgages sold by Habitat at par value, totaling \$2,595,985. Habitat has a similar arrangement with Houston Housing Finance Corporation (HHFC). As of December 31, 2017, HHFC held mortgages sold by Habitat with full recourse to Habitat at par value totaling \$2,476,689. Neither the mortgage loans receivable sold nor the contingent liability for these loans is reflected in the statement of financial position.

Commitments and contingencies include the usual obligations of homebuilding companies for the completion of contracts and other obligations incurred in the ordinary course of business.

NOTE 9 – GOVERNMENT GRANTS AND CONTRACTS

In 2013, Habitat received \$999,999 from the City of Houston (the City) to acquire vacant residential lots and to build new affordable homes on the sites. The City received this funding from the federal government under the Neighborhood Stabilization Program (the NSP) of the Housing and Economic Recovery Act of 2008. Habitat acquired and sold 11 eligible properties to homebuyers in 2013. The City signed partial releases of deeds of trust for the 11 properties. The properties closed under this program have land use restrictive covenants, which require that the properties continue to be the principal residence of an owner whose family qualifies as a low-income qualified family (as determined by U. S. Department of Housing and Urban Development regulations) for a period of five years. This restriction was not released by the partial releases of deeds of trust signed by the City. In the event that the properties are not used for the intended purpose or there is a breach of other restrictive covenants by the homebuyer, then Habitat would take ownership of the property and the homebuyer would have to repay any amounts forgiven under the note agreement between the homebuyer and Habitat. In the event Habitat is unable to maintain a qualified low-income family in one of the 11 homes for the period of five years, the portion of the funds used to construct the home would be payable to the City.

In 2010, Habitat received funds from the City from the NSP and utilized these funds to acquire seventeen properties in 2010 and 2011. These properties were sold to homebuyers in 2011 and 2012. The properties have restrictive covenants, which require the properties continue to be the principal residence of an owner whose family qualifies as a low-income qualified family for a period of 20 consecutive years. In the event the properties are not used for their intended purpose or there is a breach of other restrictive covenants, approximately \$1,387,000 of grant funds would be payable immediately to the City.

In 2008, Habitat entered into a developer participation agreement with the City to develop water, sanitary sewer and storm sewer for a tract of land located within the municipal boundaries of the City. Under this agreement, Habitat is to receive reimbursement of certain costs of the project in an amount not to exceed \$792,837. In 2016, Habitat recognized \$66,000 from the City under this agreement.

NOTE 10 – ENDOWMENT FUNDS

The Endowment is primarily a board-designated fund established to support and further enhance the mission of Houston Habitat. Changes in the board-designated and permanently restricted endowment fund are as follows:

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
Endowment net assets, December 31, 2015	\$ 5,048,455	\$ 0	\$ 0	\$ 5,048,455
Contribution			1,108	1,108
Investment return:				
Net realized and unrealized gain	281,364			281,364
Interest and dividends	95,835			95,835
Investment expenses	<u>(21,009)</u>			<u>(21,009)</u>
Net investment return	<u>356,190</u>			<u>356,190</u>
Distributions	<u>(100,000)</u>			<u>(100,000)</u>
Endowment net assets, December 31, 2016	<u>5,304,645</u>	<u>0</u>	<u>1,108</u>	<u>5,305,753</u>
Investment return:				
Net realized and unrealized gain	685,260			685,260
Interest and dividends	103,422			103,422
Investment expenses	<u>(22,800)</u>			<u>(22,800)</u>
Net investment return	<u>765,882</u>			<u>765,882</u>
Distributions	<u>(200,000)</u>			<u>(200,000)</u>
Endowment net assets, December 31, 2017	<u>\$ 5,870,527</u>	<u>\$ 0</u>	<u>\$ 1,108</u>	<u>\$ 5,871,635</u>

Investment Objectives

The Endowment has adopted an investment policy to provide growth of the principal and income from the endowment assets without exposure to undue risk. Over a 12-month moving time period, investments are expected to exceed the composite performance of the S&P MidCap 400/BARR Growth Index and fixed-income investments are expected to exceed the Barclays Intermediate Government/Corporate Bond Index.

Spending Policy

The Endowment policy is that interest and dividends, as well as the realized and unrealized appreciation, be available for distribution unless otherwise prohibited. In keeping with this policy, it is anticipated that in each year a minimum distribution of 8% of the market value, as determined on December 31 of each

year, will be distributed for operations. From time to time, additional distributions may be required for special projects. Distributions are not made if the market value of the endowment assets falls below \$5,000,000.

NOTE 11 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Hurricane Harvey relief	\$ 6,894,415	
Home construction	156,011	\$ 978,988
Vehicle purchases	84,853	25,000
Restricted for future periods	75,375	
Home repairs		197,300
Other	<u>23,000</u>	<u>72,796</u>
Total temporarily restricted net assets	<u>\$ 7,233,654</u>	<u>\$ 1,274,084</u>

NOTE 12 – CONCENTRATIONS

In 2017, contributions from three donors totaled \$6,794,000 or 56% of total contributions. In 2016, contributions from three donors totaled \$805,000 or 25% of total contributions.

NOTE 13 – INVOLUNTARY CONVERSION

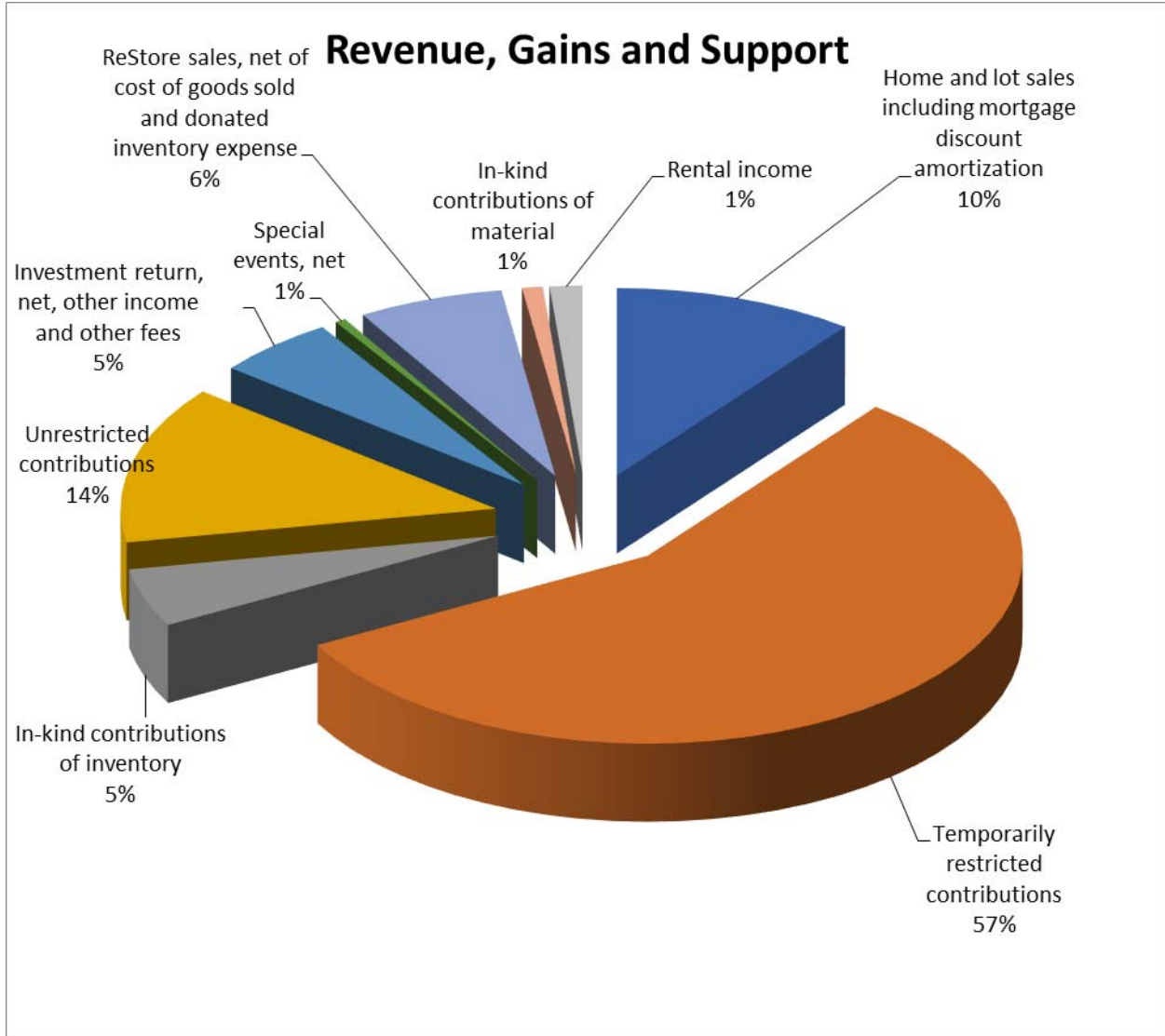
In August 2017, Houston Habitat incurred damage to 17 homes under construction and equipment due to Hurricane Harvey. A summary of expenses incurred through December 31, 2017 related to the damage is as follows:

Loss on impaired home construction in progress	\$ (402,724)
Loss on impaired equipment	<u>(69,796)</u>
Net results of involuntary conversion	<u>\$ (472,520)</u>

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 27, 2018, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

Houston Habitat for Humanity, Inc.
Graphical Information
For the year ended December 31, 2017



Houston Habitat for Humanity, Inc.
Graphical Information
For the year ended December 31, 2017

