Houston Habitat for Humanity, Inc.

Consolidated Financial Statements
with Supplementary Information
and Independent Auditors' Report
for the years ended December 31, 2018 and 2017

Houston Habitat for Humanity, Inc.

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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, 2018 and 2017 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, 2018 and 2017 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.

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Adoption of New Accounting Standard

As discussed in Note 2 to the financial statements, Habitat adopted the amendments of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended December 31, 2018. These amendments have been applied on a retrospective basis to the financial statements as of and for the year ended December 31, 2017, except that certain information has been omitted as permitted by the ASU. Our opinion is not modified with respect to this matter.

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, 2018 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.

Blazek & Vetterling

October 18, 2019

Houston Habitat for Humanity, Inc.

Consolidated Statements of Financial Position as of December 31, 2018 and 2017

	2018	2017
ASSETS		
Current assets:		
Cash	$ 15,527,140	$ 13,897,897
Cash held in escrow for taxes and insurance	514,770	1,394,959
Contributions receivable	158,674	118,816
Current portion of mortgage loans receivable, net *(Note 5)*	1,609,079	1,633,597
ReStore inventory	603,399	270,560
Investments *(Note 4)*	39,889	46,310
Other assets	310,671	329,993
Total current assets	18,763,622	17,692,132
Long-term assets:		
Homes available for sale	1,813,270	1,625,597
Home construction in progress	4,453,820	3,486,423
Lots and land held for development	3,386,099	2,799,216
Long-term portion of mortgage loans receivable, net *(Note 5)*	10,918,740	11,264,384
Property, plant and equipment, net *(Note 6)*	1,348,995	912,672
Investments designated for endowment	5,544,420	5,871,635
TOTAL ASSETS	$ 46,228,966	$ 43,652,059
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 512,167	$ 518,998
Escrow for taxes and insurance	514,770	1,394,959
Note payable *(Note 7)*	21,081	196,081
Total current liabilities	1,048,018	2,110,038
Commitments and contingencies *(Note 8)*		
Net assets *(Note 12)*:		
Without donor restrictions *(Note 10)*	36,190,302	34,307,259
With donor restrictions *(Note 11)*	8,990,646	7,234,762
Total net assets	45,180,948	41,542,021
TOTAL LIABILITIES AND NET ASSETS	$ 46,228,966	$ 43,652,059

See accompanying notes to consolidated financial statements.

Houston Habitat for Humanity, Inc.

Consolidated Statement of Activities for the year ended December 31, 2018

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE, GAINS AND SUPPORT:			
Low-cost housing income:			
Home sales	$ 1,461,100		$ 1,461,100
Mortgage discount amortization and interest	1,269,435		1,269,435
Home repair fees	870,598		870,598
Rental income	227,957		227,957
In-kind contributions of materials	65,381		65,381
Other fees	85,060		85,060
Total low-cost housing income	3,979,531		3,979,531
Contributions and other:			
Contributions *(Note 13)*	2,086,400	$ 8,324,299	10,410,699
In-kind contributions of inventory	1,031,451		1,031,451
Special events	60,071		60,071
Cost of direct donor benefits	(27,281)		(27,281)
Net investment return	(325,026)		(325,026)
Other income	12,707		12,707
Subtotal contributions and other	2,838,322	8,324,299	11,162,621
Satisfaction of donor restrictions:			
Expenditures for property, plant and equipment	443,528	(443,528)	
Expenditures for program restrictions	6,124,887	(6,124,887)	
Total contributions and other	9,406,737	1,755,884	11,162,621
ReStore revenues:			
ReStore sales of inventory	3,593,193		3,593,193
ReStore cost of goods sold	(2,556,933)		(2,556,933)
Total ReStore revenues, net	1,036,260		1,036,260
Total revenue, gains and support	14,422,528	1,755,884	16,178,412
EXPENSES:			
Low-cost housing program	9,638,728		9,638,728
ReStore program	1,356,448		1,356,448
Management and general	800,511		800,511
Fundraising	743,798		743,798
Total expenses	12,539,485		12,539,485
CHANGES IN NET ASSETS	1,883,043	1,755,884	3,638,927
Net assets, beginning of year	34,307,259	7,234,762	41,542,021
Net assets, end of year	$ 36,190,302	$ 8,990,646	$ 45,180,948

See accompanying notes to consolidated financial statements.

Houston Habitat for Humanity, Inc.

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

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
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	82,505		82,505
Total low-cost housing income	2,240,648		2,240,648
Contributions and other:			
Contributions *(Note 13)*	2,311,112	$ 9,627,194	11,938,306
In-kind contributions of inventory	850,490		850,490
Special events	121,597		121,597
Cost of direct donor benefits	(43,281)		(43,281)
Net investment return	775,026		775,026
Other income	30,647		30,647
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	3,487,477	(3,487,477)	
Total contributions and other	7,713,215	5,959,570	13,672,785
ReStore revenues:			
ReStore sales of inventory	3,458,778		3,458,778
ReStore cost of goods sold	(2,391,984)		(2,391,984)
Total ReStore revenues, net	1,066,794		1,066,794
Total revenue, gains and support	11,020,657	5,959,570	16,980,227
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	821,349		821,349
Total expenses	7,835,366		7,835,366
CHANGES IN NET ASSETS BEFORE INVOLUNTARY CONVERSION	3,185,291	5,959,570	9,144,861
Loss on involuntary conversion *(Note 14)*	(472,520)		(472,520)
CHANGES IN NET ASSETS	2,712,771	5,959,570	8,672,341
Net assets, beginning of year *(Note 2)*	31,594,488	1,275,192	32,869,680
Net assets, end of year	$ 34,307,259	$ 7,234,762	$ 41,542,021

See accompanying notes to consolidated financial statements.

Houston Habitat for Humanity, Inc.

Consolidated Statement of Functional Expenses for the year ended December 31, 2018

EXPENSES	LOW-COST HOUSING PROGRAM	RESTORE PROGRAM	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Disaster construction repairs	$ 4,965,272				$ 4,965,272
Salaries and related benefits	1,907,264	$ 668,845	$ 528,016	$ 568,832	3,672,957
Cost of homes sold	1,542,515				1,542,515
Property taxes and insurance	336,199	79,791	23,024	27,328	466,342
Repairs and maintenance	197,325	34,802	1,631	1,863	235,621
Legal and professional fees	86,367	1,152	138,668	8,381	234,568
Depreciation	102,192	103,578	7,279	9,304	222,353
Utilities, telephone and trash	91,804	72,925	12,170	5,794	182,693
Travel and auto	83,074	83,992	2,866	4,139	174,071
Rent		141,740			141,740
Computer and technology	35,940	35,071	28,553	32,397	131,961
Equipment	64,249	59,177	2,759	3,152	129,337
Tithes to other non-profits	115,863				115,863
Credit card fees		39,902	137	10,430	50,469
Supplies	24,039	11,520	8,005	5,110	48,674
Security	37,215	1,646	3,599	385	42,845
Meals	11,614	1,015	16,936	5,392	34,957
Advertising and marketing	166	442	10,431	20,211	31,250
Postage, delivery and printing	12,424	3,485	5,704	8,256	29,869
Professional development	9,491	3,723	2,972	4,209	20,395
Interest	3,557				3,557
Other	12,158	13,642	7,761	28,615	62,176
Total expenses	$ 9,638,728	$ 1,356,448	$ 800,511	$ 743,798	12,539,485
Percent of total expenses	77%	11%	6%	6%	
Restore cost of goods sold					2,556,933
Cost of direct donor benefits					27,281
Total					$15,123,699

See accompanying notes to consolidated financial statements.

Houston Habitat for Humanity, Inc.

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

EXPENSES	LOW-COST HOUSING PROGRAM	RESTORE PROGRAM	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Disaster construction repairs	$ 1,833,878				$ 1,833,878
Salaries and related benefits	1,840,142	$ 557,730	$ 124,200	$ 633,621	3,155,693
Cost of homes sold	901,586				901,586
Property taxes and insurance	271,417	55,372	20,024	26,697	373,510
Repairs and maintenance	162,519	15,974	5,718	1,893	186,104
Legal and professional fees	51,701	17,470	53,670		122,841
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
Travel and auto	42,634	24,925	1,698	3,052	72,309
Computer and technology	41,622	26,085	10,829	30,932	109,468
Equipment	45,985	29,630	17,087	5,669	98,371
Tithes to other non-profits	125,500				125,500
Credit card fees		34,858	90	13,613	48,561
Supplies	19,186	6,383	11,028	10,722	47,319
Security	22,436	2,249	3,467	1,870	30,022
Meals	9,917	2,144	2,298	13,589	27,948
Advertising and marketing		3,000	5,000	35,913	43,913
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
Home repair program	259,759				259,759
Discount on mortgages issued	1,152				1,152
Other	17,246	9,174	12,838	2,743	42,001
Total expenses	$ 5,794,330	$ 928,727	$ 290,960	$ 821,349	7,835,366
Percent of total expenses	74%	12%	4%	10%	
ReStore cost of goods sold					2,391,984
Cost of direct donor benefits					43,281
Total					$10,270,631

See accompanying notes to consolidated financial statements.

Houston Habitat for Humanity, Inc.

Consolidated Statements of Cash Flows for years ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 3,638,927	$ 8,672,341
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contributions restricted for property, plant and equipment	(382,833)	(220,000)
Depreciation	222,353	163,881
Mortgage discount amortization	(1,236,334)	(954,401)
Net realized and unrealized (gain) loss on investments	430,933	(689,612)
Loss on involuntary conversion		472,520
Discount on mortgages issued		1,152
Changes in operating assets and liabilities:		
Contributions receivable	(39,858)	27,296
Mortgage loans receivable	1,606,496	1,739,177
ReStore inventory	(332,839)	(87,289)
Other assets	19,322	(72,874)
Homes available for sale	(187,673)	192,112
Home construction in progress	(967,397)	(1,450,017)
Lots and land held for development	(586,883)	(43,398)
Accounts payable and accrued expenses	(6,831)	177,301
Escrow for taxes and insurance	(880,189)	879,235
Net cash provided by operating activities	1,297,194	8,807,424
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(658,676)	(228,730)
Purchases of investments	(935,870)	(881,539)
Net proceeds from sale or maturity of investments	865,912	1,001,882
Net change in money market mutual fund held as investments	(27,339)	(1,666)
Net cash used by investing activities	(755,973)	(110,053)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for property, plant and equipment	382,833	220,000
Payments on note payable	(175,000)	(35,000)
Net cash provided by financing activities	207,833	185,000
NET CHANGE IN CASH	749,054	8,882,371
Cash, beginning of year	15,292,856	6,410,485
Cash, end of year *(Note 4)*	$16,041,910	$15,292,856

Supplemental disclosure of cash flow information:

Interest paid	$3,557	$6,164

See accompanying notes to consolidated financial statements.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Houston Habitat for Humanity, Inc. (Houston Habitat) is a non-profit corporation founded in 1987 whose mission is seeking to put God's love into action. Houston Habitat brings people together to build homes, communities, and hope. Their vision is a world where everyone has a decent place to live. Their 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 competitive interest rate 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 pay an affordable mortgage, and willingness to partner. Long-term mortgage financing is a key component, which makes Houston Habitat homes affordable. Homes sold to approved, qualified buyers are financed by Houston Habitat for terms ranging from 10 to 30 years. Monthly mortgage payments collected by Houston Habitat are used to further the mission of Houston Habitat.

In addition, Houston Habitat repairs homes damaged by Hurricane Harvey for low-income homeowners through our Disaster Home Repair Program. Houston Habitat helps by providing the repairs necessary to make homes safe, sanitary and secure, including mold testing and remediation. Houston Habitat helps preserve Houston's dwindling stock of affordable housing. They also help existing homeowners remain in their homes and rebuild their lives. The Disaster Home Repair Program is accomplished through partnerships with various agencies, corporations, foundations, and individuals.

Additionally, Houston Habitat operates two retail home improvement stores that are open to the public called Habitat for Humanity ReStore. The ReStores accept donations from individuals, corporations and retail stores in the area and purchases 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 low to moderate-income families within Harris County. The board of Family Housing is composed primarily 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 – Bank deposits exceed the federally insured limit per depositor per institution. Cash collected from homeowners for payment of their property taxes, homeowner's association dues, and homeowner's insurance are held in a fiduciary capacity by Habitat and are included in cash with a corresponding liability is reported in the statement of financial position.

Contributions 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 contributions receivable are expected to be collected in 2019.

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 collaterizing 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 initially recorded at cost and donated goods are recorded at fair value at the time of donation. Inventory at December 31, 2018 is recorded at the lower of cost or net realizable value.

Investments are reported at fair value. Net investment return consists of interest and dividends, realized and unrealized gains and losses, net of external and direct internal investment expenses.

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 – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. 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. Donor-restricted endowment earnings are released when those earnings are appropriated in accordance with spending policies and are used for the stipulated purpose.

Home sales – Homes are sold to qualified buyers at the appraised value or fair market value of the home. Affordable interest rate mortgages are 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, 2018 and 2017, 11 and 4 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 at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit 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 provided approximately 19,000 hours in fiscal year 2018 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.

ReStore sales are reported as revenue at the point of sale.

Advertising costs 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 purposes for which the organization exists. 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 activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Depreciation of building and improvements, information technology costs and occupancy costs not identified for a specific program or activity are allocated based on number of employees.

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.

Recent financial accounting pronouncements – In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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. Houston Habitat is required to apply the amendments in its fiscal year 2020 financial statements. Management anticipates that adoption may impact the classification of certain transactions and require additional disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. An entity may make an accounting policy election not to recognize lease assets and lease liabilities for leases with a term of 12 months or less. Recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly. Qualitative and quantitative disclosures are required by lessees and lessors to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. Houston Habitat is required to adopt this ASU for fiscal year 2020. Management has not yet determined the impact adoption of this ASU will have on the financial statements.

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The ASU supersedes the revenue recognition requirements for most exchange transactions not specifically covered by other guidance. It does not apply to 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 revenue is recognized. Houston Habitat is required to apply the amendment in its fiscal year 2019 financial statements. Management expects the impact to be primarily additional disclosures.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS UPDATE 2016-14

Houston Habitat adopted the amendments of ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities,* as of and for the year ended December 31, 2018. These amendments have been applied on a retrospective basis to the financial statements for the year ended December 31, 2017, except that information regarding liquidity and availability of resources has been omitted as permitted by the ASU. Adoption of this ASU resulted in reclassification of previously reported activities and net assets to conform to the 2018 presentation but had no impact on total net assets or total changes in net assets for 2017.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of December 31, 2018 comprise the following:

Financial assets at December 31, 2018:	
Cash	$ 16,041,910
Contributions receivable	158,674
Mortgage loans receivable, net	12,527,819
Investments	5,584,309
Total financial assets	34,312,712
Less:	
Endowment investments	(5,544,420)
Cash held in escrow for taxes and insurance	(514,770)
Donor-restricted net assets	(8,989,538)
Mortgage loans receivable due in more than one year	(10,918,740)
Add:	
Purpose-restricted net assets expected to be satisfied in the coming year	4,366,137
Time-restricted net assets expected to be satisfied in the coming year	70,000
Total financial assets available for general expenditure	$ 12,781,381

For purposes of analyzing resources available to meet general expenditures over a 12-month period, Houston Habitat considers all expenditures related to its ongoing activities of providing assistance in the building and redevelopment of low-income housing, as well as the conduct of services undertaken to support those activities, to be general expenditures.

As part of Houston Habitat's liquidity management, it structures its financial assets to be available as its general expenditures and liabilities become due by maintaining a significant portion of its assets in cash.

NOTE 4 – INVESTMENTS AND 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, 2018 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Investments:				
Equity mutual funds:				
Large-cap blend	$ 691,625			$ 691,625
International	664,245			664,245
Large-cap value	560,234			560,234
Large-cap growth	520,652			520,652
Mid-cap blend	459,794			459,794
Small-cap	262,269			262,269
Emerging markets	200,670			200,670
Intermediate-term bond mutual funds	2,033,690			2,033,690
Money market mutual fund	191,130			191,130
Total assets measured at fair value	$ 5,584,309	$ 0	$ 0	$ 5,584,309

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

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
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	163,791			163,791
Total assets measured at fair value	$ 5,917,945	$ 0	$ 0	$ 5,917,945

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.

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.

NOTE 5 – MORTGAGE LOANS RECEIVABLE

Mortgage loans receivable consists of the following:

	2018	2017
Mortgage loans receivable, at par value	$ 19,132,026	$ 20,738,522
Less: Unamortized discount based on imputed interest, at rates ranging from 4.50% to 8.64%	(6,604,207)	(7,840,541)
Mortgage loans receivable, net	12,527,819	12,897,981
Less: Current portion due within one year	(1,609,079)	(1,633,597)
Long-term portion of mortgage loans receivable, net	$ 10,918,740	$ 11,264,384

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, 2018 were approximately $151,000.

The annual collection of mortgage loans receivable at December 31, 2018 is as follows:

2019	$ 1,609,079
2020	1,598,440
2021	1,597,657
2022	1,594,635
2023	1,570,812
Thereafter	11,161,403
Total	$ 19,132,026

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	2018	2017
Land	$ 189,030	$ 189,030
Building and improvements	2,401,348	2,148,691
Construction equipment and vehicles	813,301	437,208
Furniture and office equipment	184,074	154,148
Total property, plant and equipment, at cost	3,587,753	2,929,077
Accumulated depreciation	(2,238,758)	(2,016,405)
Property, plant and equipment, net	$ 1,348,995	$ 912,672

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, 2018 and 2017, this rate was 2.91% and 3.28% per annum, respectively. The agreement is collaterized by deeds of trust and beneficial interest in certain mortgage loans receivable. The outstanding balance at December 31, 2018 was $21,081 and the par value of the mortgage loans securing this debt as of that date was $2,149,400. 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 note was paid in full in January 2019.

NOTE 8 – COMMITMENTS AND CONTINGENICES

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, 2018, NTB held mortgages sold by Habitat at par value, totaling $2,333,880. Habitat has a similar arrangement with Houston Housing Finance Corporation (HHFC). As of December 31, 2018, HHFC held mortgages sold by Habitat with full recourse to Habitat at par value totaling $2,197,332. 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 GRANT

In 2010, Habitat received funds 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 of the Housing and Economic Recovery Act of 2008. Habitat acquired seventeen properties in 2010 and 2011 and 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 (as determined by U. S. Department of Housing and Urban Development regulations) 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.

NOTE 10 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are comprised of the following:

	2018	2017
Undesignated	$ 29,297,995	$ 27,524,060
Board-designated for endowment	5,543,312	5,870,527
Property, plant and equipment, net	1,348,995	912,672
Total net assets without donor restrictions	$ 36,190,302	$ 34,307,259

The Board of Directors (the Board) of Habitat does not have a specific policy in regards to establishing board-designated endowments or reserves. However, the Board may designate excess cash flows for reserves or endowments as deemed prudent.

NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	2018	2017
Subject to expenditure for specified purpose:		
Hurricane Harvey relief	$ 8,587,986	$ 6,894,415
Home construction	148,723	156,011
Utilities	63,171	
Down payment assistance	50,000	15,000
Property, plant and equipment purchases	34,158	84,853
Other	35,500	8,000
Total subject to expenditure for specified purpose	8,919,538	7,158,279
Subject to passage of time:		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditures until due	70,000	75,375
Endowments:		
Subject to spending policy and appropriation:		
General endowment to support operations	1,108	1,108
Total net assets with donor restrictions	$ 8,990,646	$ 7,234,762

NOTE 12 – 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:

	BOARD-DESIGNATED ENDOWMENT	REQUIRED TO BE MAINTAINED IN PERPETUITY	TOTAL
Endowment net assets, December 31, 2016	$ 5,304,645	$ 1,108	$ 5,305,753
Net investment return	765,882		765,882
Distributions	(200,000)		(200,000)
Endowment net assets, December 31, 2017	5,870,527	1,108	5,871,635
Net investment return	(327,215)		(327,215)
Endowment net assets, December 31, 2018	$ 5,543,312	$ 1,108	$ 5,544,420

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 13 – CONCENTRATIONS

In 2018, a contribution from one donor totaled approximately $5,868,000 or 56% of total contributions. In 2017, contributions from three donors totaled approximately $6,794,000 or 56% of total contributions.

NOTE 14 – INVOLUNTARY CONVERSION

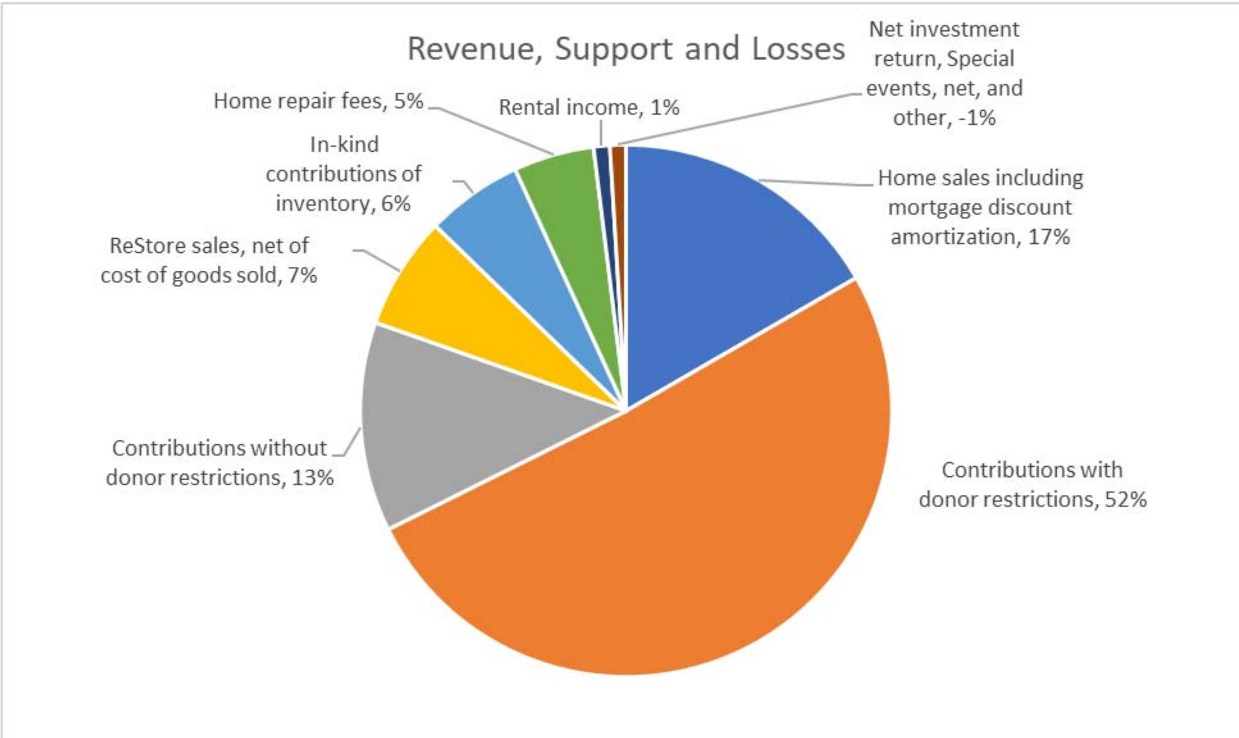
In August 2017, Houston Habitat incurred damage to 17 homes under construction and equipment due to Hurricane Harvey. A summary of expenses incurred through December 31, 2017 related to the damage is as follows:

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

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 18, 2019, which is the date that the financial statements were available for issuance. As a result of this evaluation, other than the note payable being paid off in January 2019 (Note 8), 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, 2018



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