Houston Habitat for Humanity, Inc.

Consolidated Financial Statements
with Supplementary Information
and Independent Auditors' Report
for the years ended December 31, 2021 and 2020

Houston Habitat for Humanity, Inc.

Table of Contents

Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Houston Habitat for Humanity, Inc. (Habitat), which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, 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 consolidated financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of Habitat as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Habitat and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 Habitat's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' 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 generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, 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 Habitat'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 Habitat'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.

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, 2021 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 our audits 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

July 5, 2022

Houston Habitat for Humanity, Inc.

Consolidated Statements of Financial Position as of December 31, 2021 and 2020

	2021	2020
ASSETS		
Current assets:		
Cash and cash equivalents *(Notes 3 and 8)*	$ 17,278,926	$ 16,131,988
Cash held in escrow for taxes and insurance *(Note 3)*	134,111	442,117
Contributions receivable	1,717,574	422,554
Current portion of mortgage loans receivable, net *(Note 6)*	1,323,949	1,443,740
ReStore inventory	291,994	287,105
Investments *(Note 4)*	1,181,137	46,294
Other assets	319,854	272,231
Total current assets	22,247,545	19,046,029
Long-term assets:		
Homes available for sale		590,352
Home construction in progress	3,539,677	2,996,776
Lots and land held for development	4,607,214	3,580,139
Investment in Leverage Lender *(Note 5)*	1,121,491	
Long-term portion of mortgage loans receivable, net *(Note 6)*	8,565,388	9,721,218
Property, plant and equipment, net *(Note 7)*	809,317	1,044,742
Investments designated for endowment *(Note 4)*	8,077,471	7,283,374
TOTAL ASSETS	$ 48,968,103	$ 44,262,630
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 42,491	$ 81,899
Accrued expenses	291,726	264,479
Tithe payable to Habitat for Humanity International	161,186	116,000
Escrow for taxes and insurance	134,111	442,117
Refundable advance *(Note 2)*		707,258
Total current liabilities	629,514	1,611,753
Long-term liability:		
New Market Tax Credits notes payable, net *(Note 8)*	1,339,757	
Commitments and contingencies *(Notes 9 and 10)*		
Net assets *(Note 13)*:		
Without donor restrictions *(Note 11)*	42,908,125	40,198,963
With donor restrictions *(Note 12)*	4,090,707	2,451,914
Total net assets	46,998,832	42,650,877
TOTAL LIABILITIES AND NET ASSETS	$ 48,968,103	$ 44,262,630

See accompanying notes to consolidated financial statements.

Houston Habitat for Humanity, Inc.

Consolidated Statement of Activities for the year ended December 31, 2021

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE, GAINS AND SUPPORT:			
Low-cost housing income:			
Home sales	$ 2,890,053		$ 2,890,053
Mortgage discount amortization and interest	834,741		834,741
Rental income	1,851		1,851
Other fees	43,009		43,009
Total low-cost housing income	3,769,654		3,769,654
Contributions and other:			
Contributions *(Notes 2 and 14)*	1,785,902	$ 7,513,745	9,299,647
In-kind contributions of inventory	1,604,792		1,604,792
Special events	188,313		188,313
Cost of direct donor benefits	(57,400)		(57,400)
Net investment return	888,938		888,938
Other income	664		664
Subtotal contributions and other	4,411,209	7,513,745	11,924,954
Satisfaction of donor restrictions:			
Expenditures for property, plant and equipment	6,500	(6,500)	
Expenditures for program restrictions	5,868,452	(5,868,452)	
Total contributions and other	10,286,161	1,638,793	11,924,954
ReStore revenues:			
ReStore sales of inventory	2,967,909		2,967,909
ReStore cost of goods sold	(2,321,503)		(2,321,503)
Total ReStore revenues, net	646,406		646,406
Total revenue, gains and support	14,702,221	1,638,793	16,341,014
EXPENSES:			
Low-cost housing program	8,419,217		8,419,217
ReStore program	1,551,200		1,551,200
Management and general	1,284,983		1,284,983
Fundraising	737,659		737,659
Total expenses	11,993,059		11,993,059
CHANGES IN NET ASSETS	2,709,162	1,638,793	4,347,955
Net assets, beginning of year	40,198,963	2,451,914	42,650,877
Net assets, end of year	$ 42,908,125	$ 4,090,707	$ 46,998,832

See accompanying notes to consolidated financial statements.

Houston Habitat for Humanity, Inc.

Consolidated Statement of Activities for the year ended December 31, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE, GAINS AND SUPPORT:			
Low-cost housing income:			
Home sales	$ 5,060,674		$ 5,060,674
Mortgage discount amortization and interest	882,614		882,614
Rental income	145,860		145,860
Other fees	68,755		68,755
Total low-cost housing income	6,157,903		6,157,903
Contributions and other:			
Contributions *(Note 14)*	1,657,543	$ 1,427,032	3,084,575
In-kind contributions of inventory	1,006,848		1,006,848
Special events	107,076		107,076
Cost of direct donor benefits	(23,937)		(23,937)
Net investment return	1,033,936		1,033,936
Other income	60,208		60,208
Subtotal contributions and other	3,841,674	1,427,032	5,268,706
Satisfaction of donor restrictions:			
Expenditures for property, plant and equipment	25,000	(25,000)	
Expenditures for program restrictions	4,960,847	(4,960,847)	
Total contributions and other	8,827,521	(3,558,815)	5,268,706
ReStore revenues:			
ReStore sales of inventory	2,350,939		2,350,939
ReStore cost of goods sold	(1,801,205)		(1,801,205)
Total ReStore revenues, net	549,734		549,734
Total revenue, gains and support	15,535,158	(3,558,815)	11,976,343
EXPENSES:			
Low-cost housing program	10,251,001		10,251,001
ReStore program	1,375,789		1,375,789
Management and general	1,112,866		1,112,866
Fundraising	713,810		713,810
Total expenses	13,453,466		13,453,466
CHANGES IN NET ASSETS	2,081,692	(3,558,815)	(1,477,123)
Net assets, beginning of year	38,117,271	6,010,729	44,128,000
Net assets, end of year	$ 40,198,963	$ 2,451,914	$ 42,650,877

See accompanying notes to consolidated financial statements.

Houston Habitat for Humanity, Inc.

Consolidated Statement of Functional Expenses for the year ended December 31, 2021

EXPENSES	LOW-COST HOUSING PROGRAM	RESTORE PROGRAM	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Cost of homes sold – land, materials and contractor fees	$ 1,884,020				$ 1,884,020
Salaries and related benefits	1,975,514	$ 819,927	$ 917,714	$ 375,424	4,088,579
Disaster home repair materials and contractor fees	3,512,755				3,512,755
Legal and professional fees	33,295	178	153,393	155,253	342,119
Property taxes and insurance	225,014	59,458	28,031	11,230	323,733
Depreciation and amortization	133,040	96,201	19,531	3,903	252,675
Rent		209,058			209,058
Tithes to other non-profits	186,186				186,186
Computer and technology	58,610	31,943	53,158	40,918	184,629
Utilities, telephone and trash	65,501	74,188	11,670	5,997	157,356
Travel and auto	44,967	63,780	250	183	109,180
Advertising and marketing	1,969	2,536	122	95,394	100,021
Equipment	43,963	49,763	3,203	1,423	98,352
Repairs and maintenance	44,984	45,848	2,198	977	94,007
Credit card fees	50	73,645	7,658	8,282	89,635
Supplies	54,355	12,444	10,632	5,555	82,986
Temporary disaster housing assistance	77,390				77,390
Professional development	20,494	2,167	18,887	1,877	43,425
Dues and subscriptions	1,696	4,094	18,287	1,982	26,059
Security	15,242	2,656	4,985	2,216	25,099
Postage, delivery and printing	4,196	1,433	3,995	5,174	14,798
Meals	4,195	1,581	3,099	1,762	10,637
Other	31,781	300	28,170	20,109	80,360
Total expenses	$ 8,419,217	$ 1,551,200	$ 1,284,983	$ 737,659	11,993,059
Percent of total expenses	70%	13%	11%	6%	
ReStore cost of goods sold					2,321,503
Cost of direct donor benefits					57,400
Total					$14,371,962

See accompanying notes to consolidated financial statements.

Houston Habitat for Humanity, Inc.

Consolidated Statement of Functional Expenses for the year ended December 31, 2020

EXPENSES	LOW-COST HOUSING PROGRAM	RESTORE PROGRAM	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Cost of homes sold – land, materials and contractor fees	$ 3,911,252				$ 3,911,252
Salaries and related benefits	1,733,639	$ 740,962	$ 758,173	$ 494,202	3,726,976
Disaster home repair materials and contractor fees	2,880,987				2,880,987
Legal and professional fees	45,073	178	191,119	54,604	290,974
Property taxes and insurance	317,194	64,938	27,240	19,618	428,990
Depreciation	143,302	106,092	5,598	4,118	259,110
Rent		209,058			209,058
Tithes to other non-profits	141,850				141,850
Computer and technology	41,858	13,376	36,359	43,732	135,325
Utilities, telephone and trash	68,348	60,292	7,792	7,372	143,804
Travel and auto	44,289	47,616	1,661	737	94,303
Advertising and marketing				27,291	27,291
Equipment	57,105	36,654	2,849	2,216	98,824
Repairs and maintenance	72,287	25,295	5,337	4,151	107,070
Credit card fees		38,660	13,705		52,365
Supplies	111,663	15,592	33,948	26,997	188,200
Temporary disaster housing assistance	649,316				649,316
Professional development	4,851	753	5,745	165	11,514
Dues and subscriptions	1,667	2,421	17,031	1,971	23,090
Security	12,150	1,554	1,324	1,029	16,057
Postage, delivery and printing	6,186	684	3,177	3,835	13,882
Meals	2,594	2,357	1,808	434	7,193
Other	5,390	9,307		21,338	36,035
Total expenses	$10,251,001	$ 1,375,789	$ 1,112,866	$ 713,810	13,453,466
Percent of total expenses	76%	11%	8%	5%	
ReStore cost of goods sold					1,801,205
Cost of direct donor benefits					23,937
Total					$15,278,608

See accompanying notes to consolidated financial statements.

Houston Habitat for Humanity, Inc.

Consolidated Statements of Cash Flows for years ended December 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 4,347,955	$(1,477,123)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contributions restricted for property, plant and equipment	(20,000)	(25,000)
Depreciation	241,925	259,110
Amortization of debt issuance costs	10,750	
Mortgage discount amortization	(760,207)	(798,117)
Net realized and unrealized gain on investments	(800,456)	(879,972)
Contributed investments	(1,057,356)	
Changes in operating assets and liabilities:		
Contributions receivable	(1,295,020)	(30,813)
Mortgage loans receivable	2,035,828	1,687,662
ReStore inventory	(4,889)	80,963
Other assets	(47,623)	(48,731)
Homes available for sale	590,352	1,328,028
Home construction in progress	(542,901)	522,084
Lots and land held for development	(1,027,075)	95,883
Accounts payable and accrued expenses	(12,161)	(149,514)
Tithe payable to Habitat for Humanity International	45,186	59,000
Escrow for taxes and insurance	(308,006)	(147,968)
Refundable advance	(707,258)	707,258
Net cash provided by operating activities	689,044	1,182,750
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(6,500)	(37,186)
Purchases of investments	(1,227,843)	(1,804,202)
Net proceeds from sale or maturity of investments	1,199,752	2,023,174
Net change in money market mutual fund held as investments	(43,037)	(793)
Investment in Leverage Lender capital contributions	(1,121,491)	
Net cash provided (used) by investing activities	(1,199,119)	180,993
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for property, plant and equipment	20,000	25,000
Proceeds from New Market Tax Credit notes payable	1,509,488	
Payment of debt issuance costs	(180,481)	
Net cash provided by financing activities	1,349,007	25,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	838,932	1,388,743
Cash and cash equivalents, beginning of year	16,574,105	15,185,362
Cash and cash equivalents, end of year *(Note 3)*	$17,413,037	$16,574,105

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. 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 and Winter Storm Uri for low-income homeowners through its 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. It also helps 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 and one online store 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 directors of Family Housing is composed primarily of employees of Houston Habitat and one member of the community having a low to moderate income or a member that resides in a low to moderate income census tract to meet the CHDO requirements.

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.

Robins Landing, LLC (Robins Landing) was formed in 2019 as a Texas Limited Liability company to develop, construct and operate affordable housing. The sole member of Robins Landing is Houston Habitat. A $43 million campaign was launched in 2021 to fund the development and infrastructure of Robins Landing project, a 127-acre mixed-use master-planned community of affordable and energy-efficient single-family homes and multifamily units for those with low and moderate income.

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

<u>Federal income tax status</u> – Houston Habitat, Family Housing and the Endowment are exempt from federal income taxes 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).

<u>Cash and cash equivalents</u> – 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 reported in the statement of financial position. Cash equivalents include highly liquid investments with original maturities of three months or less.

<u>Contributions receivable</u> that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in future years are discounted to estimate the present value of future cash flows, if material. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contributions revenue. An allowance for uncollectible receivables is provided when it is believed balances may not be collected in full. The adequacy of the allowance at the end of each period is determined using a combination of historical loss experience and donor-by-donor analysis of balances. All contributions receivable are expected to be collected in 2022.

<u>Mortgage loans receivable</u> 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, 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.

<u>The ReStore inventory</u> 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, 2021 and 2020 is recorded at the lower of cost or net realizable value.

<u>Investments</u> in marketable securities are reported at fair value. The investment in Leverage Lender is reported at the lower of cost or fair value. Net investment return consists of interest and dividends, realized and unrealized gains and losses, net of external and direct internal investment expenses.

<u>Homes available for sale and lots and land held for development</u> are stated at lower of cost or fair value less costs to sell. Homes available for sale include homes acquired through loan repossession or foreclosure and are initially recorded at fair value less estimated costs to sell at the date acquired. Land

held for development includes all costs of purchasing and developing land, including labor, materials and property taxes during the period the land is being developed. Lots held for development include developed lots that are build ready. Once construction commences on a developed lot, the cost of the lot is transferred to home construction in progress.

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. Property purchases greater than $5,000 are capitalized. 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.

Debt issuance costs represent costs related to the issuance of the NMTC and are amortized over the term of the debt. Accumulated debt issuance costs are $10,750 at December 31, 2021. Unamortized debt issuance costs are reported as a direct reduction of the related debt.

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.

Revenue recognition from sales is derived primarily from ReStore sales of inventory and home sales. Revenue is recognized when the services are provided, in an amount that reflects the consideration that Houston Habitat expects to be entitled to in exchange for those services. All revenue from contracts with customers is recognized at a point-in-time.

ReStore sales are from customers in Harris and surrounding counties and revenue is recognized and payment is due at the point of sale. The nature of these sales does not give rise to contract costs or any variable considerations or warranties. Refunds for returned merchandise are only in the form of store credit, which must be utilized within 60 days. A liability for store credits of $12,787 and $14,321 was recognized at December 31, 2021 and 2020, respectively.

Home sales are from qualified low-income individuals and families in the Greater Houston area. Homes are sold at the appraised value or fair market value of the home either for cash or through financing provided by Houston Habitat. Affordable interest rate mortgages are provided to qualified persons. 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. Houston Habitat recognizes revenue from home sales when a home closing occurs and title is transferred to the home buyer. Standard builder warranties are provided for one year on the home, except for the foundation, which is warrantied for 10 years. The nature of these sales does not give rise to any other contract's costs or any variable considerations. During the years ended December 31, 2021 and 2020, 18 and 37 homes were sold by Houston Habitat, respectively.

Rental income on homes available for sale is recognized monthly. Rental payments received in advance are deferred until earned and reported as prepaid rent. Leases are generally one year in length and automatically renew and convert to month-to-month if a 60-day notice is not given to vacate.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as *with donor restrictions*. Conditional contributions are subject to one or more barriers that must be overcome before the organization is entitled to receive or retain funding. Conditional contributions are recognized as revenue at fair value when the conditions have been 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 12,000 hours in fiscal year 2021 and 6,000 hours in fiscal year 2020 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.

Special events revenue is the total amount paid by sponsors and attendees of an event and includes elements of both contributions and exchange transactions. Special events revenue is recognized when the event occurs. Costs of direct donor benefits represent the cost of goods and services provided to attendees of special events.

Advertising costs are expensed as incurred.

Functional allocation of expenses – Expenses are reported by their functional classification. 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 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 February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (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. The ASU is effective for fiscal periods beginning after December 15, 2021. Houston Habitat plans to adopt this ASU for fiscal year ending December 31, 2022. Upon adoption, management expects to recognize lease commitments as both a right of use asset and a lease liability in the statement of financial position for commitments that are currently only disclosed in the financial statements.

ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets,* will require contributed nonfinancial assets to be presented as a separate line item in the statement of activities, apart from contributions of cash and other financial assets and will require disclosure about the measurement and use of types of contributed nonfinancial assets. The ASU will be effective for years ending after June 15, 2021, and requires retrospective application. Houston Habitat will adopt this ASU in fiscal year 2022.

NOTE 2 – 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 comprise the following:

	2021	2020
Financial assets:		
Cash and cash equivalents	$ 17,413,037	$ 16,574,105
Contributions receivable	1,717,574	422,554
Mortgage loans receivable, net	9,889,337	11,164,958
Investments	9,258,608	7,329,668
Total financial assets	38,278,556	35,491,285
Less:		
Endowment investments, net of subsequent fiscal year appropriation	(7,744,138)	(7,283,374)
Cash held in escrow for taxes and insurance	(134,111)	(442,117)
Donor-restricted net assets, net of amounts expected to be satisfied in subsequent fiscal year	(2,686,823)	(1,261,661)
Mortgage loans receivable due in more than one year	(8,565,388)	(9,721,218)
Total financial assets available for general expenditure	$ 19,148,096	$ 16,782,915

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.

In March 2020, the Director-General of the World Health Organization declared a pandemic related to the global outbreak of the new coronavirus COVID-19 and a national emergency was declared in the United States. As a result of stay-at-home orders and other restrictions, Houston Habitat temporarily closed its main office and both ReStore locations to the public in 2020 in order to protect its staff, homeowners, and customers from the potential spread of COVID-19. Houston Habitat offered a forbearance plan to qualified homeowners who wished to apply for this program. Home building and disaster repair programs were minimized to protect staff, volunteers, sponsors, and homeowners during 2020. As of June 1, 2020, both ReStores were re-opened and in fiscal year 2021 disaster repairs and construction of homes was not interrupted by COVID-19.

To enhance its liquidity, Houston Habitat received a loan of $707,258 in April 2020, funded under the Small Business Administration's Paycheck Protection Program (PPP). In March 2021, Houston Habitat received a $595,000 Second Draw PPP loan. The original PPP loan and the Second Draw PPP loan were forgiven in fiscal year 2021 as Houston Habitat met the eligibility requirements and used the loan to fund qualified payroll and other eligible costs. The amounts forgiven were recognized as contribution revenue in 2021.

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	2021	2020
Demand deposits	$ 17,413,037	$ 9,515,469
Money market mutual fund		7,058,636
Total cash and cash equivalents	17,413,037	16,574,105
Less: Cash held in escrow for taxes and insurance	(134,111)	(442,117)
Cash and cash equivalents	$ 17,278,926	$ 16,131,988

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

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, 2021 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Investments:				
Equity mutual funds:				
Large-cap growth	$ 1,123,960			$ 1,123,960
Large-cap blend	1,116,938			1,116,938
Large-cap value	839,511			839,511
Mid-cap blend	786,392			786,392
International	677,478			677,478
Small-cap	555,216			555,216
Emerging markets	241,922			241,922
Intermediate-term bond mutual funds	2,948,645			2,948,645
Common stocks	719,174			719,174
Money market mutual fund	249,372			249,372
Total assets measured at fair value	$ 9,258,608	$ 0	$ 0	$ 9,258,608

Assets measured at fair value at December 31, 2020 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Investments:				
Equity mutual funds:				
Large-cap growth	$ 709,618			$ 709,618
Large-cap blend	918,127			918,127
Large-cap value	743,480			743,480
Mid-cap blend	610,383			610,383
International	891,814			891,814
Small-cap	366,818			366,818
Emerging markets	222,028			222,028
Intermediate-term bond mutual funds	2,661,065			2,661,065
Money market mutual fund	206,335			206,335
Total investments	7,329,668			7,329,668
Money market mutual fund	7,058,636			7,058,636
Total assets measured at fair value	$ 14,388,304	$ 0	$ 0	$ 14,388,304

Valuation methods used for assets measured at fair value are as follows:

- *Mutual funds* are valued at the reported net asset value of shares held.
- *Common stock*s are valued at the closing price reported on the active market on which the individual securities are traded.

These valuation methods 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 methods are 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 – INVESTMENT IN LEVERAGE LENDER

On March 30, 2021, Houston Habitat made a capital contribution in the amount of $1,121,491 to HFHI NMTC Leverage Lender 2021, LLC (Leverage Lender), which represents an 18.09% interest in the Leverage Lender. The Leverage Lender was formed to enter into financing arrangements in connection with New Market Tax Credits under Section 45D of the Internal Revenue Code of 1986 (the Code). Investment return in fiscal year 2021 was $8,444.

NOTE 6 – MORTGAGE LOANS RECEIVABLE

Mortgage loans receivable consists of the following:

	2021	2020
Mortgage loans receivable, at par value	$ 13,817,455	$ 15,853,283
Less: Unamortized discount based on imputed interest, at rates ranging from 3.50% to 8.64%	(3,928,118)	(4,688,325)
Mortgage loans receivable, net	9,889,337	11,164,958
Less: Current portion due within one year	(1,323,949)	(1,443,740)
Long-term portion of mortgage loans receivable, net	$ 8,565,388	$ 9,721,218

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, 2021 were approximately $184,921.

The annual collection of mortgage loans receivable at December 31, 2021 is as follows:

2022	$ 1,323,949
2023	1,337,852
2024	1,305,343
2025	1,289,845
2026	1,196,041
Thereafter	7,364,425
Total	$ 13,817,455

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	2021	2020
Land	$ 189,030	$ 189,030
Building and improvements	2,612,049	2,612,049
Construction equipment and vehicles	823,625	817,125
Furniture and office equipment	184,074	184,074
Total property, plant and equipment, at cost	3,808,778	3,802,278
Accumulated depreciation	(2,999,461)	(2,757,536)
Property, plant and equipment, net	$ 809,317	$ 1,044,742

NOTE 8 – NEW MARKET TAX CREDITS NOTES PAYABLE

Houston Habitat executed a loan agreement on March 31, 2021 that provides for borrowings of $1,358,539 and $150,949 from HFHI NMTC Sub-CDE IV, LLC (CDE IV) and HFHI NMTC Sub-CDE V, LLC (CDE V), respectively. The loans are to finance the acquisition, construction, rehabilitation and sale of residences to low-income persons and the making and holding of mortgage loans to the purchasers of the residences and are intended to be treated as a "qualified low-income community investment" for purposes of generating New Market Tax Credits under Section 45D of the Internal Revenue Code of 1986, as amended. The loans are secured by certain bank accounts, security agreements and a guaranty by Houston Habitat.

Pursuant to the issuance of the New Market Tax Credits Financing Commitment, Houston Habitat is required to maintain certain funds at Allegiance Bank until such time as they are disbursed for the project's approved expenses. At December 31, 2021, $307,516 is held at Allegiance Bank for this purpose.

The CDE IV loan accrues interest at 0.738% and the CDE V loan accrues interest at 0.790%. Interest is due semi-annually beginning in May 2021 through November 2028; thereafter, principal and interest payments are due semi-annually beginning in May 2029 in an amount sufficient to fully amortize the remaining principal balance over 23 years. The unpaid balance is due in its entirety at the maturity date of March 23, 2051. Houston Habitat is not permitted to prepay any portion of the loans until the seventh anniversary of the loan. The balances outstanding on the notes payable and repayment terms are as follows:

	AMOUNT
Note payable to HFHI NMTC Sub-CDE IV, LLC	$ 1,358,539
Note payable to HFHI NMTC Sub-CDE V, LLC	150,949
Total New Market Tax Credits notes payable	1,509,488
Less unamortized debt issuance costs	(169,731)
New Market Tax Credits notes payable, net	$ 1,339,757

Interest expense of $8,444 was recognized in 2021.

Within 15 days after the end of the seventh anniversary of the transaction, U. S. Bancorp Community Development Corporation (USBCDC) and USB NMTC Fund 2020-6, LLC (USB NMTC) can exercise its put option to sell their investments in Twain Investment Fund 544, LLC (Fund 544) and USBCDC Investment Fund 369 (Fund 369), respectively, to the Leverage Lender for $1,000. In the event that USBCDC or USB NMTC do not exercise their put option, the Leverage Lender can exercise its call option within the 12-month period after the put option period ends to purchase the interest in Fund 544 and Fund 369 at fair market value. After exercising its option to purchase the interest in USBCDC and USB NMTC, Houston Habitat may cancel the New Market Tax Credits notes payable.

NOTE 9 – COMMITMENTS AND CONTINGENICES

Habitat has sold certain of its mortgage loans receivable to Northern Trust Bank (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, 2021, NTB held mortgages sold by Habitat at par value, totaling $1,607,656. Habitat has a similar arrangement with Houston Housing Finance Corporation (HHFC) and NexBank SSB (NexBank). As of December 31, 2021, HHFC and NexBank held mortgages sold by Habitat with full recourse to Habitat at par value totaling $1,310,244 and $1,898,027, respectively. Neither the mortgage loans receivable sold nor the contingent liability for these loans are reflected in the statement of financial position.

In May 2018, Houston Habitat entered into a lease for a ReStore location. Rent expense for the years ended December 31, 2021 and 2020 was $209,058 each year. Future minimum lease payments due at December 31, 2021 under the lease are as follows:

2022	$ 209,058
2023	217,122
2024	222,882
2025	222,882
2026	222,882
Thereafter through 2028	315,750
Total	$ 1,410,576

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 10 – 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 11 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are comprised of the following:

	2021	2020
Undesignated	$ 34,022,445	$ 31,871,955
Board-designated for endowment	8,076,363	7,282,266
Property, plant and equipment, net	809,317	1,044,742
Total net assets without donor restrictions	$ 42,908,125	$ 40,198,963

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

NOTE 12 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	2021	2020
Subject to expenditure for specified purpose:		
Robins Landing development	$ 1,627,011	
Home construction	1,347,037	$ 291,890
Hurricane Harvey relief	783,662	1,788,716
Down payment assistance	67,500	62,500
Winter Storm Uri repairs	48,289	
Other	48,500	5,000
Total subject to expenditure for specified purpose	3,921,999	2,148,106
Subject to passage of time:		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditures until due	167,600	302,700
Endowments:		
Subject to spending policy and appropriation:		
General endowment to support operations	1,108	1,108
Total net assets with donor restrictions	$ 4,090,707	$ 2,451,914

NOTE 13 – 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 donor-restricted endowment funds are as follows:

	BOARD-DESIGNATED ENDOWMENT	REQUIRED TO BE MAINTAINED IN PERPETUITY	TOTAL
Endowment net assets, December 31, 2019	$ 6,621,160	$ 1,108	$ 6,622,268
Distribution	(300,000)		(300,000)
Net investment return	961,106		961,106
Endowment net assets, December 31, 2020	7,282,266	1,108	7,283,374
Net investment return	794,097		794,097
Endowment net assets, December 31, 2021	$ 8,076,363	$ 1,108	$ 8,077,471

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's 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 14 – CONCENTRATIONS

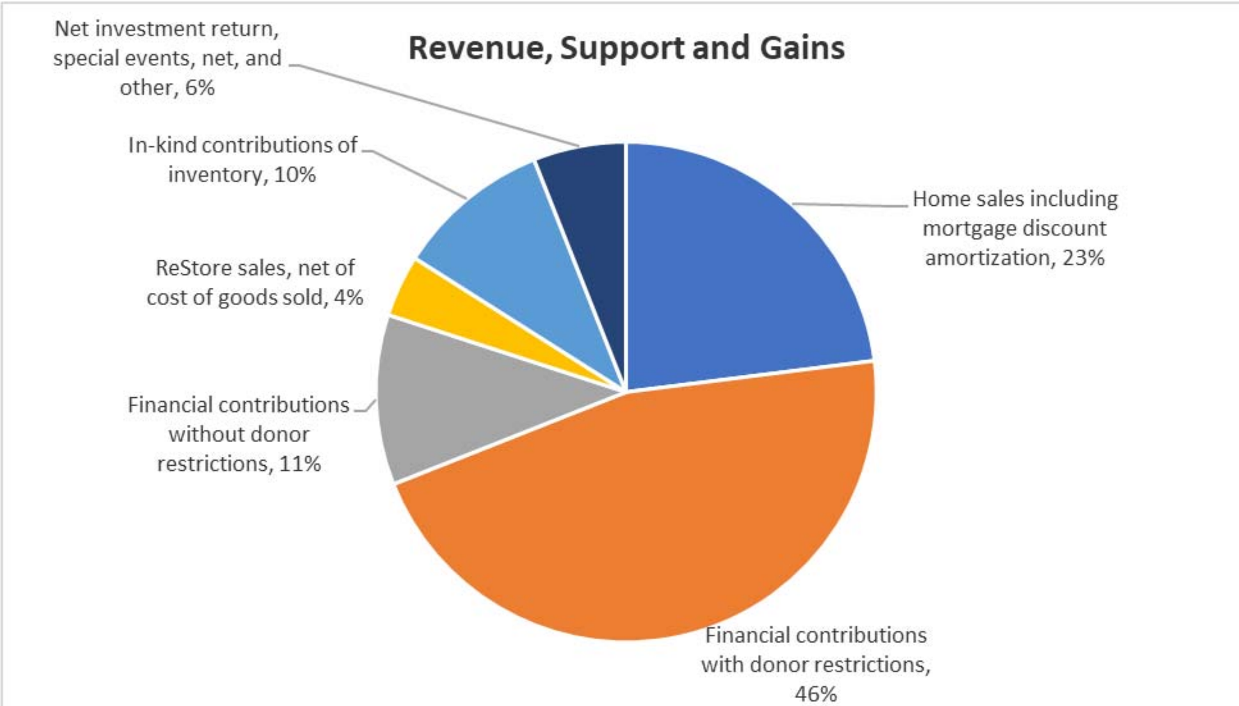
In 2021, contributions from four donors totaled approximately $4,198,000 or 45% of total financial contributions. In 2020, contributions from two donors totaled approximately $900,000 or 29% of total financial contributions.

NOTE 15 – SUBSEQUENT EVENTS

In March 2022, Houston Habitat received an $11 million unrestricted gift from one donor.

Management has evaluated subsequent events through July 5, 2022, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other 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, 2021



Houston Habitat for Humanity, Inc.
Graphical Information
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