# Houston Habitat for Humanity, Inc.

Consolidated Financial Statements
with Supplementary Information
and Independent Auditors' Report
for the years ended December 31, 2023 and 2022

**Houston Habitat for Humanity, Inc.**

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# 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, 2023 and 2022, 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, 2023 and 2022, 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, 2023 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 24, 2024

## Houston Habitat for Humanity, Inc.

Consolidated Statements of Financial Position as of December 31, 2023 and 2022

| | 2023 | 2022 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents *(Notes 3, 5 and 12)* | $ 14,877,882 | $ 24,096,560 |
| Accounts receivable | 357,148 | 71,742 |
| Contributions receivable *(Note 4)* | 1,001,626 | 1,380,655 |
| ReStore inventory | 119,724 | 461,218 |
| Investments *(Note 5)* | 6,298,505 | 85,113 |
| Prepaids and other assets | 869,363 | 140,665 |
| Homes available for sale | 815,811 | 1,365,414 |
| Home construction in progress | 2,821,913 | 2,304,696 |
| Lots and land held for development | 11,864,963 | 10,543,783 |
| Investment in Leverage Lender *(Note 6)* | 1,115,892 | 1,115,892 |
| Mortgage loans receivable, net *(Note 7)* | 10,685,283 | 9,779,540 |
| Lease right-of-use assets, net *(Note 8)*: | | |
| Operating | 699,480 | 846,574 |
| Finance | 105,911 | 12,731 |
| Property, plant and equipment, net *(Note 9)* | 619,402 | 730,795 |
| Investments designated for endowment *(Note 5)* | 7,390,145 | 6,812,590 |
| TOTAL ASSETS | $ 59,643,048 | $ 59,747,968 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | $ 557,588 | $ 425,544 |
| Tithe payable to Habitat for Humanity International | 257,000 | 1,216,000 |
| Construction payable | 667,672 | 467,482 |
| Lease liabilities *(Note 8)*: | | |
| Operating | 724,880 | 875,160 |
| Finance | 106,414 | 13,017 |
| Note payable, net *(Note 10)* | 870,124 | 1,543,102 |
| Deferred payment loan *(Note 11)* | 2,688,561 | |
| New Market Tax Credits notes payable, net *(Note 12)* | 1,361,255 | 1,354,089 |
| Total liabilities | 7,233,494 | 5,894,394 |
| Commitments and contingencies *(Notes 13 and 14)* | | |
| Net assets *(Note 17)*: | | |
| Without donor restrictions *(Note 15)* | 50,557,729 | 49,683,630 |
| With donor restrictions *(Note 16)* | 1,851,825 | 4,169,944 |
| Total net assets | 52,409,554 | 53,853,574 |
| TOTAL LIABILITIES AND NET ASSETS | $ 59,643,048 | $ 59,747,968 |

*See accompanying notes to consolidated financial statements.*

## Houston Habitat for Humanity, Inc.

Consolidated Statement of Activities for the year ended December 31, 2023

| | WITHOUT DONOR RESTRICTIONS | WITH DONOR RESTRICTIONS | TOTAL |
|---|---|---|---|
| REVENUE, GAINS AND SUPPORT: | | | |
| Low-cost housing income: | | | |
| Home and lot sales | $ 6,618,655 | | $ 6,618,655 |
| Mortgage discount amortization and interest | 663,079 | | 663,079 |
| Other fees | 345,918 | | 345,918 |
| Total low-cost housing income | 7,627,652 | | 7,627,652 |
| Contributions and other: | | | |
| Financial assets | 2,819,158 | $ 1,552,073 | 4,371,231 |
| Nonfinancial assets *(Note 18)* | 1,894,852 | | 1,894,852 |
| Special events | 142,953 | | 142,953 |
| Cost of direct donor benefits | (87,962) | | (87,962) |
| Net investment return | 1,865,512 | | 1,865,512 |
| Other income | 59,587 | | 59,587 |
| Subtotal contributions and other | 6,694,100 | 1,552,073 | 8,246,173 |
| Satisfaction of donor restrictions: | | | |
| Expenditures for program restrictions | 3,300,443 | (3,300,443) | |
| Expiration of time restrictions | 549,749 | (549,749) | |
| Expenditures for property, plant and equipment | 20,000 | (20,000) | |
| Total contributions and other | 10,564,292 | (2,318,119) | 8,246,173 |
| ReStore revenues: | | | |
| ReStore sales of inventory | 2,602,060 | | 2,602,060 |
| ReStore cost of goods sold | (2,466,737) | | (2,466,737) |
| Total ReStore revenues, net | 135,323 | | 135,323 |
| Total revenue, gains and support | 18,327,267 | (2,318,119) | 16,009,148 |
| EXPENSES: | | | |
| Low-cost housing program | 12,700,550 | | 12,700,550 |
| ReStore program | 1,746,984 | | 1,746,984 |
| Management and general | 1,896,020 | | 1,896,020 |
| Fundraising | 1,109,614 | | 1,109,614 |
| Total expenses | 17,453,168 | | 17,453,168 |
| CHANGES IN NET ASSETS | 874,099 | (2,318,119) | (1,444,020) |
| Net assets, beginning of year | 49,683,630 | 4,169,944 | 53,853,574 |
| Net assets, end of year | $ 50,557,729 | $ 1,851,825 | $ 52,409,554 |

*See accompanying notes to consolidated financial statements.*

# Houston Habitat for Humanity, Inc.

Consolidated Statement of Activities for the year ended December 31, 2022

| | WITHOUT DONOR RESTRICTIONS | WITH DONOR RESTRICTIONS | TOTAL |
|---|---|---|---|
| REVENUE, GAINS AND SUPPORT: | | | |
| Low-cost housing income: | | | |
| Home sales | $ 3,882,500 | | $ 3,882,500 |
| Mortgage discount amortization and interest | 665,256 | | 665,256 |
| Other fees | 122,834 | | 122,834 |
| Total low-cost housing income | 4,670,590 | | 4,670,590 |
| Contributions and other: | | | |
| Financial assets *(Note 4)* | 12,954,218 | $ 2,020,586 | 14,974,804 |
| Nonfinancial assets *(Note 18)* | 1,441,167 | | 1,441,167 |
| Special events | 109,391 | | 109,391 |
| Cost of direct donor benefits | (57,721) | | (57,721) |
| Net investment return | (1,367,988) | | (1,367,988) |
| Other income | 9,595 | | 9,595 |
| Subtotal contributions and other | 13,088,662 | 2,020,586 | 15,109,248 |
| Satisfaction of donor restrictions: | | | |
| Expenditures for program restrictions | 1,832,199 | (1,832,199) | |
| Expiration of time restrictions | 95,650 | (95,650) | |
| Expenditures for property, plant and equipment | 13,500 | (13,500) | |
| Total contributions and other | 15,030,011 | 79,237 | 15,109,248 |
| ReStore revenues: | | | |
| ReStore sales of inventory | 2,743,990 | | 2,743,990 |
| ReStore cost of goods sold | (2,174,595) | | (2,174,595) |
| Total ReStore revenues, net | 569,395 | | 569,395 |
| Total revenue, gains and support | 20,269,996 | 79,237 | 20,349,233 |
| EXPENSES: | | | |
| Low-cost housing program | 9,363,071 | | 9,363,071 |
| ReStore program | 1,685,332 | | 1,685,332 |
| Management and general | 1,740,435 | | 1,740,435 |
| Fundraising | 671,937 | | 671,937 |
| Total expenses | 13,460,775 | | 13,460,775 |
| CHANGES IN NET ASSETS | 6,809,221 | 79,237 | 6,888,458 |
| Net assets, beginning of year | 42,908,125 | 4,090,707 | 46,998,832 |
| Cumulative effect of adoption of lease standard | (33,716) | | (33,716) |
| Net assets, end of year | $ 49,683,630 | $ 4,169,944 | $ 53,853,574 |

*See accompanying notes to consolidated financial statements.*

## Houston Habitat for Humanity, Inc.

Consolidated Statement of Functional Expenses for the year ended December 31, 2023

| EXPENSES | LOW-COST HOUSING PROGRAM | RESTORE PROGRAM | MANAGEMENT AND GENERAL | FUNDRAISING | TOTAL |
|---|---|---|---|---|---|
| Cost of homes and lots sold – land, materials and contractor fees | $ 7,335,991 | | | | $ 7,335,991 |
| Salaries and related benefits | 1,965,358 | $ 977,568 | $ 1,419,454 | $ 596,390 | 4,958,770 |
| Discount on mortgages issued | 1,768,893 | | | | 1,768,893 |
| Computer and technology | 218,330 | 15,949 | 57,405 | 142,908 | 434,592 |
| Legal and professional fees | 106,337 | 1,813 | 213,154 | 52,458 | 373,762 |
| Property taxes and insurance | 210,509 | 39,398 | 19,379 | 15,375 | 284,661 |
| Tithes to other non-profits | 257,000 | | | | 257,000 |
| Utilities, telephone and trash | 94,446 | 104,406 | 14,193 | 9,692 | 222,737 |
| Depreciation and amortization | 66,016 | 106,469 | 22,741 | 8,459 | 203,685 |
| Rent | | 197,196 | | | 197,196 |
| Advertising and marketing | 1,079 | 3,335 | | 184,234 | 188,648 |
| Repairs and maintenance | 94,330 | 75,610 | 2,153 | 1,075 | 173,168 |
| Disaster home repair materials and contractor fees | 156,309 | | | | 156,309 |
| Equipment | 95,357 | 46,342 | 621 | 110 | 142,430 |
| Travel and auto | 34,969 | 63,809 | 5,173 | 2,831 | 106,782 |
| Supplies | 71,497 | 24,217 | 1,919 | 5,519 | 103,152 |
| Security | 63,549 | 21,371 | 1,412 | 1,074 | 87,406 |
| Postage and printing | 8,102 | 2,906 | 3,338 | 61,763 | 76,109 |
| Mortgage servicing | 72,303 | | | | 72,303 |
| Credit card fees | | 49,556 | 17,245 | | 66,801 |
| Meals | 5,689 | 10,070 | 28,083 | 6,758 | 50,600 |
| Interest and financing costs | 237 | 2,328 | 47,768 | | 50,333 |
| Professional development | 8,029 | 2,499 | 12,420 | 4,770 | 27,718 |
| Other | 66,220 | 2,142 | 29,562 | 16,198 | 114,122 |
| Total expenses | $ 12,700,550 | $ 1,746,984 | $ 1,896,020 | $ 1,109,614 | 17,453,168 |
| Percent of total expenses | 73% | 10% | 11% | 6% | |
| Cost of direct donor benefits | | | | | 87,962 |
| ReStore cost of goods sold | | | | | 2,466,737 |
| Total | | | | | $ 20,007,867 |

*See accompanying notes to consolidated financial statements.*

## Houston Habitat for Humanity, Inc.

Consolidated Statement of Functional Expenses for the year ended December 31, 2022

| EXPENSES | LOW-COST HOUSING PROGRAM | RESTORE PROGRAM | MANAGEMENT AND GENERAL | FUNDRAISING | TOTAL |
|---|---|---|---|---|---|
| Cost of homes sold – land, materials and contractor fees | $ 2,924,161 | | | | $ 2,924,161 |
| Salaries and related benefits | 2,055,396 | $ 902,175 | $ 1,292,674 | $ 279,173 | 4,529,418 |
| Discount on mortgages issued | 793,326 | | | | 793,326 |
| Computer and technology | 101,954 | 19,171 | 19,015 | 68,537 | 208,677 |
| Legal and professional fees | 61,049 | 183 | 246,714 | 68,955 | 376,901 |
| Property taxes and insurance | 229,881 | 94,841 | 34,404 | 18,652 | 377,778 |
| Tithes to other non-profits | 1,228,500 | | | | 1,228,500 |
| Utilities, telephone and trash | 66,704 | 80,478 | 6,782 | 4,422 | 158,386 |
| Depreciation and amortization | 142,639 | 85,124 | 18,061 | 1,150 | 246,974 |
| Rent | | 220,781 | | | 220,781 |
| Advertising and marketing | 5,971 | | 3,014 | 185,202 | 194,187 |
| Repairs and maintenance | 117,733 | 56,940 | 2,592 | 1,347 | 178,612 |
| Disaster home repair materials and contractor fees | 1,173,327 | | | | 1,173,327 |
| Equipment | 70,724 | 24,504 | | 1,185 | 96,413 |
| Travel and auto | 53,383 | 79,733 | 1,147 | | 134,263 |
| Supplies | 87,339 | 18,993 | 2,010 | 2,051 | 110,393 |
| Security | 14,437 | 12,376 | 1,114 | 619 | 28,546 |
| Postage and printing | 2,613 | 958 | 3,922 | 5,408 | 12,901 |
| Mortgage servicing | 74,160 | | | | 74,160 |
| Credit card fees | | 76,762 | 10,791 | | 87,553 |
| Meals | 711 | 822 | 19,249 | 1,044 | 21,826 |
| Interest and financing costs | | | 52,529 | | 52,529 |
| Professional development | 25,861 | 6,901 | 12,187 | 4,966 | 49,915 |
| Temporary disaster housing assistance | 49,391 | | | | 49,391 |
| Other | 83,811 | 4,590 | 14,230 | 29,226 | 131,857 |
| Total expenses | $ 9,363,071 | $ 1,685,332 | $ 1,740,435 | $ 671,937 | 13,460,775 |
| Percent of total expenses | 70% | 12% | 13% | 5% | |
| Cost of direct donor benefits | | | | | 57,721 |
| ReStore cost of goods sold | | | | | 2,174,595 |
| Total | | | | | $ 15,693,091 |

*See accompanying notes to consolidated financial statements.*

## Houston Habitat for Humanity, Inc.

Consolidated Statements of Cash Flows for years ended December 31, 2023 and 2022

| | 2023 | 2022 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Changes in net assets | $ (1,444,020) | $ 6,888,458 |
| Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities: | | |
| Contributions restricted for property, plant and equipment | (20,000) | |
| Depreciation | 171,329 | 228,980 |
| Amortization of lease right-of-use assets | 179,450 | 158,805 |
| Amortization of debt issuance costs | 35,480 | 40,292 |
| Mortgage discount amortization | (596,366) | (599,231) |
| Discount on mortgages issued | 1,768,893 | 793,326 |
| Net realized and unrealized (gain) loss on investments | (828,164) | 1,609,732 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (285,406) | (71,742) |
| Contributions receivable | 379,029 | 336,919 |
| ReStore inventory | 341,494 | (169,224) |
| Prepaids and other assets | (728,698) | 166,517 |
| Homes available for sale | 549,603 | (1,365,414) |
| Home construction in progress | (517,217) | 1,234,981 |
| Lots and land held for development | (1,321,180) | (5,936,569) |
| Mortgage loans receivable | (2,078,270) | (84,298) |
| Accounts payable and accrued expenses | 132,044 | 91,327 |
| Tithe payable to Habitat for Humanity International | (959,000) | 1,054,814 |
| Construction payable | 200,190 | 467,482 |
| Escrow for taxes and insurance | | (134,111) |
| Operating lease liabilities | (150,280) | (133,269) |
| Net cash provided (used) by operating activities | (5,171,089) | 4,577,775 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property, plant and equipment | (59,936) | (150,458) |
| Purchases of investments | (1,275,536) | (2,372,284) |
| Net proceeds from sale or maturity of investments | 1,605,781 | 3,086,120 |
| Net change in money market mutual fund held as investments | (6,293,028) | 42,936 |
| Net cash provided (used) by investing activities | (6,022,719) | 606,314 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from note payable and deferred payment loan | 2,688,561 | 1,658,741 |
| Principal payments on note payable | (701,292) | |
| Principal payments on finance leases payable | (32,139) | (17,708) |
| Proceeds from contributions restricted for property, plant and equipment | 20,000 | |
| Payment of debt issuance costs | | (141,599) |
| Net cash provided by financing activities | 1,975,130 | 1,499,434 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (9,218,678) | 6,683,523 |
| Cash and cash equivalents, beginning of year | 24,096,560 | 17,413,037 |
| Cash and cash equivalents, end of year | $ 14,877,882 | $ 24,096,560 |

*Supplemental disclosure of cash flow information:*

| | | |
|---|---|---|
| Finance lease right-of-use assets financed by new lease liabilities | $125,536 | |
| Interest paid | $14,853 | $12,237 |

*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. Houston Habitat's vision is a world where everyone has a decent place to live. Its purpose is to encourage, promote and assist in the building and redevelopment of low-income housing in Houston, Texas. Houston Habitat is an affiliate of Habitat for Humanity International (HFHI) located in Americus, Georgia.

Houston Habitat's purpose is accomplished through a privately operated and financed program to sell housing to low-income persons at fair market value, utilizing zero-interest equivalent mortgage loans. Houston Habitat builds homes in the Houston metropolitan area utilizing volunteer labor, donated materials and contributed funds; the homes are sold to pre-qualified, low-income persons. Homebuyers are selected based on need, ability to 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 helps preserve affordable homeownership by repairing disaster damaged homes 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 collectively called Habitat for Humanity ReStore (ReStore). The ReStore accepts donations from individuals, corporations and retail stores in the area and purchase 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.

Basis of consolidation – 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.

Federal income tax status – 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). Robins Landing files a consolidated tax return with Houston Habitat.

Cash and cash equivalents – 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.

Accounts receivable represents amounts due from exchange transactions and are based on amounts that reflect the consideration to which Houston Habitat expects to be entitled to in exchange for goods and services already provided. Management estimates expected credit losses based on historical collection experience adjusted for management's expectations about current and future economic conditions. Receivables are written off as a charge to the allowance for expected credit losses when management determines a receivable will not be collected. Houston Habitat believes that all accounts receivable at December 31, 2023 and 2022 will be fully collected; accordingly, no allowance has been provided. Accounts receivable were \$357,148, \$71,742, and \$0, at December 31, 2023, 2022 and 2021, respectively.

Contributions receivable 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 contribution 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.

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, 2023 and 2022 is recorded at the lower of cost or net realizable value.

Investments 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.

Homes available for sale and lots and land held for development are stated at lower of cost or fair value less costs to sell. Homes available for sale include homes constructed by Habitat that are completed and ready for sale and 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.

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.

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.

Management estimates expected credit losses based on historical collection experience adjusted for management's expectations about current and future economic conditions. Mortgage loan receivables are written off as a charge to the allowance for expected credit losses when management determines a mortgage loan receivable will not be collected. Management has evaluated their mortgage portfolio and has not recorded an allowance for credit losses as of December 31, 2023 and 2022.

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.

Leases – right-of-use assets are recognized at the present value of the lease payments at the inception of the lease adjusted, as appropriate, for certain other payments and allowances related to obtaining the lease and placing the asset in service. Finance lease right-of-use assets are amortized on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term. Operating lease right-of-use assets are amortized so that lease costs remain constant over the lease term. Habitat uses its incremental borrowing rate as the discount rate when the rate implicit in a lease is not readily determinable.

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 notes payable and are amortized over the term of the debt. 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 goods or services are provided in an amount that reflects the consideration that Habitat expects to be entitled to in exchange for those goods or 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 $8,068 and $27,064 was recognized at December 31, 2023 and 2022, 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 Habitat. Zero-interest equivalent mortgages are provided to qualified persons as payment for the homes sold. Mortgage receivables 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 Habitat or other agencies to reduce their loan amount. Houston Habitat provided down payment assistance of $281,250 and $56,000 during the year ended December 31, 2023 and 2022, respectively. 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, 2023 and 2022, 26 and 22 homes were sold by Habitat, respectively.

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. Funding received before conditions are satisfied is reported as refundable advances.

Contributed nonfinancial assets are recognized at 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.

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. Cost 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.

Adoption of new accounting standard – Financial Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, (CECL) is effective for not-for-profit organizations for fiscal years beginning after December 15, 2022. CECL requires immediate recognition of estimated expected credit losses over the entire life of a financial asset. CECL requires consideration not only of historical data but also current economic conditions, and future events when estimating credit losses. Disclosures about the credit quality of receivables and loans and the methods and assumptions used to estimate credit losses are required. CECL applies to trade receivables, loans receivable, programmatic investments, contract assets, and certain other financial instruments but excludes contributions receivable, loans and accounts receivable between related parties under common control, and financial assets measured at fair value. Houston Habitat adopted the standard as of January 1, 2023 and there was no impact on the financial statements.

## 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:

| | 2023 | 2022 |
|---|---|---|
| Financial assets: | | |
| Cash and cash equivalents | $ 14,877,882 | $ 24,096,560 |
| Accounts receivable | 357,148 | 71,742 |
| Contributions receivable | 1,001,626 | 1,380,655 |
| Other receivables | 620,661 | |
| Mortgage loans receivable, net | 10,685,283 | 9,779,540 |
| Investments | 13,688,650 | 6,897,703 |
| Total financial assets | 41,231,250 | 42,226,200 |
| Less: | | |
| Endowment investments, net of subsequent fiscal year appropriation | (7,056,812) | (6,479,257) |
| Donor-restricted net assets, net of amounts expected to be satisfied in subsequent fiscal year | (1,214,191) | (1,502,665) |
| Mortgage loans receivable due in more than one year | (9,210,698) | (8,490,717) |
| Total financial assets available for general expenditure | $ 23,749,549 | $ 25,753,561 |

For purposes of analyzing resources available to meet general expenditures over a 12-month period, 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 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 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

| | 2023 | 2022 |
|---|---|---|
| Demand deposits | $ 9,155,940 | $ 17,885,360 |
| Money market mutual fund | 5,721,942 | 6,211,200 |
| Total cash and cash equivalents | $ 14,877,882 | $ 24,096,560 |

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

## NOTE 4 – CONTRIBUTIONS RECEIVABLE

Contributions receivable at December 31, 2023 are expected to be collected as follows:

| | |
|---|---|
| 2024 | $ 852,407 |
| 2025 | 103,469 |
| 2026 | 45,750 |
| Total contributions receivable | $ 1,001,626 |

*Concentrations*

During 2022, Habitat recognized $11,000,000 in contributions from one donor, which represents 73% of total financial contributions.

## NOTE 5 – 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, 2023 are as follows:

| | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|---|---|---|---|---|
| Investments: | | | | |
| Money market mutual fund | $ 6,499,464 | | | $ 6,499,464 |
| Equity mutual funds: | | | | |
| Large-cap blend | 1,055,778 | | | 1,055,778 |
| Large-cap growth | 957,860 | | | 957,860 |
| Mid-cap blend | 906,617 | | | 906,617 |
| International | 577,703 | | | 577,703 |
| Large-cap value | 428,200 | | | 428,200 |
| Small-cap | 363,445 | | | 363,445 |
| Emerging markets | 215,882 | | | 215,882 |
| Mid-cap growth | 183,892 | | | 183,892 |
| Mid-cap value | 128,857 | | | 128,857 |
| Intermediate-term bond mutual funds | 2,340,559 | | | 2,340,559 |
| Cash surrender value of life insurance policy | | | $ 30,393 | 30,393 |
| Total investments | 13,658,257 | | 30,393 | 13,688,650 |
| Money market mutual fund | 5,721,942 | | | 5,721,942 |
| Total assets measured at fair value | $ 19,380,199 | $ 0 | $ 30,393 | $ 19,410,592 |

Assets measured at fair value at December 31, 2022 are as follows:

| | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|---|---|---|---|---|
| Investments: | | | | |
| Money market mutual fund | $ 206,436 | | | $ 206,436 |
| Equity mutual funds: | | | | |
| Large-cap blend | 959,210 | | | 959,210 |
| Large-cap growth | 773,156 | | | 773,156 |
| Mid-cap blend | 878,978 | | | 878,978 |
| International | 525,749 | | | 525,749 |
| Large-cap value | 463,796 | | | 463,796 |
| Small-cap | 454,869 | | | 454,869 |
| Emerging markets | 205,529 | | | 205,529 |
| Mid-cap growth | 164,432 | | | 164,432 |
| Mid-cap value | 118,910 | | | 118,910 |
| Intermediate-term bond mutual funds | 2,118,217 | | | 2,118,217 |
| Cash surrender value of life insurance policy | | | $ 28,421 | 28,421 |
| Total investments | 6,869,282 | | 28,421 | 6,897,703 |
| Money market mutual fund | 6,211,200 | | | 6,211,200 |
| Total assets measured at fair value | $ 13,080,482 | $ 0 | $ 28,421 | $ 13,108,903 |

Mutual funds are valued at the reported net asset value of shares held. 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 6 – INVESTMENT IN LEVERAGE LENDER**

On March 30, 2021, 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 was $11,215 in both 2023 and 2022.

**NOTE 7 – MORTGAGE LOANS RECEIVABLE**

Mortgage loans receivable consist of the following:

| | 2023 | 2022 |
|---|---|---|
| Mortgage loans receivable, at par value | $ 16,222,202 | $ 13,901,753 |
| Less: Unamortized discount based on imputed interest, at rates ranging from 2.96% to 8.64% | (5,536,919) | (4,122,213) |
| Mortgage loans receivable, net | $ 10,685,283 | $ 9,779,540 |

In certain circumstances, Habitat may utilize a subordinate forgivable mortgage to bring the mortgage down to an affordable level based on the borrower's specific financial situation. The forgivable mortgages are forgivable based on the borrower fulfilling the specific terms and conditions stipulated in the agreements. The conditions are primarily fulfilled through the timely payment of all principal and interest on the first lien note. Prior to 2020, these forgivable mortgages were not recognized in Habitat's financial statements. Beginning in 2020, these forgivable mortgages are recorded as contribution expense when the conditions are fulfilled and the mortgage is forgiven.

The year and amount the forgivable mortgages may be forgiven are as follows:

| | |
|---|---|
| 2029 and thereafter | $ 446,300 |

The Texas Department of Housing and Community Affairs (TDHCA) Bootstrap Loan Program provides no-interest home mortgage loans up to $45,000 to low-income Texas families who agree to help build their own home and who are working through certified non-profit organizations such as Houston Habitat. This program uses funds administered through the State of Texas Housing Trust Fund. TDHCA has appointed Houston Habitat as a servicer for such loans. As a servicer, Houston Habitat collects payments from borrowers and remits to TDHCA. Seven loans were issued by TDHCA during 2023 in the amount of $315,000. At December 31, 2023, $135,000 was due from TDHCA.

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, 2023 were approximately $171,000.

The annual collection of mortgage loans receivable at December 31, 2023 is as follows:

| | |
|---|---|
| 2024 | $ 1,474,585 |
| 2025 | 1,443,356 |
| 2026 | 1,373,966 |
| 2027 | 1,268,806 |
| 2028 | 1,133,485 |
| Thereafter | 9,528,004 |
| Total | $ 16,222,202 |

**NOTE 8 – LEASES**

At December 31, 2023 and 2022, operating lease right-of-use assets and lease liabilities included vehicles and a building lease for a ReStore location. Finance lease right-of-use assets and lease liabilities included copiers, business technology and a warehouse vehicle.

The components of lease costs are as follows:

| | 2023 | 2022 |
|---|---|---|
| Operating lease costs | $ 183,473 | $ 183,473 |
| Finance lease costs: | | |
| Amortization of right-of-use assets | 32,356 | 17,994 |
| Interest on lease liabilities | 3,636 | 1,020 |
| Total lease costs | $ 219,465 | $ 202,487 |

Cash paid for amounts included in the measurement of lease liabilities:

| | 2023 | 2022 |
|---|---|---|
| Operating leases – operating cash outflows | $175,931 | $175,931 |
| Finance leases: | | |
| Financing cash outflows | $32,139 | $17,708 |
| Operating cash outflows | $3,636 | $1,020 |

The weighted-average term and discount rates for both operating and finance leases outstanding as of December 31:

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | OPERATING | FINANCE | OPERATING | FINANCE |
| Weighted-average remaining lease term | 50 months | 48 months | 62 months | 15 months |
| Weighted-average discount rate | 4.50% | 4.50% | 4.50% | 4.50% |

Undiscounted cash flows related to operating and finance lease liabilities at December 31, 2023 are as follows:

| | OPERATING | FINANCE |
|---|---|---|
| 2024 | $ 191,856 | $ 33,667 |
| 2025 | 192,726 | 24,734 |
| 2026 | 193,540 | 24,734 |
| 2027 | 155,563 | 24,734 |
| 2028 | 63,359 | 8,775 |
| Total undiscounted cash flows | 797,044 | 116,644 |
| Less discount to present value | (72,164) | (10,230) |
| Total discounted present value of lease liabilities | $ 724,880 | $ 106,414 |

## NOTE 9 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

| | 2023 | 2022 |
|---|---|---|
| Land | $ 189,030 | $ 189,030 |
| Building and improvements | 2,657,003 | 2,613,269 |
| Construction equipment and vehicles | 758,179 | 849,586 |
| Furniture and office equipment | 290,752 | 279,593 |
| Total property, plant and equipment, at cost | 3,894,964 | 3,931,478 |
| Accumulated depreciation | (3,275,562) | (3,200,683) |
| Property, plant and equipment, net | $ 619,402 | $ 730,795 |

## NOTE 10 – NOTE PAYABLE

In January 2022, Habitat entered into a $10 million promissory note with Houston Housing Finance Corporation. Proceeds from the loan are being used to fund construction hard costs and development soft costs for the Robins Landing project. The loan bears interest at an effective rate of 1.25%. Interest is payable monthly. Principal is due and payable upon the sale and closing of any lot based on an agreed release price formula. Principal is also due and payable upon Habitat's receipt of any City of Houston (the City) or third-party grants or reimbursement agreements to fund the project. All remaining principal is due and payable on or before maturity on January 31, 2027. The loan is secured by a first lien deed of trust on the 127-acre tract comprising the project, first lien assignment of proceeds of a $1 million grant from HFHI, assignment of proceeds of a $3.6 million DPC reimbursement contract with the City and first lien assignment of a $4,987,322 deferred payment loan from the City. Capitalized interest on the note totaled approximately $241,000 in 2023 and $19,000 in 2022. The balance outstanding on the note payable is as follows:

| | 2023 | 2022 |
|---|---|---|
| Note payable to Houston Housing Finance Corporation | $ 957,449 | $ 1,658,741 |
| Less unamortized debt issuance costs | (87,325) | (115,639) |
| Note payable, net | $ 870,124 | $ 1,543,102 |

## NOTE 11 – DEFERRED PAYMENT LOAN

In January 2022, Habitat entered into a $4,793,228 deferred payment loan agreement with the City to provide TIRZ funding through the City's Affordable Home Development Program. The proceeds will be used to fund the development and construction of the Robins Landing project. Under the terms of the agreement, the loan will be forgiven 5 years after completion of the project unless Habitat defaults in the affordability period by failing to maintain its status as affordable housing or meet other covenants, as described in the loan agreement. Under the agreement, interest does not accrue, except in cases of default. The loan from the City is secured by a lien against the property. It is the intention of management to maintain compliance with the loan agreement for entirety of the affordability period. At December 31, 2023, the outstanding loan balance was $2,688,561.

## NOTE 12 – NEW MARKET TAX CREDITS NOTES PAYABLE

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 Habitat.

Pursuant to the issuance of the New Market Tax Credits Financing Commitment, 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, 2023 and 2022, $0 and $464,682, respectively, 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. Habitat is not permitted to prepay any portion of the loans until the seventh anniversary of the loans. The balances outstanding on the notes payable and repayment terms are as follows:

| | 2023 | 2022 |
|---|---|---|
| Note payable to HFHI NMTC Sub-CDE IV, LLC | $ 1,358,539 | $ 1,358,539 |
| Note payable to HFHI NMTC Sub-CDE V, LLC | 150,949 | 150,949 |
| Total New Market Tax Credits notes payable | 1,509,488 | 1,509,488 |
| Less unamortized debt issuance costs | (148,233) | (155,399) |
| New Market Tax Credits notes payable, net | $ 1,361,255 | $ 1,354,089 |

Interest on the New Market Tax Credits notes payable recognized as expense totaled approximately $11,000 in both 2023 and 2022.

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 their 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, Habitat may cancel the New Market Tax Credits notes payable.

## NOTE 13 – 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, 2023, NTB held mortgages sold by Habitat at par value, totaling $1,271,921. Habitat has a similar arrangement with Houston Housing Finance Corporation (HHFC) and NexBank SSB (NexBank). As of December 31, 2023, HHFC and NexBank held mortgages sold by Habitat with full recourse to Habitat at par value totaling $843,968 and $1,836,632, respectively. Neither the mortgage loans receivable sold nor the contingent liability for these loans are reflected in the statement of financial position.

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

## NOTE 14 – GOVERNMENT GRANT

In 2010, Habitat received funds from 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 15 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are comprised of the following:

| | 2023 | 2022 |
|---|---|---|
| Undesignated | $ 43,169,392 | $ 42,872,848 |
| Board-designated for endowment | 7,388,337 | 6,810,782 |
| Total net assets without donor restrictions | $ 50,557,729 | $ 49,683,630 |

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 16 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

| | 2023 | 2022 |
|---|---|---|
| Subject to expenditure for specified purpose: | | |
| Robins Landing development | $ 1,079,490 | $ 2,362,300 |
| Homeownership program | 219,018 | 255,021 |
| Home construction | 171,988 | 1,140,136 |
| Down payment assistance | 48,503 | 52,500 |
| Trainee program | | 51,049 |
| Critical repairs | | 41,000 |
| Other | 19,000 | 23,180 |
| Total subject to expenditure for specified purpose | 1,537,999 | 3,925,186 |
| Subject to passage of time: | | |
| Contributions receivable that are not restricted by donors, but which are unavailable for expenditures until due | 312,018 | 242,950 |
| Endowments: | | |
| Subject to spending policy and appropriation: | | |
| General endowment to support operations | 1,808 | 1,808 |
| Total net assets with donor restrictions | $ 1,851,825 | $ 4,169,944 |

## NOTE 17 – 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, 2021 | $ 8,076,363 | $ 1,108 | $ 8,077,471 |
| Contributions | | 700 | 700 |
| Net investment return | (1,265,581) | | (1,265,581) |
| Endowment net assets, December 31, 2022 | 6,810,782 | 1,808 | 6,812,590 |
| Net investment return | 977,555 | | 977,555 |
| Distributions | (400,000) | | (400,000) |
| Endowment net assets, December 31, 2023 | $ 7,388,337 | $ 1,808 | $ 7,390,145 |

**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 18 – CONTRIBUTED NONFINANCIAL ASSETS

Habitat receives various forms of gifts-in-kind (nonfinancial asset contributions), including inventory items to be sold in the ReStore, land, vehicles and construction materials. Inventory items are valued at 100% of the items' sales price. Other gifts-in-kind are recognized at their estimated fair value at the date of receipt based on current rates for similar items or services in the market and are expensed as utilized or, in the case of vehicles, are capitalized when ownership is transferred.

Habitat recognized the following as in-kind contributions, which were used in providing program services, and to support those services:

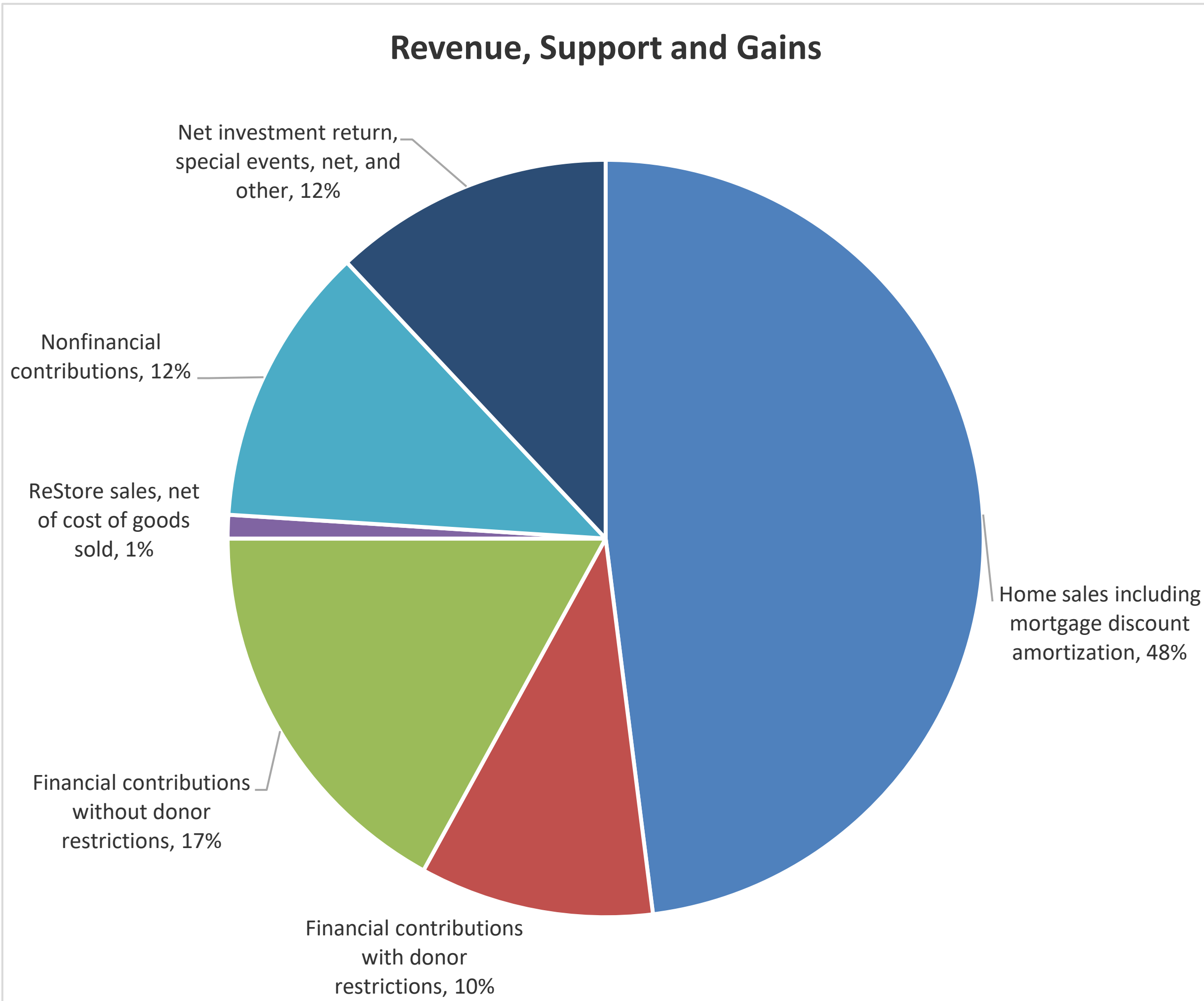
| | 2023 | 2022 |
|---|---|---|
| Inventory items | $ 1,312,286 | $ 1,411,970 |
| Land | 485,980 | |
| Construction materials | 96,586 | 3,000 |
| Vehicle | | 26,197 |
| Total in-kind contributions | $ 1,894,852 | $ 1,441,167 |

A substantial number of volunteers provided approximately 27,000 hours in fiscal year 2023 and 14,000 hours in fiscal year 2022 to assist 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.

## NOTE 19 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 24, 2024, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

**Houston Habitat for Humanity, Inc.**
**Graphical Information**
**For the year ended December 31, 2023**



**Houston Habitat for Humanity, Inc.**
**Graphical Information**
**For the year ended December 31, 2023**