Houston Habitat for Humanity, Inc.

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2020 and 2019

Houston Habitat for Humanity, Inc.

Table of Contents

Independent Auditors' Report

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

We have audited the accompanying financial statements of Houston Habitat for Humanity, Inc. (Habitat), which comprise the consolidated statements of financial position as of December 31, 2020 and 2019 and the related consolidated statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Habitat as of December 31, 2020 and 2019 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.

Blazek & Vetterling

July 26, 2021

Houston Habitat for Humanity, Inc.

Consolidated Statements of Financial Position as of December 31, 2020 and 2019

	2020	2019
ASSETS		
Current assets:		
Cash and cash equivalents *(Note 3)*	$ 16,131,988	$ 14,595,277
Cash held in escrow for taxes and insurance *(Note 3)*	442,117	590,085
Contributions receivable	422,554	391,741
Current portion of mortgage loans receivable, net *(Note 5)*	1,443,740	1,462,842
ReStore inventory	287,105	368,068
Investments *(Note 4)*	46,294	45,607
Other assets	272,231	223,500
Total current assets	19,046,029	17,677,120
Long-term assets:		
Homes available for sale	590,352	1,918,380
Home construction in progress	2,996,776	3,518,860
Lots and land held for development	3,580,139	3,676,022
Long-term portion of mortgage loans receivable, net *(Note 5)*	9,721,218	10,591,661
Property, plant and equipment, net *(Note 6)*	1,044,742	1,266,666
Investments designated for endowment	7,283,374	6,622,268
TOTAL ASSETS	$ 44,262,630	$ 45,270,977
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 81,899	$ 71,093
Accrued expenses	264,479	424,799
Tithe payable to Habitat for Humanity International	116,000	57,000
Escrow for taxes and insurance	442,117	590,085
Refundable advance *(Note 2)*	707,258	
Total current liabilities	1,611,753	1,142,977
Commitments and contingencies *(Notes 7, 8 and 13)*		
Net assets *(Note 11)*:		
Without donor restrictions *(Note 9)*	40,198,963	38,117,271
With donor restrictions *(Note 10)*	2,451,914	6,010,729
Total net assets	42,650,877	44,128,000
TOTAL LIABILITIES AND NET ASSETS	$ 44,262,630	$ 45,270,977

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 13)*	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 Activities for the year ended December 31, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE, GAINS AND SUPPORT:			
Low-cost housing income:			
Home sales	$ 2,931,850		$ 2,931,850
Mortgage discount amortization and interest	1,187,257		1,187,257
Rental income	254,224		254,224
In-kind contributions of materials	26,999		26,999
Other fees	73,321		73,321
Total low-cost housing income	4,473,651		4,473,651
Contributions and other:			
Contributions *(Note 13)*	1,763,372	$ 4,370,569	6,133,941
In-kind contributions of inventory	1,620,119		1,620,119
Special events	127,700		127,700
Cost of direct donor benefits	(44,923)		(44,923)
Net investment return	1,266,802		1,266,802
Other income	14,196		14,196
Subtotal contributions and other	4,747,266	4,370,569	9,117,835
Satisfaction of donor restrictions:			
Expenditures for property, plant and equipment	80,282	(80,282)	
Expenditures for program restrictions	7,270,204	(7,270,204)	
Total contributions and other	12,097,752	(2,979,917)	9,117,835
ReStore revenues:			
ReStore sales of inventory	3,670,312		3,670,312
ReStore cost of goods sold	(3,033,968)		(3,033,968)
Total ReStore revenues, net	636,344		636,344
Total revenue, gains and support	17,207,747	(2,979,917)	14,227,830
EXPENSES:			
Low-cost housing program	12,175,093		12,175,093
ReStore program	1,480,668		1,480,668
Management and general	871,458		871,458
Fundraising	753,559		753,559
Total expenses	15,280,778		15,280,778
CHANGES IN NET ASSETS	1,926,969	(2,979,917)	(1,052,948)
Net assets, beginning of year	36,190,302	8,990,646	45,180,948
Net assets, end of year	$ 38,117,271	$ 6,010,729	$ 44,128,000

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
Temporary disaster housing assistance	649,316				649,316
Property taxes and insurance	317,194	64,938	27,240	19,618	428,990
Legal and professional fees	45,073	178	191,119	54,604	290,974
Depreciation	143,302	106,092	5,598	4,118	259,110
Rent		209,058			209,058
Supplies	111,663	15,592	33,948	26,997	188,200
Utilities, telephone and trash	68,348	60,292	7,792	7,372	143,804
Tithes to other non-profits	141,850				141,850
Computer and technology	41,858	13,376	36,359	43,732	135,325
Repairs and maintenance	72,287	25,295	5,337	4,151	107,070
Equipment	57,105	36,654	2,849	2,216	98,824
Travel and auto	44,289	47,616	1,661	737	94,303
Credit card fees		38,660	13,705		52,365
Advertising and marketing				27,291	27,291
Security	12,150	1,554	1,324	1,029	16,057
Postage, delivery and printing	6,186	684	3,177	3,835	13,882
Professional development	4,851	753	5,745	165	11,514
Meals	2,594	2,357	1,808	434	7,193
Other	7,057	11,728	17,031	23,309	59,125
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 Statement of Functional Expenses for the year ended December 31, 2019

EXPENSES	LOW-COST HOUSING PROGRAM	RESTORE PROGRAM	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Cost of homes sold – land, materials and contractor fees	$ 2,800,615				$ 2,800,615
Salaries and related benefits	2,021,603	$ 766,134	$ 624,912	$ 582,542	3,995,191
Disaster home repair materials and contractor fees	5,251,019				5,251,019
Temporary disaster housing assistance	646,083				646,083
Property taxes and insurance	387,414	58,578	34,711	20,464	501,167
Legal and professional fees	179,223	175	67,566	13,860	260,824
Depreciation	138,173	109,166	8,502	5,501	261,342
Rent		209,727			209,727
Supplies	61,888	10,033	11,947	12,975	96,843
Utilities, telephone and trash	97,081	85,262	11,409	6,908	200,660
Tithes to other non-profits	85,462				85,462
Computer and technology	55,589	22,546	44,186	39,932	162,253
Repairs and maintenance	223,610	28,909	5,484	3,632	261,635
Equipment	62,044	42,163	1,726	1,342	107,275
Travel and auto	50,023	74,451	4,724	2,754	131,952
Credit card fees		44,097	8,235	6,358	58,690
Advertising and marketing			1,960	21,771	23,731
Security	19,800	4,046	3,543		27,389
Postage, delivery and printing	10,514	98	4,758	7,666	23,036
Professional development	9,429	6,275	4,669	3,777	24,150
Meals	11,935	1,104	3,747	1,476	18,262
Interest	149				149
Other	63,439	17,904	29,379	22,601	133,323
Total expenses	$12,175,093	$ 1,480,668	$ 871,458	$ 753,559	15,280,778
Percent of total expenses	80%	9%	6%	5%	
ReStore cost of goods sold					3,033,968
Cost of direct donor benefits					44,923
Total					$18,359,669

See accompanying notes to consolidated financial statements.

Houston Habitat for Humanity, Inc.

Consolidated Statements of Cash Flows for years ended December 31, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$(1,477,123)	$(1,052,948)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Contributions restricted for property, plant and equipment	(25,000)	(70,000)
Depreciation	259,110	261,342
Mortgage discount amortization	(798,117)	(1,117,765)
Net realized and unrealized gain on investments	(879,972)	(971,820)
Changes in operating assets and liabilities:		
Contributions receivable	(30,813)	(233,067)
Mortgage loans receivable	1,687,662	1,591,081
ReStore inventory	80,963	235,331
Other assets	(48,731)	87,171
Homes available for sale	1,328,028	(105,110)
Home construction in progress	522,084	934,960
Lots and land held for development	95,883	(289,923)
Accounts payable and accrued expenses	(149,514)	(16,275)
Tithe payable to Habitat for Humanity International	59,000	57,000
Escrow for taxes and insurance	(147,968)	75,315
Refundable advance	707,258	
Net cash provided (used) by operating activities	1,182,750	(614,708)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(37,186)	(179,013)
Purchases of investments	(1,804,202)	(710,875)
Net proceeds from sale or maturity of investments	2,023,174	613,541
Net change in money market mutual fund held as investments	(793)	(14,412)
Net cash provided (used) by investing activities	180,993	(290,759)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for property, plant and equipment	25,000	70,000
Payments on note payable		(21,081)
Net cash provided by financing activities	25,000	48,919
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,388,743	(856,548)
Cash and cash equivalents, beginning of year	15,185,362	16,041,910
Cash and cash equivalents, end of year *(Note 3)*	$16,574,105	$15,185,362

See accompanying notes to consolidated financial statements.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Houston Habitat for Humanity, Inc. (Houston Habitat) is a non-profit corporation founded in 1987 whose mission is seeking to put God's love into action. Houston Habitat brings people together to build homes, communities, and hope. Their vision is a world where everyone has a decent place to live. Their purpose is to encourage, promote and assist in the building and redevelopment of low-income housing in Houston, Texas. Houston Habitat is an affiliate of Habitat for Humanity International (HFHI) located in Americus, Georgia.

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

In addition, Houston Habitat repairs homes damaged by Hurricane Harvey for low-income homeowners through 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. They also help existing homeowners remain in their homes and rebuild their lives. The Disaster Home Repair Program is accomplished through partnerships with various agencies, corporations, foundations, and individuals.

Additionally, Houston Habitat operates two retail home improvement stores that are open to the public called Habitat for Humanity ReStore. The ReStores accept donations from individuals, corporations and retail stores in the area and purchases material for resale.

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

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

Federal income tax status – Houston Habitat, Family Housing and the Endowment are exempt from federal income 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).

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.

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 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 2020.

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

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

The ReStore inventory consists primarily of donated and purchased building materials. Purchased goods are initially recorded at cost and donated goods are recorded at fair value at the time of donation. Inventory at December 31, 2020 and 2019 is recorded at the lower of cost or net realizable value.

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

Homes available for sale and lots and land held for development are stated at lower of cost or fair value less costs to sell. 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.

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 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 $14,321 and $14,297 was recognized at December 31, 2020 and 2019, 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, 2020 and 2019, 37 and 22 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 6,000 hours in fiscal year 2020 and 15,000 hours in fiscal year 2019 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 event revenue is the total amount paid by sponsors and attendees of an event and includes elements of both contributions and exchange transactions. Special event revenue is recognized when the event occurs. Direct donor benefit costs 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 2021.

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:

	2020	2019
Financial assets:		
Cash and cash equivalents	$ 16,574,105	$ 15,185,362
Contributions receivable	422,554	391,741
Mortgage loans receivable, net	11,164,958	12,054,503
Investments	7,329,668	6,667,875
Total financial assets	35,491,285	34,299,481
Less:		
Endowment investments, net of subsequent fiscal year appropriation	(7,283,374)	(6,322,268)
Cash held in escrow for taxes and insurance	(442,117)	(590,085)
Donor-restricted net assets, net of amounts expected to be satisfied in subsequent fiscal year	(1,261,661)	(3,751,308)
Mortgage loans receivable due in more than one year	(9,721,218)	(10,591,661)
Total financial assets available for general expenditure	$ 16,782,915	$ 13,044,159

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.

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 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. The extent of the impact of COVID-19 on Houston Habitat's future operational and financial performance will depend on developments such as the duration and spread of the outbreak, impact on the City of Houston, as well as Houston Habitat's homeowners, donors, employees, and vendors, all of which are uncertain and cannot be predicted. While Houston Habitat expects this matter may negatively impact its operating results and financial position, the financial impact cannot be reasonably estimated at this time.

In April 2020, Houston Habitat received financial relief $707,258 funded under the Small Business Administration's Paycheck Protection Program (PPP). PPP loan principal and interest may be forgiven, in whole or in part, if funds are used for the intended purposes. The unsecured loan is considered to be a conditional contribution and will be recognized as government grant revenue upon forgiveness by the bank. At December 31, 2020, $707,258 is included in refundable advances. Subsequent to December 31, 2020, the Small Business Administration approved forgiveness of the loan, therefore the $707,258 will be recognized as government grant revenue in fiscal year 2021.

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. Subsequent to year end, Houston Habitat was approved for a $595,000 Second Draw PPP loan. The unsecured loan is considered to be a conditional contribution and will be recognized as government grant revenue upon using the funds for payroll and qualified expenses and upon forgiveness by the bank. Any amounts not forgiven will be treated as debt bearing interest of 1% and will be due in March 2026.

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	2020	2019
Demand deposits	$ 9,515,469	$ 8,065,148
Money market mutual fund	7,058,636	7,120,214
Total cash and cash equivalents	16,574,105	15,185,362
Less: Cash held in escrow for taxes and insurance	(442,117)	(590,085)
Cash and cash equivalents	$ 16,131,988	$ 14,595,277

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, 2020 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets measured at fair value:				
Investments:				
Equity mutual funds:				
Large-cap blend	$ 918,127			$ 918,127
International	891,814			891,814
Large-cap value	743,480			743,480
Large-cap growth	709,618			709,618
Mid-cap blend	610,383			610,383
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 assets measured at fair value	$ 7,329,668	$ 0	$ 0	$ 7,329,668

Assets measured at fair value at December 31, 2019 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Investments:				
Equity mutual funds:				
Large-cap blend	$ 877,196			$ 877,196
International	793,055			793,055
Large-cap value	687,220			687,220
Large-cap growth	651,654			651,654
Mid-cap blend	561,636			561,636
Small-cap	272,323			272,323
Emerging markets	201,636			201,636
Intermediate-term bond mutual funds	2,417,613			2,417,613
Money market mutual fund	205,542			205,542
Total assets measured at fair value	$ 6,667,875	$ 0	$ 0	$ 6,667,875

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

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

NOTE 5 – MORTGAGE LOANS RECEIVABLE

Mortgage loans receivable consists of the following:

	2020	2019
Mortgage loans receivable, at par value	$ 15,853,283	$ 17,540,945
Less: Unamortized discount based on imputed interest, at rates ranging from 3.50% to 8.64%	(4,688,325)	(5,486,442)
Mortgage loans receivable, net	11,164,958	12,054,503
Less: Current portion due within one year	(1,443,740)	(1,462,842)
Long-term portion of mortgage loans receivable, net	$ 9,721,218	$ 10,591,661

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, 2020 were approximately $93,000.

The annual collection of mortgage loans receivable at December 31, 2020 is as follows:

2021	$ 1,443,740
2022	1,429,507
2023	1,415,206
2024	1,396,866
2025	1,345,104
Thereafter	8,822,860
Total	$ 15,853,283

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	2020	2019
Land	$ 189,030	$ 189,030
Building and improvements	2,612,049	2,580,363
Construction equipment and vehicles	817,125	811,625
Furniture and office equipment	184,074	184,074
Total property, plant and equipment, at cost	3,802,278	3,765,092
Accumulated depreciation	(2,757,536)	(2,498,426)
Property, plant and equipment, net	$ 1,044,742	$ 1,266,666

NOTE 7 – 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, 2020, NTB held mortgages sold by Habitat at par value, totaling $1,848,721. Habitat has a similar arrangement with Houston Housing Finance Corporation (HHFC) and NexBank SSB (NexBank). As of December 31, 2020, HHFC and NexBank held mortgages sold by Habitat with full recourse to Habitat at par value totaling $1,659,902 and $664,908, 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, 2020 and 2019 was $209,058 and $209,727, respectively. Future minimum lease payments due at December 31, 2020, under the lease are as follows:

2021	$ 209,058
2022	209,058
2023	217,122
2024	222,882
2025	222,882
Thereafter through 2028	538,632
Total	$ 1,619,634

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 8 – 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 9 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are comprised of the following:

	2020	2019
Undesignated	$ 31,871,955	$ 30,229,445
Board-designated for endowment	7,282,266	6,621,160
Property, plant and equipment, net	1,044,742	1,266,666
Total net assets without donor restrictions	$ 40,198,963	$ 38,117,271

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

NOTE 10 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	2020	2019
Subject to expenditure for specified purpose:		
Hurricane Harvey relief	$ 1,788,716	$ 5,558,960
Home construction	291,890	210,500
Down payment assistance	62,500	50,000
Other	5,000	39,461
Total subject to expenditure for specified purpose	2,148,106	5,858,921
Subject to passage of time:		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditures until due	302,700	150,700
Endowments:		
Subject to spending policy and appropriation:		
General endowment to support operations	1,108	1,108
Total net assets with donor restrictions	$ 2,451,914	$ 6,010,729

NOTE 11 – 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, 2018	$ 5,543,312	$ 1,108	$ 5,544,420
Net investment return	1,077,848		1,077,848
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

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 12 – CONDITIONAL CONTRIBUTIONS

In addition to the $707,258 PPP loan discussed in Note 2, Houston Habitat received seven additional conditional contributions totaling $1,025,000 for various Hurricane Harvey related work. The contributions are conditioned on the employment of additional staff and completed home repairs on 20 homes and one new home build. As of December 31, 2020, $108,913 has been recognized as conditions have been met. The remaining $916,087 will be recognized as contribution revenue when the conditions have been met.

NOTE 13 – CONCENTRATIONS

In 2020, contributions from two donors totaled $900,000 or 29% of total contributions. In 2019, contributions from three donors totaled approximately $3,056,000 or 50% of total contributions.

NOTE 14 – SUBSEQUENT EVENTS

In March 2021, Houston Habitat executed loan agreements with Community Development Entities for approximately $1.5 million. 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 a certain bank accounts, security agreements and a guaranty by Houston Habitat. The loans accrue interest at .74% and mature in March 2051.

Management has evaluated subsequent events through July 26, 2021, which is the date that the financial statements were available for issuance. No events were identified, other than the forgiveness of the PPP loan, the ongoing impact of COVID-19 discussed in Note 2, and the $1.5 million loan discussed above, that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.