

**HABITAT FOR HUMANITY
NORTHWEST HARRIS COUNTY**

FINANCIAL STATEMENTS

June 30, 2019 and 2018

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
June 30, 2019 and June 30, 2018

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Independent Auditor's Report

Board of Directors
Habitat for Humanity Northwest Harris County

We have audited the accompanying financial statements of Habitat for Humanity Northwest Harris County (a nonprofit organization), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and 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.

Auditor's 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 the audit 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 financial position of Habitat for Humanity Northwest Harris County as of June 30, 2019 and 2018, 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.

Fitts, Roberts, Kolkhorst & Co., P.C.

Houston, Texas
January 23, 2020



HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
STATEMENT OF FINANCIAL POSITION
June 30, 2019

	June 30,	
ASSETS	2019	2018
Cash	\$ 2,445,227	\$ 3,859,925
Accounts receivable	37,052	-
Mortgage receivable, net	3,136,605	3,231,047
Prepaid expenses	10,808	4,383
Inventory	118,999	130,570
Construction in progress	309,805	185,264
Land held for future construction	1,915,564	1,317,877
Furniture, equipment, and leasehold improvements, net	442,998	452,028
Other assets	42,996	42,995
	\$ 8,460,054	\$ 9,224,089
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 317,647	\$ 103,462
Accrued liabilities	57,737	85,916
Escrow funds	270,345	254,495
Note payable	730,291	777,343
	1,376,020	1,221,216
NET ASSETS		
Without donor restrictions		
Undesignated	5,604,574	6,152,989
Investment in land, net of related debt	1,185,273	540,534
With donor restrictions		
Purpose restriction - Home repair	294,187	1,309,350
	7,084,034	8,002,873
	\$ 8,460,054	\$ 9,224,089

See independent auditor's report and accompanying notes to the financial statements.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
STATEMENT ACTIVITIES
For the year ended June 30, 2019

	Without donor restrictions	With donor restrictions	Total
Public support and revenues			
Contributions from donors and foundations	\$ 278,850	\$ 294,187	\$ 573,037
Special events	193,105	-	193,105
In-kind contributions	22,575	-	22,575
Sale of homes, net of discount of \$379,650	241,584	-	241,584
Interest - Amortization of mortgage discounts	361,442	-	361,442
Merchandise sales	2,629,009	-	2,629,009
Deconstruction revenue	1,247,000	-	1,247,000
Miscellaneous	260,403	-	260,403
	5,233,968	294,187	5,528,155
Net assets released from restrictions:			
Restrictions satisfied by home repair payments	1,309,350	(1,309,350)	-
	6,543,318	(1,015,163)	5,528,155
Expenses			
Program services	5,964,475	-	5,964,475
Management and general	241,954	-	241,954
Fundraising	240,565	-	240,565
	6,446,994	-	6,446,994
Change in net assets	96,324	(1,015,163)	(918,839)
Net assets, beginning of year	6,693,523	1,309,350	8,002,873
Net assets, end of year	\$ 6,789,847	\$ 294,187	\$ 7,084,034

See independent auditor's report and accompanying notes to the financial statements.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
STATEMENT ACTIVITIES
For the year ended June 30, 2018

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Public support and revenues			
Contributions from donors and foundations	\$ 524,313	\$ 1,826,277	\$ 2,350,590
Special events	115,146	-	115,146
In-kind contributions	39,801	-	39,801
Sale of homes, net of discount of \$413,302	269,347	-	269,347
Interest - Amortization of mortgage discounts	384,430	-	384,430
Merchandise sales	3,096,223	-	3,096,223
Deconstruction revenue	1,156,000	-	1,156,000
Miscellaneous	16,025	-	16,025
	<u>5,601,285</u>	<u>1,826,277</u>	<u>7,427,562</u>
Public support and revenues			
Net assets released from restrictions:			
Restrictions satisfied by home repair payments	<u>516,927</u>	<u>(516,927)</u>	<u>-</u>
Total public support and revenues	<u>6,118,212</u>	<u>1,309,350</u>	<u>7,427,562</u>
Expenses			
Program services	4,795,019	-	4,795,019
Management and general	190,596	-	190,596
Fundraising	226,714	-	226,714
	<u>5,212,329</u>	<u>-</u>	<u>5,212,329</u>
Total expenses			
Change in net assets	905,883	1,309,350	2,215,233
Net assets, beginning of year	<u>5,787,640</u>	<u>-</u>	<u>5,787,640</u>
Net assets, end of year	<u>\$ 6,693,523</u>	<u>\$ 1,309,350</u>	<u>\$ 8,002,873</u>

See independent auditor's report and accompanying notes to the financial statements.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2019

	Construction	Restore	Family Services	Hurricane Harvey Relief	Total Program Services	Management and General	Fund Raising	Total
Compensation	\$ 439,128	\$ 1,032,067	\$ 72,353	\$ -	\$ 1,543,548	\$ 69,328	\$ 135,049	\$ 1,747,925
Construction costs	428,011	-	-	1,094,792	1,522,803	-	-	1,522,803
Cost of sales	-	97,432	-	-	97,432	-	-	97,432
Demolition costs	-	1,289,628	-	-	1,289,628	-	-	1,289,628
Depreciation expenses	15,180	110,950	-	-	126,130	-	-	126,130
Equipment rental	1,174	11,013	-	-	12,187	-	-	12,187
Insurance	61,776	57,897	-	-	119,673	4,391	2,519	126,583
Interest	-	-	-	-	-	32,704	-	32,704
Office expense	4,080	40,956	-	-	45,036	32,171	4,219	81,426
Postage	13	-	-	-	13	1,251	-	1,264
Printing and newsletters	87	-	-	-	87	1,309	5,879	7,275
Professional fees & contract labor	8,908	111,135	-	-	120,043	37,870	-	157,913
Project recycling	-	12,518	-	-	12,518	-	-	12,518
Public relations	-	-	-	-	-	-	69,773	69,773
Rent	14,121	568,161	13,809	-	596,091	4,467	13,809	614,367
Repairs and maintenance	28,397	17,114	-	-	45,511	226	-	45,737
Small tools	3,480	5,031	-	-	8,511	-	-	8,511
Supplies	21,176	76,099	-	-	97,275	-	-	97,275
Property taxes	13,024	-	-	-	13,024	-	-	13,024
Contribution to HFHI	-	20,000	-	-	20,000	-	-	20,000
Training and education	5,936	-	1,866	-	7,802	5,481	1,655	14,938
Travel	19,622	38,300	86	-	58,008	10,452	2,274	70,734
Utilities	1,331	99,989	-	-	101,320	1,023	1,666	104,009
Gain on sale of assets	7,197	-	-	-	7,197	-	-	7,197
Other	103,174	9,166	8,298	-	120,638	41,281	3,722	165,641
Total Expenses	\$ 1,175,815	\$ 3,597,456	\$ 96,412	\$ 1,094,792	\$ 5,964,475	\$ 241,954	\$ 240,565	\$ 6,446,994

See independent auditor's report and accompanying notes to the financial statements.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2018

	Construction	Restore	Family Services	Hurricane Harvey Relief	Total Program Services	Management and General	Fund Raising	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Compensation	229,380	852,777	56,012	13,538	1,151,707	75,270	134,796	1,361,773
Construction costs	599,124	-	-	502,830	1,101,954	-	-	1,101,954
Cost of sales	-	122,867	-	-	122,867	-	-	122,867
Demolition costs	-	1,044,667	-	-	1,044,667	-	-	1,044,667
Depreciation expenses	8,214	108,531	-	-	116,745	-	-	116,745
Equipment rental	114	7,457	-	-	7,571	-	-	7,571
Insurance	41,059	43,134	-	559	84,752	4,357	2,428	91,537
Interest	33,037	-	-	-	33,037	-	-	33,037
Office expense	3,183	18,039	-	-	21,222	15,573	4,768	41,563
Postage	-	-	400	-	400	1,810	1,549	3,759
Printing and newsletters	-	-	29	-	29	522	6,287	6,838
Professional fees	-	-	-	-	-	-	-	-
& contract labor	-	245,038	-	-	245,038	39,066	-	284,104
Project recycling	-	13,457	-	-	13,457	-	-	13,457
Public relations	-	-	-	-	-	-	57,205	57,205
Rent	14,839	532,784	12,636	-	560,259	3,303	12,636	576,198
Repairs and maintenance	27,105	17,318	-	-	44,423	68	-	44,491
Small tools	4,754	9,551	-	-	14,305	-	-	14,305
Supplies	13,639	50,184	-	-	63,823	-	-	63,823
Property taxes	5,056	-	-	-	5,056	-	-	5,056
Contribution to HFHI	-	30,000	-	-	30,000	-	-	30,000
Training and education	690	-	87	-	777	3,162	-	3,939
Travel	11,177	36,138	48	-	47,363	13,301	2,551	63,215
Utilities	4,011	76,500	-	-	80,511	447	1,265	82,223
Gain on sale of assets	-	(31,294)	-	-	(31,294)	1,568	-	(29,726)
Other	15,850	13,079	7,421	-	36,350	32,149	3,229	71,728
Total Expenses	\$ 1,011,232	\$ 3,190,227	\$ 76,633	\$ 516,927	\$ 4,795,019	\$ 190,596	\$ 226,714	\$ 5,212,329

See independent auditor's report and accompanying notes to the financial statements.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
STATEMENTS OF CASH FLOWS

	For the years ended June 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (918,839)	\$ 2,215,233
Adjustments to reconcile net change in net assets to net cash provided by (used in) operating activities:		
Depreciation	126,130	116,745
Gain on disposal of assets	-	(29,726)
Sale of homes, net of discount	(241,584)	(269,347)
Amortization of discount	(361,442)	(384,430)
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	(37,052)	-
Prepaid expenses	(6,425)	109,304
Inventory	11,571	(3,665)
Construction in progress	(124,541)	71,039
Land held for future construction	400,211	94,228
Other assets	-	(42,995)
Accounts payable	214,185	25,844
Accrued liabilities	(28,179)	37,318
Escrow funds	15,850	(2,178)
Net cash provided by (used in) operating activities	(950,115)	1,937,370
CASH FLOWS FROM INVESTING ACTIVITIES		
Collections on mortgages receivable	697,468	675,862
Purchase of property and equipment	(117,101)	(275,173)
Purchase land for future construction	(997,898)	(63,076)
Proceeds from sale of assets	-	79,129
Net cash provided by (used in) investing activities	(417,531)	416,742
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal repayments made on note payable	(47,052)	-
Net cash provided by (used in) financing activities	(47,052)	-
NET INCREASE (DECREASE) IN CASH	(1,414,698)	2,354,112
CASH - beginning of year	3,859,925	1,505,813
CASH - end of year	\$ 2,445,227	\$ 3,859,925
Supplemental disclosures		
Interest paid	\$ 32,704	\$ 33,037

See independent auditor's report and accompanying notes to the financial statements.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2019 and 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Habitat for Humanity Northwest Harris County (the Organization) is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles (GAAP) and have been consistently applied in the preparation of the financial statements.

Nature of Business

The Organization was incorporated on February 21, 1989 to encourage, promote, and assist in the building and redevelopment of low-income housing in Cypress-Fairbanks, Klein, Spring, and Tomball school districts. The Organization is an affiliate of Habitat for Humanity International, Inc. (HFHI), a nondenominational Christian non-profit organization whose purpose is to create decent, affordable housing for those in need, and to make a decent shelter a matter of conscience with people everywhere. Although HFHI assists with information, resources, training, publications and prayer support, the Organization is primarily and directly responsible for its operations.

The Organization's purpose is accomplished through a privately operated and financed program to sell such housing to low-income persons at or below actual cost utilizing non-interest bearing mortgage loans. The Organization expects to finance its operations through continuing contributions and mortgage payment receipts.

The Organization has established the ReStore program to operate a resale store in order to generate additional income and to extend the mission of the Organization by providing low cost donated materials for low income homeowners to repair and improve their houses. The Organization accepts donations of building materials, supplies, furniture and appliances for the store and receives inventory from deconstructed homes where the donor pays the Organization for deconstruction services and the Organization retains usable items from the deconstructed homes.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from the estimates.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Organization considers all unrestricted, highly liquid investments with a maturity of three months or less to be cash equivalents. Included in cash and cash equivalents are homeowners' escrow payments for insurance and real estate taxes and deposits held for future homeowners.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2019 and 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Mortgages Receivable, Net

Mortgages receivable, net represents the amount charged to the homeowner for houses built and secured with real estate that are to be paid back over a mutually established period of time. These mortgages are typically paid back on a monthly basis. Generally, the Organization's mortgages are non-interest-bearing. The mortgage receivable balance has been discounted to reflect the economic value using interest rates ranging from 7.4% to 8.5% in the year the mortgage was originated. This discount is recognized as income over the life of the mortgage, utilizing the straight-line method.

Concentrations of Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash and mortgages receivable. The Organization places its cash with high credit quality financial institutions. In monitoring this credit risk, the Organization periodically evaluates the stability of the financial institutions. The Organization maintains cash accounts in excess of \$250,000 at a single financial institution. The Federal Deposit Insurance Corporation (FDIC) standard insurance amount is \$250,000 and balances in excess of this amount are subject to risk. The balance in excess of FDIC coverage at June 30, 2019 was \$2,160,260.

Mortgages receivable from homeowners are closely monitored for collectability. The Organization has a formal plan for notifying and working with homeowners that become past due. The Organization commences foreclosure proceedings if a mortgage becomes more than seventy days past due and a mutually acceptable payment plan has not been reached. Management believes no allowance for uncollectible accounts is necessary at June 30, 2019 and 2018.

Inventory

Inventory consists of purchased building materials, furniture, and other merchandise available for sale. Purchased inventory is recorded at the lower of cost or net realizable value determined by the specific identification method. Donated inventory is considered not to have value until it is sold.

Construction in Progress

Construction in progress includes direct costs of materials and labor incurred on homes while under the construction phase until the sale of the home to the homeowner is closed.

Land Held for Future Construction

Land held for future construction includes the cost of land and related construction site readiness costs such as concrete, security fencing and landscaping. When homes are completed and the sale of the home to the homeowner has closed, the applicable cost of the lot is reported as construction costs.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2019 and 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Buildings and equipment used in operations are depreciated using the straight-line method based on the estimated useful lives of the assets, generally as follows:

Computers and vehicles	3-5 years
Office equipment & furniture	5-7 years
Warehouse equipment	5-10 years
Leasehold improvements	5 years

Escrow Funds

Homeowner payments are held in escrow for insurance, real estate taxes, and homeowners association dues until remitted to the various vendors.

Income Taxes

The Organization is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). However, the Organization is subject to taxes on unrelated business income. During 2019 and 2018, there was no unrelated business income.

The Organization believes that all significant tax positions utilized will more likely than not be sustained upon examination. As of June 30, 2019, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the fiscal year 2015 forward (with limited exceptions). Tax penalties and interest, if any, would be accrued as incurred and would be classified as general and administrative expense in the statements of activities.

Net Assets

Information regarding the financial position and activities of the Organization is reported in two categories as follows:

Net assets without donor restrictions - represent net assets available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions - consist of contributed funds subject to donor-imposed restrictions related to a specific purpose or requiring a specific passage of time before the funds can be spent. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Organization had no perpetually restricted net assets as of June 30, 2019 or 2018.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2019 and 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Assets (continued)

Donor imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. As of June 30, 2019, temporarily restricted net assets totaled \$294,187. As of June 30, 2018, temporarily restricted net assets totaled \$1,309,350.

Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor for future periods or a specific purpose are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. When a restriction is met in the same year as the restricted contribution, the contribution is treated as an unrestricted contribution. Permanently restricted contributions consist of amounts to be held perpetually, based on donor-imposed requirements.

Unconditional promises to give that are expected to be collected within one year are recorded at their realizable value. Unconditional promises to give that are expected to be collected after one year or more are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included as contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

The Organization reports gifts of goods and services at the fair market value of the donation when a clear objective basis of determining the value is available. A substantial number of volunteers donate significant contributions of their time to the Organization in the areas of administration, fundraising and house construction. The Organization records the fair value of contributed services that require specialized skills and are provided by individuals with those skills and that would otherwise need to be purchased if not provided by donation. The value of the contributed time not meeting these criteria is not reflected in these financial statements.

For the year ended June 30, 2019, there were no material donated services that required specialized skills. For the year ended June 30, 2018, donated services that required specialized skills totaled \$39,801.

Sale of Homes, Net

Sale of homes represents the sale of houses built and are recorded at the mortgage amount net of the interest discount.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2019 and 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Expenses

Functional expenses which cannot readily be related to a specific program are charged to the various programs based upon hours worked, square footage, number of program staff or other reasonable methods for allocating the Organization’s multiple functional expenditures.

Date of Management Evaluation

Subsequent events have been evaluated through January 15, 2020, the date the financial statements were available to be issued. Management is of the opinion there are no subsequent events to disclose.

Change in Accounting Principle

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The School has adjusted the presentation of these statements accordingly.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued update 2014-09, ASC 606, “Revenue from Contracts with Customers”. This guidance is a comprehensive new revenue recognition model that required a company to recognize revenue to depict transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. In August 2015, the FASB issued an update deferring the effective date of the new revenue recognition standard by one year. This standard is effective for annual periods beginning after December 15, 2018 for nonpublic organizations. Management is assessing the impact of adoption on its financial statements.

In February 2016, the FASB issued the new leasing standard (ASU 2016-02—Leases (Topic 842)). The ASU affects all companies and organizations that lease assets such as real estate and equipment. Under the new guidance, lessees will recognize a right-of-use asset and corresponding liability on the balance sheet for all leases with terms of more than 12 months. The effective date of the new standard for private companies is for fiscal years beginning January 1, 2021. The Organization will be evaluating its leases over the coming years to determine the effect the new guidance will have on the Organization’s financial statements.

Other accounting pronouncements recently issued by the FASB did not or are not believed by management to have a material impact on the School’s present or future financial statements.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2019 and 2018

NOTE B – MORTGAGES RECEIVABLE, NET

Mortgages receivable consist of the following at June 30, 2019 and June 30, 2018:

	2019	2018
Receivables due in less than one year	\$ 521,277	\$ 514,981
Receivables due in one to five years	2,606,384	2,574,904
Thereafter	4,439,679	4,551,398
	7,567,340	7,641,283
Discount	(4,430,735)	(4,410,236)
Mortgages receivable, net	\$ 3,136,605	\$ 3,231,047

During the year ended June 30, 2017, the Organization began selling homes to qualified low income families with a second subordinate mortgage loan equal to the difference between the first mortgage loan and the appraised value of the home. Subordinate mortgages are no-interest instruments, and the payments are deferred (thus the common reference as “soft” or “silent” mortgage) until the maturity date or other triggering event, such as the sale or other transfer of title, default under the first mortgage, or refinancing of the first mortgage. When any funds related to the subordinate mortgages are received, the funds are recorded as income. Since the subordinate mortgage is forgiven if all monthly mortgage payments are made on time, the subordinate mortgage is considered a contingent asset, and it is therefore not recorded as an asset. The principal amount of subordinated mortgages as of June 30, 2019 and June 30, 2018 totaled \$616,384 and \$523,909, respectively.

NOTE C – CONSTRUCTION IN PROGRESS

Construction in progress represents building materials and labor on houses. The following is a summary of construction in progress at June 30, 2019 and June 30, 2018:

	Number	Cost
Homes under construction, June 30, 2017	14	\$ 256,303
Costs incurred on homes under construction		401,663
New homes started during the year	0	-
Homes transferred during the year	(7)	(472,702)
Homes under construction, June 30, 2018	7	185,264
Costs incurred on homes under construction		236,087
New homes started during the year	11	221,359
Homes transferred during the year	(5)	(332,905)
Homes under construction, June 30, 2019	13	\$ 309,805

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2019 and 2018

NOTE D – FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

At June 30, 2019 and June 30, 2018, the cost and accumulated depreciation of furniture, equipment and leasehold improvement were as follows:

		<u>2019</u>		<u>2018</u>
Computer equipment	\$	57,510	\$	55,365
Office equipment		33,772		33,772
Warehouse equipment		98,649		98,649
Furniture and fixtures		44,027		44,027
Vehicles		565,794		476,115
Leasehold improvements		218,833		193,557
		<u>1,018,585</u>		<u>901,485</u>
Accumulated depreciation		(575,587)		(449,457)
	\$	<u><u>442,998</u></u>	\$	<u><u>452,028</u></u>

Depreciation expense for years ended June 30, 2019 and June 30, 2018 was \$126,130 and \$116,745, respectively.

NOTE E – NOTE PAYABLE

During 2017 the Organization entered into an Acquisition and Development Loan Agreement with a bank providing for borrowings of up to \$1,950,000, at interest rate of 4.25%, for 75% of the acquisition and development cost of 10.58 acres of undeveloped land.

NOTE E – NOTE PAYABLE (continued)

The land is located on Ella Boulevard south of FM 1960 on which the Organization plans to build 60 single family residential affordable housing units. Borrowings during the year ended June 30, 2017 consisted of 75% of the \$1,037,000 land acquisition cost. Interest only payments were due monthly until February 5, 2019 when both principal and interest are due monthly based on the balance then outstanding with a balloon payment of all unpaid principal due on January 5, 2022. The note is collateralized by the land and any resulting mortgages on homes.

Future principal payments by fiscal year as of June 30, 2018 are:

<u>Year ending June 30,</u>		
2020	\$	116,537
2021		121,517
2022		492,237
	\$	<u><u>730,291</u></u>

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 For the years ended June 30, 2019 and 2018

NOTE F– RELATED PARTIES

The Organization elects to tithe a portion of its annual contributions (excluding in-kind and restricted contributions) to HFHI. These funds are used to construct homes in economically depressed areas around the world. For the year ended June 30, 2019 and June 30, 2018, the Organization contributed \$20,000 and \$30,000 to HFHI, respectively.

The organization received contributions in the amount of \$29,814 from HFHI for disaster relief. The organization also received contributions in the amount \$49,084 from HFHI.

The Organization received approximately \$50,005 and \$18,630 in contributions from Board Members in fiscal year 2019 and 2018, respectively.

NOTE G – LEASE COMMITMENTS

The Organization leases space for offices, the Restore resale store, and a donations collection center under an operating lease expiring in 2024 with future commitments by fiscal year as follows:

<u>Year ending June 30,</u>	
2020	\$ 637,761
2021	637,761
2022	638,383
2023	640,762
2024	149,561
	<u>\$ 2,704,228</u>

For the years ended June 30, 2019 and June 30, 2018, rent expense amounted to \$614,367 and \$576,201, respectively. The Company had \$2,511 of rent expense related to a month-to-month storage unit agreement.

NOTE H – LITIGATION AND RISK MANAGEMENT

The organization is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year ended June 30, 2019, the Organization purchased commercial insurance for claims related to such risks.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
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NOTE I - AVAILABILITY AND LIQUIDITY

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

Financial assets at year end:	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 2,445,227	\$ 3,859,925
Less: Cash held in escrow	(350,429)	(348,857)
Accounts receivable, net	<u>37,052</u>	<u>-</u>
	<u>2,131,850</u>	<u>3,511,068</u>
Less amounts not available to be used within one year:		
Net assets with purpose restrictions to be met in less than one year	294,187	1,309,350
Financial assets available to meet general expenditures over the next 12 months	<u>\$ 1,837,663</u>	<u>2,201,718</u>