

HABITAT FOR HUMANITY
NORTHWEST HARRIS COUNTY

FINANCIAL STATEMENTS

June 30, 2018 and 2017

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
June 30, 2018 and 2017



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Independent Auditors' 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, 2018 and 2017, 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.

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 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Kolpount & Kolpount

Houston, Texas
November 27, 2018

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
STATEMENTS OF FINANCIAL POSITION

	June 30,	
	2018	2017
ASSETS		
Cash	\$ 3,859,925	\$ 1,505,813
Mortgage receivable, net	3,231,047	3,253,132
Prepaid expenses	4,383	113,687
Inventory	130,570	126,905
Construction in progress	185,264	256,303
Land held for future construction	1,317,877	1,349,029
Furniture, equipment, and leasehold improvements, net	452,028	343,003
Other assets	42,995	-
	9,224,089	6,947,872
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 103,462	\$ 77,618
Accrued liabilities	85,916	48,598
Escrow funds	254,495	256,673
Note payable	777,343	777,343
	1,221,216	1,160,232
NET ASSETS		
Unrestricted net assets	6,693,523	5,787,640
Temporarily restricted net assets - Home repair	1,309,350	-
	8,002,873	5,787,640
	\$ 9,224,089	\$ 6,947,872

See independent auditors' report and accompanying notes to the financial statements

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
STATEMENT OF ACTIVITIES
For the years ended

	June 30,			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2018 Total</u>	<u>2017 Total Unrestricted</u>
Public support and revenues				
Contributions from donors and foundations	\$ 524,313	\$ 1,826,277	\$ 2,350,590	\$ 414,724
Special events	115,146	-	115,146	128,346
In-kind contributions	39,801	-	39,801	-
Sale of homes, net of discount of \$413,302	269,347	-	269,347	466,150
Interest - Amortization of mortgage discounts	384,430	-	384,430	341,537
Merchandise sales	3,096,223	-	3,096,223	2,956,914
Deconstruction revenue	1,156,000	-	1,156,000	1,332,172
Miscellaneous	16,025	-	16,025	23,864
	<u>5,601,285</u>	<u>1,826,277</u>	<u>7,427,562</u>	<u>5,663,707</u>
Public support and revenues				
Restrictions satisfied by home repair payments	<u>516,927</u>	<u>(516,927)</u>	<u>-</u>	<u>-</u>
Total public support and revenues	<u>6,118,212</u>	<u>1,309,350</u>	<u>7,427,562</u>	<u>5,663,707</u>
Expenses				
Program services	4,795,019	-	4,795,019	4,798,952
Management and general	190,596	-	190,596	137,178
Fundraising	226,714	-	226,714	248,545
	<u>5,212,329</u>	<u>-</u>	<u>5,212,329</u>	<u>5,184,675</u>
Total expenses				
Change in net assets	905,883	1,309,350	2,215,233	479,032
Net assets, beginning of year	<u>5,787,640</u>	<u>-</u>	<u>5,787,640</u>	<u>5,308,608</u>
Net assets, end of year	<u>\$ 6,693,523</u>	<u>\$ 1,309,350</u>	<u>\$ 8,002,873</u>	<u>\$ 5,787,640</u>

See independent auditors' 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 auditors' report and accompanying notes to the financial statements

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2017

	Construction	Restore	Family Services	Total Program Services	Management and General	Fund Raising	Total
Compensation	\$ 257,756	\$ 800,571	\$ 61,067	\$ 1,119,394	\$ 36,287	\$ 131,390	\$ 1,287,071
Construction costs	929,597	-	-	929,597	-	-	929,597
Cost of sales	-	118,757	-	118,757	-	-	118,757
Demolition costs	-	1,306,604	-	1,306,604	-	-	1,306,604
Depreciation expenses	12,221	85,157	-	97,378	-	-	97,378
Equipment rental	658	3,166	-	3,824	-	-	3,824
Insurance	35,697	39,434	-	75,131	4,038	2,407	81,576
Interest	14,771	-	-	14,771	-	-	14,771
Office expense	4,049	12,269	-	16,318	9,863	3,260	29,441
Postage	47	-	24	71	1,128	2,992	4,191
Printing and newsletters	-	792	39	831	405	15,278	16,514
Professional fees & contract labor	4,740	271,195	-	275,935	38,303	-	314,238
Project recycling	-	11,661	-	11,661	-	-	11,661
Public relations	-	-	-	-	-	68,182	68,182
Rent	19,186	498,830	13,704	531,720	2,740	13,704	548,164
Repairs and maintenance	36,407	13,628	-	50,035	-	-	50,035
Small tools	3,370	1,917	-	5,287	-	-	5,287
Supplies	14,020	43,096	-	57,116	-	-	57,116
Property taxes	7,686	-	-	7,686	-	-	7,686
Contribution to HFHI	-	33,300	-	33,300	-	-	33,300
Training and education	484	-	680	1,164	2,625	1,186	4,975
Travel	11,443	39,963	26	51,432	6,783	3,569	61,784
Utilities	3,378	54,585	-	57,963	252	889	59,104
Gain on sale of home	(17,551)	-	-	(17,551)	-	-	(17,551)
Other	26,869	17,888	5,771	50,528	34,754	5,688	90,970
Total Expenses	\$ 1,364,828	\$ 3,352,813	\$ 81,311	\$ 4,798,952	\$ 137,178	\$ 248,545	\$ 5,184,675

See independent auditors' report and accompanying notes to the financial statements

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
STATEMENTS OF CASH FLOWS

	For the years ended June 30,	
	2018	2017
	<u> </u>	<u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,215,233	\$ 479,032
Adjustments to reconcile net change in net assets to net cash used by operating activities:		
Depreciation	116,745	97,377
Gain on disposal of assets	(29,726)	-
Gain on sale of home	-	(17,551)
Sale of homes net	(269,347)	(466,150)
Amortization of discount	(384,430)	(341,537)
Changes in assets and liabilities that provided (used) cash:		
Prepaid expenses	109,304	(16,360)
Inventory	(3,665)	(53,584)
Construction in progress	71,039	81,593
Land held for future construction	94,228	157,391
Other assets	(42,995)	-
Accounts payable	25,844	32,407
Accrued liabilities	37,318	(6,335)
Escrow funds	(2,178)	49,910
Net cash provided by (used in) operating activities	<u>1,937,370</u>	<u>(3,807)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Collections on mortgages receivable	675,862	625,796
Purchase of property and equipment	(275,173)	(106,092)
Purchase land for future construction	(63,076)	(1,123,504)
Proceeds from sale of assets	79,129	-
Net cash provided by (used in) investing activities	<u>416,742</u>	<u>(603,800)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal repayments made on note payable	-	(82,777)
Proceeds from note payable	-	777,343
Net cash provided by (used in) financing activities	<u>-</u>	<u>694,566</u>
NET INCREASE IN CASH	2,354,112	86,959
CASH - beginning of year	<u>1,505,813</u>	<u>1,418,854</u>
CASH - end of year	<u>\$ 3,859,925</u>	<u>\$ 1,505,813</u>
Supplemental disclosures		
Interest paid	\$ 33,037	\$ 12,062

See independent auditors' 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, 2018 and 2017

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 also 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, 2018 and 2017

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 9% 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, 2018 was \$3,600,225.

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, 2018 and 2017.

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, 2018 and 2017

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 2018 and 2017, 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, 2018, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the fiscal year 2014 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 three categories as follows:

Unrestricted Net Assets - represent expendable funds available for operations which are not otherwise limited by donor restrictions.

Temporarily Restricted Net Assets - 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. As of June 30, 2018, temporarily restricted net assets totaled \$1,309,350. As of June 30, 2017, the Organization did not have any temporarily restricted net assets.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2018 and 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

Permanently Restricted Net Assets - are subject to irrevocable donor restrictions requiring the assets be maintained in perpetuity for the purpose of generating investment income to fund current operations. As of June 30, 2018 and 2017, the Organization did not have any permanently restricted net assets.

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, 2018, donated services that required specialized skills totaled \$39,801. For the year ended June 30, 2017, the Organization did not receive significant donated services that required specialized skills.

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, 2018 and 2017

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 November 27, 2018, the date the financial statements were available to be issued. Management is of the opinion there are no subsequent events to disclose.

NOTE B – MORTGAGES RECEIVABLE, NET

Mortgages receivable consist of the following at June 30, 2018 and 2017:

	2018	2017
Receivables due in less than one year \$	514,981	\$ 519,663
Receivables due in one to five years	2,574,904	2,598,314
Thereafter	4,551,398	4,516,519
	7,641,283	7,634,496
Discount	(4,410,236)	(4,381,364)
Mortgages receivable, net	\$ 3,231,047	\$ 3,253,132

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, 2018 and 2017 totaled \$523,909 and \$297,058, respectively.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2018 and 2017

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, 2018 and 2017:

	Number	Cost
Homes under construction, June 30, 2016	8	\$ 337,896
Costs incurred on homes under construction		181,420
New homes started during the year	18	515,345
Homes transferred during the year	(12)	(778,358)
Homes under construction, June 30, 2017	14	256,303
Costs incurred on homes under construction		401,663
New homes started during the year	-	-
Homes transferred during the year	(7)	(472,702)
Homes under construction, June 30, 2018	7	\$ 185,264

NOTE D – FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

At June 30, 2018 and 2017, the cost and accumulated depreciation of furniture, equipment and leasehold improvement were as follows:

	2018	2017
Computer equipment	\$ 55,365	\$ 52,552
Office equipment	33,772	33,772
Warehouse equipment	98,649	98,649
Furniture and fixtures	44,027	44,027
Vehicles	476,115	361,257
Leasehold improvements	193,557	168,597
	901,485	758,854
Accumulated depreciation	(449,457)	(415,851)
	\$ 452,028	\$ 343,003

Depreciation expense for years ended June 30, 2018 and 2017 was \$116,745 and \$93,377, respectively.

NOTE E – NOTE PAYABLE

During 2017 the Organization entered into an Acquisition and Development Loan Agreement with a bank proving 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.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 For the years ended June 30, 2018 and 2017

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 is 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>		
2019	\$	107,964
2020		259,114
2021		259,114
2022		151,151
2023		-
Thereafter		-
	\$	<u><u>777,343</u></u>

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, 2018 and 2017, the Organization contributed \$30,000 and \$34,135 to HFHI, respectively.

The organization received contributions in the amount of \$27,227 from HFHI for Hurricane Harvey relief. The organization also received contributions in the amount \$43,975 from HFHI.

The Organization received approximately \$18,630 and \$18,850 in contributions from Board Members in fiscal year 2018 and 2017, respectively.

NOTE G – LEASE COMMITMENTS

The Organization leases office space, 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>		
2019	\$	558,879
2020		612,745
2021		612,745
2022		616,885
2023		616,885
Thereafter		493,965
	\$	<u><u>3,512,104</u></u>

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2018 and 2017

NOTE G – LEASE COMMITMENTS (continued)

Rent expense amounted to \$576,201 and \$548,164 for 2018 and 2017, respectively. The Company had \$2,595 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 fiscal year 2018, the Organization purchased commercial insurance for claims related to such risks.