



CONSOLIDATED FINANCIAL REPORT

**YEAR ENDED
DECEMBER 31, 2018**



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Armstrong, Vaughan & Associates, P. C.

Certified Public Accountants

Deborah F. Fraser

Phil S. Vaughan

Nancy L. Vaughan

Kimberly J. Roach

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Habitat for Humanity of San Antonio, Inc.
San Antonio, Texas

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Habitat for Humanity of San Antonio, Inc. and its subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated Statements of Activities, Functional Expenses, and Cash Flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 Habitat for Humanity of San Antonio, Inc.'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 consolidated 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 for Humanity of San Antonio, Inc. and its subsidiaries as of December 31, 2018 and 2017, and the consolidated changes in their net assets, functional expenses and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A24 to the financial statements, in 2018 Habitat for Humanity of San Antonio, Inc. adopted new accounting guidance from Financial Accounting Standards Board Update ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. This did not require a restatement of prior year balances. Our opinion is not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued our report dated May 14, 2019 on our consideration of Habitat for Humanity of San Antonio, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Habitat for Humanity of San Antonio, Inc.'s internal control over financial reporting and compliance.

Armstrong, Vaughan & Associates, P.C.

May 14, 2019

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
<i>Current Assets:</i>		
<i>Cash:</i>		
Operating	\$ 5,267,689	\$ 6,493,527
<i>Total Cash</i>	5,267,689	6,493,527
<i>Accounts Receivable:</i>		
Grants	474,317	197,677
Other	88,419	133,398
Mortgage Notes Receivable - Due in One Year	1,702,972	1,575,873
<i>Total Accounts Receivable</i>	2,265,708	1,906,948
<i>Other Current Assets:</i>		
Deposits Held in Custody for Homeowners	597,291	497,026
Prepaid Expenses	289,882	262,410
Inventory	2,274,942	1,655,600
<i>Total Other Current Assets</i>	3,162,115	2,415,036
 <i>Total Current Assets</i>	 10,695,512	 10,815,511
 <i>Non-Current Assets:</i>		
Mortgage Notes Receivable - Due in More Than One Year, Net of Unamortized Discounts of \$10,743,781 for 2018 and \$9,861,692 for 2017	9,506,918	8,711,894
Land Held for Future Development	1,815,672	634,127
Homes Under Construction or Held for Sale	565,212	650,345
Certificate of Deposit - Contingency Fund	2,040,781	2,028,573
Property and Equipment, Net	4,160,383	4,295,480
<i>Total Non-Current Assets</i>	18,088,966	16,320,419
 TOTAL ASSETS	 \$ 28,784,478	 \$ 27,135,930

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONT.)
DECEMBER 31, 2018 AND 2017

	2018	2017
LIABILITIES AND NET ASSETS		
<i>Current Liabilities:</i>		
Accounts Payable	\$ 527,593	\$ 396,586
Accrued Expenses	409,517	378,819
Deposits Held in Custody for Homeowners	597,291	497,026
Non-Refundable Deposits for Prospective Homeowners	96,357	100,468
<i>Total Current Liabilities</i>	1,630,758	1,372,899
<i>Net Assets:</i>		
Without Restriction:		
Operating	3,963,519	5,278,252
Designated - Board of Directors	2,652,372	2,469,443
Land, Inventory, and Homes Under Construction or Held for Sale	4,655,826	2,940,072
Mortgages	11,209,890	10,287,767
Property and Equipment	4,160,383	4,295,480
Total Without Restriction	26,641,990	25,271,014
With Restriction	511,730	492,017
<i>Total Net Assets</i>	27,153,720	25,763,031
TOTAL LIABILITIES AND NET ASSETS	\$ 28,784,478	\$ 27,135,930

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018		Total
	Without Restriction	With Restriction	
REVENUE, GAINS, AND OTHER SUPPORT			
Sales of Homes	\$ 3,835,332	\$ -	\$ 3,835,332
Mortgage Discount Amortization	488,222	-	488,222
Contributions	1,218,333	382,180	1,600,513
Donated Homes, Land, Construction Materials, and Supplies	188,018	-	188,018
Grants	2,783,945	129,550	2,913,495
Home Center Sales of Donated Goods Gross of \$2,049,934 in 2018 and \$2,088,890 in 2017, Less Direct Costs of \$955,260 in 2018 and \$1,024,731 in 2017	1,094,674	-	1,094,674
Home Center Sales of Purchased Goods, Gross of \$2,612,516 in 2018 and \$2,578,123 in 2017, Less Direct Costs of \$2,380,324 in 2018 and \$2,312,539 in 2017	232,192	-	232,192
Interest Income (Including Late Fees)	65,453	-	65,453
Miscellaneous	5,979	-	5,979
Gain on Sale of Property and Equipment	9,157	-	9,157
Net Assets Released from Restrictions - Satisfaction of Program Restrictions	492,017	(492,017)	-
TOTAL REVENUE, GAINS, AND OTHER SUPPORT	10,413,322	19,713	10,433,035
EXPENSES			
Program	8,155,013	-	8,155,013
Management and General	520,552	-	520,552
Fundraising (Includes Unrelated Business Income Tax)	366,781	-	366,781
TOTAL EXPENSES	9,042,346	-	9,042,346
OPERATING INCREASE (DECREASE) IN NET ASSETS	1,370,976	19,713	1,390,689
BEGINNING NET ASSETS	25,271,014	492,017	25,763,031
ENDING NET ASSETS	\$ 26,641,990	\$ 511,730	\$ 27,153,720
COMPOSITION OF NET ASSETS WITHOUT RESTRICTION			
Operating	\$ 3,963,519		
Designated - Board of Directors Land, Inventory, and Homes Under Construction or Held for Sale	2,652,372		
Mortgages	4,655,826		
Property and Equipment	11,209,890		
	4,160,383		
	<u>\$ 26,641,990</u>		

The accompanying notes are an integral part of these financial statements.

2017		
Without Restriction	With Restriction	Total
\$ 3,477,493	\$ -	\$ 3,477,493
488,368	-	488,368
970,327	239,341	1,209,668
273,686	-	273,686
1,969,746	252,676	2,222,422
1,064,159	-	1,064,159
265,584	-	265,584
56,943	-	56,943
3,104	-	3,104
46,721	-	46,721
506,800	(506,800)	-
9,122,931	(14,783)	9,108,148
7,330,316	-	7,330,316
491,441	-	491,441
385,568	-	385,568
8,207,325	-	8,207,325
915,606	(14,783)	900,823
24,355,408	506,800	24,862,208
<u>\$ 25,271,014</u>	<u>\$ 492,017</u>	<u>\$ 25,763,031</u>

\$ 5,278,252
2,469,443
2,940,072
10,287,767
4,295,480
<u>\$ 25,271,014</u>

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			Total
	Program	Management and General	Fundraising	
FUNCTIONAL EXPENSES				
<i>Salaries and Related Expenses:</i>				
Salaries	\$ 1,271,059	\$ 303,485	\$ 173,442	\$ 1,747,986
Payroll Taxes and Benefits	363,944	75,476	35,371	474,791
<i>Total Salaries and Related Expenses</i>	<u>1,635,003</u>	<u>378,961</u>	<u>208,813</u>	<u>2,222,777</u>
<i>Other Expenses:</i>				
Cost of Homes Sold:				
Building Materials and Services	2,749,397	-	-	2,749,397
Land Used	201,572	-	-	201,572
Land Acquisition and				
Development for Future Homes	1,681,184	-	-	1,681,184
Discount on Mortgages Issued	1,370,311	-	-	1,370,311
Legal Fees	-	1,687	-	1,687
Accounting Fees	-	13,441	-	13,441
Professional Fees	-	30,000	-	30,000
Fundraising Services	-	-	44,968	44,968
Mortgage and Title Fees	68,742	-	-	68,742
Advertising and Promotions	94,293	-	17,723	112,016
Office Expense, Phones, and Walkies	21,876	42,871	2,801	67,548
Printing and Publications	34,514	3,334	19,733	57,581
Postage and Freight	19,144	2,206	7,840	29,190
Information Technology	32,425	14,036	13,152	59,613
Travel and Auto	29,758	609	796	31,163
Conferences, Meetings, and Training	5,544	9,355	862	15,761
Tithes to Other Non-Profits	51,161	-	-	51,161
Insurance	66,607	8,571	228	75,406
Volunteer Expenses	22,599	-	-	22,599
Miscellaneous	10,378	651	1,315	12,344
<i>Total Other Expenses</i>	<u>6,459,505</u>	<u>126,761</u>	<u>109,418</u>	<u>6,695,684</u>
<i>Total Expenses before Depreciation and Taxes</i>	<u>8,094,508</u>	<u>505,722</u>	<u>318,231</u>	<u>8,918,461</u>
<i>Depreciation and Taxes:</i>				
Depreciation Expense	60,505	14,830	-	75,335
Unrelated Business Income Taxes	-	-	48,550	48,550
<i>Total Depreciation and Taxes</i>	<u>60,505</u>	<u>14,830</u>	<u>48,550</u>	<u>123,885</u>
TOTAL FUNCTIONAL EXPENSES	<u><u>\$ 8,155,013</u></u>	<u><u>\$ 520,552</u></u>	<u><u>\$ 366,781</u></u>	<u><u>\$ 9,042,346</u></u>
Percent of Functional Expense to Total	90.2%	5.8%	4.0%	100.0%

The accompanying notes are an integral part of these financial statements.

2017			
Program	Management and General	Fundraising	Total
\$ 1,156,688	\$ 292,260	\$ 151,761	\$ 1,600,709
325,259	77,612	33,704	436,575
<u>1,481,947</u>	<u>369,872</u>	<u>185,465</u>	<u>2,037,284</u>
2,395,588	-	-	2,395,588
261,388	-	-	261,388
1,302,626	-	-	1,302,626
1,345,766	-	-	1,345,766
-	2,183	-	2,183
-	12,393	-	12,393
-	-	-	-
-	-	56,387	56,387
57,355	-	-	57,355
102,864	214	14,262	117,340
27,331	49,088	3,618	80,037
24,436	4,407	17,311	46,154
21,466	2,207	6,693	30,366
36,639	16,142	12,738	65,519
31,251	1,397	969	33,617
9,710	10,086	711	20,507
75,660	-	-	75,660
60,120	8,572	246	68,938
29,150	-	-	29,150
5,830	1,080	1,177	8,087
<u>5,787,180</u>	<u>107,769</u>	<u>114,112</u>	<u>6,009,061</u>
<u>7,269,127</u>	<u>477,641</u>	<u>299,577</u>	<u>8,046,345</u>
61,189	13,800	-	74,989
-	-	85,991	85,991
<u>61,189</u>	<u>13,800</u>	<u>85,991</u>	<u>160,980</u>
<u>\$ 7,330,316</u>	<u>\$ 491,441</u>	<u>\$ 385,568</u>	<u>\$ 8,207,325</u>
89.3%	6.0%	4.7%	100.0%

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,390,689	\$ 900,823
Adjustments to Reconcile Change in Net Assets to Cash Provided by Operating Activities:		
(Gain) on Disposal of Property and Equipment	(9,157)	(46,721)
Depreciation	251,799	261,638
Discount on Mortgages Issued	1,370,311	1,345,766
Mortgage Discount Amortization	(488,222)	(488,368)
Decrease (Increase) in:		
Accounts Receivable:		
Grants	(276,640)	654,355
Other	44,979	(123,232)
Prepaid Expenses	(27,472)	(55,495)
Inventory	(619,342)	55,123
Land Held for Future Development	(1,181,545)	128,480
Homes Under Construction or Held for Sale	85,133	(328,862)
(Decrease) Increase in:		
Accounts Payable	131,007	(144,515)
Accrued Expenses	30,698	21,460
Non-Refundable Deposits for Prospective Homeowners	(4,111)	45,613
Total Adjustments	(692,562)	1,325,242
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	698,127	2,226,065
 CASH FLOWS FROM INVESTING ACTIVITIES		
New Mortgage Notes Issued	(3,735,183)	(3,429,676)
Principal Payments Received on Mortgage Notes	1,930,971	1,611,870
Reinvestment in Certificate of Deposit	(12,208)	(9,107)
Proceeds from the Sale of Property and Equipment	9,157	46,721
Purchase of Property and Equipment	(116,702)	(367,210)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(1,923,965)	(2,147,402)
 NET INCREASE (DECREASE) IN CASH	 (1,225,838)	 78,663
 BEGINNING CASH AND CASH EQUIVALENTS	 6,493,527	 6,414,864
ENDING CASH AND CASH EQUIVALENTS	\$ 5,267,689	\$ 6,493,527
 Supplemental Information		
Cash Paid for Unrelated Business Income Tax	\$ 29,825	\$ 134,471
Noncash Activity -		
Included in operating activities are donated building materials, Supplies, and Land of \$188,018 for 2018 and \$273,687 for 2017		

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. ORGANIZATION

Habitat for Humanity of San Antonio, Inc. (Habitat) works with disadvantaged families in the community by constructing and providing simple, decent, and affordable housing. Families selected for a Habitat-constructed home must provide 300 hours "sweat equity" on their home, or on another Habitat project, to complete their eligibility. Upon purchasing and moving into the home, the family begins paying for the house under the terms of a 20 to 25-year, interest-free financing arrangement (see Note E). The sale price of each home is at, or less than, Habitat's cost of constructing the home.

Habitat also operates the Home Center. The Home Center consists of three retail stores selling new and used building materials. New, donated, and salvaged building materials are sold to the public at a reduced cost. The proceeds of the sales provide funds for Habitat's administrative and various other expenses.

Habitat is the sole owner of Hand Up Homes, LLC, a Texas limited liability company, which is considered a disregarded entity for tax purposes. Hand Up Homes was formed to assist in publicizing and promoting the activities of Habitat. Hand Up Homes is authorized to engage in any activities or transactions necessary to carry out or promote activities of Habitat.

2. MISSION STATEMENT

Habitat for Humanity of San Antonio, Inc. is an ecumenical, Christian organization working in partnership with God's people in need to build modest, decent, and affordable homes without interest or profit, thereby witnessing God's love in action.

3. BASIS OF PRESENTATION

The financial statements of Habitat have been prepared on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they are earned and expenses are recognized when they are incurred. Net assets of Habitat and changes therein are classified and reported according to two classes of net assets as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations. Net assets restricted solely through actions of the Board of Directors are reported as net assets without donor restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or passage of time.

4. RECOGNITION OF DONOR RESTRICTIONS

Support that is restricted by the donor is reported as an increase in net assets without restrictions if the restriction expires in the reporting period in which the support is recognized. Contributions received and expended in the same fiscal year are recorded as contributions without restrictions. All other donor- restricted support is reported as an increase in net assets with restrictions. So, donor-restricted support is reported as an increase in net assets with restrictions. Therefore, when a restriction expires, net assets with restrictions are reclassified to net assets without restrictions.

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018 AND 2017

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

5. CASH AND CASH EQUIVALENTS

All highly liquid investments with original maturities of three months or less are considered cash and cash equivalents for cash flow purposes.

6. ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

Based on historical data, Habitat considers all notes receivable to be fully collectible or, if not fully collectible, then it is considered that the value of the homes collateralizing the notes exceeds the unpaid amount of the related receivable. Accordingly, no allowance for uncollectible accounts is included in Habitat's financial statements.

7. DEPOSITS HELD IN CUSTODY FOR HOMEOWNERS

Deposits held in custody for homeowners are escrow funds collected from homeowners for payment of their property taxes and homeowners' insurance. These custodial funds are held in a fiduciary capacity by Habitat.

8. NON-REFUNDABLE DEPOSITS FOR PROSPECTIVE HOMEOWNERS

Non-refundable deposits for prospective homeowners are customer deposits for homes that have not yet been closed on. Deposits are received from approved home buyers during the lot selection phase of home builds. The payment will be used to pay the principal and escrow of the home loan on signing day.

9. PREPAID EXPENSES AND SECURITY DEPOSITS

Expenses recorded in advance of the service or product being received are deferred and carried on the statement of financial position as prepaid expenses. Security deposits are payments made to establish services provided by the Home Center locations. These deposits are refundable after services have been terminated.

10. INVENTORY

Inventory consists of donated and purchased goods. Purchased goods are valued at the lower of cost or market. Cost value is determined by the moving-average cost method. Market value is based on net realizable value.

Donated items that can be used in the construction of houses are valued at the estimated cost that Habitat would have paid for the item had it not been donated.

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018 AND 2017

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

10. INVENTORY (CONT.)

Any donated items that cannot be used in the construction of the houses are resold by Habitat in the Home Center. Habitat believes that the inventory of contributed goods and materials that are for resale does not possess an attribute that is easily measurable or verifiable, with sufficient reliability to determine an inventory value at the time of donation. It is only through the value-added processes that prepare the donated inventory for sale that the donated inventory has value. Accordingly, contributed goods and materials inventory for resale are valued at zero at the time of donation. Habitat subsequently estimates the value of inventory at year-end based on five weeks of subsequent sales of inventory.

11. MORTGAGES RECEIVABLE AND MORTGAGE DISCOUNT AMORTIZATION

Homes are sold at or below cost. When recorded as a sale, the sale of the homes, as well as the discount on mortgage issued, is recognized for the entire cost of the home. Habitat imputes interest on its mortgages receivable, which carry a 0% stated interest rate. The value of a Habitat house given in exchange for the mortgage note is deemed to be the present value of all future mortgage principal payments, using the effective mortgage interest rate at the time of issuance.

The total mortgage discount amortization is recorded on the Statements of Financial Position as a contra account to mortgages receivable, and is amortized using the straight-line method over the life of the note. Mortgages are discounted at rates varying from 7.50% to 8.75% in accordance with rates suggested by Habitat for Humanity International. The mortgage discount is amortized over the life of the home and recognized as mortgage discount amortization on the Consolidated Statement of Activities.

12. FUTURE DEVELOPMENT AND EXISTING CONSTRUCTION

Habitat records land held for future development and homes under construction or held for sale at cost, which is equal to or less than estimated future sales prices. Cost includes land acquisition, other related development costs, and construction costs on homes in progress or held for sale.

13. CAPITALIZATION POLICY

Habitat capitalizes property and equipment having an estimated useful life of more than one year and a cost of \$1,000 or more. Purchased property and equipment is stated at cost. Donated property and equipment is recorded at fair value at the date of the gift. Depreciation is calculated on the straight-line method over the estimated useful lives of the depreciable assets, which range from 3 to 40 years. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018 AND 2017

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

14. REVENUE RECOGNITION

In accordance with GAAP, revenue is recorded when earned rather than received. The following summarizes the revenue recognition policies for major classifications of revenue:

- *Sales of Homes* - Revenue is recorded at the time of closing.
- *Contributions* - Contributions are reported when an unconditional promise to give or other asset is received (in accordance with ASC 958-605). Gifts of securities are recorded at their fair market value when received.
- *Government Funding* - Government funding is recorded on a reimbursement basis. Specifically, when qualifying expenses are incurred by Habitat, both a receivable from the government granting agency and offsetting grant revenues are recorded.
- *Home Center Sales* - Home Center sales are recorded as revenue at the point of sale.

15. CONTRIBUTIONS

Habitat records contributions received as support without restriction or with restriction, depending on the existence and/or nature of any donor restrictions.

16. DONATED GOODS AND SERVICES

Donated goods and services that can be measured, and meet certain other requirements, are recorded in the financial statements as contributions and either expenses of a like amount or donated inventory. The value of the time of unpaid (unskilled) volunteers who have donated significant time to building Habitat homes and performing certain administrative functions is not reflected in these financial statements because it does not meet the requirements of recording under accounting principles generally accepted in the United States of America (GAAP).

17. INCOME TAX STATUS

Habitat is exempt from federal income taxes pursuant to provisions of Code Section 501(a)9 and file as a 501(c)(3) organization as defined by the Internal Revenue Code. Habitat is required to file Internal Revenue Service Form 990, Return of Organization Exempt from Income Tax annually.

Habitat adopted the provisions of FASB ASC topic 740-10-25, *Income Taxes - Overall - Recognition*, which requires recognition and disclosure of uncertain tax positions in the financial statements and footnotes. The management of Habitat believes it has no material uncertain tax positions, and accordingly, it will not recognize any liability for unrecognized tax benefits. For the years ended December 31, 2018 and 2017, Habitat did not recognize any interest or penalties.

Tax years 2015-2017 remain open to examination by the taxing jurisdictions to which Habitat is subject, and these periods have not been extended beyond the applicable statute of limitations.

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018 AND 2017

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

18. USE OF ESTIMATES

The preparation of the financial statements on the accrual basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

Effective January 1, 2008, Habitat adopted the Fair Value Measurements and Disclosures provisions of Accounting Standards Codification (ASC) 820, which establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants. ASC 820 also requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs.

Under the Fair Value Measurements and Disclosures topic of the Codification, ASC 820, disclosures are required about how fair value is determined for assets and liabilities, and a hierarchy for which these assets and liabilities must be grouped is established, based on significant levels of inputs as follows:

- Level 1 Quoted prices in active markets for identical assets or liabilities;
- Level 2 Quoted prices in active markets for similar assets and liabilities, and inputs that are observable for the asset or liability;
- Level 3 Unobservable inputs for the asset or liability, such as discounted cash flow models or valuations.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Habitat's financial instruments measured at fair value consist primarily of contributions receivable and mortgages receivable.

A present value discount was calculated on contributions receivable as of December 31, 2018 and 2017 and determined to be insignificant and, therefore, was not recorded in these financial statements. The fair value of mortgages receivable is estimated by discounting the future cash flows using a current interest rate of return based on current market value (see Note F).

20. FUNCTIONAL EXPENSE ALLOCATION

The Statements of Functional Expenses present expenses by function and natural classification. The costs of providing Habitat's various programs and activities have been summarized on the functional basis in the Statement of Activities. The majority of the expenses are recorded directly to the program, administrative or fundraising function for which they benefited. Accordingly, certain other costs require an allocation on a reasonable basis that is consistently applied. The expenses which are applied include salaries and benefits which are allocated on the basis of salary surveys (time and efforts) of the employees.

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018 AND 2017

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

21. ADVERTISING COSTS

Habitat expenses advertising costs at the time the advertising occurs.

22. RECLASSIFICATIONS

Certain reclassifications have been made to the December 31, 2017 comparative information to conform to the December 31, 2018 presentation. These reclassifications had no effect on net assets.

23. SUBSEQUENT EVENTS

Subsequent events are considered through May 14, 2019, which is the date the financial statements were available to be issued.

24. NEW ACCOUNTING PRONOUNCEMENT

In August 2016, the FASB issued ASU 2016-14, "*Presentation of Financial Statements of Not-for-Profit Entities*" (Topic 958). The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. In additions, ASU 2016-14 removes the requirement that not-for-profit entities that chose to prepare the statement of cash flows using the direct method must also present a reconciliation (the indirect method). The Organization has adopted the ASU as of January 1, 2018.

NOTE B -- FDIC INSURANCE OF CASH AND CASH EQUIVALENTS

As of December 31, 2018, Habitat's bank balance, including the contingency fund certificate of deposit, was \$8,182,053 and the carrying amount was \$7,903,060. Habitat holds petty cash in the amount of \$2,700. Financial instruments which potentially subject Habitat to a concentration of credit risk consist principally of cash and certificates of deposit. Habitat maintains multiple bank accounts in multiple banks in San Antonio. Accounts at the institutions are insured by the Federal Deposit Insurance Corporation (FDIC) or Securities Investor Protection Corporation (SIPC) insurance.

FDIC insures balances up to \$250,000 per financial institution. SIPC insurance covers cash and securities, such as stocks and bonds, held by a customer at a brokerage firm, subject to limitations of the corporation. As of December 31, 2018 and 2017, cash and certificate of deposit balances exceeded FDIC and SIPC limits by \$7,111,818, and \$8,037,070, respectively.

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018 AND 2017

NOTE C -- DEPOSITS HELD IN CUSTODY FOR HOMEOWNERS

Habitat has assigned its mortgage collections operations to Frost National Bank (Frost). The agreement states that Frost will collect and remit principal and escrow payments on the mortgages. The funds received from the escrow payments are shown as both an asset and liability on the financial statements.

NOTE D -- INVENTORY

As of December 31, 2018 and 2017, Habitat recorded Inventory values as follows:

	<u>2018</u>	<u>2017</u>
Home Construction Materials	\$ 785,556	\$ 566,759
Donated Goods for Resale	252,467	262,720
Purchased Goods for Resale	<u>1,236,919</u>	<u>826,121</u>
Total	<u>\$ 2,274,942</u>	<u>\$ 1,655,600</u>

NOTE E -- MORTGAGE NOTES RECEIVABLE

The financing arrangement for the sale of Habitat homes is interest-free and payable over 20 to 25 years. For financial accounting purposes, the mortgage on the sale of a home is treated as a single transaction and is accounted for as a sale at inception of the financing arrangement. Mortgage notes receivable at year end are summarized as follows:

	<u>Due Within One Year</u>	<u>Due Beyond One Year</u>	<u>Total</u>
December 31, 2018			
Mortgage Notes Receivable	\$ 1,702,972	\$ 20,250,699	\$ 21,953,671
Less: Unamortized Discount			<u>(10,743,781)</u>
			<u>\$ 11,209,890</u>
December 31, 2017			
Mortgage Notes Receivable	\$ 1,575,873	\$ 18,573,586	\$ 20,149,459
Less: Unamortized Discount			<u>(9,861,692)</u>
			<u>\$ 10,287,767</u>

Habitat has participated in the Texas Department of Housing and Community Affairs' (TDHCA) Texas Bootstrap Loan Program (the Bootstrap Program). The Bootstrap Program requires TDHCA to work through certified nonprofit organizations to create mortgages to owner-builders who provide at least 60% of the labor necessary to build the proposed housing. Because Habitat restricts the maximum amount allowed under the Bootstrap Program to \$36,500, the homebuyer normally obtains a first mortgage from Habitat and then a bootstrap mortgage from the TDHCA in order to purchase a Habitat house. During 2018 and 2017, Habitat did not apply for Bootstrap funds.

Both mortgages have an interest rate of 0% and are serviced by Habitat through a local bank. The homeowner makes a single monthly payment to the bank for both mortgages. The bank, in turn, remits the entire amount collected to Habitat. Habitat retains its portion of the total mortgage payment and remits the portion attributable to the bootstrap mortgage to TDHCA. The Bootstrap Program mortgages are not reflected in Habitat's financial statements because Habitat acts only as a payment agent for these mortgages. At December 31, 2018 and 2017, the total amounts of mortgages held by TDHCA were \$4,892,084 and \$5,322,492, respectively.

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018 AND 2017

NOTE E -- MORTGAGE NOTES RECEIVABLE (CONT.)

Habitat anticipates future minimum mortgage receivable payments as follows:

Year Ended December 31,	
2019	\$ 1,702,972
2020	1,666,761
2021	1,629,162
2022	1,587,480
2023	1,553,311
2024-2028	6,805,808
2029-2033	4,797,481
2034-2038	2,210,696
Total Mortgage Notes Receivable	21,953,671
Less: Unamortized Discount	(10,743,781)
Mortgage Receivable, Net of Unamortized Discount	\$ 11,209,890

NOTE F -- FAIR VALUE MEASUREMENTS

In accordance with the fair value hierarchy described in Note A, the following table shows the fair value of Habitat's financial assets and liabilities that are required to be measured at fair value as of December 31:

	Level 1	Level 2	Level 3	Total
2018				
Mortgages Receivable	\$ -	\$ -	\$ 11,209,890	\$ 11,209,890
Total Assets/Liabilities at Fair Value	\$ -	\$ -	\$ 11,209,890	\$ 11,209,890
2017				
Mortgages Receivable	\$ -	\$ -	\$ 10,287,767	\$ 10,287,767
Total Assets/Liabilities at Fair Value	\$ -	\$ -	\$ 10,287,767	\$ 10,287,767

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018 AND 2017

NOTE F -- FAIR VALUE MEASUREMENTS (CONT.)

The following table sets forth a summary of changes in the fair value of Habitat's Level 3 Assets for the year ended December 31, 2018 and 2017:

	Level 3 2018	Level 3 2017
Mortgages Receivable		
Balance, Beginning of Year	\$ 10,287,767	\$ 9,327,359
New Mortgages	3,735,183	3,429,676
Payments	(1,930,971)	(1,611,870)
Change in Discount	(882,089)	(857,398)
	<u>\$ 11,209,890</u>	<u>\$ 10,287,767</u>

NOTE G -- PROPERTY AND EQUIPMENT

Land, buildings, and equipment, less accumulated depreciation at December 31, were as follows:

	2018	2017
Probandt Facilities:		
Land	\$ 387,066	\$ 387,066
Buildings and Improvements	1,616,503	1,562,424
Total Probandt Facilities	<u>2,003,569</u>	<u>1,949,490</u>
Walzem Home Center:		
Land	720,354	720,354
Buildings and Improvements	1,280,020	1,271,477
Total Walzem Facilities	<u>2,000,374</u>	<u>1,991,831</u>
Meadow Leaf Home Center:		
Land	136,000	136,000
Buildings and Improvements	1,952,737	1,946,019
Total Meadow Leaf Facilities	<u>2,088,737</u>	<u>2,082,019</u>
Furniture, Equipment, and Vehicles	<u>918,085</u>	<u>903,961</u>
Total Property and Equipment	7,010,765	6,927,301
Less: Accumulated Depreciation	<u>(2,850,382)</u>	<u>(2,631,821)</u>
Net Property and Equipment	<u>\$ 4,160,383</u>	<u>\$ 4,295,480</u>

Land is not depreciated.

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018 AND 2017

NOTE H -- DEPRECIATION EXPENSE

A portion of depreciation expense is charged to the Home Center as direct costs on the Statements of Activities, and the remainder is shown on the Statements of Functional Expenses. Depreciation expense for the years ended December 31, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Depreciation Charged to Direct Costs of the Home Center	\$ 176,464	\$ 186,649
Depreciation Charged to Expense	<u>75,335</u>	<u>74,989</u>
Total	<u>\$ 251,799</u>	<u>\$ 261,638</u>

NOTE I -- LAND ACQUISITION AND DEVELOPMENT

The 2018 land acquisition and development for future homes included expenses of \$1,681,184 for the Lenwood Heights Unit Subdivision and Rancho Carlota. The 2017 land acquisition and development for future homes included expenses of \$1,302,626 for the Lenwood Heights Unit Subdivision.

NOTE J -- CONTRIBUTIONS

Contributions for the years ended December 31 consisted of the following:

	<u>2018</u>	<u>2017</u>
Contributions Without Restrictions		
Public Support	\$ 336,018	\$ 287,280
Habitat for Humanity International	4,708	3,681
Cross Timber Homes	-	34,945
House Sponsors	<u>877,607</u>	<u>644,421</u>
Total Contributions Without Restrictions	1,218,333	970,327
Contributions With Restrictions		
House Sponsors	<u>382,180</u>	<u>239,341</u>
Total Contributions	<u>\$ 1,600,513</u>	<u>\$ 1,209,668</u>

As of December 31, 2018 and 2017, net assets with restrictions balances were \$511,730 and \$492,017, respectively, to be used for the construction of homes.

NOTE K -- NET ASSETS WITHOUT DONOR RESTRICTIONS – BOARD DESIGNATED

Habitat's governing board has designated, from net assets without donor restrictions, net assets for the following purpose as of December 31, 2018 and 2017, respectively:

	<u>2018</u>	<u>2017</u>
Contingency and Operations	<u>\$ 2,652,372</u>	<u>\$ 2,469,443</u>

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2018 AND 2017

NOTE L -- NET ASSETS RELEASED FROM RESTRICTION

Net assets were released from donor (house sponsors') restrictions by incurring expenses satisfying the restricted purposes. Purpose restricted contributions released during 2018 and 2017 totaled \$492,017 and \$506,800, respectively.

NOTE M -- USE OF DONOR FUNDS

Habitat uses 100% of all cash contributions and grants for Program activities unless the donor has specifically designated an alternate use. Other revenue, including proceeds from the Home Center, are used to pay for the remaining program expenses, as well as all Management, General, and Fundraising expenses. For the year ended December 31, 2018, Habitat received \$1,218,333 in cash contributions without restrictions and \$2,783,945 in grants without restrictions. During the year ended December 31, 2017, Habitat received \$970,327 in cash contributions without restrictions and \$1,969,746 in grants without restrictions. One hundred percent of these donor funds were used for Program Expenses.

NOTE N -- RETIREMENT PLAN

Habitat has a defined contribution retirement plan that qualifies under Section 403(b) of the Internal Revenue Code. The plan allows employees who are over the age of 21 and work at least 20 hours per week to immediately contribute to the plan. The employer contribution percentage established by the Board of Directors is set at a maximum of 6%. However, the employer match does not begin until the employee has completed twelve months of service. For the year ended December 31, 2018 and 2017, Habitat's contribution totaled \$147,824 and \$129,991, respectively.

NOTE O -- UNRELATED BUSINESS INCOME TAX

Habitat is subject to and pays unrelated business income tax on the sale of items purchased to resell in the Home Center. The tax is calculated as a percentage of net sales using corporate rates. Net sales are gross sales less any cost of goods sold and other allocated costs.

NOTE P -- FORGIVABLE LOANS FROM THE CITY OF SAN ANTONIO

Habitat participated in the HOME Investment Partnership Program in 2014, 2015, 2016, 2017, and 2018. As part of the HOME Investment Partnership Program, Habitat receives a forgivable loan each year from the City of San Antonio. For each of the forgivable loans, Habitat donates the infrastructure built with the HOME Investment Partnership Program loan back to the City as the infrastructure is completed for each grant. As the homes are then sold to the clients, the City incrementally forgives the loan.

Grants receivable consists of amounts spent toward land acquisition and construction of infrastructure at subdivisions approved per the HOME Investment Partnership Program that have not been reimbursed by the City. As of December 31, 2018 and 2017, grants receivables balances from the City are as follows:

	2018	2017
Lenwood Heights Unit 3	\$ 21,020	\$ 83,357
Lenwood Heights Unit 4	259,705	-
	\$ 280,725	\$ 83,357

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2018 AND 2017

NOTE P -- FORGIVABLE LOANS FROM THE CITY OF SAN ANTONIO (CONT.)

Lenwood Heights Unit 3 Subdivision

In 2016, Habitat received a forgivable loan from the City for the land acquisition and construction of infrastructure at the Lenwood Heights Unit 3 Subdivision. The provisions of the loan provided that payments on the loan be deferred and that the principal and interest be forgiven on a pro-rata basis, as each of the 44 houses in the development are sold. As of December 31, 2016, Habitat had begun expending the \$1,670,000 allowed under this loan as follows:

Year Ended December 31,			
2016	\$	13,161	(\$13,161 was approved for reimbursement by the City during 2016 and was received during 2017)
2017		844,524	(\$844,524 was approved for reimbursement by the City during 2017, of which \$83,357 was received during 2018)
2018		443,548	(\$443,548 was approved for reimbursement by the City during 2018 and \$21,020 was still receivable at December 31, 2018)
Total Expended:		<u>\$ 1,301,233</u>	

The reimbursements from the City were recorded as grant revenue at the time they were earned (i.e. funds expended), since it was likely Habitat would fulfill the loan terms.

Lenwood Heights Unit 4 Subdivision

In 2017, Habitat received a forgivable loan from the City for the land acquisition and construction of infrastructure at the Lenwood Heights Unit 4 Subdivision. The provisions of the loan provided that payments on the loan be deferred and that the principal and interest be forgiven on a pro-rata basis, as each of the 42 houses in the development are sold. As of December 31, 2018, Habitat had begun expending the \$1,659,000 allowed under this loan as follows:

Year Ended December 31,			
2018	\$	1,079,068	(\$1,079,068 was approved for reimbursement by the City during 2018 and \$259,705 was still receivable at December 31, 2018)
Total Expended:		<u>\$ 1,079,068</u>	

The reimbursements from the City were recorded as grant revenue at the time they were earned (i.e. funds expended), since it was likely Habitat would fulfill the loan terms.

NOTE Q -- FORGIVABLE LOANS FROM BEXAR COUNTY

Habitat participated in the HOME Investment Partnership Program in 2015, 2016, 2017, and 2018. As part of the HOME Investment Partnership Program, Habitat receives a forgivable loan from Bexar County to provide home ownership opportunities to low income families through new, single-family homes. As the homes are then sold to the clients, the county incrementally forgives the loan.

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2018 AND 2017

NOTE Q -- FORGIVABLE LOANS FROM BEXAR COUNTY (CONT.)

Grants receivable consists of amounts spent toward construction of infrastructure at subdivisions approved per the HOME Investment Partnership Program that have not been reimbursed by the County. As of December 31, 2018, grants receivable balance was as follows:

	2018	2017
Lenwood Heights	\$ 118,592	\$ 25,651
	\$ 118,592	\$ 25,651

Lenwood Heights Subdivision

In 2016, Habitat received a forgivable loan from the County for the land acquisition and construction of infrastructure at the Lenwood Heights Subdivision. The provisions of the loan provided that payments on the loan be deferred and that the principal and interest be forgiven on a pro-rata, basis as each of the 32 houses in the development are sold. As of December 31, 2016, Habitat had begun expending the \$1,214,206 allowed under this loan as follows:

Year Ended December 31,			
2016	\$ 328,567		(During 2016, \$36,936 was approved for reimbursement by Bexar County and was received in 2017)
2017	280,461		(During 2017, \$280,461 was approved for reimbursement by Bexar County, of which \$25,651 was received in 2018)
2018	438,814		During 2018, \$438,814 was approved for reimbursement by Bexar County and \$118,592 was still receivable at December 31, 2018)
Total Expended:	\$ 1,047,842		

The reimbursements from the County were recorded as grant revenue at the time they were earned (i.e. funds expended), since it was likely Habitat would fulfill the loan terms.

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018 AND 2017

NOTE R -- GRANTS RECEIVABLE

Grants receivable are made up of the following receivable balances as of December 31, 2018 and 2017.

	2018	2017
Neighborworks America	\$ 75,000	\$ 80,669
Local Initiatives Support Corp	-	8,000
Lenwood Heights - City of San Antonio	280,725	83,357
Lenwood Heights - Bexar County	118,592	25,651
Total	<u>\$ 474,317</u>	<u>\$ 197,677</u>

NOTE S -- FUNDRAISING

Habitat conducts certain fundraising activities to generate revenues to assist in supporting its programs and activities. Revenue earned through fundraising activities is recorded as without restrictions or with restrictions based on the donor-imposed restrictions. For the years ended December 31, 2018 and 2017, fundraising expenses before depreciation and taxes totaled \$318,231 and \$299,577, respectively.

NOTE T -- LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

Habitat for Humanity of San Antonio, Inc. maintains funds on hand to meet upcoming operating needs in a given year which are kept in a capital funds cash account and a certificate of deposit contingency account. Habitat had a balance of \$3,769,994 and \$5,116,310 of financial assets available to meet cash needs in the next year for general expenditures as of December 31, 2018 and 2017, respectively, as shown in the table below.

	2018	2017
Cash - Operating	\$ 5,267,689	\$ 6,493,527
Certificate of Deposit - Contingency	2,040,781	2,028,573
Accounts Receivable:		
Grants	474,317	197,677
Other	88,419	133,398
Accounts Payable	(527,593)	(396,586)
Accrued Expenses	(409,517)	(378,819)
Total Financial Assets	<u>\$ 6,934,096</u>	<u>\$ 8,077,770</u>
Less Board Designated Funds	(2,652,372)	(2,469,443)
Less Net Assets With Donor Restriction	(511,730)	(492,017)
Total Available Cash for General Expenditure Needs	<u>\$ 3,769,994</u>	<u>\$ 5,116,310</u>

NOTE U -- LITIGATION

Management of Habitat is not aware of any pending or threatened litigation.





INDEPENDENT AUDITOR'S REPORT

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Habitat for Humanity of San Antonio, Inc.
San Antonio, Texas

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Accounting Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Habitat for Humanity of San Antonio, Inc., which comprise the Consolidated Statement of Financial Position as of December 31, 2018, the related Consolidated Statement of Activities, Statement of Functional Expenses, and Statement of Cash Flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated May 14, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements we considered Habitat for Humanity of San Antonio, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Habitat for Humanity of San Antonio, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Habitat for Humanity of San Antonio, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Habitat for Humanity of San Antonio, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely for to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Armstrong, Vaughan & Associates, P.C.".

Armstrong, Vaughan & Associates, P.C.

May 14, 2019



INDEPENDENT AUDITOR'S REPORT

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH UNIFORM GUIDANCE

To the Board of Directors
Habitat for Humanity of San Antonio, Inc.

Report on Compliance for Each Major Federal Program

We have audited Habitat for Humanity of San Antonio, Inc.'s compliance with the types of compliance requirements described in *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of Habitat for Humanity of San Antonio, Inc.'s major federal programs for the year ended December 31, 2018. Habitat for Humanity of San Antonio, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Habitat for Humanity of San Antonio, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Habitat for Humanity of San Antonio, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Habitat for Humanity of San Antonio, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Habitat for Humanity of San Antonio, Inc. complied in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

Report on Internal Control over Compliance

Management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our compliance audit, we considered Habitat for Humanity of San Antonio, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program, and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Habitat for Humanity of San Antonio, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a *material weakness in internal control over compliance*, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



Armstrong, Vaughan & Associates, P.C.

May 14, 2019

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2018

Grantor/Pass-through Grantor/Program Title	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor or Grant Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed Through City of San Antonio, Texas HOME Investment Partnership Program Lenwood Heights Unit #3	14.239	25-R1609290239 & 25-R1609290240	\$ 443,548
Lenwood Heights Unit #4		25-0260020 & 25- R1710050051	1,079,068
CHDO Operating Expense		25-0260022	75,000
Passed Through County of Bexar, Texas HOME Investment Partnership Program Lenwood Heights Unit #3	14.239	CHDO	<u>438,814</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>2,036,430</u>
TOTAL FEDERAL AWARDS EXPENDED			<u><u>\$ 2,036,430</u></u>

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2018

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards of Habitat for Humanity of San Antonio, Inc. has been prepared in accordance with accounting principles generally accepted in the United States of America. The purpose of the schedule is to present, in summary form, federal and state awards received by Habitat for Humanity of San Antonio, Inc. under contracts with various granting agencies.

Habitat for Humanity of San Antonio, Inc. has not elected to use the 10% de minimus indirect cost rate.

NOTE 2 -- RECONCILIATION TO FINANCIAL STATEMENTS

Because the Schedule of Expenditures of Federal Awards presents only a selected portion of the activities of Habitat for Humanity of San Antonio, Inc., it is not intended to and does not present either the financial position, activities, or changes in net assets of Habitat for Humanity of San Antonio, Inc.

The table below identifies the reconciliation of the Schedule of Expenditures of Federal Awards of Habitat for Humanity of San Antonio, Inc. to the total grant revenues per the Statement of Activities.

Total Expenditures Federal Awards	\$ 2,036,430
Add: Other Grants	<u>877,065</u>
Total Grants per Statement of Activities	<u><u>\$ 2,913,495</u></u>

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS
 DECEMBER 31, 2018

A. Summary of Auditor’s Results

1. Financial Statements

Type of auditor’s report issued: Unmodified

Internal Control over Financial Reporting:

One or more material weaknesses identified Yes No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes None Reported

Noncompliance material to the financial statements noted? Yes No

2. Federal Awards

Internal Control over Major Programs:

One or more material weaknesses identified Yes No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes None Reported

Type of auditor’s report issued on compliance for Major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with CFR Part 200 of the Uniform Guidance? Yes No

Identification of major programs:

<u>CDEFA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.239	HOME Investment Partnership Program

Dollar threshold used to distinguish between type A and type B federal program: \$750,000

Auditee qualified as a low-risk auditee? Yes No

B. Financial Statement Findings

NONE

C. Federal Awards Findings and Questioned Costs

NONE

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2018

FINDINGS - 2017 - NONE

