



CONSOLIDATED FINANCIAL REPORT

**YEAR ENDED
DECEMBER 31, 2019**



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Armstrong, Vaughan & Associates, P. C.

Certified Public Accountants

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, 2019 and 2018, 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, 2019 and 2018, 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 consolidated financial statements, in January 2019 Habitat for Humanity of San Antonio, Inc. adopted new accounting guidance from Financial Accounting Standards Board Update ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) and ASU No. 2018-08, *Not-for-Profit Entities* (Topic 958) – *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements or to the consolidated 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 consolidated 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 13, 2020 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 13, 2020

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
<i>Current Assets:</i>		
<i>Cash:</i>		
Operating	\$ 5,711,637	\$ 5,267,689
<i>Total Cash</i>	5,711,637	5,267,689
<i>Accounts Receivable:</i>		
Grants	1,185,001	474,317
Other	471,169	88,419
Mortgage Notes Receivable - Due in One Year	1,838,857	1,702,972
<i>Total Accounts Receivable</i>	3,495,027	2,265,708
<i>Other Current Assets:</i>		
Deposits Held in Custody for Homeowners	614,832	597,291
Prepaid Expenses	320,109	289,882
Inventory	1,963,428	2,274,942
<i>Total Other Current Assets</i>	2,898,369	3,162,115
<i>Total Current Assets</i>	12,105,033	10,695,512
<i>Non-Current Assets:</i>		
Mortgage Notes Receivable - Due in More Than One Year, Net of Unamortized Discounts of \$11,673,229 for 2019 and \$10,743,781 for 2018	10,396,743	9,506,918
Land Held for Future Development	1,717,524	1,815,672
Homes Under Construction or Held for Sale	604,219	565,212
Certificate of Deposit - Contingency Fund	2,022,692	2,040,781
Property and Equipment, Net	4,084,311	4,160,383
<i>Total Non-Current Assets</i>	18,825,489	18,088,966
TOTAL ASSETS	\$ 30,930,522	\$ 28,784,478

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, 2019 AND 2018

	2019	2018
LIABILITIES AND NET ASSETS		
<i>Current Liabilities:</i>		
Accounts Payable	\$ 561,677	\$ 527,593
Accrued Expenses	412,378	409,517
Deposits Held in Custody for Homeowners	614,832	597,291
Non-Refundable Deposits for Prospective Homeowners	128,832	96,357
<i>Total Current Liabilities</i>	1,717,719	1,630,758
<i>Net Assets:</i>		
Without Restriction:		
Operating	5,342,747	3,963,519
Designated - Board of Directors	2,710,455	2,652,372
Land, Inventory, and Homes Under Construction or Held for Sale	4,285,171	4,655,826
Mortgages	12,235,600	11,209,890
Property and Equipment	4,084,311	4,160,383
Total Without Restriction	28,658,284	26,641,990
With Restriction	554,519	511,730
<i>Total Net Assets</i>	29,212,803	27,153,720
TOTAL LIABILITIES AND NET ASSETS	\$ 30,930,522	\$ 28,784,478

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, 2019 AND 2018

	2019		Total
	Without Restriction	With Restriction	
REVENUE, GAINS, AND OTHER SUPPORT			
Sales of Homes	\$ 4,168,252	\$ -	\$ 4,168,252
Mortgage Discount Amortization	378,388	-	378,388
Contributions	1,397,047	455,440	1,852,487
Donated Homes, Land, Construction Materials, and Supplies	265,898	-	265,898
Grants	4,502,478	99,079	4,601,557
Home Center Sales of Donated Goods Gross of \$1,837,934 in 2019 and \$2,049,934 in 2018, Less Direct Costs of \$808,000 in 2019 and \$955,260 in 2018	1,029,934	-	1,029,934
Home Center Sales of Purchased Goods, Gross of \$2,937,567 in 2019 and \$2,612,516 in 2018, Less Direct Costs of \$2,542,793 in 2019 and \$2,380,324 in 2018	394,774	-	394,774
Interest Income (Including Late Fees)	93,418	-	93,418
Miscellaneous	14,809	-	14,809
Gain on Sale of Property and Equipment	37,485	-	37,485
Net Assets Released from Restrictions - Satisfaction of Program Restrictions	511,730	(511,730)	-
TOTAL REVENUE, GAINS, AND OTHER SUPPORT	12,794,213	42,789	12,837,002
EXPENSES			
Program	9,618,400	-	9,618,400
Management and General	716,408	-	716,408
Fundraising (Includes Unrelated Business Income Tax)	443,111	-	443,111
TOTAL EXPENSES	10,777,919	-	10,777,919
OPERATING INCREASE (DECREASE) IN NET ASSETS	2,016,294	42,789	2,059,083
BEGINNING NET ASSETS	26,641,990	511,730	27,153,720
ENDING NET ASSETS	\$ 28,658,284	\$ 554,519	\$ 29,212,803
COMPOSITION OF NET ASSETS WITHOUT RESTRICTION			
Operating	\$ 5,342,747		
Designated - Board of Directors Land, Inventory, and Homes Under Construction or Held for Sale	2,710,455		
Mortgages	4,285,171		
Property and Equipment	12,235,600		
	4,084,311		
	<u>\$ 28,658,284</u>		

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

2018		
Without Restriction	With Restriction	Total
\$ 3,835,332	\$ -	\$ 3,835,332
488,222	-	488,222
1,218,333	382,180	1,600,513
188,018	-	188,018
2,783,945	129,550	2,913,495
1,094,674	-	1,094,674
232,192	-	232,192
65,453	-	65,453
5,979	-	5,979
9,157	-	9,157
<u>492,017</u>	<u>(492,017)</u>	<u>-</u>
<u>10,413,322</u>	<u>19,713</u>	<u>10,433,035</u>
8,155,013	-	8,155,013
520,552	-	520,552
<u>366,781</u>	<u>-</u>	<u>366,781</u>
<u>9,042,346</u>	<u>-</u>	<u>9,042,346</u>
1,370,976	19,713	1,390,689
<u>25,271,014</u>	<u>492,017</u>	<u>25,763,031</u>
<u>\$ 26,641,990</u>	<u>\$ 511,730</u>	<u>\$ 27,153,720</u>
\$ 3,963,519		
2,652,372		
4,655,826		
11,209,890		
4,160,383		
<u>\$ 26,641,990</u>		

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019			Total
	Program	Management and General	Fundraising	
FUNCTIONAL EXPENSES				
<i>Salaries and Related Expenses:</i>				
Salaries	\$ 1,275,343	\$ 481,615	\$ 195,172	\$ 1,952,130
Payroll Taxes and Benefits	356,225	121,337	41,552	519,114
<i>Total Salaries and Related Expenses</i>	<u>1,631,568</u>	<u>602,952</u>	<u>236,724</u>	<u>2,471,244</u>
<i>Other Expenses:</i>				
<i>Cost of Homes Sold:</i>				
Building Materials and Services	2,847,731	-	-	2,847,731
Land Used	397,661	-	-	397,661
<i>Land Acquisition and</i>				
Development for Future Homes	2,880,670	-	-	2,880,670
Discount on Mortgages Issued	1,307,836	-	-	1,307,836
Legal Fees	2,350	850	-	3,200
Accounting Fees	-	13,602	-	13,602
Professional Fees	-	-	-	-
Fundraising Services	-	-	54,684	54,684
Mortgage and Title Fees	76,978	-	-	76,978
Advertising and Promotions	86,667	10	16,665	103,342
Office Expense, Phones, and Walkies	23,898	37,098	2,138	63,134
Printing and Publications	31,783	4,488	21,363	57,634
Postage and Freight	20,758	2,204	9,584	32,546
Information Technology	31,326	10,752	13,065	55,143
Travel and Auto	37,623	1,402	1,412	40,437
Conferences, Meetings, and Training	12,675	12,733	2,997	28,405
Tithes to Other Non-Profits	54,488	-	-	54,488
Insurance	78,480	8,893	212	87,585
Volunteer Expenses	32,693	-	-	32,693
Miscellaneous	4,943	1,669	1,483	8,095
<i>Total Other Expenses</i>	<u>7,928,560</u>	<u>93,701</u>	<u>123,603</u>	<u>8,145,864</u>
<i>Total Expenses before Depreciation and Taxes</i>	<u>9,560,128</u>	<u>696,653</u>	<u>360,327</u>	<u>10,617,108</u>
<i>Depreciation and Taxes:</i>				
Depreciation Expense	58,272	19,755	91	78,118
Unrelated Business Income Taxes	-	-	82,693	82,693
<i>Total Depreciation and Taxes</i>	<u>58,272</u>	<u>19,755</u>	<u>82,784</u>	<u>160,811</u>
TOTAL FUNCTIONAL EXPENSES	<u><u>\$ 9,618,400</u></u>	<u><u>\$ 716,408</u></u>	<u><u>\$ 443,111</u></u>	<u><u>\$ 10,777,919</u></u>
Percent of Functional Expense to Total	89.2%	6.7%	4.1%	100.0%

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

2018			
<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
\$ 1,271,059	\$ 303,485	\$ 173,442	\$ 1,747,986
363,944	75,476	35,371	474,791
<u>1,635,003</u>	<u>378,961</u>	<u>208,813</u>	<u>2,222,777</u>
2,749,397	-	-	2,749,397
201,572	-	-	201,572
1,681,184	-	-	1,681,184
1,370,311	-	-	1,370,311
-	1,687	-	1,687
-	13,441	-	13,441
-	30,000	-	30,000
-	-	44,968	44,968
68,742	-	-	68,742
94,293	-	17,723	112,016
21,876	42,871	2,801	67,548
34,514	3,334	19,733	57,581
19,144	2,206	7,840	29,190
32,425	14,036	13,152	59,613
29,758	609	796	31,163
5,544	9,355	862	15,761
51,161	-	-	51,161
66,607	8,571	228	75,406
22,599	-	-	22,599
10,378	651	1,315	12,344
<u>6,459,505</u>	<u>126,761</u>	<u>109,418</u>	<u>6,695,684</u>
<u>8,094,508</u>	<u>505,722</u>	<u>318,231</u>	<u>8,918,461</u>
60,505	14,830	-	75,335
-	-	48,550	48,550
<u>60,505</u>	<u>14,830</u>	<u>48,550</u>	<u>123,885</u>
<u>\$ 8,155,013</u>	<u>\$ 520,552</u>	<u>\$ 366,781</u>	<u>\$ 9,042,346</u>
90.2%	5.8%	4.0%	100.0%

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 2,059,083	\$ 1,390,689
Adjustments to Reconcile Change in Net Assets to Cash Provided by Operating Activities:		
(Gain) on Disposal or Return of Assets	(37,485)	(9,157)
Depreciation	251,607	251,799
Discount on Mortgages Issued	1,307,836	1,370,311
Mortgage Discount Amortization	(378,388)	(488,222)
Decrease (Increase) in:		
Accounts Receivable:		
Grants	(710,684)	(276,640)
Other	(382,750)	44,979
Prepaid Expenses	(30,227)	(27,472)
Inventory	311,514	(619,342)
Land Held for Future Development	98,148	(1,181,545)
Homes Under Construction or Held for Sale	(39,007)	85,133
(Decrease) Increase in:		
Accounts Payable	34,084	131,007
Accrued Expenses	2,861	30,698
Non-Refundable Deposits for Prospective Homeowners	32,475	(4,111)
Total Adjustments	459,984	(692,562)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	2,519,067	698,127
 CASH FLOWS FROM INVESTING ACTIVITIES		
New Mortgage Notes Issued	(4,050,799)	(3,735,183)
Principal Payments Received on Mortgage Notes	2,095,641	1,930,971
Reinvestment in Certificate of Deposit	18,089	(12,208)
Proceeds from the Sale of Property and Equipment	37,485	9,157
Purchase of Property and Equipment	(175,535)	(116,702)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(2,075,119)	(1,923,965)
 NET INCREASE (DECREASE) IN CASH	443,948	(1,225,838)
 BEGINNING CASH AND CASH EQUIVALENTS	5,267,689	6,493,527
ENDING CASH AND CASH EQUIVALENTS	\$ 5,711,637	\$ 5,267,689
 Supplemental Information		
Cash Paid for Unrelated Business Income Tax	\$ 82,693	\$ 29,825
Noncash Activity -		
Included in operating activities are donated building materials, Supplies, and Land of \$265,898 for 2019 and \$188,018 for 2018		

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, 2019 AND 2018

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 D). 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. Therefore, 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. 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, 2019 AND 2018

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 HOMEBUYERS/HOMEOWNERS

Deposits Held in Custody for Homebuyers

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.

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.

8. CONTRACT LIABILITY

Non-refundable deposits for prospective homeowners are customer deposits for homes that have not yet been closed on. Habitat recognizes revenue from these deposits as the related performance obligations are satisfied. A contract liability is recorded as deposits are received from approved home buyers during the lot selection phase of home builds. The payment will be applied toward the principal and escrow of the home loan on signing day. The balances of contract liabilities (stated as non-refundable deposits for prospective homeowners on the Statement of Financial Position) as of the beginning and end of the year are \$96,357 and \$128,832, respectively.

9. PREPAID EXPENSES

Expenses recorded in advance of the service or product being received are deferred and carried on the statement of financial position as prepaid expenses.

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.

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019 AND 2018

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

10. INVENTORY (CONT.)

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.

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, 2019 AND 2018

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* – Sales revenue is recorded as the performance obligations are satisfied at transaction amounts expected to be collected at the time of closing. Habitat’s performance obligations related to sales revenue are satisfied as homes are sold as amounts representing the sale of the home are expected to be recognized when the mortgage on the home is fulfilled.
- *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, 2019 and 2018, Habitat did not recognize any interest or penalties.

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019 AND 2018

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

17. INCOME TAX STATUS (CONT.)

Tax years 2016-2018 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.

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, 2019 and 2018 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 E).

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019 AND 2018

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

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 benefit. 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.

21. ADVERTISING COSTS

Habitat expenses advertising costs at the time the advertising occurs.

22. RECLASSIFICATIONS

Certain reclassifications have been made to the December 31, 2018 comparative information to conform to the December 31, 2019 presentation. These reclassifications had no effect on net assets.

23. SUBSEQUENT EVENTS

Subsequent events are considered through May 13, 2020, which is the date the financial statements were available to be issued.

24. NEW ACCOUNTING PRONOUNCEMENT

In May 2014, the Financial Accounting Standards Board (FASB) issued amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contract with customers, as well as other disclosures. The standard was adopted by Habitat for Humanity of San Antonio, Inc. on January 1, 2019. The standard did not result in restatement of beginning balances.

On June 21, 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958) – Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made, to address questions stemming from FASB ASU 2014-09, Revenue from Contracts with Customers regarding its implications on the grants and contracts of not-for-profit organizations. The stated purpose of ASU 2018-08 is to provide guidance in evaluating whether transactions should be accounted for as contributions or exchanges. In addition, the update introduces the concept of barriers in providing additional guidance on identifying conditions that would preclude the recognition of a contribution as revenue. The standard was adopted by Habitat for Humanity of San Antonio, Inc. on January 1, 2019. The standard did not result in restatement of beginning balances.

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019 AND 2018

NOTE B -- FDIC INSURANCE OF CASH AND CASH EQUIVALENTS

As of December 31, 2019, Habitat's bank balance, including the contingency fund certificate of deposit, was \$8,002,409 and the carrying amount was \$8,347,261. Habitat holds petty cash in the amount of \$1,900. 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, 2019 and 2018, cash and certificate of deposit balances exceeded FDIC and SIPC limits by \$6,937,245, and \$7,111,818, respectively.

NOTE C -- INVENTORY

As of December 31, 2019 and 2018, Habitat recorded Inventory values as follows:

	2019	2018
Home Construction Materials	\$ 705,420	\$ 785,556
Donated Goods for Resale	263,335	252,467
Purchased Goods for Resale	994,673	1,236,919
Total	<u>\$ 1,963,428</u>	<u>\$ 2,274,942</u>

NOTE D -- 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:

	Due Within One Year	Due Beyond One Year	Total
December 31, 2019			
Mortgage Notes Receivable	\$ 1,838,857	\$ 22,069,972	\$ 23,908,829
Less: Unamortized Discount			<u>(11,673,229)</u>
			<u>\$ 12,235,600</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>

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019 AND 2018

NOTE D -- MORTGAGE NOTES RECEIVABLE (CONT.)

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 2019 and 2018, 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, 2019 and 2018, the total amounts of mortgages held by TDHCA were \$4,471,863 and \$4,892,084, respectively.

Habitat anticipates future minimum mortgage receivable payments as follows:

<u>Year Ended December 31,</u>	
2020	\$ 1,838,857
2021	1,800,096
2022	1,759,574
2023	1,730,513
2024	1,673,186
2025-2029	7,351,304
2030-2034	5,347,950
2035-2039	<u>2,407,349</u>
Total Mortgage Notes Receivable	23,908,829
Less: Unamortized Discount	<u>(11,673,229)</u>
Mortgage Receivable, Net of Unamortized Discount	<u>\$ 12,235,600</u>

NOTE E -- 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
2019				
Mortgages Receivable	\$ -	\$ -	\$ 12,235,600	\$ 12,235,600
Total Assets/Liabilities at Fair Value	\$ -	\$ -	\$ 12,235,600	\$ 12,235,600
2018				
Mortgages Receivable	\$ -	\$ -	\$ 11,209,890	\$ 11,209,890
Total Assets/Liabilities at Fair Value	\$ -	\$ -	\$ 11,209,890	\$ 11,209,890

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019 AND 2018

NOTE E -- 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, 2019 and 2018:

	Level 3 2019	Level 3 2018
Mortgages Receivable		
Balance, Beginning of Year	\$ 11,209,890	\$ 10,287,767
New Mortgages	4,050,799	3,735,183
Payments	(2,095,641)	(1,930,971)
Change in Discount	(929,448)	(882,089)
	<u>\$ 12,235,600</u>	<u>\$ 11,209,890</u>
Balance, End of Year	<u>\$ 12,235,600</u>	<u>\$ 11,209,890</u>

NOTE F -- PROPERTY AND EQUIPMENT

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

	2019	2018
Probandt Facilities:		
Land	\$ 387,066	\$ 387,066
Buildings and Improvements	1,633,070	1,616,503
Total Probandt Facilities	<u>2,020,136</u>	<u>2,003,569</u>
Walzem Home Center:		
Land	720,354	720,354
Buildings and Improvements	1,303,800	1,280,020
Total Walzem Facilities	<u>2,024,154</u>	<u>2,000,374</u>
Meadow Leaf Home Center:		
Land	136,000	136,000
Buildings and Improvements	1,968,307	1,952,737
Total Meadow Leaf Facilities	<u>2,104,307</u>	<u>2,088,737</u>
Furniture, Equipment, and Vehicles	<u>1,026,560</u>	<u>918,085</u>
Total Property and Equipment	7,175,157	7,010,765
Less: Accumulated Depreciation	<u>(3,090,846)</u>	<u>(2,850,382)</u>
Net Property and Equipment	<u>\$ 4,084,311</u>	<u>\$ 4,160,383</u>

Land is not depreciated.

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019 AND 2018

NOTE G -- 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, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Depreciation Charged to Direct Costs of the Home Center	\$ 173,489	\$ 176,464
Depreciation Charged to Expense	<u>78,118</u>	<u>75,335</u>
Total	<u>\$ 251,607</u>	<u>\$ 251,799</u>

NOTE H -- LAND ACQUISITION AND DEVELOPMENT

The 2019 land acquisition and development for future homes included expenses of \$2,880,670 for the Lenwood Heights Unit Subdivision and Rancho Carlota. The 2018 land acquisition and development for future homes included expenses of \$1,681,184 for the Lenwood Heights Unit Subdivision and Rancho Carlota.

NOTE I -- CONTRIBUTIONS

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

	<u>2019</u>	<u>2018</u>
Contributions Without Restrictions		
Public Support	\$ 514,570	\$ 336,018
Habitat for Humanity International	2,894	4,708
House Sponsors	<u>879,583</u>	<u>877,607</u>
Total Contributions Without Restrictions	1,397,047	1,218,333
Contributions With Restrictions		
House Sponsors	<u>455,440</u>	<u>382,180</u>
Total Contributions	<u>\$ 1,852,487</u>	<u>\$ 1,600,513</u>

As of December 31, 2019 and 2018, net assets with restrictions balances were \$554,519 and \$511,730, respectively, to be used for the construction of homes.

NOTE J -- 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, 2019 and 2018, respectively:

	<u>2019</u>	<u>2018</u>
Contingency and Operations	<u>\$ 2,710,455</u>	<u>\$ 2,652,372</u>

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019 AND 2018

NOTE K -- 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 2019 and 2018 totaled \$511,730 and \$492,017, respectively.

NOTE L -- 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, 2019, Habitat received \$1,397,047 in cash contributions without restrictions and \$4,502,478 in grants without restrictions. During the year ended December 31, 2018, Habitat received \$1,218,333 in cash contributions without restrictions and \$2,783,945 in grants without restrictions. One hundred percent of these donor funds were used for Program Expenses.

NOTE M -- 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 matching 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, 2019 and 2018, Habitat's contribution totaled \$148,178 and \$147,824, respectively.

NOTE N -- 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 O -- FORGIVABLE LOANS FROM THE CITY OF SAN ANTONIO

Habitat participated in the HOME Investment Partnership Program from 2016 through 2019. 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.

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2019 AND 2018

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

Grants receivable consists of amounts spent toward land acquisition and construction of infrastructure at subdivisions that have not been reimbursed by the City. As of December 31, 2019 and 2018, grants receivables balances from the City are as follows:

	2019	2018
Lenwood Heights Unit 3 - HOME	\$ -	\$ 21,020
Lenwood Heights Unit 4 - HOME	245	259,705
Rancho Carlota - CHDO - HOME	543,533	-
Rancho Carlota - CDBG	86,319	-
	\$ 630,097	\$ 280,725

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, of which \$21,020 was received during 2019)
2019	368,767		(\$368,767 was approved for reimbursement by the City and received during 2019)
Total Expended:	\$ 1,670,000		

Funds were fully expended as of December 31, 2019.

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2019 AND 2018

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

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, of which \$259,705 was received during 2019)
2019	545,491	(\$545,491 was approved for reimbursement by the City during 2019 and \$245 was still receivable at December 31, 2019)
Total Expended:	\$ 1,624,559	

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.

Rancho Carlota Subdivision

In 2019, Habitat received a HOME grant from the City for a portion of land acquisition and construction of infrastructure at the Rancho Carlota Subdivision. The grant provides funding for the construction of 53 houses. As of December 31, 2019, Habitat had begun expending the \$1,250,000 allowed under this loan as follows:

Year Ended December 31, 2019	\$ 1,205,023	(During 2019, \$1,205,023 was approved for reimbursement by the City during 2019 and \$543,533 was still receivable at December 31, 2019)
Total Expended:	\$ 1,205,023	

The reimbursements from the City were recorded as grant revenue at the time they were earned (i.e. funds expended).

In 2019, Habitat received a CDBG grant from the City for another portion of land acquisition and construction of infrastructure at the Rancho Carlota Subdivision. The grant provides funding for the construction of 53 houses. As of December 31, 2019, Habitat had begun expending the \$1,750,000 allowed under this loan as follows:

Year Ended December 31, 2019	\$ 863,188	(\$863,188 was approved for reimbursement by the City during 2019 and \$86,319 was still receivable at December 31, 2019)
Total Expended:	\$ 863,188	

The reimbursements from the City were recorded as grant revenue at the time they were earned (i.e. funds expended).

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2019 AND 2018

NOTE P -- FORGIVABLE LOANS FROM BEXAR COUNTY

Habitat participated in the HOME Investment Partnership Program from 2015 through 2019. 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.

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, 2019, grants receivable balance was as follows:

	2019	2018
Lenwood Heights	\$ -	\$ 118,592
Rancho Carlota	554,904	-
	\$ 554,904	\$ 118,592

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, of which \$118,592 was received in 2019)
2019	166,364		During 2019, \$166,364 was approved for reimbursement by Bexar County and was received during 2019)
Total Expended:	\$ 1,214,206		

Funds were fully expended as of December 31, 2019.

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2019 AND 2018

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

Rancho Carlota Subdivision

In 2019, Habitat received a forgivable loan from the County for the land acquisition and construction of infrastructure at the Rancho Carlota 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 14 houses in the development are sold. As of December 31, 2019, Habitat had begun expending the \$587,399 allowed under this loan as follows:

Year Ended December 31,			
2019	\$	554,904	During 2019, \$554,904 was approved for reimbursement by Bexar County and \$554,904 was still receivable at December 31, 2019)
Total Expended:	<u>\$</u>	<u>554,904</u>	

Funds were fully expended as of December 31, 2019.

NOTE Q -- GRANTS RECEIVABLE

Grants receivable are made up of the following receivable balances as of December 31, 2019 and 2018.

	<u>2019</u>	<u>2018</u>
Neighborworks America	\$ -	\$ 75,000
Lenwood Heights - City of San Antonio	245	280,725
Lenwood Heights - Bexar County	-	118,592
Rancho Carlota - City of San Antonio	629,852	-
Rancho Carlota - Bexar County	554,904	-
Total	<u>\$ 1,185,001</u>	<u>\$ 474,317</u>

NOTE R -- 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, 2019 and 2018, fundraising expenses before depreciation and taxes totaled \$360,327 and \$318,231, respectively.

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019 AND 2018

NOTE S -- LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

Habitat 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 \$5,151,470 and \$3,769,994 of financial assets available to meet cash needs in the next year for general expenditures as of December 31, 2019 and 2018, respectively, as shown in the table below.

	<u>2019</u>	<u>2018</u>
Cash - Operating	\$ 5,711,637	\$ 5,267,689
Certificate of Deposit - Contingency	2,022,692	2,040,781
Accounts Receivable:		
Grants	1,185,001	474,317
Other	471,169	88,419
Accounts Payable	(561,677)	(527,593)
Accrued Expenses	(412,378)	(409,517)
Total Financial Assets	<u>\$ 8,416,444</u>	<u>\$ 6,934,096</u>
Less Board Designated Funds	(2,710,455)	(2,652,372)
Less Net Assets With Donor Restriction	(554,519)	(511,730)
Total Available Cash for General Expenditure Needs	<u>\$ 5,151,470</u>	<u>\$ 3,769,994</u>

NOTE T -- SUBSEQUENT EVENTS

The Organization's ongoing profitability may experience instability and estimates included in the consolidated financial statements may change due to current political and economic conditions as a result of public health concerns related to the novel coronavirus, or COVID-19. The duration and intensity of these impacts and resulting disruption to which these events affect the Organization's business will depend on future developments, which are highly uncertain and cannot be predicted at this time.

On April 14, 2020, the Organization was approved for a loan of \$875,200 through the Small Business Association's Paycheck Protection Program. This loan has a maturity of two years and an interest rate of 1%. Loan payments will be deferred for six months. The Organization intends to use the funds for payroll costs (at least 75%) interest on mortgages, rent and utilities as required for the loan to be fully forgiven.

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, 2019, 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 13, 2020.

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 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.

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

Armstrong, Vaughan & Associates, P.C.

May 13, 2020



Armstrong, Vaughan & Associates, P. C.

Certified Public Accountants

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, 2019. 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, 2019.

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 13, 2020

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2019

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	\$ 368,767
Lenwood Heights Unit #4	14.239	25-0260020 & 25- R1710050051	545,491
CHDO Operating Expense	14.239	25-0270132	53,500
CHDO Watson Road Development (Rancho Carlota Phase 1)	14.239	25-0270096	1,205,023
Community Development Block Grant Watson Road Development (Rancho Carlota Phase 1)	14.218	28-0440134	863,188
Passed Through Local Initiatives Support Corporation (LISC)			
Section 4 Capacity Building Grant	14.252	B-15-CB-MD-0001	20,000
Passed Through County of Bexar, Texas HOME Investment Partnership Program			
Lenwood Heights	14.239	CHDO	166,364
Watson Road Development (Rancho Carlota)	14.239	CHDO	<u>554,903</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>3,777,236</u>
TOTAL FEDERAL AWARDS EXPENDED			<u>\$ 3,777,236</u>

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2019

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	\$ 3,777,236
Local City Award	6,250
Add: Other Grants	<u>818,071</u>
Total Grants per Statement of Activities	<u><u>\$ 4,601,557</u></u>

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS
 DECEMBER 31, 2019

A. Summary of Auditor’s Results

1. Financial Statements

Type of auditor’s report issued:	<u>Unmodified</u>	
Internal Control over Financial Reporting:		
One or more material weaknesses identified	___ Yes	_X_ No
One or more significant deficiencies identified that are not considered to be material weaknesses?	___ Yes	_X_ None Reported
Noncompliance material to the financial statements noted?	___ Yes	_X_ No

2. Federal Awards

Internal Control over Major Programs:		
One or more material weaknesses identified	___ Yes	_X_ No
One or more significant deficiencies identified that are not considered to be material weaknesses?	___ Yes	_X_ None Reported
Type of auditor’s report issued on compliance for Major programs:	<u>Unmodified</u>	
Any audit findings disclosed that are required to be reported in accordance with CFR Part 200 of the Uniform Guidance?	___ Yes	_X_ No

Identification of major programs:	<u>Name of Federal Program or Cluster</u>
<u>CDEFA Number(s)</u> 14.218	Community Development Block Grant

Dollar threshold used to distinguish between type A and type B federal program:	<u>\$750,000</u>
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Auditee qualified as a low-risk auditee?	_X_ Yes	___ No
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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, 2019

FINDINGS - 2018 - NONE

