



PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

To the Board of Trustees of
Waco Habitat for Humanity

We have audited the financial statements of Waco Habitat for Humanity, (the “WHFH”) for the year ended June 30, 2018 and have issued our report thereon dated November 15, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated August 9, 2018, our responsibility, as described by professional standards, is to form and express an opinion about whether the combined financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the combined financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the combined financial statements are free of material misstatement. An audit of the combined financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the WHFH solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms has complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the WHFH is included in Note 2 to the combined financial statements. There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during fiscal year 2018. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

Management's estimate of the depreciation expense and related accumulated depreciation is based on the useful lives of the fixed assets. We evaluated the key factors and assumptions used to develop the estimates for useful lives in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the amortization of discounts on mortgage loans is based on the estimated life of the notes as a method that approximates the effective interest rates. The rates used are published by Habitat for Humanity International. We evaluated the key factors and assumptions used to develop the amortization of discounts on mortgage loans in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the WHFH's combined financial statements relate to revenue recognition.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. We discussed with management, uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. No material misstatements were identified as a result of our audit procedures.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the WHFH's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management in a letter November 15, 2018.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings or Issues

In the normal course of our professional association with WHFH, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the WHFH's auditors.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
November 15, 2018



PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

To the Board of Trustees of
Waco Habitat for Humanity
Waco, Texas

In planning and performing our audit of the financial statements of Waco Habitat for Humanity (“WHFH”) as of and for the year ended June 30, 2018, we considered WHFH’s internal control structure to determine our review procedures on the general purpose financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of certain matters that, while not involving material weaknesses in internal accounting control, are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 15, 2018 on the financial statements of WHFH.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various WHFH personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations

Pattillo, Brown & Hill, L.L.P.

November 15, 2018

WACO HABITAT FOR HUMANITY

SUGGESTIONS AND RECOMMENDATIONS

JUNE 30, 2018

INTRODUCTION

Thank you for the opportunity to be of service to Waco Habitat for Humanity. We appreciate the many courtesies extended to us during the course of the audit. Realizing that we required a substantial amount of your time, we are thankful for your patience and effort.

GENERAL COMMENTS

REPORTING FOR NOT-FOR-PROFIT ENTITIES

On April 22, 2015, the Financial Accounting Standards Board (“FASB”) issued an Exposure Draft for proposed changes to Not-for-Profit Entities (Topic 958). This project is to reevaluate the existing standards for financial statement presentation for not-for-profit entities, including net asset classification requirements and information contained in the financial statements and footnotes to about liquidity, financial performance and cash flows.

The following are some of the main changes discussed in the exposure draft. A full listing, description and explanation can be found at fasb.org.

1. Presentation of only two classes of net assets as compared to the current three classes. The two net asset classes proposed are *net assets without donor restrictions* and *net assets with donor restrictions*. This would affect the statement of financial position, statement of activities and the footnotes to the financial statements.
2. Expenses will need to be reported by both their nature and function, either on the face of the financials or within the notes to the financial statements. In addition, voluntary health and welfare organizations would be permitted, but no longer required to, present a separate statement of functional expenses.
3. Investment expenses would need to be netted against investment returns.
4. In the footnotes to the financial statements, WHFH would be required to discuss its liquidity, using both quantitative and qualitative items.

CHANGES IN REVENUE RECOGNITION

On May 28, 2014, the FASB issued ASU 2014-09 to Accounting Standards Codification 606, *Revenue from contracts with customers*. The purpose of the project was to issue a converged standard to increase consistency of revenue recognition for similar contracts, regardless of industry, and continue convergence on accounting standards with the IASB, International Accounting Standards Board.

The new standard is a single, contract-based approach in which revenue is recognized when an entity satisfies its obligation to its customers, which occurs when controls over a good or service is transferred to the customer. In comparison to current practice, revenue and cost might change as it relates to the timing and the amount recognized.

For nonpublic companies the standard is effective for reporting periods beginning after December 15, 2018. The new update affects anyone recognizing revenue through various contracts with customers.

The above information is not all inclusive of the new standard changes. However we hope that it begins to shed light on the new changes. The AICPA has formed 16 new industry task forces in order to provide further information and examples for the new standard.

PRIOR YEAR COMMENTS

HOMES UNDER CONSTRUCTION

Prior Year Comment:

We recommend that the homes under construction detail be maintained by property number in order to ensure that all costs are being appropriately expensed after the sale of a property. This group of assets should be walked forward similar to fixed assets, with a schedule provided to auditors showing all additions and transfers to expense during the year (by property).

Current Year Status:

We note improved record keeping regarding homes under construction as we were able to obtain a transaction detail by property. We recommend management continue to focus on maintaining an accurate and up to date construction detail to ensure costs and expenses are being allocated appropriately.

CURRENT YEAR COMMENTS

MORTGAGE DISCOUNT DETAIL & CALCULATION

When reviewing the mortgage discount detail we noted the mortgage receivable amount per the detail did not tie to the receivable amount on the financials by over \$50,000. Although this did not have a material effect on the calculation for the mortgage discount in the current year, we note there is a risk in the future of that difference becoming material. We recommend management review the detail and reconcile the difference between the detail and the mortgage receivable per the financial statements to avoid any material errors in the future.

* * * * *

We appreciate the opportunity to be of service to **Waco Habitat for Humanity**. If you should have any questions or require further information, please do not hesitate to call.

WACO HABITAT FOR HUMANITY

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
JUNE 30, 2018 AND 2017**

WITH INDEPENDENT AUDITORS' REPORT

WACO HABITAT FOR HUMANITY

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CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Waco Habitat for Humanity

We have audited the accompanying financial statements of Waco Habitat for Humanity (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statement of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Waco Habitat for Humanity as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Waco Habitat for Humanity's 2017 financial statements, and our report dated November 20, 2017, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented on the statement of activities for the year ended June 30, 2017, is consistent, in all material respects, with the audited statement of activities from which it has been derived.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
November 15, 2018

FINANCIAL STATEMENTS

WACO HABITAT FOR HUMANITY
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 128,901	\$ 526,555
Certificates of deposit	154,996	153,595
Current installments of non-interest bearing mortgage loans	136,142	140,033
Total current assets	420,039	820,183
PROPERTY AND EQUIPMENT		
Land	187,751	187,751
Buildings	1,324,613	1,275,102
Equipment	126,672	139,560
ReStore equipment	90,727	88,227
Less: accumulated depreciation	(516,622)	(480,579)
Total property and equipment	1,213,141	1,210,061
OTHER ASSETS		
Homes under construction	34,409	5,173
Vacant lots	32,492	35,967
Beneficial interest in assets held by waco foundation	103,509	-
Non-interest bearing mortgage loans, less current installments	2,196,352	2,232,464
Less: discount on mortgages	(1,295,970)	(1,349,085)
Total other assets	1,070,792	924,519
Total assets	\$ 2,703,972	\$ 2,954,763
LIABILITIES AND NET ASSETS		
LIABILITIES		
Sales tax payable	\$ 2,749	\$ 3,715
Other payables	54,437	63,900
Escrow accounts	19,969	73,110
Current maturities of notes payable	6,600	6,600
Total current liabilities	83,755	147,325
LONG-TERM DEBT, LESS CURRENT MATURITIES		
Total liabilities	12,134	18,734
Total liabilities	95,889	166,059
NET ASSETS		
Unrestricted	2,608,083	2,788,704
Total net assets	2,608,083	2,788,704
Total liabilities and net assets	\$ 2,703,972	\$ 2,954,763

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

WACO HABITAT FOR HUMANITY

STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2018

(With Summarized Financial Information for the Year Ended June 30, 2017)

	Unrestricted	Temporarily Restricted	2018 Total	2017 Total
REVENUE, GAINS AND OTHER SUPPORT				
Foundation contributions	\$ 118,140	\$ -	\$ 118,140	\$ 162,364
Public contributions	77,510	-	77,510	85,546
Other contributions	154,988	-	154,988	138,922
ReStore:				
ReStore sales	554,630	-	554,630	538,579
ReStore in-kind donations	14,727	-	14,727	185,226
ReStore expenses	(405,353)	-	(405,353)	(553,020)
ReStore net gain	<u>164,004</u>	<u>-</u>	<u>164,004</u>	<u>170,785</u>
Mortgage loans on homes	208,680	-	208,680	500,608
Repair and ramps	33,070	-	33,070	22,518
In-kind donations	396,087	-	396,087	95,792
Discount amortization	84,733	-	84,733	82,625
Other income	53,640	-	53,640	153,546
Net assets released from restriction:				
Satisfaction of donor restrictions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue, gains and other support	<u>1,290,852</u>	<u>-</u>	<u>1,290,852</u>	<u>1,412,706</u>
EXPENSES				
Program Services				
New home construction and rehabs	731,249	-	731,249	844,861
Critical home repair and ramps	176,332	-	176,332	152,976
Family services	56,918	-	56,918	47,301
Supporting Services				
Management and general expenses	402,593	-	402,593	422,172
Fundraising expenses	<u>104,381</u>	<u>-</u>	<u>104,381</u>	<u>122,848</u>
Total expenses	<u>1,471,473</u>	<u>-</u>	<u>1,471,473</u>	<u>1,590,158</u>
DECREASE IN NET ASSETS	(180,621)	-	(180,621)	(177,452)
NET ASSETS, BEGINNING OF YEAR	<u>2,788,704</u>	<u>-</u>	<u>2,788,704</u>	<u>2,966,156</u>
NET ASSETS, END OF YEAR	<u>\$ 2,608,083</u>	<u>\$ -</u>	<u>\$ 2,608,083</u>	<u>\$ 2,788,704</u>

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

WACO HABITAT FOR HUMANITY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$(180,621)	\$(177,452)
Depreciation and amortization	48,931	50,715
Gain on disposition of fixed assets	(10,000)	(116,951)
Disposition of vacant lots and donated buildings	3,475	1,953
Unrealized (gain) on investments	(3,509)	-
Adjustments to reconcile change in net assets to net cash used by operating activities:		
(Increase) decrease in mortgage receivables, net	(13,112)	(49,979)
(Increase) decrease in receivables	-	4,367
(Increase) decrease in houses under construction	(29,236)	169,998
Increase (decrease) in other payables	(10,429)	42,250
Increase (decrease) in escrow accounts	(53,141)	(43,507)
Increase (decrease) in deferred interest contributions on notes payable	-	(5,037)
Net cash used by operating activities	(247,642)	(123,643)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	(6,600)	(1,563)
Net cash used by financing activities	(6,600)	(1,563)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of fixed assets	(52,011)	(30,755)
Disposition of equipment	10,000	182,595
Purchase of beneficial interest in assets held by waco foundation	(100,000)	-
(Increase) decrease in net investment of certificate of deposit	(1,401)	(1,369)
Net cash (used) provided by investing activities	(143,412)	150,471
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(397,654)	25,265
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	526,555	501,290
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 128,901	\$ 526,555

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

WACO HABITAT FOR HUMANITY

SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2018

	Program Services			Support Services		Total
	New Home Construction and Rehabs	Critical Home Repair and	Family Services	Management and General	Fundraising	
House construction	\$ 173,093	\$ -	\$ -	\$ -	\$ -	\$ 173,093
Home repairs and ramps	-	129,873	-	-	-	129,873
Tithe for international homes	7,184	-	-	-	-	7,184
Salaries	88,350	28,589	47,152	226,856	57,824	448,771
Retirement	1,351	292	1,130	6,649	1,678	11,100
Employee benefits	9,228	1,963	2,245	16,310	3,734	33,480
Payroll taxes	8,810	3,446	3,243	15,220	3,886	34,605
Accounting and legal fees	40	40	515	23,152	-	23,747
Advertising and promotion	101	-	218	599	854	1,772
Office expenses	2,500	205	224	29,583	670	33,182
Information technology	1,558	-	236	12,066	838	14,698
Occupancy	4,012	-	-	22,927	-	26,939
Travel	8,514	2,139	209	4,898	102	15,862
Conferences, conventions, and meetings	259	-	794	7,309	590	8,952
Depreciation, depletion, and amortization	7,133	5,049	-	9,846	1,595	23,623
Insurance	15,031	2,345	-	10,743	-	28,119
Mortgage discount	31,618	-	-	-	-	31,618
In-kind expense	367,975	2,000	-	3,800	22,312	396,087
Other expenses	4,492	391	952	12,635	10,298	28,768
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenses	\$ 731,249	\$ 176,332	\$ 56,918	\$ 402,593	\$ 104,381	\$ 1,471,473

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

WACO HABITAT FOR HUMANITY

SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2017

	Program Services			Support Services		Total
	New Home Construction and Rehabs	Critical Home Repair and Ramps	Family Services	Management and General	Fundraising	
House construction	\$ 466,223	\$ -	\$ -	\$ -	\$ -	\$ 466,223
Home repairs and ramps	-	103,504	-	-	-	103,504
Tithe for international homes	30,463	-	-	-	-	30,463
Salaries	108,898	26,638	35,931	218,636	94,461	484,564
Retirement	2,231	342	409	5,073	2,629	10,684
Employee benefits	8,782	1,845	2,110	10,680	4,495	27,912
Payroll taxes	10,075	2,500	3,126	15,862	7,814	39,377
Accounting and legal fees	380	224	177	25,693	-	26,474
Advertising and promotion	251	-	943	878	1,179	3,251
Office expenses	2,295	600	661	20,362	1,510	25,428
Information technology	-	139	-	17,027	-	17,166
Occupancy	2,730	39	-	25,887	-	28,656
Travel	7,341	3,104	857	3,856	1,033	16,191
Conferences, conventions, and meetings	1,423	-	953	14,189	3,932	20,497
Depreciation, depletion, and amortization	6,771	8,180	-	9,877	1,604	26,432
Insurance	8,885	5,604	-	5,587	1,068	21,144
Mortgage discount	86,377	-	-	-	-	86,377
In-kind expense	78,886	-	-	16,906	-	95,792
Other expenses	22,850	257	2,134	31,659	3,123	60,023
	<u>22,850</u>	<u>257</u>	<u>2,134</u>	<u>31,659</u>	<u>3,123</u>	<u>60,023</u>
Total expenses	<u>\$ 844,861</u>	<u>\$ 152,976</u>	<u>\$ 47,301</u>	<u>\$ 422,172</u>	<u>\$ 122,848</u>	<u>\$ 1,590,158</u>

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

WACO HABITAT FOR HUMANITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

1. ORGANIZATION AND NATURE OF ACTIVITIES

Waco Habitat for Humanity, Inc. (“WHFH”, or the “Habitat”) is a not-for-profit organization registered in the state of Texas and their headquarters is located in Waco, Texas. It is an affiliate of Habitat for Humanity International, Inc., which is a nonprofit, nondenominational Christian housing organization. WHFH, with the help of volunteer labor and donations of money and materials, brings communities and people together to create and sustain home ownership in McLennan County.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of WHFH have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities, in accordance with generally accepted accounting principles.

Basis of Presentation

WHFH reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Classification of Net Assets

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (“FASB”) in accordance with Accounting Standard Codification (“ASC”) 958, *Not-for-Profit Entities*, the Habitat reports information regarding its financial position and activities according to three classes of net assets:

Unrestricted Net Assets

Unrestricted Net Assets represent resources over which the Board of Directors has discretionary control and can be used currently for the general purposes of the Habitat in accordance with its bylaws. The Board may voluntarily designate unrestricted resources for specific purposes, but this is a voluntary action of the governing board that can be modified at its discretion. These designations of unrestricted resources by the governing board do not have the same legal requirements as do restrictions of funds.

Temporarily Restricted Net Assets

Temporarily Restricted Net Assets represent resources currently available for use, but expendable only for those operating purposes or time restriction specified by the donor.

Permanently Restricted Net Assets

Permanently Restricted Net Assets represent principal amounts of gifts and bequests which have been accepted with the donor stipulation that the principal be maintained intact in perpetuity or a specified period, with only the income to be utilized. The Habitat did not have any permanently restricted net assets recognized for the years ended June 30, 2018 and 2017.

Recognition of Donor Restrictions

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When the restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Significant Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates included in the financial statements are the useful lives of property and equipment and the discount on mortgages. Actual results could differ from those estimates.

Income Tax Status

WHFH has been granted exemptions from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. As such, no provision for income taxes is reflected in the financial statements.

The accounting standards on accounting for uncertainty in income taxes address the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, WHFH may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of WHFH and various positions related to the potential sources of unrelated business taxable income. The tax benefits recognized in the financial statements from a tax position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for fiscal years 2017 and 2016. The previous three years remain subject to examination by tax jurisdictions.

Cash and Cash Equivalents

For purposes of the statements of cash flows, WHFH considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. There were no cash equivalents for the years ended June 30, 2018 and 2017.

Mortgages Receivable

Mortgages receivable consist of non-interest bearing mortgages, which are secured by real estate and payable in monthly installments. The mortgages have an original maturity of 20 to 30 years. These mortgages have been discounted at various rates ranging from 0% to 9.0%, based on prevailing market rates at the inception of the mortgages. Mortgage discount expense (amortization of the discount) is recorded using the interest method over the lives of the mortgages.

Vacant Lots

Vacant lots consists of home lots to be developed and costs incurred in conjunction with lot preparation. They are capitalized until the completion of each home. Home lot inventory was \$32,492 and \$35,967 as of June 30, 2018 and 2017, respectively.

Buildings and Equipment

Property and equipment are capitalized at cost if they exceed the \$500 capitalization threshold. Donations of fixed assets are capitalized at fair market value at the date of donation. All assets are depreciated on the straight-line basis over 5 to 39 years. Depreciation expense amounted to \$48,931 and \$50,715 for the years ended June 30, 2018 and 2017, respectively

Support and Cost

Grants, gifts of cash, and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of net activities as net assets released from restrictions.

Donations of goods and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Donation of permanent assets explicit restrictions that specify how the assets are to be used are reported as restricted support. In the absence of explicit donor stipulations about how long-lived assets must be maintained, WHFH reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

ReStore revenue is recognized when the donated goods are sold. ReStore expenses are recognized when incurred.

Homes under Construction

Homes under construction are recorded at cost and includes all direct material, labor, and equipment costs and those indirect costs related to home construction such as indirect labor, supplies and tool costs. Land costs included in construction in progress are stated at cost or fair value at the date of the contribution. Included in land costs are any costs incurred in development. When revenue from the sale of a home is recognized, the corresponding costs are then expensed in the statement of activities as program services.

Sale to Homeowners

Sales of homes to homeowners are recorded at the gross mortgage. The mortgages do not bear interest, but have been discounted based upon applicable rates of interest published by Habitat for Humanity International, Inc. Using the interest method of amortization, these discounts will be recognized as mortgage loan amortization over the term of the mortgages.

Home Construction Costs

Costs incurred in conjunction with home construction are capitalized. Construction costs are expensed during the year a home is sold and included in program services.

Prior Year Summarized Information

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with WHFH's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Expense Allocation

Costs have been summarized on a functional basis in the statements of activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

3. MORTGAGE RECEIVABLES

Mortgages receivable consists of non-interest bearing loans, payable monthly over 20 to 30 years and secured by certain real estate in connection with WHFH's homebuilding initiatives in the Waco, Texas area. The closing costs are included in the mortgage, and an escrow account is held for taxes and insurance.

The mortgages are non-interest bearing for the life of the loan; however, a discount (calculated based on the imputed interest rate provided annually by Habitat for Humanity International) is recognized by WHFH at each sale so the financial statements only reflect, at any point in time, the present value of future principal payments to be received. The discount is presented on the balance sheet as a reduction to mortgages receivable and is amortized over the life of the mortgage. Discount rates range from 0% to 9.0% based on the applicable interest rate published by Habitat for Humanity International, Inc. for the year the loan was made.

In addition to the reported mortgage receivables described above, a subordinate lien is established at the closing of each home for the difference between the appraised value and the actual sales price of the home. The amount of the subordinate lien is forgiven over 20 to 30 years; however, no amounts associated with the subordinate lien are reflected in these financial statements. The subordinate lien, or a portion thereof, is collected only under specific circumstances; therefore, the amount collectible is unknown.

The balance of current installments on non-interest bearing mortgage loans as of June 30, 2018 and 2017, of \$136,142 and \$140,033, respectively, represents the installments due within one year. The remaining balance of the non-interest bearing mortgage loans as of June 30, 2018 and 2017, of \$2,196,352 and \$2,232,464 respectively, is represented as other assets.

The discount on mortgage receivables must also be amortized under generally accepted accounting principles. Amortization for the years ended June 30, 2018 and 2017 was \$84,733 and \$82,625, respectively.

4. PROPERTY AND EQUIPMENT

The summary of property and equipment for the years ended June 30, 2018 and 2017 are as follows:

	<u>6/30/2018</u>	<u>6/30/2017</u>
Land	\$ 187,751	\$ 187,751
Buildings and improvements	1,324,613	1,275,102
Equipment and tools	126,672	139,560
ReStore equipment	<u>90,727</u>	<u>88,227</u>
	1,729,763	1,690,640
Less accumulated depreciation	<u>(516,622)</u>	<u>(480,579)</u>
Total property and equipment	<u>\$ 1,213,141</u>	<u>\$ 1,210,061</u>

Depreciation expense for the years ended June 30, 2018 and 2017 was \$48,931 and \$50,715, respectively.

5. NOTES PAYABLE

At June 30, 2018 and 2017, the following debt was outstanding:

	<u>2018</u>	<u>2017</u>
Note payable to a bank, non-interest bearing, due in monthly installments of \$133 for 240 months, maturing October 5, 2020.	\$ 3,734	\$ 5,334
Note payable, non-interest bearing, due in annual installments of \$5,000, maturing December 31, 2020.	<u>15,000</u>	<u>20,000</u>
	18,734	25,334
Less current installments	<u>(6,600)</u>	<u>(6,600)</u>
Long-term Debt, Excluding Current Installments	<u>\$ 12,134</u>	<u>\$ 18,734</u>

The debt service requirements for the next five years and thereafter is as follows:

<u>Fiscal Year Ending June 30,</u>	
2019	\$ 6,600
2020	6,600
2021	<u>5,534</u>
	<u>\$ 18,734</u>

6. SALES TO HOMEOWNERS

During the years ended June 30, 2018 and 2017, two and five homes were sold to qualifying applicants, respectively. The resulting mortgages are non-interest bearing and the presentation of their book value has been discounted based upon the prevailing market rates for low-income housing at the inception of the mortgages (current year's rate 7.57%). The discount totaled \$12,860 and \$62,423 for 2018 and 2017.

7. CERTIFICATES OF DEPOSIT

Certificates of deposit totaling \$154,996 and \$153,595 as of June 30, 2018 and 2017, respectively, are included in the financial statements. The certificates bear interest at various rates and have maturities ranging from twelve to thirty months, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

8. INVESTMENTS

During the year the Habitat invested \$100,000 at the Waco Foundation. The beneficial interest in assets held by Waco Foundation is explained below.

The Habitat has an investment account under the management of the Waco Foundation. The funds are the property of the Waco Foundation held by it in its trust capacity. Income earned (less investment fees incurred) accumulates for distribution at the request of the Habitat. The income may, if both the Habitat and the Waco Foundation agree, remain and accumulate with the corpus. The Habitat may request distributions of principal. However, distributions of principal are at the sole discretion of Waco Foundation. It is intended that assets be held for the benefit of the Habitat as long as the need for funds exist. If, for any reason, The Waco Foundation is terminated, dissolves, ceases to exist or ceases to hold or administer the Habitat's investment fund or otherwise function under the agreement, then the net assets of the investment fund, after allowance for liabilities and expenses, shall be distributed to the Habitat. If the Habitat is not then in existence, funds will be distributed to such organization having similar purposes as the Habitat as the governing board of the Waco Foundation may select.

The Habitat's beneficial interest in assets held by the Waco Foundation was \$103,509 as of June 30, 2018.

9. FAIR VALUE MEASUREMENTS

FASB ASC 820, Fair Value Measurement, 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. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this guidance are described below.

- Level 1 – Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

In estimating fair value, the Habitat utilizes valuation techniques that are consistent with the market approach, the income approach, and/or the cost approach. Such valuation techniques are consistently applied.

The fair value of the investment held at the Waco Foundation (*see Investments footnote above*) is based on the fair value of the fund's net assets as determined by the trustee of the fund, primarily using quoted prices for similar assets in active markets. The following summarizes how the fair values of the investments were determined.

Fair values of assets measured on a recurring basis at June 30, 2018 and 2017 are as follows:

Fair Value Measurements at Reporting Date Using

June 30, 2018	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Quoted Prices for Similar Assets (Level 2)
Certificates of deposit	\$ 154,996	\$ -	\$ 154,996
Assets at Waco Foundation	<u>103,509</u>	<u>-</u>	<u>103,509</u>
Total at June 30, 2018	<u>\$ 258,505</u>	<u>\$ -</u>	<u>\$ 258,505</u>
June 30, 2017			
Certificate of deposit	\$ 153,595	\$ -	\$ 153,595
Assets at Waco Foundation	<u>-</u>	<u>-</u>	<u>-</u>
Total at June 30, 2017	<u>\$ 153,595</u>	<u>\$ -</u>	<u>\$ 153,595</u>

10. DONATED SERVICES AND MATERIALS

A number of unpaid volunteers have made contributions of their time, materials and services in conjunction with the Habitat's programs and services. The value of the contributions meeting the requirements for recognition was \$410,814 and \$281,018 for the years ended June 30, 2018 and 2017, respectively.

11. CONCENTRATION OF CREDIT AND MARKET RISK

WHFH maintains cash balances at several financial institutions located in Texas. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2018 WHFH did not exceed the federal insurance limits and as of June 30, 2017 WHFH cash balances exceeded the federal insurance limits; however, no losses occurred.

WHFH's purpose is to provide housing for low-income homeowners. As such, it is likely that the mortgage holders would be unable to qualify for a mortgage from a traditional financial institution. This poses an inherent risk to WHFH that the mortgages receivable will be partially uncollectible. To mitigate the risk of overstating the ability of WHFH to fully collect the mortgages, the notes receivable have been discounted using the prevailing market rate for low-income housing at the inception of the note. Additionally, all notes receivable are collateralized by the real estate associated with the mortgage.

12. TRANSACTIONS WITH HABITAT FOR HUMANITY INTERNATIONAL

WHFH will annually remit a percentage of its unrestricted contributions (excluding in-kind contributions) to Habitat for Humanity International. These funds are used to construct homes in economically depressed areas around the world. For the year ended June 30, 2018 and 2017, WHFH contributed \$7,500 and \$9,885, respectively. In addition to these unrestricted contributions to Habitat for Humanity International, WHFH also paid a tithing in the amount of \$7,184 for the year ended June 30, 2018 and \$30,463 for the year ended June 30, 2017.

13. RELATED PARTIES

In the normal course of business, the Habitat has business dealings with individuals who are associated with the Habitat. In the opinion of Management, all business dealings are conducted in an arm's length manner.

14. SUBSEQUENT EVENTS

The Habitat has evaluated subsequent events from the balance sheet date through November 15, 2018, consequently, there are no particular events that have any significant effect related to the financial position of the Habitat for the year ended July 30, 2018 and do not require additional disclosure.