

To the Board of Trustees of
Waco Habitat for Humanity

We have audited the financial statements of Waco Habitat for Humanity for the year ended June 30, 2015, and have issued our report thereon dated March 18, 2016. 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. We have communicated such information in our letter to you dated August 17, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Waco Habitat for Humanity are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2015. We noted no transactions entered into by the Company during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's 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 significantly from those expected. The most sensitive estimates affecting the financial statements were:

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 accumulated depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements, except those that management determined that their effects were immaterial, both individually and in the aggregate.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 18, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Company's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Company's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

The main objective of internal accounting control is to segregate accounting duties such that an individual who has access to assets (cash receipts, signed checks, equipment, etc.) does not also have access to the accounting records that control the assets. Proper segregation of duties provides reasonable assurance that an individual would be prevented from removing an asset from the company and concealing that activity by altering the related accounting records. Due to the size of the entity and number of personnel available for accounting duties, there is limited segregation of duties. Accordingly, an appropriate segregation of responsibilities may not be practical in many areas. Until such controls are in place, it is important that management and the Board of Directors consider this when reviewing accounting activities and information.

This information is intended solely for the use of Board of Trustees and management of Waco Habitat for Humanity and is not intended to be, and should not be, used by anyone other than these specified parties.

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

March 18, 2016

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, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered Waco Habitat for Humanity's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audits we became aware of certain matters that present an opportunity 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 March 18, 2016 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.

March 18, 2016

WACO HABITAT FOR HUMANITY

SUGGESTIONS AND RECOMMENDATIONS

JUNE 30, 2015

INTRODUCTION

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

CURRENT YEAR COMMENTS

FIXED ASSETS

During our review of WHFH's fixed assets, we noted that fixed assets are not being depreciated. The fixed assets should be kept to date and depreciation expense should be recorded at least on a quarterly basis. Fixed assets that are fully depreciated should remain on both the depreciation schedule and general ledger until WHFH decides to dispose of the asset. We also recommend WHFH take a full count of its fixed assets in order to have a complete and accurate listing at the end of the year.

INVENTORY

During our audit of inventory, we noted that the total inventory held by the ReStore is comprised of donated items. The donated items are not recorded and carry no value on the financial statements. All gifts-in-kind or donated items, regardless of whether they are held in inventory, should be recorded as contribution revenue at the estimated fair market value on the date of donation according to generally accepted accounting principles. An offsetting contribution revenue should be recorded at the same time.

According to ASC 958-605-30, gifts-in-kind, including inventory items held for resale, should be recorded at fair value. Therefore, when an inventory donation is received, generally accepted accounting principles stipulate that an entry would be made to credit contribution revenue and debit inventory by the estimated fair value of the item received. Then, when the item is sold, an entry would be made to credit inventory and debit cost of goods sold expense.

While we recommend the aforementioned accounting standard as the best practice, we understand that in the past, Habitat for Humanity International has acknowledged that Habitat for Humanity ReStores "choose not to keep inventory, because there is no way to value a donation to the store until it has been sold. The cost to maintain inventory would outweigh the derived benefit." However, Habitat for Humanity International issued a new Affiliate Operations Manual in March 2015 and now recommends recording inventory as of year-end. Since the manual was delayed in being released, affiliates were not expected to be in compliance by year-end. Management of WHFH is committed to following the revised HFHI policy in the new fiscal year.

* * * * *

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, 2015 AND 2014**

WITH INDEPENDENT AUDITORS' REPORT

WACO HABITAT FOR HUMANITY

TABLE OF CONTENTS

	<u>Page Number</u>
Independent Auditors' Report.....	1 – 2
FINANCIAL STATEMENTS	
Statements of Financial Position.....	3
Statements of Activities	4
Statements of Cash Flows	5
Statement of Functional Expenses Year Ended June 30, 2015	6
Statement of Functional Expenses Year Ended June 30, 2014	7
Notes to Financial Statements.....	8 – 15

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, 2015 and 2014, and the related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 presented fairly in all material respects, the financial position of Waco Habitat for Humanity as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited WHFH's 2014 financial statements, and our report dated November 19, 2014, 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, 2015, 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
March 18, 2016

FINANCIAL STATEMENTS

WACO HABITAT FOR HUMANITY
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 488,763	\$ 432,180
Certificates of deposit	150,699	278,457
Grants receivable	4,367	4,367
Current installments of non-interest bearing mortgage loans	<u>132,323</u>	<u>128,558</u>
Total Current Assets	<u>776,152</u>	<u>843,562</u>
PROPERTY AND EQUIPMENT		
Land	187,751	187,751
Buildings	1,375,369	1,297,662
Equipment	122,718	128,001
ReStore equipment	64,393	64,393
Less: accumulated depreciation	<u>(453,532)</u>	<u>(409,449)</u>
Total Property and Equipment	<u>1,296,699</u>	<u>1,268,358</u>
OTHER ASSETS		
Homes under construction	176,974	233,553
Vacant lots	48,290	53,898
Non-interest bearing mortgage loans, less current installments	2,207,301	2,129,044
Less: discount on mortgages	<u>(1,744,349)</u>	<u>(1,310,512)</u>
Total Other Assets	<u>688,216</u>	<u>1,105,983</u>
Total Assets	<u><u>\$ 2,761,067</u></u>	<u><u>\$ 3,217,903</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Sales tax payable	\$ 3,396	\$ 3,373
Other payables	58,057	42,486
Escrow accounts	148,092	111,093
Current maturities of notes payable	<u>16,985</u>	<u>16,804</u>
Total Current Liabilities	<u>226,530</u>	<u>173,756</u>
LONG-TERM DEBT, LESS CURRENT MATURITIES	<u>27,827</u>	<u>44,812</u>
DEFERRED INTEREST CONTRIBUTIONS ON NOTES PAYABLE	<u>18,134</u>	<u>15,318</u>
Total Liabilities	<u>272,491</u>	<u>233,886</u>
NET ASSETS		
Unrestricted	2,460,076	2,983,548
Temporarily restricted	<u>28,500</u>	<u>469</u>
Total Net Assets	<u>2,488,576</u>	<u>2,984,017</u>
Total Liabilities and Net Assets	<u><u>\$ 2,761,067</u></u>	<u><u>\$ 3,217,903</u></u>

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

WACO HABITAT FOR HUMANITY

STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

(With Summarized Financial Information for the Year Ended June 30, 2014)

	Unrestricted	Temporarily Restricted	2015 Total	2014 Total
REVENUE, GAINS AND OTHER SUPPORT				
Foundation contributions	\$ 146,140	\$ -	\$ 146,140	\$ 125,751
Public contributions	137,232	-	137,232	146,828
Other contributions	218,230	28,500	246,730	342,799
Capital campaign contributions	-	-	-	-
ReStore:				
ReStore sales	545,595	-	545,595	505,656
ReStore in-kind donations	9,778	-	9,778	18,133
ReStore expenses	(343,859)	-	(343,859)	(340,451)
ReStore Net Gain	<u>211,514</u>	<u>-</u>	<u>211,514</u>	<u>183,338</u>
 Mortgage loans on homes	 764,496	 -	 764,496	 661,107
Repair and ramps	25,206	-	25,206	14,798
In-kind donations	122,401	-	122,401	147,950
Mortgage discounts	87,272	-	87,272	77,214
Other income	4,159	-	4,159	47,981
Net assets released from restriction:				
Satisfaction of donor restrictions	<u>469</u>	<u>(469)</u>	<u>-</u>	<u>-</u>
Capital Asset restrictions				
Total Revenue, Gains and Other Support	<u>1,717,119</u>	<u>28,031</u>	<u>1,745,150</u>	<u>1,747,766</u>
EXPENSES				
Program Services				
New home construction and rehabs	1,525,696	-	1,525,696	1,364,567
Critical home repair and ramps	212,153	-	212,153	186,694
Supporting Services				
Management and general expenses	443,650	-	443,650	370,053
Fundraising expenses	<u>59,092</u>	<u>-</u>	<u>59,092</u>	<u>62,515</u>
TOTAL EXPENSES	<u>2,240,591</u>	<u>-</u>	<u>2,240,591</u>	<u>1,983,829</u>
INCREASE (DECREASE) IN NET ASSETS	(523,472)	28,031	(495,441)	(236,063)
NET ASSETS, BEGINNING OF YEAR	<u>2,983,548</u>	<u>469</u>	<u>2,984,017</u>	<u>3,220,080</u>
NET ASSETS, END OF YEAR	<u>\$ 2,460,076</u>	<u>\$ 28,500</u>	<u>\$ 2,488,576</u>	<u>\$ 2,984,017</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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$(495,441)	\$(236,063)
Depreciation and amortization	49,368	51,294
Recognized deferred interest contributions on notes payable	2,816	(4,615)
Recognized contribution of vacant lots and equipment	-	(12,500)
Disposition of vacant lots and donated buildings	5,608	23,982
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
(Increase) decrease in mortgage receivables, net	351,815	(119,816)
(Increase) decrease in receivables	-	41,691
(Increase) decrease in houses under construction	56,579	(23,601)
Increase (decrease) in other payables	15,594	(2,172)
Increase (decrease) in escrow accounts	<u>36,999</u>	<u>6,310</u>
Net Cash Provided (Used) by Operating Activities	<u>23,338</u>	<u>(275,490)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	<u>(16,804)</u>	<u>(17,585)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(16,804)</u>	<u>(17,585)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of fixed assets	(78,085)	(14,518)
Disposition of equipment	376	-
Proceeds from sale of certificate of deposit	<u>127,758</u>	<u>152,445</u>
Net Cash Provided by (Used by) Investing Activities	<u>50,049</u>	<u>137,927</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	56,583	(155,148)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>432,180</u>	<u>587,328</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 488,763</u></u>	<u><u>\$ 432,180</u></u>

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, 2015

	Program Services		Support Services		
	New Home Construction and Rehabs	Critical Home Repair and Ramps	Management and General	Fundraising	Total
House construction	\$ 528,018	\$ -	\$ -	\$ -	\$ 528,018
Home repairs and ramps	-	144,082	-	-	144,082
Tithe for international homes	23,117	-	-	-	23,117
Salaries	179,035	34,891	272,836	43,054	529,816
Retirement	3,442	886	7,480	1,290	13,098
Employee benefits	25,045	6,829	20,738	3,791	56,403
Payroll taxes	15,362	2,891	23,923	3,557	45,733
Accounting and legal fees	2,019	-	21,070	-	23,089
Advertising and promotion	2,855	-	901	426	4,182
Office expenses	4,759	1,023	24,490	1,394	31,666
Information technology	2,471	1,210	4,471	1,659	9,811
Occupancy	2,743	1,124	17,078	-	20,945
Travel	11,228	4,403	4,448	280	20,359
Conferences, conventions, and meetings	4,848	716	8,479	1,320	15,363
Depreciation, depletion, and amortization	33,792	8,507	5,302	1,767	49,368
Insurance	5,074	4,928	3,315	-	13,317
Mortgage discount	521,578	-	-	-	521,578
In-kind expense	114,672	-	7,729	-	122,401
Other expenses	45,638	663	21,390	554	68,245
Total Expenses	\$ 1,525,696	\$ 212,153	\$ 443,650	\$ 59,092	\$ 2,240,591

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, 2014

	Program Services		Support Services		
	New Home Construction and Rehabs	Critical Home Repair and Ramps	Management and General	Fundraising	Total
House construction	\$ 624,134	\$ -	\$ -	\$ -	\$ 624,134
Home repairs and ramps	-	111,013	-	-	111,013
Tithe for international homes	35,498	-	-	-	35,498
Salaries	167,567	33,114	212,662	44,778	458,121
Retirement	3,488	958	5,213	1,346	11,005
Employee benefits	21,953	5,744	14,287	3,423	45,407
Payroll taxes	15,387	2,787	21,083	3,900	43,157
Accounting and legal fees	22	-	20,476	-	20,498
Advertising and promotion	4,130	1,428	1,146	2,960	9,664
Office expenses	4,617	369	23,728	2,441	31,155
Information technology	2,431	725	8,682	874	12,712
Occupancy	1,185	830	18,607	-	20,622
Travel	12,033	5,298	3,940	658	21,929
Conferences, conventions, and meetings	2,583	107	6,280	278	9,248
Depreciation, depletion, and amortization	18,903	8,511	5,353	1,782	34,549
Insurance	16,135	5,318	2,630	-	24,083
Mortgage discount	247,192	-	-	-	247,192
In-kind expense	118,995	-	14,158	-	133,153
Other expenses	68,314	10,492	11,808	75	90,689
Total Expenses	\$ <u>1,364,567</u>	\$ <u>186,694</u>	\$ <u>370,053</u>	\$ <u>62,515</u>	\$ <u>1,983,829</u>

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

WACO HABITAT FOR HUMANITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

1. ORGANIZATION AND NATURE OF ACTIVITIES

Waco Habitat for Humanity, Inc. (WHFH) 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.

Habitat is a nonprofit organization, as described in Section 501(c)(3) of the Internal Revenue Code, and is exempt from federal income taxes and has been classified as a publicly supported organization as described in Sections 509(a)(1) and 170(b)(A)(VI).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of Waco Habitat for Humanity 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

In accordance with ASC 958, Not-for-Profit Entities, WHFH 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 WHFH in accordance with its bylaws.

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.

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.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the use of 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 is useful lives of property and equipment and unamortized discount for non-interest bearing mortgage loans receivable and payable. Actual results could differ from those estimates.

Income Tax Status

Waco Habitat for Humanity 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 (UBIT). 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 2015 and 2014. The previous three years remain subject to examination by tax jurisdictions.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, Waco Habitat for Humanity considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

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 7.39% to 10.0%, 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 \$48,290 and \$53,898 as of June 30, 2015 and 2014, 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 \$49,368 and \$51,294 for the years ended June 30, 2015 and 2014, 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.

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

Homes under Construction

Homes under construction 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, 2014, 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 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 7.39% to 10.0% 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, 2015 and 2014, of \$132,323 and \$128,558, respectively, represents the installments due within one year. The balance of the non-interest bearing mortgage loans as of June 30, 2015 and 2014, of \$2,207,301 and \$2,129,044, 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, 2015 and 2014, was \$87,272 and \$77,214, respectively.

4. PROPERTY AND EQUIPMENT

The summary of property and equipment follows:

	<u>06/30/14</u>	<u>Additions</u>	<u>Deletions</u>	<u>06/30/15</u>
Land	\$ 187,751	\$ -	\$ -	\$ 187,751
Buildings and improvements	1,297,662	77,707	-	1,375,369
Equipment and tools	128,001	378	(5,661)	122,718
ReStore equipment	<u>64,393</u>	<u>-</u>	<u>-</u>	<u>64,393</u>
	1,677,807	78,085	(5,661)	1,750,231
Less accumulated depreciation	<u>(409,449)</u>	<u>(49,368)</u>	<u>5,285</u>	<u>(453,532)</u>
Total property and equipment, net of depreciation	<u>\$ 1,268,358</u>	<u>\$ 28,717</u>	<u>\$ (376)</u>	<u>\$ 1,296,699</u>

5. NOTES PAYABLE

At June 30, 2015 and 2014, the following debt was outstanding:

	<u>2015</u>	<u>2014</u>
Note payable to a bank, non-interest bearing, due in monthly installments of \$133 for 240 months, maturing October 5, 2020.	\$ 8,534	\$ 10,134
Note payable, non-interest bearing, due in monthly installments of \$300 for 120 months, maturing January 1, 2015.	-	1,800
Note payable, non-interest bearing (8% imputed interest rate), due in monthly installments of \$1,000, maturing January 31, 2017. Original note is \$120,000, deferred interest contribution is \$39,480, face less discount at origination is \$80,520.	13,164	23,651
Note payable, non-interest bearing (8% imputed interest rate), due in annual installments of \$5,000, maturing December 31, 2020. Original note is \$50,000, deferred interest contribution is \$16,450, face less discount at origination is \$33,550.	<u>23,114</u>	<u>26,031</u>
	44,812	61,616
Less current installments	<u>(16,985)</u>	<u>(16,804)</u>
Long-term Debt, Excluding Current Installments	<u>\$ 27,827</u>	<u>\$ 44,812</u>

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

<u>Fiscal Year Ending June 30,</u>	
2016	\$ 16,985
2017	5,933
2018	5,275
2019	5,569
2020	5,887
Thereafter	<u>5,163</u>
	<u>\$ 44,812</u>

Imputed interest expense for the years ended June 30, 2015 and 2014, was \$3,596 and \$4,615, respectively.

6. SALES TO HOMEOWNERS

During the years ended June 30, 2015 and 2014, eight and nine 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 7.51%). The discount totaled \$521,578 for 2015 and \$247,192 for 2014.

7. DONATED SERVICES AND MATERIALS

A number of unpaid volunteers have made contributions of their time, materials and services in conjunction with the Organization's programs and services. The value of the contributions meeting the requirements for recognition was \$122,401 and \$148,969 for the years ended June 30, 2015 and 2014, respectively.

8. 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, 2015 and 2014, respectively, WHFH's cash balances exceeded the federal insurance limits; however, no losses have been experienced as a result of this occurrence.

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.

9. 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, 2015 and 2014, WHFH contributed \$28,866 and \$32,955, respectively. In addition to these unrestricted contributions to Habitat for Humanity International, WHFH also paid a tithe to HFHI in the amount of \$23,117 for the year ended June 30, 2015 and \$35,498 for the year ended June 30, 2014.

10. RECLASSIFICATIONS

Certain immaterial reclassifications of prior period amounts have been made, where appropriate, to reflect comparable operating results and conform to current 2015 financial statement presentation.

11. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events from the balance sheet date through March 18, 2016, the date at which the financial statements were available to be issued, and determined that there are no events to disclose.