

**WACO HABITAT FOR HUMANITY**  
**FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED**  
**JUNE 30, 2019 AND 2018**  
**WITH INDEPENDENT AUDITOR'S REPORT**

**WACO HABITAT FOR HUMANITY**

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## INDEPENDENT AUDITOR'S 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, 2019, 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.

### OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston

NEW MEXICO | Albuquerque

**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, 2019, 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 2018 financial statements, and our report dated November 15, 2018, 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, 2018, 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  
May 15, 2020

# **FINANCIAL STATEMENTS**

**WACO HABITAT FOR HUMANITY**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2019 AND 2018**

	2019	2018
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 27,646	\$ 128,901
Certificates of deposit	81,025	154,996
Grants receivable	1,575	-
Current installments of non-interest bearing mortgage loans	<u>133,766</u>	<u>136,142</u>
Total current assets	<u>244,012</u>	<u>420,039</u>
<b>PROPERTY AND EQUIPMENT</b>		
Land	187,751	187,751
Buildings	1,324,613	1,324,613
Equipment	143,833	126,672
ReStore equipment	111,535	90,727
Less: accumulated depreciation	<u>( 557,653)</u>	<u>( 516,622)</u>
Total property and equipment	<u>1,210,079</u>	<u>1,213,141</u>
<b>OTHER ASSETS</b>		
Homes under construction	122,978	34,409
Vacant lots	29,722	32,492
Beneficial interest in assets held by Waco Foundation	106,320	103,509
Non-interest bearing mortgage loans, less current installments	2,082,435	2,196,352
Less: discount on mortgages	<u>( 1,198,225)</u>	<u>( 1,295,970)</u>
Total other assets	<u>1,143,230</u>	<u>1,070,792</u>
Total assets	<u>\$ 2,597,321</u>	<u>\$ 2,703,972</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Sales tax payable	\$ 6,523	\$ 2,749
Other payables	42,202	54,437
Escrow accounts	14,161	19,969
Current maturities of notes payable	<u>6,600</u>	<u>6,600</u>
Total current liabilities	<u>69,486</u>	<u>83,755</u>
<b>LONG-TERM DEBT, LESS CURRENT MATURITIES</b>		
Total liabilities	<u>75,020</u>	<u>12,134</u>
<b>NET ASSETS</b>		
Without donor restriction:		
Board designated for endowment	106,320	103,509
Undesignated	<u>2,415,981</u>	<u>2,504,574</u>
Total without donor restrictions	<u>2,522,301</u>	<u>2,608,083</u>
Total net assets	<u>2,522,301</u>	<u>2,608,083</u>
Total liabilities and net assets	<u>\$ 2,597,321</u>	<u>\$ 2,703,972</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, 2019

(With Summarized Financial Information for the Year Ended June 30, 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
<b>REVENUE, GAINS AND OTHER SUPPORT</b>				
Foundation contributions	\$ 141,109	\$ -	\$ 141,109	\$ 118,140
Public contributions	13,360	-	13,360	77,510
Other contributions	163,762	-	163,762	154,988
ReStore:				
ReStore sales	522,179	-	522,179	554,630
ReStore expenses	<u>( 389,748)</u>	<u>-</u>	<u>( 389,748)</u>	<u>( 390,626)</u>
ReStore net gain	<u>132,431</u>	<u>-</u>	<u>132,431</u>	<u>164,004</u>
Mortgage loans on homes	189,902	-	189,902	208,680
Repair and ramps	30,887	-	30,887	33,070
In-kind donations	29,209	-	29,209	81,562
Discount amortization	103,745	-	103,745	84,733
Other income	92,927	-	92,927	53,640
Net assets released from restriction:				
Satisfaction of donor restrictions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue, gains and other support	<u>897,332</u>	<u>-</u>	<u>897,332</u>	<u>976,327</u>
<b>EXPENSES</b>				
<b>Program Services</b>				
New home construction and rehabs	347,390	-	347,390	416,724
Critical home repair and ramps	85,101	-	85,101	176,332
Family services	57,383	-	57,383	56,918
<b>Supporting Services</b>				
Management and general expenses	408,785	-	408,785	402,593
Fundraising expenses	<u>84,455</u>	<u>-</u>	<u>84,455</u>	<u>104,381</u>
Total expenses	<u>983,114</u>	<u>-</u>	<u>983,114</u>	<u>1,156,948</u>
<b>DECREASE IN NET ASSETS</b>	<b>( 85,782)</b>	<b>-</b>	<b>( 85,782)</b>	<b>( 180,621)</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>2,608,083</u>	<u>-</u>	<u>2,608,083</u>	<u>2,788,704</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 2,522,301</u>	<u>\$ -</u>	<u>\$ 2,522,301</u>	<u>\$ 2,608,083</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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$( 85,782)	\$( 180,621)
Depreciation and amortization	49,151	48,931
Loss/(gain) on disposition of fixed assets	6,001	( 10,000)
Disposition of vacant lots and donated buildings	2,770	3,475
Unrealized (gain) on investments	( 2,811)	( 3,509)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
(Increase) decrease in mortgage receivables, net	18,548	( 13,112)
(Increase) decrease in receivables	( 1,575)	-
(Increase) decrease in houses under construction	( 88,569)	( 29,236)
Increase (decrease) in other payables	( 8,461)	( 10,429)
Increase (decrease) in escrow accounts	<u>( 5,808)</u>	<u>( 53,141)</u>
Net cash used by operating activities	<u>( 116,536)</u>	<u>( 247,642)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on notes payable	<u>( 6,600)</u>	<u>( 6,600)</u>
Net cash used by financing activities	<u>( 6,600)</u>	<u>( 6,600)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of fixed assets	( 52,090)	( 52,011)
Disposition of equipment	-	10,000
Purchase of beneficial interest in assets held by waco foundation	-	( 100,000)
(Increase) decrease in net investment of certificate of deposit	<u>73,971</u>	<u>( 1,401)</u>
Net cash (used) provided by investing activities	<u>21,881</u>	<u>( 143,412)</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>( 101,255)</u>	<u>( 397,654)</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>128,901</u>	<u>526,555</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 27,646</u>	<u>\$ 128,901</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, 2019

	Program Services			Support Services		Total
	New Home Construction and Rehabs	Critical Home Repair and Ramps	Family Services	Management and General	Fundraising	
House construction	\$ 194,516	\$ -	\$ -	\$ -	\$ -	\$ 194,516
Home repairs and ramps	-	31,470	-	-	-	31,470
Tithe for international homes	10,238	1,484	-	443	-	12,165
Salaries	64,939	32,401	44,521	228,930	43,752	414,543
Retirement	384	554	1,130	5,780	1,332	9,180
Employee benefits	5,726	2,670	4,192	17,829	5,810	36,227
Payroll taxes	4,952	2,643	3,282	15,569	2,859	29,305
Accounting and legal fees	-	-	2,590	31,863	-	34,453
Advertising and promotion	500	-	108	-	-	608
Office expenses	3,478	507	700	28,185	1,504	34,374
Information technology	436	95	95	12,479	1,938	15,043
Occupancy	2,812	-	-	18,417	-	21,229
Travel	5,848	1,329	( 8)	3,574	-	10,743
Conferences, conventions, and meetings	3,168	619	773	19,917	1,840	26,317
Depreciation, depletion, and amortization	7,725	5,640	-	7,587	1,774	22,726
Insurance	7,672	2,535	-	5,593	-	15,800
Mortgage discount	6,000	-	-	-	-	6,000
In-kind expense	19,656	2,050	-	751	6,752	29,209
Other expenses	<u>9,340</u>	<u>1,104</u>	<u>-</u>	<u>11,868</u>	<u>16,894</u>	<u>39,206</u>
Total expenses	\$ <u>347,390</u>	\$ <u>85,101</u>	\$ <u>57,383</u>	\$ <u>408,785</u>	\$ <u>84,455</u>	\$ <u>983,114</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, 2018

	Program Services			Support Services		Total
	New Home Construction and Rehabs	Critical Home Repair and Ramps	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	53,450	2,000	-	3,800	22,312	81,562
Other expenses	<u>4,492</u>	<u>391</u>	<u>952</u>	<u>12,635</u>	<u>10,298</u>	<u>28,768</u>
<b>Total expenses</b>	<b>\$ <u>416,724</u></b>	<b>\$ <u>176,332</u></b>	<b>\$ <u>56,918</u></b>	<b>\$ <u>402,593</u></b>	<b>\$ <u>104,381</u></b>	<b>\$ <u>1,156,948</u></b>

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

# WACO HABITAT FOR HUMANITY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

### 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 accounting principles generally accepted in the United States of America ("GAAP").

#### **Change in Accounting Principle**

On August 18, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has implemented ASU 2016-14 and has adjusted the presentation of the financial statements accordingly.

#### **Basis of Presentation**

Net assets, revenues, gains and losses are classified on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and the changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Such net assets are available for any purpose consistent with the Organization's mission. Designations of net assets by the governing board do not have the same legal requirements as do restrictions of funds and are included in this category.

*Net Assets With Donor Restrictions* – Net assets subject to specific, donor-imposed restrictions that must be met by actions of the Organization and/or passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

#### **Recognition of Donor Restrictions**

Support that is restricted by the donor is reported as an increase in net assets without donor restrictions 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 net assets with donor restrictions depending on the nature of the restriction. When the restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

### **Significant Estimates**

The preparation of financial statements in conformity with GAAP 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 2019 and 2018. 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, 2019 and 2018.

### **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 \$29,722 and \$32,492 as of June 30, 2019 and 2018, 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 \$49,151 and \$48,931 for the years ended June 30, 2019 and 2018, 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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 with 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 GAAP. Accordingly, such information should be read in conjunction with WHFH's financial statements for the year ended June 30, 2018, 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, 2019 and 2018, of \$133,766 and \$136,142, respectively, represents the installments due within one year. The remaining balance of the non-interest bearing mortgage loans as of June 30, 2019 and 2018, of \$2,082,435 and \$2,196,352 respectively, is represented as other assets.

The discount on mortgage receivables must also be amortized under GAAP. Amortization for the years ended June 30, 2019 and 2018 was \$103,745 and \$84,733, respectively.

#### 4. PROPERTY AND EQUIPMENT

The summary of property and equipment for the years ended June 30, 2019 and 2018 are as follows:

	<u>6/30/2019</u>	<u>6/30/2018</u>
Land	\$ 187,751	\$ 187,751
Buildings and improvements	1,324,613	1,324,613
Equipment and tools	143,833	126,672
ReStore equipment	<u>111,535</u>	<u>90,727</u>
	1,767,732	1,729,763
Less accumulated depreciation	<u>( 557,653)</u>	<u>( 516,622)</u>
Total property and equipment	<u>\$ 1,210,079</u>	<u>\$ 1,213,141</u>

Depreciation expense for the years ended June 30, 2019 and 2018 was \$49,151 and \$48,931, respectively.

#### 5. NOTES PAYABLE

At June 30, 2019 and 2018, the following debt was outstanding:

	<u>2019</u>	<u>2018</u>
Note payable to a bank, non-interest bearing, due in monthly installments of \$133 for 240 months, maturing October 5, 2020.	\$ 2,134	\$ 3,734
Note payable, non-interest bearing, due in annual installments of \$5,000, maturing December 31, 2020.	<u>10,000</u>	<u>15,000</u>
	12,134	18,734
Less current installments	<u>( 6,600)</u>	<u>( 6,600)</u>
Long-term Debt, Excluding Current Installments	<u>\$ 5,534</u>	<u>\$ 12,134</u>

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

<u>Fiscal Year Ending June 30,</u>	
2020	\$ 6,600
2021	<u>5,534</u>
	<u>\$ 12,134</u>

## **6. SALES TO HOMEOWNERS**

During the years ended June 30, 2019 and 2018, two homes were sold each year 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 7.66%). The discount totaled \$6,000 and \$12,860 for 2019 and 2018.

## **7. CERTIFICATES OF DEPOSIT**

Certificates of deposit totaling \$81,025 and \$154,996 as of June 30, 2019 and 2018, 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**

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 the 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 \$106,320 and \$103,509 as of June 30, 2019 and 2018, respectively.

## **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, 2019 and 2018 are as follows:

Fair Value Measurements at Reporting Date Using

June 30, 2019	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Quoted Prices for Similar Assets (Level 2)
Certificates of deposit	\$ 81,025	\$ -	\$ 81,025
Assets at Waco Foundation	<u>106,320</u>	<u>-</u>	<u>106,320</u>
Total at June 30, 2018	<u>\$ 187,345</u>	<u>\$ -</u>	<u>\$ 187,345</u>
June 30, 2018	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Quoted Prices for Similar Assets (Level 2)
Certificate of deposit	\$ 154,996	\$ -	\$ 154,996
Assets at Waco Foundation	<u>103,509</u>	<u>-</u>	<u>103,509</u>
Total at June 30, 2017	<u>\$ 258,505</u>	<u>\$ -</u>	<u>\$ 258,505</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 services provided by the Habitat's many volunteers are not reflected in these financial statements. The value of the contributions meeting the requirements for recognition was \$29,209 and \$81,562 for the years ended June 30, 2019 and 2018, respectively.

ReStore inventory consists of donated home furnishings, building supplies, paint and paint supplies, flooring, and other home improvement items. No amounts have been recognized in the accompanying statements of activities for these goods, however, the revenue generated by donated ReStore items is recognized at the selling price at the time of the sale.

#### 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, 2019 and 2018 WHFH did not exceed the federal insurance limits.

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, 2019 and 2018, WHFH contributed \$7,500 and \$7,500, respectively. In addition to these unrestricted contributions to Habitat for Humanity International, WHFH also paid a tithe in the amount of \$12,165 for the year ended June 30, 2019 and \$7,184 for the year ended June 30, 2018.



### 13. NET ASSETS – ENDOWMENT FUNDS

The Habitat's endowment consists of board designated quasi-endowments invested in funds managed by the Waco Foundation. The funds are the property of the Waco Foundation held by it in its trust capacity. Net distributable income of the funds, defined as the net realized and unrealized appreciation of the funds over the historic dollar value of the assets in the funds is to be distributed to the Habitat at least on an annual basis, unless otherwise requested by the Habitat. . The income may, if both the Habitat and the Waco Foundation agree, remain and accumulate with the corpus.

As required by GAAP, net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. As of June 30, 2019, the Habitat does not have any donor restricted endowment funds, and as such, the endowments are not subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

Endowment net asset classification by Type of Fund as of June 30, 2019:

<u>Endowment Type</u>	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Donor Restricted	\$ -	\$ -	\$ -
Board Designated	106,320	-	106,320
Total Endowments	<u>\$ 106,320</u>	<u>\$ -</u>	<u>\$ 106,320</u>

Changes in endowment net assets for the fiscal year ended December 31, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>
Endowment net assets, beginning of year	\$ 103,509	\$ -
Investment return, net	2,811	-
Contributions to endowment	-	-
Appropriation of endowment assets for expenditure	-	-
Endowment net assets, end of year	<u>\$ 106,320</u>	<u>\$ -</u>

### 14. LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the Habitat's financial assets as of June 30, 2019, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. Amounts not available could include amounts set aside for long-term investing in quasi-endowments that could be drawn upon if the governing board approves that action.

Financial assets:	
Cash & cash equivalents	\$ 27,646
Certificates of deposit	81,025
Beneficial interest in assets held by Waco Foundation	106,320
Grants receivable	1,575
Current installments of non-interest bearing mortgage loans	<u>133,766</u>
Financial assets, at year-end	350,332
Less:	
Board-designated net assets	<u>( 106,320)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 244,012</u>

### 15. 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.

## **16. RECLASSIFICATIONS**

Certain immaterial reclassifications of prior period amounts have been made, where appropriate, to reflect comparable operating results and conform to current 2019 financial statement presentation.

## **17. SUBSEQUENT EVENTS**

The Habitat has evaluated subsequent events from the balance sheet date through May 15, 2020, the date the financial statements were available to be issued and noted the following non-recognized events for disclosure.

### **Long-term Loan**

On January 27, 2020, the Habitat received a long-term loan in the amount of \$225,000. The loan accrues interest at the rate of 5.75% per annum and matures on January 27, 2022.

### **COVID-19**

On January 30, 2020, the World Health Organization declared that the recent coronavirus disease 2019 ("COVID-19") outbreak was a global health emergency. On March 11, 2020, the COVID-19 outbreak was raised to "pandemic" status. As of the issuance date of this report, the COVID-19 pandemic has had a significant impact on the nation's economy and financial markets. The extent of the impact of COVID-19 on WHFH and financial results will depend on future developments, including the duration and spread of the outbreak, and the resulting effects on the public and the ability of the community to donate it's time and money. The extent of the impact of COVID-19 on WHFH's future financial condition and results of operations is uncertain and cannot be predicted at this time.

### **Paycheck Protection Loan**

On May 8, 2020, WHFH received loan proceeds in the amount of \$136,900 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES ACT"), provides loans for qualifying businesses to be used on qualifying expenses. The loan is eligible to turn into a grant provided the funds are used for the appropriate expenses.