



FINANCIAL STATEMENTS

Years Ended June 30, 2018 and 2017

with

Independent Auditors' Report

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.

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Independent Auditors' Report

The Board of Directors
Willamette West Habitat for Humanity, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Willamette West Habitat for Humanity, Inc., which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' 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 Willamette West Habitat for Humanity, Inc. as of June 30, 2018 and 2017, 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.

Huffman, Stewart & Schmidt, P.C.

Lake Oswego, Oregon
October 25, 2018

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.

Statements of Financial Position

| Years Ended June 30, | 2018 | 2017 |
|--|----------------------------|----------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 504,573 | \$ 1,211,410 |
| Certificate of deposit | 500,701 | - |
| Current portion of mortgages receivable <i>(Note 2)</i> | 110,633 | 91,134 |
| Current portion of pledges receivable <i>(Note 3)</i> | - | 420,000 |
| Other receivables | 45,773 | 27,917 |
| Current portion of prepaid expenses and deposits | 9,868 | 18,685 |
| Inventories <i>(Note 4)</i> | 996,111 | 1,396,408 |
| Total current assets | 2,167,659 | 3,165,554 |
| Mortgages receivable, net of current portion <i>(Note 2)</i> | 1,943,597 | 1,310,776 |
| Pledges receivable, net of current portion <i>(Note 3)</i> | - | 49,924 |
| Land held for development | 1,615,148 | 1,437,117 |
| Prepaid expenses and deposits, net of current portion | 23,372 | 23,372 |
| Property and equipment - net <i>(Notes 5 and 6)</i> | 570,642 | 576,928 |
| Total assets | <u>\$ 6,320,418</u> | <u>\$ 6,563,671</u> |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 148,065 | \$ 97,793 |
| Deferred revenue | 45,049 | - |
| Note payable <i>(Note 7)</i> | - | 312 |
| Total liabilities | 193,114 | 98,105 |
| Commitments and contingencies <i>(Notes 6 and 11)</i> | | |
| Net assets: | | |
| Unrestricted | 5,943,315 | 5,680,439 |
| Temporarily restricted <i>(Note 8)</i> | 183,989 | 785,127 |
| Total net assets | <u>6,127,304</u> | <u>6,465,566</u> |
| Total liabilities and net assets | <u>\$ 6,320,418</u> | <u>\$ 6,563,671</u> |

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

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.

Statement of Activities and Changes in Net Assets

Year Ended June 30, 2018

| | Unrestricted | Temporarily Restricted | Total |
|---|----------------------------|-----------------------------------|----------------------------|
| Revenue, gains, and other support: | | | |
| Sales - homes | \$ 1,380,979 | \$ - | \$ 1,380,979 |
| Amortization of discount on mortgages receivable | 168,582 | - | 168,582 |
| Contributions and grants | 735,871 | 54,004 | 789,875 |
| Donated services and materials | 60,443 | - | 60,443 |
| Special events: | | | |
| Gross revenue | 148,332 | 11,145 | 159,477 |
| Less direct cost of donor benefits | <u>(40,092)</u> | <u>-</u> | <u>(40,092)</u> |
| | 108,240 | 11,145 | 119,385 |
| ReStore income (<i>Note 9</i>) | 226,616 | - | 226,616 |
| Repair program income | 27,284 | - | 27,284 |
| Gain from sale of mortgages receivables (<i>Note 2</i>) | 17,482 | - | 17,482 |
| Other income | 430 | - | 430 |
| Net assets released from restrictions (<i>Note 8</i>) | <u>666,287</u> | <u>(666,287)</u> | <u>-</u> |
| Net revenue, gains, and other support | 3,392,214 | (601,138) | 2,791,076 |
| Expenses: | | | |
| Program services | 2,782,384 | - | 2,782,384 |
| Supporting services: | | | |
| Management and general | 234,137 | - | 234,137 |
| Fundraising | <u>112,817</u> | <u>-</u> | <u>112,817</u> |
| Total supporting services | <u>346,954</u> | <u>-</u> | <u>346,954</u> |
| Total expenses | 3,129,338 | - | 3,129,338 |
| Increase (decrease) in net assets | 262,876 | (601,138) | (338,262) |
| Net assets, beginning of year | <u>5,680,439</u> | <u>785,127</u> | <u>6,465,566</u> |
| Net assets, end of year | <u>\$ 5,943,315</u> | <u>\$ 183,989</u> | <u>\$ 6,127,304</u> |

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

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.

Statement of Activities and Changes in Net Assets

Year Ended June 30, 2017

| | Unrestricted | Temporarily Restricted | Total |
|--|----------------------------|-----------------------------------|----------------------------|
| Revenue, gains, and other support: | | | |
| Sales - homes | \$ 1,378,315 | \$ - | \$ 1,378,315 |
| Amortization of discount on mortgages receivable | 70,173 | - | 70,173 |
| Contributions and grants | 463,692 | 401,242 | 864,934 |
| Donated services and materials | 101,835 | - | 101,835 |
| Special events: | | | |
| Gross revenue | 130,395 | 34,737 | 165,132 |
| Less direct cost of donor benefits | <u>(38,232)</u> | <u>-</u> | <u>(38,232)</u> |
| | 92,163 | 34,737 | 126,900 |
| ReStore income (<i>Note 9</i>) | 277,405 | - | 277,405 |
| Repair program income | 18,585 | - | 18,585 |
| Gain from sale of mortgages receivable (<i>Note 2</i>) | 56,439 | - | 56,439 |
| Other income | 743 | - | 743 |
| Net assets released from restrictions (<i>Note 8</i>) | <u>371,181</u> | <u>(371,181)</u> | <u>-</u> |
| Net revenue, gains, and other support | 2,830,531 | 64,798 | 2,895,329 |
| Expenses: | | | |
| Program services | 2,883,099 | - | 2,883,099 |
| Supporting services: | | | |
| Management and general | 175,498 | - | 175,498 |
| Fundraising | <u>136,150</u> | <u>-</u> | <u>136,150</u> |
| Total supporting services | <u>311,648</u> | <u>-</u> | <u>311,648</u> |
| Total expenses | 3,194,747 | - | 3,194,747 |
| Increase (decrease) in net assets | (364,216) | 64,798 | (299,418) |
| Net assets, beginning of year | <u>6,044,655</u> | <u>720,329</u> | <u>6,764,984</u> |
| Net assets, end of year | <u>\$ 5,680,439</u> | <u>\$ 785,127</u> | <u>\$ 6,465,566</u> |

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

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.

Statement of Functional Expenses

Year Ended June 30, 2018

| | Program Services | Supporting Services | | Total |
|--|---------------------|---------------------------|-------------------|---------------------|
| | | Management and General | Fundraising | |
| Cost of homes sold | \$ 1,369,074 | \$ - | \$ - | \$ 1,369,074 |
| Discounts granted on mortgages receivable | 557,409 | - | - | 557,409 |
| Repair corps program | 130,793 | - | - | 130,793 |
| Indirect construction costs | 51,875 | - | - | 51,875 |
| Homebuyer recruitment and management | 3,235 | - | - | 3,235 |
| Volunteer recruitment and management | 10,286 | - | - | 10,286 |
| Donated services | 7,691 | 23,566 | - | 31,257 |
| Tithing (<i>Note 9</i>) | 64,840 | - | - | 64,840 |
| Playground expenses | 64,178 | - | - | 64,178 |
| Depreciation | 13,397 | 8,039 | 5,359 | 26,795 |
| Salaries and benefits | 413,073 | 108,923 | 77,692 | 599,688 |
| Stipend - AmeriCorps | 3,874 | - | - | 3,874 |
| Travel, education, and meals | 6,747 | 500 | 1,944 | 9,191 |
| Printing, mailing, and publications | 5,146 | - | 1,228 | 6,374 |
| Insurance | 36,749 | 1,462 | - | 38,211 |
| Professional fees | - | 34,730 | 10,000 | 44,730 |
| Bank and collection service fees | - | 20,347 | - | 20,347 |
| Occupancy | 18,879 | 1,761 | 4,531 | 25,171 |
| Promotions | - | - | 6,656 | 6,656 |
| Office expense | 2,556 | 24,602 | - | 27,158 |
| Fees and licenses | 183 | 5,951 | - | 6,134 |
| Dues to affiliates (<i>Note 9</i>) | 20,786 | - | - | 20,786 |
| Dues and subscriptions | - | 3,057 | 4,254 | 7,311 |
| Other expenses - net | 1,613 | 1,199 | 1,153 | 3,965 |
| | <u>\$ 2,782,384</u> | <u>\$ 234,137</u> | <u>\$ 112,817</u> | <u>\$ 3,129,338</u> |

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

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.

Statement of Functional Expenses

Year Ended June 30, 2017

| | Program Services | Supporting Services | | Total |
|--|---------------------|---------------------------|-------------------|---------------------|
| | | Management and General | Fundraising | |
| Cost of homes sold | \$ 1,403,108 | \$ - | \$ - | \$ 1,403,108 |
| Discounts granted on mortgages receivable | 692,370 | - | - | 692,370 |
| Repair corps program | 46,165 | - | - | 46,165 |
| Indirect construction costs | 44,117 | - | - | 44,117 |
| Homebuyer recruitment and management | 1,770 | - | - | 1,770 |
| Volunteer recruitment and management | 16,334 | - | - | 16,334 |
| Donated services | 3,636 | 32,264 | - | 35,900 |
| Tithing (<i>Note 9</i>) | 85,512 | - | - | 85,512 |
| Depreciation | 12,456 | 7,474 | 4,983 | 24,913 |
| Salaries and benefits | 460,581 | 82,323 | 110,879 | 653,783 |
| Stipend - AmeriCorps | 23,383 | - | - | 23,383 |
| Travel, education, and meals | 14,465 | 780 | 6,552 | 21,797 |
| Printing, mailing, and publications | 2,517 | - | 2,810 | 5,327 |
| Insurance | 26,807 | 1,667 | - | 28,474 |
| Professional fees | - | 20,326 | - | 20,326 |
| Bank and collection service fees | - | 21,455 | - | 21,455 |
| Occupancy | 17,645 | 1,647 | 4,285 | 23,577 |
| Promotions | 1,089 | - | 3,614 | 4,703 |
| Office expense | 11,963 | 2,222 | 2,905 | 17,090 |
| Fees and licenses | 375 | 1,017 | - | 1,392 |
| Dues to affiliates (<i>Note 9</i>) | 16,273 | - | - | 16,273 |
| Dues and subscriptions | - | 4,089 | - | 4,089 |
| Other expenses - net | 2,533 | 234 | 122 | 2,889 |
| | \$ 2,883,099 | \$ 175,498 | \$ 136,150 | \$ 3,194,747 |

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

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.

Statements of Cash Flows

| Years Ended June 30, | 2018 | 2017 |
|--|-------------------|---------------------|
| Cash flows from operating activities: | | |
| Decrease in net assets | \$ (338,262) | \$ (299,418) |
| Adjustments to reconcile decrease in net assets to net cash used by operating activities: | | |
| Depreciation | 26,795 | 24,913 |
| Discounts granted on mortgage receivable | 557,409 | 692,370 |
| Amortization of discount on mortgages receivable | (168,582) | (70,173) |
| Issuance of mortgages | (1,379,169) | (1,354,811) |
| Gain from sale of mortgages receivable | (17,482) | (56,439) |
| Loss on disposal of equipment | 677 | - |
| Donated equipment | - | (3,927) |
| Donated construction supplies | - | (45,000) |
| Net change in: | | |
| Mortgages receivable | 203,123 | 266,657 |
| Pledges receivable - net | 469,924 | 268,312 |
| Inventories and land held for development | 385,359 | 468,727 |
| Prepaid expenses and deposits | 8,817 | (8,391) |
| Other receivables | (17,856) | (7,926) |
| Accounts payable and accrued expenses | 50,272 | (44,669) |
| Deferred revenue | 45,049 | - |
| Net cash used by operating activities | (173,926) | (169,775) |
| Cash flows from investing activities: | | |
| Proceeds from sale of mortgages receivable | 37,794 | 357,914 |
| Repurchase of mortgage receivable | (48,506) | (52,172) |
| Additions to certificates of deposit | (500,701) | - |
| Proceeds from withdrawal of certificate of deposit | - | 97,845 |
| Purchases of property and equipment | (21,186) | (5,930) |
| Net cash provided (used) by investing activities | (532,599) | 397,657 |
| Cash flows from financing activities: | | |
| Principal payments on notes payable | (312) | (115,960) |
| Net cash used by financing activities | (312) | (115,960) |
| Net increase (decrease) in cash and cash equivalents | (706,837) | 111,922 |
| Cash and cash equivalents, beginning of year | 1,211,410 | 1,099,488 |
| Cash and cash equivalents, end of year | \$ 504,573 | \$ 1,211,410 |

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

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.

Statements of Cash Flows - Continued

| Years Ended June 30, | 2018 | 2017 |
|--|-------------|-------------|
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | \$ - | \$ 9,900 |
| Supplemental disclosure of non-cash activities: | | |
| Inventory acquired in exchange for outstanding mortgage receivable | \$ 163,093 | \$ - |

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

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.

Notes to Financial Statements

1. Significant Accounting Policies

Organization - Willamette West Habitat for Humanity, Inc. (Habitat) is a nonprofit organization incorporated in Oregon in 1989. Habitat is an affiliate of Habitat for Humanity International, Inc. (Habitat International), a nonprofit, ecumenical, Christian organization dedicated to eliminating substandard housing worldwide and to making adequate, affordable shelter a matter of conscience and action.

Habitat is founded on the conviction that every man, woman, and child should have a simple, decent, affordable place to live in dignity and safety. Although Habitat International assists with information resources, training, publications, prayer support, and in other ways, Habitat is primarily and directly responsible for its own operations. Habitat voluntarily tithes 10 percent of donations, except those restricted by donor or grant, to Habitat International to support its global mission.

Habitat builds houses utilizing volunteer labor and donated materials, in addition to paid services and materials. The houses are sold to qualified homebuyers at no profit with non-interest bearing mortgages. Prospective homeowners must have a need for housing, the ability to pay the mortgage, and are required to contribute 500 sweat-equity hours into building homes or working in the local resale store, ReStore.

Habitat's activities are primarily focused in the suburbs west of Portland, Oregon (i.e., Beaverton, Aloha, and Hillsboro) but also cover Lake Oswego, West Linn, Tualatin, Sherwood, and other unincorporated areas of Washington County, Oregon (Washington County).

Habitat partners with two other Habitat affiliates in sharing the revenue generated by three ReStores operating in the Portland-metro area.

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis of Presentation - Net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of Habitat and changes therein are classified as follows:

Unrestricted net assets - Net assets not subject to donor-imposed stipulations. Amounts designated for specific purposes by the Board of Directors are reported as unrestricted. Gifts of land, buildings, and equipment are recorded as unrestricted unless the donor explicitly stipulates how the donated assets must be used or how long they must be held.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that will be met by actions of Habitat and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that require they be maintained permanently by Habitat. Habitat did not have any permanently restricted net assets at June 30, 2018 or 2017.

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.

Notes to Financial Statements - Continued

1. Significant Accounting Policies - Continued

Expenses - Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Use of 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. Estimates also affect the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Significant estimates made by management include the discounts on mortgages receivable and pledges receivable, the allowance for doubtful accounts, and depreciation expense (based on the estimated useful lives of the underlying assets).

Cash and Cash Equivalents - Habitat considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

Inventories - Inventories consist of construction in process, completed homes available for sale, and construction supplies. All direct material, labor, and equipment costs are recorded as construction in process as they are incurred. Inventories are stated at the lower of cost or net realizable value for purchased items or at estimated fair market value at the date of donation for donated items (all determined on the first-in, first-out method).

Land held for development - Land held for development consists of purchased or donated land and is stated at the lower of cost or fair market for purchased land or at estimated fair market value at the date of donation for donated land. Land held for development is transferred to construction in process once construction activity has begun on the respective properties.

Certificate of Deposit and Other Investments - Certificates of deposit are recorded at cost plus accumulated interest, which approximates fair value. At times, Habitat receives donated stock from individuals. These investments are recorded at fair value based on quoted market prices upon receipt and are typically sold shortly thereafter.

Property and Equipment - Acquisitions of property and equipment over \$2,500 are capitalized. Property and equipment are recorded at cost, if purchased, and at estimated fair market value, if donated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 20 years for personal property, and 40 years for real property. Maintenance and repairs are charged to expense when incurred; major renewals and betterments are capitalized.

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.

Notes to Financial Statements - Continued

1. Significant Accounting Policies - Continued

Warranties - Habitat provides a one year warranty on all of its homes. The warranty is generally for defects in materials and workmanship. Warranty costs are expensed when incurred and included in cost of homes sold. Total cost of warranty work for the years ended June 30, 2018 and 2017, was \$139 and \$258, respectively.

Revenue Recognition - Contributions and grants, including unconditional promises to give, are recognized as revenues in the period received. Contributions and grants that include conditions are recognized as revenues only when the related conditions have been substantially met. Funds received in advance of conditions being met are recorded as deferred revenue. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Habitat reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. 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 activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues in the temporarily restricted net asset class, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.

Sales to homeowners are recorded at the gross amount of payments to be received over the lives of the mortgages. Mortgages are non-interest bearing and have been discounted at various rates ranging from 3.88 percent to 4.59 percent for mortgages issued during the year ended June 30, 2018, and rates ranging between 7.47 to 8.48 percent for mortgages issued prior to June 30, 2017. During the year ended June 30, 2018, the rates were based on the Freddie Mac 30 year fixed-rate mortgage rates and prior to June 30, 2017, rates were provided by Habitat International and were based on market rate data for low-income housing. Discounts are amortized on a straight-line basis over the lives of the mortgages, and the amortization of mortgage discount is recognized as revenue.

In-kind Contributions - Contributions of donated, non-cash assets are recorded at their estimated fair value in the period received. For the years ended June 30, 2018 and 2017, the estimated amount of in-kind contributions for donated construction supplies and property and equipment amounted to \$32,920 and \$66,748, respectively.

Contributions of donated services that create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation (such as engineering, electrical, plumbing, etc.) are recorded at their estimated fair values in the period received. The estimated value of such services (primarily legal and other professional services) recognized in the financial statements for the years ended June 30, 2018 and 2017, totaled \$27,523 and \$35,087, respectively.

A substantial number of volunteers donate significant amounts of their time to Habitat for general construction and office labor. However, as these services do not require specialized skills or materially enhance the value of nonfinancial assets, the value of such services is not recorded in the financial statements.

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.

Notes to Financial Statements - Continued

1. Significant Accounting Policies - Continued

Receivables - The receivables of Habitat primarily consist of pledges receivable and mortgages receivable. Other receivables are recognized as goods or services are provided. For other receivables, management may recognize an allowance for doubtful accounts based on various factors, including past history and current economic conditions. Other receivables are written off when they are determined to be uncollectible and management has exhausted all reasonable collection efforts. No allowance was deemed necessary by management for other receivables at June 30, 2018 and 2017.

Mortgages receivable consist of non-interest bearing mortgages, which are secured by real estate and payable in monthly installments over the life of the mortgage. Habitat considers homeowners to be delinquent if they are 30 days past due on their mortgage payment. Every effort is made to assist homeowners who have become delinquent in their mortgage payments. However, foreclosure proceedings may be initiated and/or Habitat may accept a deed in lieu of foreclosure where homeowner mortgage payments are seriously delinquent. Properties acquired through foreclosure or a deed in lieu of foreclosure are generally refurbished in partnership with, and sold to, other families in need of decent, affordable housing. Consequently, no allowance for credit losses has been established for mortgages receivable at June 30, 2018 and 2017.

In connection with the issuance of the original non-interest bearing mortgages, in some cases Habitat also issues a silent second mortgage. These silent second mortgages represent the difference between the original mortgage and the appraised value of the home and are due to Habitat either in part or in full, if the homeowner does not comply with the terms of the original mortgage. The second mortgage is to protect the value of the collateral. At June 30, 2018 and 2017, Habitat has not recorded any receivables related to these silent second mortgages as management has determined that no triggering events have occurred that would require they be recognized in the financial statements.

Income Taxes - Habitat is exempt from Federal and state income taxation under Section 501(c)(3) of the Internal Revenue Code and similar state provisions. In addition, Habitat qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

GAAP prescribes a recognition threshold and a measurement process for accounting for uncertain tax positions, and provides guidance on various related matters such as interest, penalties, and required disclosures. Management believes Habitat does not have any uncertain tax positions. Habitat files informational returns. Habitat has not paid any interest or penalties related to its income tax positions, and there are currently no audits of any tax periods in progress. Interest or penalties assessed by taxing authorities, if any, would be included with management and general expenses.

Functional Allocation of Expenses - Costs of providing various program and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.

Notes to Financial Statements - Continued

1. Significant Accounting Policies - Continued

Adoption of New Accounting Standards - During the year ended June 30, 2018, Habitat adopted Accounting Standards Update (ASU) 2015-11, *Simplifying the Measurement of Inventory*, which requires that inventory within the scope of this update be measured at the lower of cost or net realizable value. This ASU is effective for financial statements issued for fiscal years beginning after December 15, 2016. The adoption of this ASU by Habitat did not have a significant impact on the Habitat's financial statements.

2. Mortgages Receivable

Habitat directly finances all the homes it sells. Mortgages receivable consisted of the following as of June 30:

| | 2018 | 2017 |
|---|---------------------|---------------------|
| Mortgages receivable at face value | \$ 4,328,304 | \$ 3,314,371 |
| Unamortized discounts | <u>(2,274,074)</u> | <u>(1,912,461)</u> |
| | <u>\$ 2,054,230</u> | <u>\$ 1,401,910</u> |
| | | |
| Current portion of mortgages receivable | \$ 110,633 | \$ 91,134 |
| Long-term portion of mortgages receivable | <u>1,943,597</u> | <u>1,310,776</u> |
| | <u>\$ 2,054,230</u> | <u>\$ 1,401,910</u> |

Future collections on these mortgages, net of unamortized discounts are as follows as of June 30, 2018:

| Years Ending June 30, | Amount |
|--------------------------|---------------------|
| 2019 | \$ 110,633 |
| 2020 | 108,344 |
| 2021 | 105,434 |
| 2022 | 104,490 |
| 2023 | 103,891 |
| Thereafter | <u>1,521,438</u> |
| | <u>\$ 2,054,230</u> |

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.

Notes to Financial Statements - Continued

2. Mortgages Receivable - Continued

The current portion of mortgages receivable represents principal payments due within one year. Mortgage principal payments totaling \$1,096 were in arrears related to outstanding mortgages receivable totaling \$332,457 at June 30, 2018. A provision for impairment of mortgages receivable has not been recorded since Habitat holds the trust deed as security on the mortgages receivable.

During the year ended June 30, 2018, mortgages receivable with a carrying value of \$20,312 (net of discounts) were sold without recourse for \$37,794. A gain of \$17,482 was recognized as a result of the sale. During the year ended June 30, 2017, mortgages receivable with a carrying value of \$301,475 (net of discounts) were sold without recourse for \$357,914. A gain of \$56,439 was recognized as a result of the sale.

3. Pledges Receivable

Habitat had unconditional promises to give expected to be collected as follows at June 30:

| | 2018 | 2017 |
|--|-------------|------------------|
| Less than one year | \$ - | \$ 420,000 |
| One to five years | - | 58,500 |
| | - | 478,500 |
| Discount to present value (3 percent discount rate used) | - | (8,576) |
| | - | 469,924 |
| Less current portion | - | (420,000) |
| Long-term portion | <u>\$ -</u> | <u>\$ 49,924</u> |

4. Inventories

| | 2018 | 2017 |
|--------------------------|-------------------|---------------------|
| Construction in process | \$ 720,867 | \$ 1,142,720 |
| Homes available for sale | 238,900 | 208,688 |
| Construction supplies | 36,344 | 45,000 |
| | <u>\$ 996,111</u> | <u>\$ 1,396,408</u> |

Construction in process and homes available for sale reflect costs incurred to construct homes for program families. Once completed, the homes will be sold to qualified families, and the cost of homes sold will be recorded. At June 30, 2018 and 2017, there were two homes available for sale.

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.

Notes to Financial Statements - Continued

5. Property and Equipment - Net

| | 2018 | 2017 |
|-------------------------------|-------------------|-------------------|
| Building and improvements | \$ 677,002 | \$ 666,762 |
| Construction equipment | 53,405 | 48,660 |
| Office equipment | 12,145 | 12,145 |
| | <u>742,552</u> | <u>727,567</u> |
| Less accumulated depreciation | <u>(171,910)</u> | <u>(150,639)</u> |
| | <u>\$ 570,642</u> | <u>\$ 576,928</u> |

6. Lines of Credit

Habitat has a secured line of credit with Premier Community Bank for borrowings up to \$250,000, bearing interest at the bank's prime rate plus 1.5 percent with a floor of 6 percent (6.5 percent at June 30, 2018). Draws on this line are secured by real property and improvements. This line of credit expires September 28, 2018. There was no outstanding balance on this line of credit at June 30, 2018 or 2017.

Habitat secured a Guidance Line of Credit with Premier Community Bank for borrowings up to \$750,000 for financing acquisitions of single family lots and/or land for development, bearing interest at the Wall Street Journal Prime Rate (5 percent at June 30, 2018). Each draw taken out for a development will be converted to a note which will be secured by real property and improvements. There was no outstanding balance on this line of credit at June 30, 2018 or 2017.

At June 30, 2017, Habitat also had a \$250,000 line of credit with Wells Fargo Bank that expired in March 2018, and was not renewed. There was no balance outstanding on this line of credit at June 30, 2017.

7. Note Payable

| | 2018 | 2017 |
|---|-------------|---------------|
| Unsecured note payable to Habitat for Humanity of Oregon, paid in September 2017. | <u>\$ -</u> | <u>\$ 312</u> |

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.

Notes to Financial Statements - Continued

8. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30:

| | 2017 | 2016 |
|-----------------------|-------------------|-------------------|
| Construction of homes | \$ 27,612 | \$ 574,980 |
| Funds for playground | 135,822 | 200,000 |
| Other program support | 20,555 | 10,147 |
| | <u>\$ 183,989</u> | <u>\$ 785,127</u> |

During the years ended June 30, 2018 and 2017, net assets of \$666,287 and \$371,181 were released from restrictions due to the specific actions of Habitat and/or the passage of time.

9. Transactions with Affiliates

Habitat annually remits a portion of its unrestricted contributions (excluding in-kind contributions and grants) to Habitat International. These funds are used to construct homes in economically depressed areas around the world. Habitat contributed \$64,840 and \$85,512 for the years ended June 30, 2018 and 2017, respectively. In addition, Habitat paid dues to Habitat International and state affiliates of \$20,786 and \$16,273 for the years ended June 30, 2018 and 2017, respectively.

Habitat receives an allocation of net proceeds from the three resale stores operated by Habitat for Humanity Portland/Metro East. The total net proceeds from this activity paid to Habitat were \$226,616 and \$277,405 for the years ended June 30, 2018 and 2017, respectively.

10. Financial Instruments with Concentrations of Credit Risk

Financial instruments that potentially subject Habitat to concentration of risk consist primarily of cash and cash equivalents, certificates of deposit, and receivables. From time to time during the year, Habitat maintains cash balances in excess of Federal Deposit Insurance Corporation (FDIC) limits. Mortgage receivable credit risk is limited through various monitoring procedures and liens placed on all homes.

11. Retirement Plan

Habitat provides a SIMPLE IRA retirement plan for eligible employees. Habitat makes a matching contribution of eligible employee salary deferrals, up to a maximum of 3 percent of eligible compensation. For any calendar year, Habitat may elect to make a non-elective contribution equal to 2 percent of eligible compensation for each eligible employee instead of the matching contribution. For the years ended June 30, 2018 and 2017, Habitat's contributions toward employee retirement were \$8,875 and \$8,306, respectively.

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.

Notes to Financial Statements - Continued

12. Subsequent Events

Management has evaluated subsequent events through October 25, 2018, the date the financial statements were available to be issued.