

**HABITAT FOR HUMANITY IN THE
ROANOKE VALLEY, INC.**

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2018

CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1-3
FINANCIAL STATEMENTS	
STATEMENT OF FINANCIAL POSITION	4
STATEMENT OF ACTIVITIES	5
STATEMENT OF CASH FLOWS	6-7
STATEMENT OF FUNCTIONAL EXPENSES	8
NOTES TO FINANCIAL STATEMENTS	9-18
SUPPLEMENTARY INFORMATION	
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	19
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	20
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	21-22
CORRECTIVE ACTION PLAN	23
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	24-25
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	26-28



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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Habitat for Humanity in the Roanoke Valley, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Habitat for Humanity in the Roanoke Valley, Inc., (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, the related statements of activities, functional expenses, and cash flows 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 organization'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 organization'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 qualified audit opinion.

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Basis for Qualified Opinion

As explained in Note 3 to the financial statements, purchased and donated inventory is not consistently recorded in the financial statements. In our opinion, U.S. generally accepted accounting principles require that donated inventory be recorded at its fair value at the date of receipt while purchased inventory should be recorded at cost. It was not practicable to determine the effects of the unrecorded inventory on the financial statements.

Qualified Opinion

In our opinion, except for the effects of not recording inventory as disclosed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity in the Roanoke Valley, Inc. as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2019, on our consideration of Habitat for Humanity in the Roanoke Valley, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Habitat for Humanity in the Roanoke Valley, Inc.'s internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited the Habitat for Humanity in the Roanoke Valley Inc.'s 2017 financial statements, and we expressed a qualified audit opinion on those audited financial statements in our report dated January 9, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Foti, Flynn, Louren & Company, P. C.

Roanoke, Virginia
January 17, 2019

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2018

(with comparative financial information as of June 30, 2017)

ASSETS

	<u>2018</u>	<u>2017</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 382,521	\$ 401,958
Mortgage receivables - current (net of unamortized discount of \$17,223 and \$16,024)	403,974	378,617
Grants and pledges receivable	92,680	68,504
Construction-in-progress and vacant lots	1,443,568	1,222,028
Building supplies	43,905	89,842
Deposits on property and equipment	<u>6,149</u>	<u>-</u>
Total current assets	<u>2,372,797</u>	<u>2,160,949</u>
PROPERTY AND EQUIPMENT:		
Land	314,600	314,600
Building and improvements	1,177,156	1,177,156
Office equipment and furniture	62,417	47,417
Vehicles	<u>91,622</u>	<u>103,773</u>
	1,645,795	1,642,946
Less accumulated depreciation	<u>(217,585)</u>	<u>(171,819)</u>
Net property and equipment	<u>1,428,210</u>	<u>1,471,127</u>
OTHER ASSETS:		
Mortgage receivables - noncurrent (net of unamortized discount of \$3,605,091 and \$3,455,581)	2,224,678	2,268,208
Funds held in trust	264,333	261,479
Beneficial interest in perpetual trust	<u>94,571</u>	<u>-</u>
Total other assets	<u>2,583,582</u>	<u>2,529,687</u>
Total assets	<u>\$ 6,384,589</u>	<u>\$ 6,161,763</u>

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS

	<u>2018</u>	<u>2017</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 95,212	\$ 44,907
Accrued payroll and withholdings	17,853	8,106
Other	21,341	320
Notes payable to VHDA - current	27,792	67,862
Line of credit	-	99,666
Escrow deposits	<u>16,930</u>	<u>22,966</u>
Total current liabilities	<u>179,128</u>	<u>243,827</u>
LONG TERM DEBT:		
Notes payable to VHDA - noncurrent	<u>12,385</u>	<u>152,047</u>
Total liabilities	<u>191,513</u>	<u>395,874</u>
NET ASSETS:		
Unrestricted	5,798,056	5,497,410
Temporarily restricted	36,116	7,000
Permanently restricted	<u>358,904</u>	<u>261,479</u>
Total net assets	<u>6,193,076</u>	<u>5,765,889</u>
Total liabilities and net assets	<u><u>\$ 6,384,589</u></u>	<u><u>\$ 6,161,763</u></u>

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

STATEMENT OF ACTIVITIES

Year ended June 30, 2018

(with comparative financial information for the year ended June 30, 2017)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>
SUPPORT AND REVENUE:		
Governmental grants	\$ 927,726	\$ -
Contributions and other grants	366,671	20,000
Contributed land and buildings	224,000	-
Contributed materials and services	154,699	16,116
Sale of land and houses (net of discount on mortgages of \$404,271 and \$270,195)	337,229	-
Late fees and miscellaneous	4,217	-
Mortgage discount amortization	253,562	-
Habitat Store receipts	1,371,055	-
Investment income	20,164	-
Gain on disposal of equipment and vehicles	7,350	-
Gain from trust assets	-	-
Net assets released from restrictions	<u>7,000</u>	<u>(7,000)</u>
 Total support and revenue	 <u>3,673,673</u>	 <u>29,116</u>
 EXPENSES:		
Program	3,103,924	-
Management and general	164,446	-
Fundraising and promotion	<u>104,657</u>	<u>-</u>
 Total expenses	 <u>3,373,027</u>	 <u>-</u>
 Change in net assets	 <u>300,646</u>	 <u>29,116</u>
 Net assets - beginning of year	 <u>5,497,410</u>	 <u>7,000</u>
 Net assets - end of year	 <u>\$ 5,798,056</u>	 <u>\$ 36,116</u>

See accompanying notes to financial statements.

<u>Permanently Restricted</u>	<u>2018 Total</u>	<u>2017 Total</u>
\$ -	\$ 927,726	\$ 846,651
94,015	480,686	435,804
-	224,000	16,200
-	170,815	79,002
-	337,229	341,996
-	4,217	40,630
-	253,562	216,932
-	1,371,055	872,334
-	20,164	5,443
-	7,350	3,300
3,410	3,410	13,814
-	-	-
<u>97,425</u>	<u>3,800,214</u>	<u>2,872,106</u>
-	3,103,924	2,594,264
-	164,446	165,654
-	104,657	126,554
-	<u>3,373,027</u>	<u>2,886,472</u>
<u>97,425</u>	<u>427,187</u>	<u>(14,366)</u>
<u>261,479</u>	<u>5,765,889</u>	<u>5,780,255</u>
<u>\$ 358,904</u>	<u>\$ 6,193,076</u>	<u>\$ 5,765,889</u>

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

STATEMENT OF CASH FLOWS

Year ended June 30, 2018
(with comparative financial information for the year ended June 30, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 427,187	\$ (14,366)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Contributed materials and services	(157,860)	(77,865)
Contributed land and buildings	(224,000)	(16,200)
Depreciation	68,567	48,324
Mortgage discount amortization	(253,562)	(216,932)
Issuance of mortgages, net of discount	(342,729)	(267,805)
Contribution from beneficial interest perpetual trust	(94,015)	-
Gain on disposal of equipment and vehicles	(7,350)	(3,300)
Gain from trust assets	(3,410)	(13,814)
Change in certain operating assets and liabilities:		
(Increase) decrease in assets:		
Mortgage receivables	614,464	401,029
Grants and pledges receivable	(24,176)	48,830
Construction-in-progress and vacant lots	160,320	54,061
Building supplies	45,937	3,689
Deposits on property and equipment	(6,149)	-
(Increase) decrease in liabilities:		
Accounts payable	50,305	(50,132)
Accrued expenses and other liabilities	30,768	(22,021)
Escrow deposits	(6,036)	7,059
	278,261	(119,443)
CASH FLOW FROM INVESTING ACTIVITIES:		
Proceeds from sale of property and equipment	7,350	3,300
Purchases of property and equipment	(25,650)	(603,669)
	(18,300)	(600,369)

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

STATEMENT OF CASH FLOWS - (Continued)

Year ended June 30, 2018
(with comparative financial information for the year ended June 30, 2017)

CASH FLOWS FROM FINANCING ACTIVITIES:

Payments on note payable to VHDA	\$ (179,732)	\$ (134,789)
Proceeds from line of credit	77,621	151,764
Payments on line of credit	<u>(177,287)</u>	<u>(74,453)</u>
Net cash used by financing activities	<u>(279,398)</u>	<u>(57,478)</u>
Decrease in cash and cash equivalents	(19,437)	(777,290)
Cash and cash equivalents - beginning of year	<u>401,958</u>	<u>1,179,248</u>
Cash and cash equivalents - end of year	<u>\$ 382,521</u>	<u>\$ 401,958</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 4,273</u>	<u>\$ 9,662</u>

See accompanying notes to financial statements.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2018

(with comparative financial information for the year ended June 30, 2017)

	Program	Management and General	Fundraising and Promotion	2018 Total	2017 Total
Cost of houses sold	\$ 1,383,983	\$ -	\$ -	\$ 1,383,983	\$ 1,163,215
Wages	591,385	71,104	52,134	714,623	678,202
Payroll taxes	43,479	5,259	3,856	52,594	53,146
Other employee benefits	94,874	9,820	6,405	111,099	109,442
Office utilities and maintenance	70,354	11,170	11,170	92,694	81,906
Office supplies	18,417	6,315	6,315	31,047	53,115
Depreciation	49,782	13,418	5,367	68,567	48,324
Insurance	72,865	3,744	-	76,609	49,680
Interest	4,273	-	-	4,273	9,662
Rent	20,500	-	-	20,500	21,580
Building lot expenses	37,864	-	-	37,864	8,206
Vehicles	25,207	-	-	25,207	35,050
Professional fees	21,041	9,722	2,431	33,194	33,831
Meetings and conferences	2,262	2,261	2,261	6,784	4,740
Printing and publications	3,044	1,015	1,015	5,074	8,754
Postage	868	512	341	1,721	1,785
Telephone	7,703	1,727	576	10,006	12,572
Tithe	10,500	-	-	10,500	7,000
Volunteer and Selection Committee	14,996	-	-	14,996	12,725
Miscellaneous	52,714	28,379	12,786	93,879	87,691
Advertising	7,670	-	-	7,670	10,286
Meals and entertainment	5,001	-	-	5,001	775
Bank fees	2,112	-	-	2,112	4,966
Habitat store COGS	563,030	-	-	563,030	389,819
	<u>\$ 3,103,924</u>	<u>\$ 164,446</u>	<u>\$ 104,657</u>	<u>\$ 3,373,027</u>	<u>\$ 2,886,472</u>

See accompanying notes to financial statements.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS

1. CREATION AND PURPOSE OF ORGANIZATION:

Habitat for Humanity in the Roanoke Valley, Inc. (the Organization) was formed as a non-profit Christian housing ministry for the specific purpose of enabling low income families to obtain modest and decent housing in the Roanoke Valley. To that end, houses are built keeping costs as low as possible by using volunteer labor and donated land and materials whenever possible. Completed homes are then generally sold at cost plus a value for donated professional services, skilled labor and materials to selected families. A small down payment is required, and the Organization finances the remainder of the sale price with non-interest bearing loans to be repaid over a 15-35 year period. Loan repayments are reinvested in other home building projects. The Organization retains a first lien on the properties sold.

The Organization also operates a retail store (the ReStore) where donated new and used construction and home renovation products are sold to the public at deeply discounted prices. All proceeds from the ReStore are directed towards the Organization's affordable housing program.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted - All resources over which the governing board has discretionary control. The governing board of the Organization may elect to designate such resources for specific purposes. This designation may be removed at the board's discretion.

Temporarily Restricted - Resources accumulated through donations or grants for specific operating or capital purposes. Such resources will become unrestricted when the requirements of the donor or grantee have been satisfied through expenditure for the specified purpose or program or through the passage of time.

Permanently Restricted - Resources required by donors to be held in perpetuity; however, generally, the income on these assets is available to meet various operating needs. These net assets include funds held in trust by others.

Comparative Financial 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 U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2017 from which the summarized information was derived.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued):

Use of Estimates - The preparation of financial statements 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. Accordingly, actual results could differ from those estimates.

Significant estimates used in preparing these financial statements include those assumed in computing discounts on mortgages receivable. It is at least reasonably possible that significant estimates will change within the next year.

Cash Equivalents - For the purposes of the statement of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Mortgage Receivables - Balances represent the amount charged to the homeowners for houses built and secured by real estate that are to be paid back over a mutually established period of time. These mortgages are typically paid back on a monthly basis. The mortgages provide for no interest, and the amounts on the Statement of Financial Position for mortgage receivables have been discounted using an imputed rate of interest determined as of the origination date. Such discounts are amortized over the term of the related mortgage.

The Organization uses the direct write-off method in providing for bad debts. Receivables are stated at the amount management expects to collect from balances at year end. Management estimates that no material losses will be sustained relating to the collectability of mortgages. As such, no allowance for loan losses or adjustment to the balance of mortgages receivable has been recorded based on current facts and circumstances.

Grants Receivable and Unconditional Promises to Give - Grants receivable and unconditional promises to give are recorded as revenue and a receivable when the promise is made. Unconditional promises to give that are due in the next year are reflected as current promises to give and are recorded at their net realizable value. Unconditional promises to give that are due later than next year are reflected as long-term promises to give and are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are expected to be collected. Determination of the risk-free rate includes consideration of the risk of uncollectability.

Construction in Progress - Construction in progress is valued at cost using the specific identification method. Gifts in kind are recorded at their fair value on the date they are used in construction of the house based upon the specific identification method. Provisions for estimated losses on construction in progress are made in the period in which such losses are determined.

Building Supplies - Building supplies consist of materials on hand for use in building of houses. Purchased supplies are stated at lower of cost or market using the specific identification method.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued):

Donated Materials and Land - If significant in amount, donated materials are recorded at fair market value where objectively measurable. Donated land is recorded at appraised value or locality assessed value for property tax purposes which approximates fair market value, using Level 2 inputs.

Property and Equipment - Property and equipment is recorded at cost or, if donated, at estimated fair value at date of donation. Purchased assets, with a cost exceeding \$1,500 are generally capitalized. Depreciation expense amounted to \$68,567 and \$48,324 in 2018 and 2017, respectively. Depreciation is provided using the straight-line method over the useful lives of the assets, which range as follows:

Office equipment and furniture	5-10 years
Vehicles	5-10 years
Buildings and improvements	20 years

Fair Value Measurements - Assets and liabilities are measured at fair value which 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. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, standards establish a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority; Level 2 inputs are other than the quoted prices in active markets that are observable either directly or indirectly; and Level 3 inputs are unobservable in which there is little or no market data, which requires the Organization to develop its own assumptions. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its assets. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Funds Held in Trust – The Organization participates in a split-interest agreement that is unconditional and irrevocable. This arrangement was established when a donor created a perpetual trust in which the Organization shares benefits with other beneficiaries. The Organization accounts for this agreement at fair market value using Level 3 inputs by recording its 10% share of the related assets of the trust, which approximates the present value of the estimated future cash flows from the trust.

Beneficial Interest in Perpetual Trust – The Organization is a recipient/beneficiary of an irrevocable trust which is held by others. This arrangement was established when a donor created a perpetual trust in which the Organization shares benefits with other beneficiaries. The Organization accounts for this agreement at fair market value using Level 3 inputs by recording its 1.5625% share of the related assets of the trust, which approximates the present value of the estimated future cash flows from the trust.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued):

Restricted and Unrestricted Support and Revenue - Contributions and grants received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any 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 a 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.

The Organization also receives funding from the Department of Housing and Urban Development as a subrecipient of the City of Roanoke that supplements its traditional funding sources. The Organization recognizes the award as revenue once the expenses stipulated in the grant agreement have been incurred.

Donated Services - The Organization receives significant amounts of volunteer labor in building its houses. However, the Organization does not record the value of these services since it is not objectively measurable.

Revenue and Cost Recognition - The Organization recognizes revenue from all homebuilding activities at the closing of the sale using the deposit method. During construction, all direct material and labor costs and those indirect costs related to acquisition and construction are capitalized, and all customer deposits are treated as liabilities. Capitalized costs are charged to earnings upon closing. Costs incurred in connection with completed homes and management and general costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

Contract costs include all direct materials, labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, and repairs. General and administrative costs are charged to expense as incurred. Accrued losses of \$0 were recognized on construction in progress and are included in other accrued liabilities at June 30, 2018 and 2017.

ReStore cash and credit card sales are recognized at the point of sale.

Expense Allocation - The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain management and general costs have been allocated to program services and fundraising.

Advertising Costs – Advertising costs are expensed when incurred.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued):

Provision for Income Taxes - The Organization is exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code. Accordingly, no income tax provision has been recorded.

The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. Should any such penalties and interest be incurred, the Organization's policy would be to recognize them as management and general expenses. With limited exceptions, the Organization is no longer subject to income tax examinations for any years earlier than 2014 for federal purposes.

Reclassifications - Certain amounts from the prior year have been reclassified to conform with current year presentation.

Recent Accounting Pronouncements – In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-14, *Not-for-Profit Entities (Topic 958)*. The new guidance makes substantial changes to the financial reporting model used by nonprofit organizations. The most notable change relates to the reporting of net assets by class. Current guidance specifies three classes of net assets: unrestricted, temporarily restricted and permanently restricted. ASU No. 2016-14 replaces these classes with two classes: net assets without donor-imposed restrictions and net assets with donor-imposed restrictions. Some of the additional guidance modified by ASU No. 2016-14 includes:

- The financial reporting for underwater endowments.
- Treatment of expiration of restrictions related to long-lived assets.
- Elimination of the requirement to include the indirect method reconciliation on statements of cash flows prepared on the direct method.
- Enhanced disclosures on the organization's liquidity.
- Elimination of the option to present investment expenses at gross.
- Requirement for all nonprofits to report expenses by functional class and enhanced disclosures about the methods used to allocate costs among functional classes.

ASU No. 2016-14 will be effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The Organization is currently evaluating the effect of the standard on its financial statements and has not yet adopted the standard.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in legacy U.S. generally accepted accounting principles when it becomes effective. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606), Deferral of the Effective Date*, which deferred the effective date of ASU 2014-09 by one year. As such, ASU 2014-09 is effective for the Organization on July 1, 2019 with early adoption permitted. The Organization is currently evaluating the effects of the standard on its ongoing financial reporting and has not yet adopted the standard.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued):

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 is a comprehensive new leases standard that amends various aspects of existing guidance for leases and requires additional disclosures about leasing arrangements. It will require lessees to recognize lease assets and lease liabilities for those leases classified as operating under legacy U.S. GAAP. However, Topic 842 does retain a distinction between finance leases and operating leases. It is effective for the Organization on July 1, 2020 with early adoption permitted. The Organization is currently evaluating the effects of the standard on its ongoing financial reporting and has not yet adopted the standard.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made*. The ASU was issued to reduce diversity in practice and its amendments should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. Some contributions or grants that are considered exchange transactions under legacy U.S. generally accepted accounting principles may be accounted for as conditional contributions under the ASU. Additionally, some contributions or grants that are considered contributions with no donor-imposed conditions under legacy U.S. generally accepted accounting principles may be considered conditional under the ASU, which may delay recognition of contribution revenue (recipient) or expenses (resource provider). The ASU will be effective in fiscal years beginning after December 15, 2018 for recipient transactions (revenue) and after December 15, 2019 for resource provider transactions (expense), with early adoption permitted. The Organization is currently evaluating the effects of the standard on its financial statements and has not yet adopted the standard.

3. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES DEPARTURE:

The Organization does not record inventory for purchases or donations of items for the ReStore. The Organization is following Habitat for Humanity International policies and procedures. However, amounts of inventory material to the financial statements may exist as of June 30, 2018 and 2017.

4. CASH AND CASH EQUIVALENTS:

The Organization maintains cash balances at several financial institutions. Amounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Organization's cash may at times exceed federally insured limits.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

5. GRANTS AND PLEDGES RECEIVABLE:

Grants and pledges receivable anticipated to be collected within one year consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Unrestricted	\$ 56,564	\$ 61,504
Temporarily restricted	<u>36,116</u>	<u>7,000</u>
Total grants and pledges receivable	<u>\$ 92,680</u>	<u>\$ 68,504</u>

Management believes that these receivables are fully collectable, therefore, no allowance for doubtful accounts is necessary.

6. MORTGAGE DISCOUNT AMORTIZATION:

The Organization grants interest free mortgages to its buyers. The Organization uses the discount rate from Habitat International to estimate its annual mortgage discount amortization. The rates range from 7.39% to 9.0% for the year ended June 30, 2018. The amortization income was \$253,562 and \$216,932 for the years 2018 and 2017, respectively.

7. LONG-TERM DEBT:

The Organization's long-term debt consists of the following:

	<u>2018</u>	<u>2017</u>
Notes payable to Virginia Housing Development Authority, with interest payable in monthly installments at 3%, secured by mortgage receivables, and varying maturities ranging from 2019 through 2023	\$ 40,177	\$ 219,909
Less current maturities	<u>27,792</u>	<u>67,862</u>
Long-term portion	<u>\$ 12,385</u>	<u>\$ 152,047</u>

As of July 31, 2018, the Organization has paid off the above note payable in full.

The Organization has a secured line of credit with Branch Banking and Trust Company with \$250,000 in available funds at the prime rate of interest plus 0.50%. On July 2, 2018, the line of credit was extended two years with all outstanding principal due on July 16, 2020. The line of credit is secured by the mortgage receivables of the Organization. There was an outstanding balance of \$0 and \$99,666 on the line of credit as of June 30, 2018 and 2017, respectively.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

8. FAIR VALUE MEASUREMENTS:

The following table sets forth by level within the Fair Value hierarchy the Organization's assets and liabilities measured on a recurring basis at June 30:

<u>June 30, 2018</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total</u>
Donated land	\$ -	\$ 415,855	\$ -	\$ 415,855
Funds held in trust	-	-	264,333	264,333
Beneficial interest in perpetual trust	-	-	94,571	94,571
Total	\$ -	\$ 415,855	\$ 358,904	\$ 774,759
<u>June 30, 2017</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total</u>
Donated land	\$ -	\$ 245,504	\$ -	\$ 245,504
Funds held in trust	-	-	261,479	261,479
Total	\$ -	\$ 245,504	\$ 261,479	\$ 506,983

The fair values of the funds held in trust and the beneficial interest in perpetual trust are determined by the Organization's share of the assets.

The change in assets measured at fair valued on a recurring basis using significant unobservable inputs (Level 3 inputs) for years ending June 30 are as follows:

	<u>Funds held in trust</u>	<u>Beneficial interest in perpetual trust</u>
Balance, June 30, 2016	\$ 247,665	\$ -
Unrealized gains (losses)	13,814	-
Balance, June 30, 2017	261,479	-
Contributions	-	94,015
Unrealized gains (losses)	2,854	556
Balance, June 30, 2018	\$ 264,333	\$ 94,571

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

9. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets result from grants with time restrictions totaling \$36,116 and \$7,000 for the years ended June 30, 2018 and 2017, respectively.

10. PERMANENTLY RESTRICTED NET ASSETS:

Permanently restricted net assets result from the funds held in trust totaling \$264,333 and \$261,479 and the beneficial interest in perpetual trust totaling \$94,571 and \$0 for the years ended June 30, 2018 and 2017, respectively. The income from these trusts is available to support unrestricted purposes.

11. NET ASSETS RELEASE FROM RESTRICTIONS:

Temporarily restricted net assets in the amount of \$7,000 were released from donor restrictions by the passage of time for the years ended June 30, 2018 and 2017.

12. GRANT REVENUES:

For the years ended June 30, the Organization received grant monies or pledges as follows:

	2018	2017
City of Roanoke:		
Melrose Orange Avenue Target Area	\$ 927,726	\$ 846,651

The Organization's federal programs administered by the City of Roanoke are subject to financial and compliance audits by grantor agencies, which, if instances of material noncompliance are found, may result in disallowed expenditures and affect the Organization's continued participation in specific programs. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although the Organization expects such amounts, if any, to be immaterial.

The Organization has responsibility for expending grant funds in accordance with specified instructions from its funding sources. Any deficits resulting from over expenditures and/or questioned costs are the responsibility of the Organization.

Any unexpended grant funds at the end of the grant period may be refundable or carried over to the following period at the discretion of the funding sources. Notwithstanding the audits by independent certified public accountants, certain costs included in these financial statements remain subject to audit by the agencies providing financial support within the limits of the Single Audit Act of 1996, as amended. The determination as to whether costs will be allowable or unallowable under the grants will be made by representatives of the funding sources having authority to make and enforce contracts.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

13. DEFINED CONTRIBUTION PLAN:

The Organization has a 403(b) plan which covers all employees. Participants may make elective deferrals of their compensation. The Organization matches 100% of participant's deferrals, not to exceed 4% of the participants' annual salary/wage. Contributions to the Plan amounted to \$20,903 and \$22,349 for the years ended June 30, 2018 and 2017, respectively.

14. RENT EXPENSE:

The Organization rents storage space in a warehouse to house construction supplies that cannot be stored elsewhere. The lease term is for one year and can be renewed at the Organization's discretion. Rent expense amounted to \$20,500 and \$21,580 for the years ended June 30, 2018 and 2017, respectively.

15. AFFILIATE TRANSACTIONS:

Habitat for Humanity is a global partnership. In recognition of this partnership, the Organization is expected to contribute 10% of actual contributions not designated for local work to Habitat for Humanity International, Inc., the central organization with which they are affiliated. These funds are to be used to further housing in undeveloped countries. Total tithe contributions paid were \$10,500 and \$7,000 for the years ended June 30, 2018 and 2017, respectively.

Affiliates are also required to pay to Habitat for Humanity International Inc., a U.S. Stewardship and Organizational Sustainability Initiative fee. The fee is based on the affiliate's Geographic Service Area. There is a phase in period for implementation of the fee. The Organization paid fees of \$15,000 for the years ended June 30, 2018 and 2017.

16. COMMITMENTS AND CONTINGENCIES:

Continuing program funding is contingent upon availability of funds from federal, state, and local sources and project performance. The funds are generally awarded on an annual basis upon the acceptance of a budget estimate for the current year or approval of a program re-application. Approximately 23% and 29% of the Organization's total supported revenue was provided by grants from the U.S. Department of Housing and Urban Development, through the City of Roanoke as a subrecipient, at June 30, 2018 and 2017, respectively.

17. NET OPERATING LOSS:

The Organization has a net operating loss carryforward resulting from the operations of the ReStore. The net operating loss can only be used on future Form 990-T's filed by the Organization. The net operating loss of \$76,155 expires in 2038.

18. SUBSEQUENT EVENTS:

The Organization has evaluated all subsequent events through January 17, 2019, the date the financial statements were available to be issued.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2018

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Department of Housing and Urban Development Pass Through Programs:		
City of Roanoke, Virginia Programs:		
Community Development Block Grant (CDBG)	14.218	\$ 507,304
Home Investment Partnerships Program (HOME)	14.239	<u>420,422</u>
Subtotal City of Roanoke Programs		<u>927,726</u>
Total expenditures of federal awards		<u><u>\$ 927,726</u></u>

See accompanying notes to schedule of expenditures of federal awards.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2018

1. BASIS OF PRESENTATION:

This schedule of federal awards includes the federal grant activity of Habitat for Humanity in the Roanoke Valley, Inc. under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the schedule presents only a selected portion of the operations of Habitat for Humanity in the Roanoke Valley, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Habitat for Humanity in the Roanoke Valley, Inc.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures reported on this schedule are reported on the accrual basis of accounting. Such expenditures are recognized following cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations* or the cost principles contained in Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, where certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available, however the City of Roanoke does not use identifying numbers.

Habitat for Humanity in the Roanoke Valley, Inc. has elected to not use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

3. FEDERAL CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS:

The CFDA numbers included in this report were determined based on the program name, review of grant contract information, and the Office of Management and Budget's Catalog of Federal Domestic Assistance.

4. UNEXPENDED FEDERAL AWARDS:

Habitat for Humanity in the Roanoke Valley, Inc. had unexpended federal awards of \$392,689 at June 30, 2017 which were approved for carry over into the current fiscal year. Grant awards on houses in progress during the current fiscal year total \$1,917,359. Habitat for Humanity in the Roanoke Valley, Inc. had unexpended awards of \$573,564 at June 30, 2018.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2018

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses a qualified opinion on the financial statements of Habitat for Humanity in the Roanoke Valley, Inc. due to inventory at the Habitat ReStore not being recorded.
2. One material weakness was identified relating to the audit of financial statements performed in accordance with *Government Auditing Standards*. See Finding No. 2018-1 below for details. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control over Financial Reporting.
3. No instances of noncompliance material to the financial statements of Habitat for Humanity in the Roanoke Valley, Inc., which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No material weaknesses or significant deficiencies which would be required to be reported in accordance with *Government Auditing Standards* relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Internal Control over Compliance required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award program for Habitat for Humanity in the Roanoke Valley, Inc. expresses an unmodified opinion on the major federal program.
6. Audit findings that are required to be reported in accordance with Section 2 CFR Section 200.516(a) are reported in this schedule.
7. The program tested as a major program was: 14.218 Community Development Block Grant.
8. The threshold for distinguishing Types A and B programs was \$750,000.
9. Habitat for Humanity in the Roanoke Valley, Inc. was determined to not qualify as a low-risk auditee.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (Continued)

YEAR ENDED JUNE 30, 2018

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

MATERIAL WEAKNESSES:

Finding No. 2018-1: Internal control related matters related to inventory tracking. The Habitat ReStore maintains considerable amounts of donated materials and supplies for sale to the public, for which inventory is not tracked or counted. The lack of tracking of inventory increases the possibility of theft occurring and going unnoticed. While inventory is not recorded on the financial statements, theft could affect store revenue in amounts material to the financial statements. This is a repeat finding as management believes given the nature of the inventory items that costs exceed the benefits derived from implementing the recommendation.

Recommendation: We recommend inventory item counts be taken periodically. The tracking of inventory items could provide indications of potential theft occurring. In addition, the tracking of inventory could provide management with information on what items are sold more frequently and should be sought out for donations as well as identify slow moving or obsolete items that should be sold at deeper discounts or thrown away.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDITS

NONE

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

CORRECTIVE ACTION PLAN

YEAR ENDED JUNE 30, 2018

Department of Housing and Urban Development:

Habitat for Humanity in the Roanoke Valley, Inc. respectfully submits the following corrective action plan for the year ended June 30, 2018.

Foti, Flynn, Lowen & Co., Roanoke, Virginia Audit period: Year ending June 30, 2018

The findings from the June 30, 2018 Schedule of Findings and Questioned Costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS- FINANCIAL STATEMENT AUDIT - Material Weaknesses

Finding No. 2018-1: The Habitat ReStore does not have a formal inventory tracking system or conduct periodic counting of inventories.

Recommendation: The Habitat ReStore should implement an inventory tracking system or conduct periodic physical inventory.

Action Taken: The Organization believes given the nature of the inventory items that costs exceed the benefits that could be derived by implementing the recommendation.

If the Department of Housing and Urban Development has questions regarding this plan, please call Karen Mason, Executive Director, at (540) 344-0747.

Sincerely yours,

Karen Mason
Executive Director



David B. Lowen, CPA
Frank B. Hancock, CPA, CVA
Bradley J. Davis, CPA
R. Ethan Cook, CPA
David P. Booth, CPA
David A. Tingle, CPA

William R. Brumfield, Jr., CPA - Retired

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of
Habitat for Humanity in the Roanoke Valley, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Habitat for Humanity in the Roanoke Valley, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 17, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Habitat for Humanity in the Roanoke Valley, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Habitat for Humanity in the Roanoke Valley, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control described in the accompanying schedule of finding and questioned costs that we considered to be to be a material weakness; see finding No. 2018-1.

A firm of CPAs and Financial Consultants

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Habitat for Humanity in the Roanoke Valley, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Habitat for Humanity in the Roanoke Valley, Inc.'s Response to Findings

Habitat for Humanity in the Roanoke Valley, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Habitat for Humanity in the Roanoke Valley, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Joti, Flynn, Louren & Company, P. C.

Roanoke, Virginia
January 17, 2019



David B. Lowen, CPA
Frank B. Hancock, CPA, CVA
Bradley J. Davis, CPA
R. Ethan Cook, CPA
David P. Booth, CPA
David A. Tingler, CPA

William R. Brumfield, Jr., CPA - Retired

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Trustees of
Habitat for Humanity in the Roanoke Valley, Inc.

Report on Compliance for Each Major Federal Program

We have audited Habitat for Humanity in the Roanoke Valley, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Habitat for Humanity in the Roanoke Valley, Inc.'s major federal programs for the year ended June 30, 2018. Habitat for Humanity in the Roanoke Valley, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Habitat for Humanity in the Roanoke Valley, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Habitat for Humanity in the Roanoke Valley, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

A firm of CPAs and Financial Consultants

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We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Habitat for Humanity in the Roanoke Valley, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Habitat for Humanity in the Roanoke Valley, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of Habitat for Humanity in the Roanoke Valley, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Habitat for Humanity in the Roanoke Valley, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Habitat for Humanity in the Roanoke Valley, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Foti, Flynn, Lauer & Company, P. C.

Roanoke, Virginia
January 17, 2019