Interfaith Ministries for Greater Houston

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2018 and 2017

Interfaith Ministries for Greater Houston

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Blazek & Vetterling
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors of
Interfaith Ministries for Greater Houston:

Report on the Financial Statements

We have audited the accompanying financial statements of Interfaith Ministries for Greater Houston, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017 and the related consolidated statements of activities, of cash flows, and of functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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 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 our audits 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 consolidated financial position of Interfaith Ministries for Greater Houston as of June 30, 2018 and 2017

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and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2018 on our consideration of Interfaith Ministries for Greater Houston'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 solely 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 the effectiveness of Interfaith Ministries for Greater Houston's 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 Interfaith Ministries for Greater Houston's internal control over financial reporting and compliance.

Blazek & Vetterling

September 25, 2018

Interfaith Ministries for Greater Houston

Consolidated Statements of Financial Position as of June 30, 2018 and 2017

	2018	2017
ASSETS		
Cash	$ 5,229,708	$ 4,075,761
Accounts and government awards receivable	731,105	1,218,734
Operating pledges receivable, net *(Note 2)*:		
United Way allocation	419,388	429,973
Other	741,368	1,003,689
Prepaid and other assets	202,642	175,590
Food supplies	194,495	180,360
Pledges receivable for capital projects, net *(Note 2)*	1,470,961	671,175
Cash restricted by notes payable *(Note 6)*	122,868	160,148
Note receivable *(Note 3)*	8,368,740	8,368,740
Property and equipment, net *(Note 4)*	11,253,902	11,311,633
TOTAL ASSETS	$28,735,177	$27,595,803
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$ 512,187	$ 454,240
Accrued salaries and benefits	308,697	294,297
Other accrued liabilities	113,471	121,547
Deferred revenue	470,558	343,430
Notes payable *(Note 5)*	590,000	1,128,638
New Market Tax Credits notes payable, net *(Note 6)*	10,459,500	10,431,094
Total liabilities	12,454,413	12,773,246
Commitments *(Note 4)*		
Net assets:		
Unrestricted	7,835,099	7,742,268
Temporarily restricted *(Note 7)*	8,445,665	7,080,289
Total net assets	16,280,764	14,822,557
TOTAL LIABILITIES AND NET ASSETS	$28,735,177	$27,595,803

See accompanying notes to consolidated financial statements.

Interfaith Ministries for Greater Houston

Consolidated Statement of Activities for the year ended June 30, 2018

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE:			
Government awards *(Note 8)*	$ 8,438,371		$ 8,438,371
Contributions:			
United Way allocation		$ 840,239	840,239
Other *(Note 9)*	2,126,987	4,967,063	7,094,050
Special event	421,639	182,301	603,940
Cost of direct donor benefit – special event	(92,581)	(15,195)	(107,776)
Program fees	708,240		708,240
Rental income *(Note 10)*	118,203		118,203
Interest income on note receivable *(Note 3)*	83,687		83,687
Other income	64,101		64,101
Total revenue	11,868,647	5,974,408	17,843,055
Net assets released from restrictions:			
Satisfaction of program restrictions	4,198,881	(4,198,881)	
Satisfaction of capital restrictions	410,151	(410,151)	
Total	16,477,679	1,365,376	17,843,055
EXPENSES:			
Program services:			
Senior services	8,863,063		8,863,063
Refugee services	3,382,479		3,382,479
Interfaith relations/community partnerships	636,205		636,205
Total program services	12,881,747		12,881,747
Supporting services:			
Management and general	1,630,679		1,630,679
Fundraising	1,357,768		1,357,768
Building rental operations	514,654		514,654
Total supporting services	3,503,101		3,503,101
Total expenses	16,384,848		16,384,848
CHANGES IN NET ASSETS	92,831	1,365,376	1,458,207
Net assets, beginning of year	7,742,268	7,080,289	14,822,557
Net assets, end of year	$ 7,835,099	$ 8,445,665	$16,280,764

See accompanying notes to consolidated financial statements.

Interfaith Ministries for Greater Houston

Consolidated Statement of Activities for the year ended June 30, 2017

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE:			
Government awards *(Note 8)*	$11,900,300		$11,900,300
Contributions:			
United Way allocation		$ 857,386	857,386
Other *(Note 9)*	1,904,219	2,812,368	4,716,587
Special event	544,387	205,015	749,402
Cost of direct donor benefit – special event	(111,478)	(17,864)	(129,342)
Program fees	639,053		639,053
Rental income *(Note 10)*	128,413		128,413
Interest income on note receivable *(Note 3)*	83,687		83,687
Other income	46,732		46,732
Total revenue	15,135,313	3,856,905	18,992,218
Net assets released from restrictions:			
Satisfaction of program restrictions	2,971,382	(2,971,382)	
Satisfaction of capital restrictions	119,525	(119,525)	
Total	18,226,220	765,998	18,992,218
EXPENSES:			
Program services:			
Senior services	7,988,653		7,988,653
Refugee services	6,910,078		6,910,078
Interfaith relations/community partnerships	385,767		385,767
Total program services	15,284,498		15,284,498
Supporting services:			
Management and general	1,612,459		1,612,459
Fundraising	1,402,361		1,402,361
Building rental operations	462,797		462,797
Total supporting services	3,477,617		3,477,617
Total expenses	18,762,115		18,762,115
CHANGES IN NET ASSETS	(535,895)	765,998	230,103
Net assets, beginning of year	8,278,163	6,314,291	14,592,454
Net assets, end of year	$ 7,742,268	$ 7,080,289	$14,822,557

See accompanying notes to consolidated financial statements.

Interfaith Ministries for Greater Houston

Consolidated Statements of Cash Flows for the years ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 1,458,207	$ 230,103
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contributions restricted for capital projects	(1,931,221)	(269,009)
Depreciation	437,750	432,228
Amortization of debt issuance costs	28,406	28,406
Provision for uncollectible accounts	46,264	142,501
Changes in operating assets and liabilities:		
Accounts and government awards receivable	479,190	288,901
Operating pledges receivable	261,948	71,231
Prepaid and other assets	(27,052)	(54,359)
Food supplies	(14,135)	102,931
Accounts payable	57,947	(67,240)
Accrued salaries and benefits	14,400	39,278
Other accrued liabilities	(8,076)	(36,621)
Deferred revenue	127,128	259,434
Net cash provided by operating activities	930,756	1,167,784
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(380,019)	(210,942)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes payable	(538,638)	(825,000)
Proceeds from contributions restricted for capital projects	1,104,568	1,152,310
Net cash provided by financing activities	565,930	327,310
NET CHANGE IN CASH	1,116,667	1,284,152
Cash, beginning of year	4,235,909	2,951,757
Cash, end of year	$ 5,352,576	$ 4,235,909

Reconciliation of cash reported in the consolidated statement of financial position with cash reported in the consolidated statement of cash flows:

Cash	$ 5,229,708	$ 4,075,761
Cash restricted for notes payable	122,868	160,148
Total cash	$ 5,352,576	$ 4,235,909

Supplemental disclosure of cash flow information:

Interest paid	$134,231	$148,470

See accompanying notes to consolidated financial statements.

Interfaith Ministries for Greater Houston

Consolidated Statement of Functional Expenses for the year ended June 30, 2018

	PROGRAM SERVICES				SUPPORTING SERVICES			
	SENIOR SERVICES	REFUGEE SERVICES	INTERFAITH RELATIONS/ COMMUNITY PARTNERSHIPS	TOTAL	MANAGEMENT AND GENERAL	FUNDRAISING	BUILDING RENTAL OPERATIONS	TOTAL EXPENSES
Salaries	$ 2,225,091	$ 1,170,134	$ 330,526	$ 3,725,751	$ 921,685	$ 516,552	$ 90,427	$ 5,254,415
Employee benefits	613,843	309,034	64,119	986,996	178,754	121,746	21,624	1,309,120
Food supplies	3,902,586			3,902,586				3,902,586
Assistance to individuals	719,073	1,560,674		2,279,747				2,279,747
Professional fees and contract services	224,496	68,581	77,238	370,315	200,455	165,866	30,351	766,987
Occupancy	210,723	97,997	42,264	350,984	90,487	40,762	169,361	651,594
Depreciation	159,917	60,621	15,516	236,054	39,658	20,438	141,600	437,750
Direct mail and advertising	61,419	14,520	11,504	87,443	14,281	323,412		425,136
Service delivery and transportation	345,990	28,508		374,498				374,498
Supplies	111,283	6,279	34,726	152,288	9,051	9,518	3,516	174,373
Meetings and travel	26,343	6,290	46,465	79,098	27,286	58,410	281	165,075
Insurance	84,879	17,375	2,446	104,700	16,070	3,204	16,931	140,905
Interest expense	30,001	14,225	4,150	48,376	46,231	5,496	28,969	129,072
Vehicle maintenance and repair	96,615	11,498		108,113				108,113
Printing and publications	7,463	2,300	755	10,518	30,896	29,330	293	71,037
Communications	23,267	12,029	3,613	38,909	7,429	3,174	8,062	57,574
Provision for uncollectible accounts	8,439			8,439		37,825		46,264
Postage and delivery	855	225	623	1,703	7,618	12,497		21,818
Other	10,780	2,189	2,260	15,229	40,778	9,538	3,239	68,784
Total expenses	$ 8,863,063	$ 3,382,479	$ 636,205	$12,881,747	$ 1,630,679	$ 1,357,768	$ 514,654	16,384,848
Cost of direct donor benefit – special event								107,776
Total								$16,492,624

See accompanying notes to consolidated financial statements.

Interfaith Ministries for Greater Houston

Consolidated Statement of Functional Expenses for the year ended June 30, 2017

	PROGRAM SERVICES				SUPPORTING SERVICES			
	SENIOR SERVICES	REFUGEE SERVICES	INTERFAITH RELATIONS/ COMMUNITY PARTNERSHIPS	TOTAL	MANAGEMENT AND GENERAL	FUNDRAISING	BUILDING RENTAL OPERATIONS	TOTAL EXPENSES
Salaries	$ 1,892,261	$ 1,183,577	$ 243,124	$ 3,318,962	$ 850,433	$ 491,860	$ 83,026	$ 4,744,281
Employee benefits	515,540	314,943	53,451	883,934	175,948	104,471	23,027	1,187,380
Food supplies	4,001,474			4,001,474				4,001,474
Assistance to individuals	470,257	5,009,942		5,480,199				5,480,199
Professional fees and contract services	108,698	137,909	11,688	258,295	312,484	143,519	13,003	727,301
Occupancy	140,473	73,082	16,514	230,069	49,554	37,022	117,353	433,998
Depreciation	149,204	63,724	11,962	224,890	34,451	21,602	151,285	432,228
Direct mail and advertising	57,370	5,118	25,969	88,457	9,910	352,493		450,860
Service delivery and transportation	305,436	45,650		351,086				351,086
Supplies	97,414	14,966	9,515	121,895	9,844	13,245	3,424	148,408
Meetings and travel	24,114	7,145	5,677	36,936	33,040	46,423	64	116,463
Insurance	64,508	16,581	1,863	82,952	14,790	3,443	19,458	120,643
Interest expense	30,281	13,622	3,137	47,040	61,599	5,668	31,629	145,936
Vehicle maintenance and repair	92,258	5,739	7	98,004	18	10	57	98,089
Printing and publications	2,221	2,360	246	4,827	17,681	29,074	326	51,908
Communications	18,993	12,853	1,546	33,392	6,244	3,224	9,355	52,215
Provision for uncollectible accounts	6,018			6,018		129,234	7,249	142,501
Postage and delivery	1,897	635	195	2,727	4,545	13,314		20,586
Other	10,236	2,232	873	13,341	31,918	7,759	3,541	56,559
Total expenses	$ 7,988,653	$ 6,910,078	$ 385,767	$15,284,498	$ 1,612,459	$ 1,402,361	$ 462,797	18,762,115
Cost of direct donor benefit – special event								129,342
Total								$18,891,457

See accompanying notes to consolidated financial statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Interfaith Ministries for Greater Houston's (Interfaith Ministries) mission is to bring people of diverse faith traditions together for dialogue, collaboration, and service, as a representation of our shared beliefs. Interfaith Ministries' goals are to provide direct service, advocacy, and education in the following areas:

- *Senior services* include supportive social services, home-delivered meals, and food assistance to the pet companions of homebound seniors. Meals on Wheels delivers nutritious lunch, breakfast, weekend and emergency shelf-stable meals to thousands of homebound seniors. Client Services provides expanded assessments of client needs and refers clients to supplemental service providers. Animeals on Wheels delivers pet food to seniors with companion animals.

- *Refugee services* assists both newly arrived refugees and established refugees in the Houston community. Interfaith Ministries provides resettlement services, English as a Second Language referrals, job placement services, counseling services, case management, career laddering and cash and rental assistance services.

- *Interfaith relations/community partnerships* fosters understanding, respect and engagement among people of all faith traditions through educational opportunities and community service. The program also includes Volunteer Houston, a Points of Light affiliate program, which connects community volunteers with local nonprofits in need of volunteer assistance.

- *Building rental operations* serves a dual purpose for Interfaith Ministries: to bring in additional rental income to support overall occupancy costs for the organization and to provide a valuable event and convening space to the greater Houston community. Interfaith Ministries offers its meeting spaces to nonprofit, community and governmental organizations at reduced cost or pro bono, to enhance its partnerships with those entities in furtherance of its mission.

In 2013, IM Support was organized as a Texas nonprofit corporation to secure New Market Tax Credits (NMTC) financing for the construction of the W.T. and Louise J. Moran Building and the renovations of the Albert and Ethel Herzstein Building and to hold ownership of these properties. IM Support's board of directors is appointed by Interfaith Ministries.

Basis of consolidation – These financial statements include the assets, liabilities, net assets, and activities of Interfaith Ministries and IM Support (collectively Interfaith). All balances and transactions between the consolidated entities have been eliminated.

Federal income tax status – Interfaith Ministries and IM Support are exempt from federal income tax under §501(c)(3) of the Internal Revenue Code, except for unrelated business income. Interfaith Ministries is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi). IM Support is classified as a Type I supporting organization under §509(a)(3).

Cash – Bank deposits exceed the federally insured limit per depositor per institution.

Allowance for uncollectible accounts – Interfaith provides an allowance for accounts and government awards receivable and pledges receivable when it believes balances may not be collected in full. It is

Interfaith's policy to write off receivables against the allowance when management determines the receivable will not be collected. The amount of expense recognized each period and the resulting adequacy of the allowance at the end of each period are determined using a combination of historical loss experience and customer-by-customer analysis of balances. It is possible that management's estimate regarding collectability will change in the near term resulting in a change in the carrying value of accounts and government awards receivable and pledges receivable.

Pledges receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in more than one year are discounted to estimate the present value of future cash flows.

Food supplies consist primarily of breakfast foods, frozen meals, and pet foods. Donated food supplies are valued at approximate average wholesale value of one pound of donated product based on the national per pound price as provided by the most recent Feeding America Product Valuation Survey. Purchased food is valued at the cost of products purchased as determined by the first-in, first-out method.

Restricted cash represents amounts required to be maintained in a separate bank account by IM Support according to the New Market Tax Credits Financing Commitment for the project's approved expenses.

Note receivable is reported at its outstanding principal balance. The note receivable is considered to be fully collectible, and accordingly, no allowance for doubtful accounts has been provided. In making that determination, management evaluated the financial condition of the borrower, the estimated value of the underlying collateral, and current economic conditions. Interest on the note receivable is recognized over the term of the note receivable and is calculated using the simple-interest method on principal amounts outstanding.

Property and equipment is reported at cost if purchased and at fair value at the date of gift if donated. Additions and improvements with a cost of more than $5,000 are capitalized. Depreciation is provided on a straight-line basis over estimated useful lives of 20 to 40 years for building, 5 to 10 years for furniture and equipment, and 7 years for vehicles.

Debt issuance costs represent costs related to the issuance of the NMTC and are amortized over the term of the bonds. Accumulated amortization is $139,660 and $111,254 at June 30, 2018 and 2017, respectively. Unamortized debt issuance costs are reported as a direct reduction of the related debt.

Net asset classification – Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects such as by contract or board designation.
- *Temporarily restricted net assets* include contributions restricted by the donor for specific purposes or future time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Government awards – Financial awards are recognized as revenue when the related services are provided. Awards of food commodities are recognized as revenue at fair market when received and program expense when distributed. Undistributed food commodities are included in food supplies.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. Conditional promises to give are recognized in the same manner when the conditions are substantially met. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are classified as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, Interfaith reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated materials, use of facilities and services – Donated materials and use of facilities are recognized at fair value as unrestricted contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. A substantial number of volunteers have contributed significant amounts of time in connection with programs, administration and fundraising for which no amount has been reported in the financial statements because the services did not meet the criteria for recognition under generally accepted accounting principles.

Program fees are recognized as revenue when the related services are provided. Amounts received in advance are reported as deferred revenue.

Rental income is recognized as revenue ratably over the term of the lease.

Estimates – Management makes estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Recent financial accounting pronouncements – In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction and provide additional guidance on determining whether a contribution is conditional or unconditional. This ASU could impact the timing of revenue recognition and the financial statement disclosures related to such transactions. Interfaith is required to apply the amendments in its June 30, 2020 financial statements. The amendments should be applied on a modified prospective basis, but retrospective application also is permitted. Management has not determined the eventual method of adoption of the ASU or the impact on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in this ASU are aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions.* New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. Interfaith is required to adopt this ASU effective June 30, 2019. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

In fiscal year 2018, Interfaith adopted ASU 2016-18, *Statement of Cash Flows – Restricted Cash,* which requires the statement of cash flows to explain the change in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Prior to adoption, restricted cash and cash equivalents were excluded from beginning and ending cash and cash equivalents in the statement of cash flows. The statement of cash flows for the year ended 2017 was restated to reflect retrospective adoption. This change had no impact on net assets or changes in net assets.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. This ASU requires a financial asset, which is measured at amortized cost, to be presented at the net amount expected to be collected. This ASU eliminates the probable initial recognition threshold in current accounting principles and, instead reflects an entity's current estimate of all expected credit losses based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. Interfaith is required to apply the amendment in its June 30, 2023 financial statements on a modified-retrospective approach. Management has not determined the impact on the financial statements.

NOTE 2 – PLEDGES RECEIVABLE

Pledges receivable are as follows:

	2018	2017
Pledges receivable	$ 2,807,293	$ 2,272,809
Discount to net present value at rates ranging from 1.01% to 2.73%	(22,876)	(11,589)
Allowance for uncollectible pledges	(152,700)	(156,383)
Pledges receivable, net	2,631,717	2,104,837
Less: Pledges receivable for capital projects, net	(1,470,961)	(671,175)
Operating pledges receivable, net	$ 1,160,756	$ 1,433,662

Pledges receivable at June 30, 2018 are expected to be collected as follows:

Receivable in less than one year	$ 1,984,893
Receivable in one to five years	822,400
Total pledges receivable	$ 2,807,293

As of June 30, 2018, approximately 67% of pledges receivable were due from five contributors. As of June 30, 2017, approximately 48% of pledges receivable were due from three contributors.

NOTE 3 – NOTE RECEIVABLE

Interfaith Ministries entered into an agreement in August 2013 to lend $8,368,740 to Chase NMTC IM Houston Investment Fund, LLC (Chase NMTC Fund). The note is secured by Chase NMTC Fund's membership interest in Consortium America XXVIII, LLC (CA CDE) and PeopleFund NMTC 2, LLC (PF CDE), (collectively the CDEs) and other cash accounts and property held by a secured party. The interest rate on the note is fixed at 1%. Interest is due annually beginning September 2013 until September 2020. Thereafter, principal and interest payments of $510,343 are due annually with all unpaid principal and interest due on September 1, 2038, the maturity date. Interest earned was $83,687 in 2018 and 2017, of which $69,740 is receivable at June 30, 2018 and 2017.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2018	2017
Land	$ 3,828,818	$ 3,828,818
Building	7,846,058	7,822,141
Furniture and equipment	588,219	572,386
Vehicles	931,262	842,219
Construction in progress	185,368	35,708
Total property and equipment, at cost	13,379,725	13,101,272
Accumulated depreciation	(2,125,823)	(1,789,639)
Property and equipment, net	$11,253,902	$11,311,633

At June 30, 2018, Interfaith had a commitment of approximately $1,486,000 for the Plaza of Respect.

NOTE 5 – NOTES PAYABLE

Interfaith had a loan agreement with a financial institution to borrow up to $8.6 million at prime rate to finance the purchase of land and construction of a building. In June 2018, Interfaith closed this loan and entered into a new loan agreement with a financial institution to borrow up to $1.36 million to refinance the construction and fund short-term cash needs for capital improvements. The loan bears interest at prime rate (5% at June 30, 2018) and is collateralized by a bank account. Interest is due monthly with principal and accrued interest due at maturity date of June 15, 2023. Interest expense of $35,004 and $51,868 was recognized for the years ended June 30, 2018 and 2017, respectively.

Interfaith has a $1 million revolving line of credit with a financial institution, which bears interest at prime rate. At June 30, 2018, there was no amount outstanding under the line of credit. The line of credit matures in January 2019 and is secured by accounts at the financial institution.

NOTE 6 – NEW MARKET TAX CREDITS NOTES PAYABLE

IM Support executed a loan agreement in 2013 that provided for borrowings of $7,350,000 and $3,822,000 from CA CDE and PF CDE, respectively. The loans financed the construction of the W.T. and Louise J. Moran Building and the renovations of the Albert and Ethel Herzstein Building and are intended to be treated as a "qualified low-income community investment" for purposes of generating New Market Tax Credits under Section 45D of the Internal Revenue Code of 1986, as amended. The loans are secured by a property deed of trust, security agreement, assignment of rents and financing statements, certain bank accounts, and fixture filing on this property and a guaranty by Interfaith.

Pursuant to the issuance of the New Market Tax Credits Financing Commitment, IM Support is required to maintain certain funds at JPMorgan Chase Bank, N.A. (JPMorgan) until such time as they are disbursed for the project's approved expenses. Amounts totaling $122,868 and $160,148 are held at JPMorgan for this purpose at June 30, 2018 and 2017, respectively.

Notes payable consist of the following:

	2018	2017
Total New Market Tax Credits notes payable	$11,172,000	$11,172,000
Less: Unamortized debt issuance costs	(712,500)	(740,906)
New Market Tax Credits notes payable, net	$10,459,500	$10,431,094

The balances outstanding on the notes payable at June 30, 2018 and repayment terms are as follows:

Note payable to Consortium America XXVIII, LLC.	$ 5,505,750
Note payable to PeopleFund NMTC 2, LLC.	2,862,990
Note payable to Consortium America XXVIII, LLC.	1,844,250
Note payable to PeopleFund NMTC 2, LLC.	959,010
Total New Market Tax Credits notes payable	$11,172,000

Interest expense was $94,068 in 2018 and 2017, of which $78,390 was payable at June 30, 2018 and 2017.

Each loan accrues interest at 0.842%. Interest is due annually beginning in September 2013 through September 2020; thereafter, principal and interest installment payments of $536,328 are due annually beginning in September 2021 with the unpaid balance due in its entirety at the maturity date of September 1, 2043. IM Support is not permitted to prepay any portion of the loans until the seventh anniversary of the loan.

Within 90 days after the seventh anniversary of the note receivable, JPMorgan can exercise its put option to sell its interest in the Chase NMTC Fund to Interfaith Ministries for $1,000. If JPMorgan does not exercise the put option, Interfaith Ministries can exercise its call option within 90 days after the put option period ends to purchase the interest in the Chase NMTC Fund at fair market value. After exercising its option to purchase the interest in the Chase NMTC Fund, Interfaith Ministries may cancel the New Market Tax Credits notes payable.

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2018	2017
Senior services	$ 6,171,510	$ 6,493,746
Capital acquisitions	1,683,393	162,323
Refugee services	545,715	372,005
Interfaith relations/community partnerships	45,047	52,215
Total temporarily restricted net assets	$ 8,445,665	$ 7,080,289

NOTE 8 – GOVERNMENT AWARDS

Interfaith Ministries is a party to agreements with government agencies. Should these agreements not be renewed, a replacement for this source of support may not be forthcoming and related expenses would not be incurred. Sources of significant government revenue recognized during the years ended June 30, 2018 and 2017 include the following:

	2018	2017
Federal government awards:		
U. S. Department of Health and Human Services	$ 5,196,815	$ 7,363,667
U. S. Department of Agriculture	826,723	698,953
U. S. Department of Homeland Security	573,858	713,673
U. S. Department of State	549,819	1,326,534
U. S. Department of Housing and Urban Development	38,402	42,531
Total federal government awards	7,185,617	10,145,358
State government awards:		
Texas Department of Agriculture	1,056,706	1,689,638
Texas Veterans Commission	84,866	
Total state government awards	1,141,572	1,689,638
Harris County awards	60,730	65,304
Galveston County awards	50,452	
Total government awards	$ 8,438,371	$11,900,300

Government awards require fulfillment of certain conditions as set forth in the agreements and are subject to review and audit by the awarding agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of non-compliance by Interfaith Ministries with the terms of the agreements. Management believes such disallowances, if any, would not be material to Interfaith Ministries' financial position or changes in net assets.

During 2018, Interfaith Ministries received food commodities from The Houston Food Bank passed through from the U. S. Department of Agriculture (USDA). The value of the food is based on the national per pound price as provided by the most recent Feeding America Product Valuation Survey and the invoiced weight provided by The Houston Food Bank. In 2018, Interfaith Ministries recognized $826,723 of food commodity awards from USDA based on the receipt of 479,442 pounds of food at $1.73 per pound, net of processing fees. In 2017, Interfaith Ministries recognized $698,954 of food commodity awards from USDA based on the receipt of 443,338 pounds of food at $1.67 per pound, net of processing fees. As of June 30, 2018 and 2017, $118,340 and $107,295 were included in food supplies, respectively.

NOTE 9 – NON-CASH CONTRIBUTIONS

Interfaith recognized the following non-cash contributions as a component of other contributions:

	2018	2017
Donated goods:		
Senior services	$ 905,117	$ 663,845
Refugee services	233,620	305,342
Interfaith relations/community partnerships	5,598	618
Management and general	173	21,135
Fundraising		5,468
Donated services:		
Capital assets	121,200	
Senior services	64,140	62,452
Refugee services	45,211	289,475
Interfaith relations/community partnerships		450
Management and general	5,000	24,250
Fundraising	495	32,458
Total non-cash contributions	$ 1,380,554	$ 1,405,493

NOTE 10 – RENTAL INCOME

Interfaith Ministries leases office space to tenants under noncancelable operating leases. Future rental income on noncancelable operating leases related to this rental property is as follows:

2019	$ 95,830
2020	84,720
Total	$ 180,550

Rental income of $118,203 and $128,413 was recognized in the financial statements related to the lease agreements for the years ended June 30, 2018 and 2017, respectively.

NOTE 11 – EMPLOYEE BENEFIT PLAN

Interfaith Ministries offers a Safe Harbor §403(b) Thrift Plan (the Plan) that covers all employees. Employees may contribute amounts to the Plan up to the limits established by the Internal Revenue Code. Interfaith Ministries matches 100% of each employee's voluntary contributions, but not to exceed 3% of the eligible compensation, and 50% of contributions exceeding 3% of eligible compensation, but not to exceed 5% of the employee's eligible compensation. Interfaith Ministries contributed approximately $121,000 and $114,000 to the Plan during the years ended June 30, 2018 and 2017, respectively.

NOTE 12 – SUBSEQUENT EVENTS

On August 15, 2018, Interfaith entered into a master lease agreement with a company to lease a building at $4,510 per month for 24 months. There is a purchase option in the agreement whereby Interfaith can exercise within the lease term to purchase the property at a price stated in the agreement, and assume the obligations of the promissory note from the lessor on this property.

Management has evaluated subsequent events through September 25, 2018, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.