

**HABITAT FOR HUMANITY OF  
WAKE COUNTY, INC.**

**FINANCIAL STATEMENTS**

*As of and for the Year Ended June 30, 2018  
(with Comparative Totals for June 30, 2017)*

*And Report of Independent Auditor*

**HABITAT FOR HUMANITY OF WAKE COUNTY, INC.**

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## **Report of Independent Auditor**

Board of Directors  
Habitat for Humanity of Wake County, Inc.  
Raleigh, North Carolina

We have audited the accompanying financial statements of Habitat for Humanity of Wake County, Inc. (a nonprofit organization), (the "Organization") which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and changes in net assets, 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 the financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization 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.

**Report on Summarized Comparative Information**

We previously audited the Organization's 2017 financial statements, and our report dated October 6, 2017, expressed an unmodified opinion on those audited financial statements. 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.

*Channing R. Schubert* LLP

Raleigh, North Carolina  
October 5, 2018

**HABITAT FOR HUMANITY OF WAKE COUNTY, INC.**  
**STATEMENT OF FINANCIAL POSITION**

*JUNE 30, 2018*

*(WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)*

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 3,352,061	\$ 2,990,406
Accounts receivable	806,539	1,075,833
Current portion of long-term receivable	1,800,000	1,500,000
Prepaid expenses	159,597	135,959
Materials inventory	988,688	872,054
Land and construction in progress	10,134,146	9,446,129
<b>Total Current Assets</b>	<u>17,241,031</u>	<u>16,020,381</u>
Noncurrent Assets:		
Fixed assets, net	4,230,104	4,030,029
Investment in joint ventures	2,757,328	1,530,504
Other assets	775,946	714,329
Long-term receivables, net of current portion	12,029,916	12,051,259
<b>Total Noncurrent Assets</b>	<u>19,793,294</u>	<u>18,326,121</u>
<b>Total Assets</b>	<u>\$ 37,034,325</u>	<u>\$ 34,346,502</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Accounts payable	\$ 574,514	\$ 625,657
Accrued expenses	336,313	207,588
Current portion of long-term debt	520,136	412,267
<b>Total Current Liabilities</b>	<u>1,430,963</u>	<u>1,245,512</u>
Noncurrent Liabilities:		
Fair value of interest rate swap	-	4,117
Deferred revenue	135,018	121,548
Due to joint venture	3,595,000	1,880,000
Long-term debt, net of current portion	6,337,722	6,188,232
<b>Total Noncurrent Liabilities</b>	<u>10,067,740</u>	<u>8,193,897</u>
<b>Total Liabilities</b>	<u>11,498,703</u>	<u>9,439,409</u>
Net Assets:		
Unrestricted	24,424,756	23,619,578
Temporarily restricted	683,663	868,862
Permanently restricted	427,203	418,653
<b>Total Net Assets</b>	<u>25,535,622</u>	<u>24,907,093</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 37,034,325</u>	<u>\$ 34,346,502</u>

**HABITAT FOR HUMANITY OF WAKE COUNTY, INC.**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

YEAR ENDED JUNE 30, 2018  
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)

	2018			Total	2017
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and Revenue:					
Public Support:					
Contributions	\$ 697,116	\$ 429,610	\$ -	\$ 1,126,726	\$ 1,025,918
In-kind unrestricted	200,357	-	-	200,357	102,760
In-kind ReStore	5,175,784	-	-	5,175,784	4,775,781
House sponsorships	-	1,723,624	-	1,723,624	1,824,807
In-kind house sponsorship	-	466,565	-	466,565	789,978
In-kind land initiative	-	54,519	-	54,519	64,710
Federal, state, and local grants	84,000	371,941	-	455,941	234,405
Total Public Support	<u>6,157,257</u>	<u>3,046,259</u>	<u>-</u>	<u>9,203,516</u>	<u>8,818,359</u>
Revenue:					
ReStore revenue	5,989,036	-	-	5,989,036	5,292,499
House sales	5,576,196	-	-	5,576,196	6,660,430
Deconstruction fees	7,350	-	-	7,350	25,371
Investment income	39,246	-	8,550	47,796	72,887
Mortgage interest income	538,832	-	-	538,832	463,692
Construction rent	15,868	-	-	15,868	-
Loss on disposal of property	(458)	-	-	(458)	(1,387)
Other income	454,628	-	-	454,628	154,921
Gain on donated entity	1,029,683	-	-	1,029,683	-
Net assets released from restrictions	3,231,458	(3,231,458)	-	-	-
Total Revenue	<u>16,881,839</u>	<u>(3,231,458)</u>	<u>8,550</u>	<u>13,658,931</u>	<u>12,668,413</u>
Total Support and Revenue	<u>23,039,096</u>	<u>(185,199)</u>	<u>8,550</u>	<u>22,862,447</u>	<u>21,486,772</u>
Expenses:					
Program Services:					
Construction	8,082,030	-	-	8,082,030	7,644,188
Family services financing	2,538,172	-	-	2,538,172	1,290,217
Volunteer services	201,326	-	-	201,326	180,104
ReStore and deconstruction	9,832,840	-	-	9,832,840	8,320,371
Supporting Services:					
Management and general	756,420	-	-	756,420	686,563
Fund-raising	827,247	-	-	827,247	764,090
Total Expenses	<u>22,238,035</u>	<u>-</u>	<u>-</u>	<u>22,238,035</u>	<u>18,885,533</u>
Changes in net assets from operations	801,061	(185,199)	8,550	624,412	2,601,239
Other Changes:					
Gain on interest rate swap agreement	4,117	-	-	4,117	15,334
Net increase in net assets	805,178	(185,199)	8,550	628,529	2,616,573
Net assets, beginning of year	<u>23,619,578</u>	<u>868,862</u>	<u>418,653</u>	<u>24,907,093</u>	<u>22,290,520</u>
Net assets, end of year	<u>\$ 24,424,756</u>	<u>\$ 683,663</u>	<u>\$ 427,203</u>	<u>\$ 25,535,622</u>	<u>\$ 24,907,093</u>

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

**HABITAT FOR HUMANITY OF WAKE COUNTY, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED JUNE 30, 2018  
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)

	Program Services					Supporting Services		2018 Total	2017 Total
	Construction	Family Services Financing	Volunteer Services	ReStore	Total	Management and General	Fundraising		
Salaries	\$ 746,303	\$ 398,769	\$ 118,493	\$ 1,871,107	\$ 3,134,672	\$ 333,210	\$ 469,663	\$ 3,937,545	\$ 3,283,623
Payroll taxes and benefits	187,808	100,350	29,819	470,866	788,843	83,853	118,191	990,887	808,418
Publicity and marketing	2,244	2,883	141	297,746	303,014	5,722	59,772	368,508	313,373
Postage and direct mail cost	2	2,665	73	452	3,192	1,606	7,451	12,249	12,091
Telephone	8,553	2,576	1,528	28,282	40,939	1,488	3,210	45,637	45,495
Cost of sales	6,107,143	-	-	-	6,107,143	-	-	6,107,143	5,843,858
Americorp	99,769	-	-	-	99,769	-	-	99,769	94,073
Warranty and lot maintenance	5,872	-	-	-	5,872	-	-	5,872	22,916
Rental and maintenance	83,680	8,363	5,575	834,022	931,640	8,363	12,544	952,547	798,256
Utilities	9,047	1,468	979	18,348	29,842	1,468	2,202	33,512	35,292
Professional services	9,073	7,765	6,457	14,958	38,253	7,503	7,503	53,259	56,201
Insurance	52,009	5,841	5,841	33,060	96,751	5,841	5,841	108,433	108,199
Taxes and licenses	10,820	-	-	175	10,995	227	-	11,222	2,347
Travel	495	135	5,735	6,979	13,344	11,110	8,767	33,221	25,261
Tools and supplies	27,076	-	-	133,490	160,566	-	-	160,566	185,572
Office and stationary expenses	3,302	1,817	523	5,435	11,077	814	1,719	13,610	20,214
Computer tech support and training	5,151	30,461	10,257	14,983	60,852	2,575	2,575	66,002	60,852
Contract labor	2,693	26,433	-	72,444	101,570	19,824	14,590	135,984	145,018
Vehicle expense	32,300	2,247	854	131,603	167,004	2,291	4,087	173,382	150,894
Miscellaneous	2,746	18,290	-	6,478	27,514	13,881	1,831	43,226	26,227
Dues	755	1,491	254	10,490	12,990	31,100	210	44,300	39,361
Family services applications	-	43,542	-	-	43,542	-	-	43,542	63,368
Board and staff development	-	-	-	-	-	20,861	-	20,861	48,301
Depreciation	17,157	9,064	6,043	113,298	145,562	9,064	13,596	168,222	154,496
Meetings and conferences	669	2,085	977	2,436	6,167	5,130	63,621	74,918	73,449
Interest expense	93,956	1,817,127	3,932	73,720	1,988,735	47,031	8,846	2,044,612	819,493
In-kind expense	4,045	53,020	-	5,126,361	5,183,426	110,054	13,018	5,306,498	4,720,786
Contributions	569,054	-	-	-	569,054	50	-	569,104	461,138
Promotional items	308	1,780	3,845	143	6,076	6,272	8,010	20,358	34,698
Volunteer Services	-	-	-	-	-	27,082	-	27,082	14,659
Cost of inventory	-	-	-	565,964	565,964	-	-	565,964	417,604
	<u>\$ 8,082,030</u>	<u>\$ 2,538,172</u>	<u>\$ 201,326</u>	<u>\$ 9,832,840</u>	<u>\$ 20,654,368</u>	<u>\$ 756,420</u>	<u>\$ 827,247</u>	<u>\$ 22,238,035</u>	<u>\$ 18,885,533</u>

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

**HABITAT FOR HUMANITY OF WAKE COUNTY, INC.**  
**STATEMENT OF CASH FLOWS**

YEAR ENDED JUNE 30, 2018  
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)

	<u>2018</u>	<u>2017</u>
<b>Net Cash from operating activities:</b>		
Net increase in net assets	\$ 628,529	\$ 2,616,573
Adjustments to reconcile net increase in net assets to net cash from operating activities:		
Transfer to homeowners	(1,594,191)	(408,491)
Second mortgages transferred to homeowners	(555,670)	(1,170,000)
Loss on interest in charitable remainder unitrust	(8,550)	(33,543)
Depreciation	168,222	154,496
Donated inventory adjustment	(116,634)	(149,023)
(Gain) loss on disposal or impairment of construction assets	(458)	1,386
Gain on fair value of interest rate swaps	(4,117)	(15,334)
Changes in operating assets and liabilities:		
(Increase) decrease in operating assets:		
Accounts receivable	269,294	201,367
Grants and pledges receivable	17,141	30,259
Prepaid expenses	(23,638)	(12,677)
Land and construction in progress	(688,017)	(1,154,707)
Other assets	(45,086)	(66,037)
Increase (decrease) in operating liabilities:		
Accounts payable	(51,143)	(3,352)
Accrued expenses	128,725	(8,600)
Deferred revenue	(11,652)	(33,446)
Net cash from operating activities	<u>(1,887,245)</u>	<u>(51,129)</u>
<b>Net Cash from investing activities:</b>		
Payments received on mortgage loans	1,871,204	1,815,508
Cash investment in joint venture	(1,226,824)	-
Acquisition of fixed assets	(367,839)	(157,431)
Net cash from investing activities	<u>276,541</u>	<u>1,658,077</u>
<b>Net Cash from financing activities:</b>		
Payment on line of credit	-	(795,865)
Proceeds from long-term debt	796,454	16,250
Payment on long-term debt	(539,095)	(455,080)
Proceeds from investment in joint venture	1,715,000	-
Net cash from financing activities	<u>1,972,359</u>	<u>(1,234,695)</u>
Net changes in cash and cash equivalents	361,655	372,253
Cash and cash equivalents, beginning of year	<u>2,990,406</u>	<u>2,618,153</u>
Cash and cash equivalents, ending of year	<u>\$ 3,352,061</u>	<u>\$ 2,990,406</u>
<b>Supplemental disclosure:</b>		
Interest paid - expenses	<u>\$ 2,044,612</u>	<u>\$ 819,493</u>
Issuance of non-interest bearing mortgage loans	<u>\$ 5,887,827</u>	<u>\$ 3,060,654</u>

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



# HABITAT FOR HUMANITY OF WAKE COUNTY, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

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### Note 1—Organization and description of services

Habitat for Humanity of Wake County, Inc. (the “Organization”) was incorporated as a non-profit organization on November 19, 1985. The Organization develops partnerships that build healthy, affordable homes with and for God’s people in need. The Organization also promotes self-reliance through home ownership, providing affordable mortgages, and preparing its applicant families for home ownership through the provision of family support services, credit counseling, and resource management training.

Program services provided by the Organization are as follows:

*Construction Services* – This program constructs or rehabilitates modest housing for sale to low-income residents.

*Family Services Financing Services* – This program recruits and selects eligible homeowners and recruits and trains volunteers who provide family support and services. Additionally, it provides access to affordable mortgage financing for low-income residents.

*Volunteer Services* – This program recruits and trains volunteers to assist in the construction of homes.

*ReStore* – This program sells donated and salvaged building materials to the general public at below market prices, with the net proceeds going towards the support of the Organization’s mission.

### Note 2—Summary of significant accounting policies

*Basis of Presentation* – As required by generally accepted accounting principles in the United States of America (“GAAP”), the Organization is required to report information regarding its financial position and activities according to three classes of net assets:

*Unrestricted* – Unrestricted net assets include resources which are available for the support of the Organization’s operating activities and are both undesignated and designated in nature. In addition, they include the Organization’s net investment in property and equipment and other resources designated by the Board for specific purposes.

*Temporarily Restricted* – Temporarily restricted net assets include resources that have been donated to the Organization subject to restrictions as defined by the donor.

*Permanently Restricted* – Net assets subject to stipulations imposed by a third party that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

*Basis of Accounting* – The financial statements of the Organization are prepared on the accrual basis of accounting, whereby, revenues are recognized when earned and expenditures are recognized when incurred. This basis of accounting conforms to GAAP.

# HABITAT FOR HUMANITY OF WAKE COUNTY, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

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### Note 2—Summary of significant accounting policies (continued)

*Cash and Cash Equivalents* – The Organization maintains its cash in several North Carolina financial institutions. The Federal Deposit Insurance Corporation covers \$250,000 for substantially all depository accounts. The Organization from time to time may have amounts on deposit in excess of the insured limits. The Organization considers all highly liquid investments to be cash equivalents.

*Materials Inventory* – All inventory is donated and valued at fair value which, due to the quick turnover of inventory, is typically subsequent sales.

*Fixed Assets* – Fixed assets are recorded at cost or, if donated, at the approximate fair value at the date of donation. Fixed assets are capitalized on the books if each individual item is \$2,000 or more in value. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. The following are the estimated useful lives of the respective assets:

<u>Description</u>	<u>Estimated Useful Lives</u>
Buildings	30 Years
Leasehold improvements	15 Years
Computer and equipment	3 - 7 Years
Furniture and fixtures	5 - 7 Years
Vehicles	5 Years

Expenditures for repairs and maintenance to fixed assets are charged to expense as incurred. The cost of major renewals and betterments to fixed assets are capitalized and depreciated or amortized over their estimated useful lives. Upon disposition of fixed assets, the respective assets, and accumulated depreciation and amortization accounts are relieved and any related gain or loss is reflected in current activities.

*Split Interest Agreements* – The Organization accepts gifts subject to split interest agreements. These gifts may be in the form of annuities or charitable remainder trusts and they provide for the payment of distributions to the grantor or other designated beneficiaries over the designated beneficiary's lifetime. At the end of the trust's term, the remaining assets are available for the Organization's use. At the time of receipt, a gift is recorded based upon the fair value of assets donated less any applicable liabilities. Liabilities include the present value of projected future distributions to the annuity or trust beneficiary and are determined using appropriate discount rates (3.4% at June 30, 2018). On an annual basis, the Organization revalues the liability for future payments to beneficiaries based on actuarial assumptions.

*Investment in Joint Venture* – On August 30, 2012, Habitat invested, along with five other Habitat affiliates, in a joint venture ("CCML Leverage II, LLC") with 16.67% ownership to take advantage of New Market Tax Credit ("NMTC") financing. NMTC financing allows an entity to receive a loan or investment capital from outside investors, who will receive new markets tax credits to be applied against their federal tax liability. As a result, Habitat has invested \$1,555,317 and was able to secure a fifteen-year loan in the amount of \$1,880,000 payable to a community development entity. The loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low-income residents. The loan accrues interest only for years one through seven at a reduced interest rate of 0.7608%. Beginning in year eight through year fifteen the principal balance of the loan is reduced by an eight-year amortization at the same interest rate of 0.7608%.

# HABITAT FOR HUMANITY OF WAKE COUNTY, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

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### **Note 2—Summary of significant accounting policies (continued)**

On December 20, 2017, Habitat invested, along with five other Habitat for Humanity affiliates, in a partnership (Harbor Habitat Leverage II, LLC) with 16.67% ownership to take advantage of NMTC financing. As a result, the Organization has invested \$1,202,011 and was able to secure a 20-year loan in the amount of \$1,715,000 payable to a community development entity. The loan proceeds are to be used solely for the purpose of acquiring, rehabbing, and/or constructing single-family homes in qualified census tracts and selling 100% of such homes to low-income persons. The loan accrues interest only for years one through seven at a reduced rate of 0.7041% per year. Beginning in year 8 through year 20 the principal balance of the loan is reduced by a twelve-year amortization at the same rate of 0.7041%.

*Deferred Revenue* – Deferred revenue represents mortgage forgiveness that is amortized over the term of the mortgage and NMTC affiliate guaranty fee which is amortized over the term of the loan.

*Interest Rate Swap Agreements* – The Organization is utilizing a derivative financial instrument to reduce its exposure to changes in interest rates. The Organization does not hold or issue derivative financial instruments for trading purposes. GAAP requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Changes in the fair value of those instruments are reported as a changes in net assets in the statement of activities and changes in net assets.

*Restricted and Unrestricted Revenues and Support* – Donor support and contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/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 satisfied), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Certain grant awards and house sponsor donations are reported as temporarily restricted support if they are received with donor stipulations that limit the use of donated assets.

The Organization receives a significant amount of donated services from unpaid volunteers who assist in the construction of Habitat homes. Only donated services that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair market values in the period received. Non-professional construction-related volunteer services do not meet these criteria and are not recorded in the financial statements.

*In-Kind Donated Materials, Services, and Facilities* – Donated materials, specialized services, and facilities received by the Organization are reflected as both contributions and expenses in the accompanying statements at their estimated fair market value at the time of receipt.

*Accounts Receivable* – Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on receivables using the allowance method. The allowance method is based on experience, third-party contracts, and other circumstances, which may affect the ability of debtors to meet their obligations. Receivables are considered impaired if full principal payments are not received in accordance with contractual terms. It is the Organization's policy to charge off uncollectible receivables when management determines the receivable will not be collected.

# HABITAT FOR HUMANITY OF WAKE COUNTY, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

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### Note 2—Summary of significant accounting policies (continued)

*Pledges Receivable* – Contributions are recognized when the donor makes a promise to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises to give.

*Expense Allocation* – The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets and statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

*Income Tax Status* – The Organization is exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code and the applicable state tax statutes. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(a) and has been qualified as an organization that is not a private foundation under Section 509(a)(2) of the Internal Revenue Code. Management has evaluated the effect of the guidance provided by GAAP on Accounting for Uncertainty in Income Taxes. Management believes that the Organization continues to satisfy the requirements of a tax-exempt organization at June 30, 2018. Management has evaluated all other tax positions that could have a significant effect on the financial statements and determined the Organization had no significant uncertain income tax positions at June 30, 2018.

*Use of Estimates* – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates and assumptions are used for, but not limited to the allowance for uncollectible contributions, discounts to net present value for pledges receivable, depreciable lives of fixed assets, cost allocations among functional expenses, and value for in-kind donated materials and services.

*Retirement Plan* – Effective January 1, 2004, the Organization adopted a 401(k) profit-sharing plan for the benefit of its employees. An employee must be 21 years or older to obtain the 401(k) employer match.

Employees may contribute from 1% to 97% of their compensation. The Organization will match 100% of each employee's contributions up to a maximum of 4% of compensation. For the year ended June 30, 2018, the Organization contributed \$90,730 to the plan.

#### *Future Pronouncements* –

In February 2016, the Financial Accounting Standards Board (the "FASB"), issued a new accounting standard, Accounting Standard Update ("ASU") 2016-02, *Leases (Topic 842)*, which says Lessees will be required to recognize a lease liability and a right-of-use asset for all leases, operating and capital, at the commencement date. The new standard will be effective for the Organization on July 1, 2020. Early adoption is permitted. The Organization is currently evaluating the effect that the standard will have on its financial statements and related disclosures.

# HABITAT FOR HUMANITY OF WAKE COUNTY, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

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### Note 2—Summary of significant accounting policies (continued)

In August 2016, the FASB issued a new accounting standard, ASU 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which changes presentation and disclosure requirements to provide more relevant information about their resources to donors, grantors, creditors, and other users. These changes include qualitative and quantitative requirements within net assets classes, investment returns, expenses, liquidity and availability of resources, and presentation of operating cash flows. The new standard will be effective for the Organization on July 1, 2018. Early adoption is permitted. The Organization is currently evaluating the effect that the standard will have on its financial statements and related disclosures.

In August 2016, the FASB issued a new accounting standard, ASU 2016-15, *Statement of Cash Flows (Topic 230)*, which provides classification guidance over many areas of the cash flow statement. The new standard will be effective for the Organization on July 1, 2019. Early adoption is permitted. The Organization is currently evaluating the effect that the standard will have on its financial statements and related disclosures.

In November 2016, the FASB issued a new accounting standard, ASU 2016-18, *Statement of Cash Flows: Restricted Cash (Topic 230)*, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new standard will be effective for the Organization on July 1, 2019. Early adoption is permitted. The Organization is currently evaluating the effect that the standard will have on its financial statements and related disclosures.

In June 2018, the FASB issued a new accounting standard, ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*, which is intended to clarify issues that have been faced when characterizing grants and similar contracts with government agencies and others as reciprocal transactions or nonreciprocal transactions. The new standard is also intended to help with difficulties in distinguishing between conditional and unconditional contributions for reporting purposes. The new standard will be effective for the Organization on July 1, 2019. The Organization is currently evaluating the effect that the standard will have on its financial statements and related disclosures.

### Note 3—Mortgages receivable

At June 30, 2018, mortgages receivable consisted of the following:

Various homebuyers	\$ 25,619,757
Less equity forgiveness and second mortgages due to third parties	<u>(11,789,841)</u>
Mortgages receivable	13,829,916
Less current portion	<u>(1,800,000)</u>
Noncurrent portion of mortgages receivable	<u><u>\$ 12,029,916</u></u>

These mortgages do not earn interest and are secured by deeds of trust on the houses. As of June 30, 2018, the total discount was \$8,175,608.

GAAP requires that receivables that are contractual rights to receive money in the future at a fixed or determinable date be recorded at the present value of the consideration given in the exchange.

**HABITAT FOR HUMANITY OF WAKE COUNTY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2018

**Note 3—Mortgages receivable (continued)**

Homebuyers enter into equity agreements with the Organization at the time the mortgage is signed. Prior to the fiscal year ended June 30, 2001, homebuyers purchased houses from the Organization at less than fair value with the equity amount determined as the difference between the purchase price and the fair value. Beginning with the fiscal year ended June 30, 2001, homebuyers purchased houses at fair value and the Organization discounted the mortgages receivable. Mortgages were discounted at a rate of 7.5%. During the year the interest rate ranged from 0% to 2%. Under both methods, homebuyers earn the equity over the life of their mortgages, typically 20 years or as the mortgages are repaid. As of July 1, 2016, the deferred equity on mortgage receivable is due at the time of sale. If the homebuyers default on their mortgages, the Organization retains all or a portion of the equity in the house. If homebuyers wish to dispose of their property, the Organization retains the right of first refusal. Homebuyers' equity agreements are included in the deeds of trust on their property as restrictive covenants.

At June 30, 2018, the delinquencies in our mortgages receivable consisted of the following:

0-29 Days Past Due	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Current	Total Mortgages Receivable
\$ 7,635	\$ 4,432	\$ 2,159	\$ 104,977	\$ 119,203	\$ 13,710,713	\$ 13,829,916

A loan is defined as impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due under the contractual terms of the loan agreement. The Organization considers one-to-four family mortgage loans and consumer installment loans to be homogeneous and, therefore, does not generally evaluate them for impairment, unless they are considered troubled debt restructurings. All other loans are evaluated for impairment on an individual basis.

At June 30, 2018, an allowance for bad debt related to mortgages receivable has not been established due to the terms and conditions of the equity agreements.

Central Loan Administration and Reporting ("CENLAR") and Amerinational Community Services ("Amerinat") services all of these mortgages.

Current changes in the mortgages receivable accounts are summarized as follows:

	Gross Loan	City of Raleigh	North Carolina Housing Finance Agency	Equity Forgiveness	Loan Balance
Beginning balance, June 30, 2017	\$ 24,221,504	\$ (1,751,741)	\$ (5,472,097)	\$ (3,446,407)	\$ 13,551,259
New loans	6,267,964	-	(555,700)	(1,663,981)	4,048,283
Sales	(769,957)	36,433	148,986	86,164	(498,374)
Payments received	(4,099,754)	128,446	358,251	341,805	(3,271,252)
Ending balance, June 30, 2018	\$ 25,619,757	\$ (1,586,862)	\$ (5,520,560)	\$ (4,682,419)	\$ 13,829,916

**Note 4—Fair value of financial instruments, carried at fair value**

GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction value hierarchy which requires an entity to maximize the use of observable inputs when measuring fair value.

**HABITAT FOR HUMANITY OF WAKE COUNTY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2018

**Note 4—Fair value of financial instruments, carried at fair value (continued)**

The standard describes three levels of inputs that may be used to measure fair value:

- Level 1 – Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date;
- Level 2 – Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies; and
- Level 3 – Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodologies used for instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

*Interest in Charitable Remainder Trust* – These Level 3 investments are valued on factors not easily observable in similar instruments in an active market.

*Fair Value of Interest Rate Swaps* – The fair value of the swap agreement is estimated by the financial institution by discounting an estimate of the amounts of interest to be paid and an estimate of the amounts of interest to be received during the swap agreement period.

Financial instruments carried at fair value by level as of June 30, 2018, are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Interest in charitable remainder trusts	\$ -	\$ -	\$ 427,203	\$ 427,203

Changes in Level 3 inputs are as follows:

	<u>Interest in Charitable Remainder Trust</u>	<u>Interest Rate Swap</u>
Beginning balance	\$ 418,653	\$ (4,117)
Current year income	8,550	4,117
Ending balance	<u>\$ 427,203</u>	<u>\$ -</u>

**HABITAT FOR HUMANITY OF WAKE COUNTY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2018

**Note 5—Promises to give**

Promises to give are written or oral agreements to contribute cash or other assets. Promises to give may be either conditional or unconditional. Unconditional promises to give are recognized as revenues, assets, or decreases in liabilities in the period the promises are made. Conditional promises to give are recognized as revenues, assets, or decreases in liabilities in the period when a condition no longer exists.

Unconditional promises to give, included in accounts receivable at June 30, 2018 are as follows:

Receivable in less than one year	\$ 459,327
Receivable in one to five years	31,848
Total unconditional promises to give	<u>\$ 491,175</u>

**Note 6—Land and construction in progress**

At June 30, 2018, the Organization had construction in progress and property available for resale totaling \$10,134,146.

	<u>Land</u>	<u>Land Gift-in-kind</u>	<u>Land Development</u>	<u>Construction in Progress</u>	<u>Finished Houses</u>	<u>Total</u>
Beginning Balance	\$ 3,206,083	\$ 899,923	\$ 2,207,638	\$ 2,788,351	\$ 344,134	\$ 9,446,129
Additions	1,761,062	97,500	1,161,478	5,170,449	1,398,742	9,589,231
Transfers	(1,457,739)	-	(2,062,347)	(4,819,557)	(561,571)	(8,901,214)
Ending Balance	<u>\$ 3,509,406</u>	<u>\$ 997,423</u>	<u>\$ 1,306,769</u>	<u>\$ 3,139,243</u>	<u>\$ 1,181,305</u>	<u>\$ 10,134,146</u>

**Note 7—Fixed assets**

Net fixed assets consisted of the following at June 30, 2018:

Land	\$ 1,819,593
Building	2,803,224
Leasehold improvements	624,471
Computer and equipment	277,127
Furniture and fixtures	62,997
Vehicles	132,136
	<u>5,719,548</u>
Less accumulated depreciation	<u>(1,489,444)</u>
Net fixed assets	<u>\$ 4,230,104</u>



# HABITAT FOR HUMANITY OF WAKE COUNTY, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

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### **Note 8—Interests in charitable remainder trusts**

During the year ended June 30, 2003, the Organization was named the single vested beneficiary of a charitable remainder unitrust. Upon the death of the last surviving income beneficiary, the remaining assets of the trust will transfer to the Organization. The trust's value is classified as permanently restricted net assets on the Organization's financial statements until the trust terminates, and the remaining assets are transferred to the Organization. The fair market value of the Organization's interest in the trust was \$403,176 at June 30, 2018. The fair market value approximates the present value of the future cash flows anticipated from the trust.

During the year ended June 30, 2007, the Organization was named the single beneficiary of a charitable remainder annuity trust. Upon the death of the surviving income beneficiary, the remaining assets of the trust will transfer to the Organization. The trust's value is classified as permanently restricted net assets on the Organization's financial statements until the trust terminates, and the remaining assets are transferred to the Organization. The estimated present value of the Organization's interest in the trust was \$24,027 at June 30, 2018. The fair market value approximates the present value of the future cash flows anticipated from the trust.

### **Note 9—Investments in CCML Leverage II, LLC and Harbor Habitat Leverage II, LLC**

In August 2012 and December 2017, the Organization participated in NMTC programs. These programs provide tax credits to eligible organizations for investment in "qualified low-income community investments". Program compliance requirements included creation of a promissory note and investment in a qualified community development entity ("CDE"). Tax credit recapture is required if compliance requirements are not met over a seven-year period.

In August 2012, the Organization recorded its 16.67% investment in CCML Leverage II, LLC at the cost of \$1,430,133. In August 2019, CCM CD 27 Investment Fund, LLC, (the "Fund"), and the effective owner of CCM Community Development XXVII, LLC (holder of the promissory note due from the Organization) expects the equity owners of the Fund to exercise their put option. Under the terms of the put option agreement CCML Leverage II, LLC is expected to purchase the ownership interest of the Fund. Exercise of the option will effectively allow the Organization to extinguish its outstanding debt owed to the Fund. As of June 30, 2018, the investment in CCML Leverage II, LLC balance was \$1,555,317.

In December 2017, the Organization recorded its 16.667% investment in Harbor Habitat Leverage II, LLC at the cost of \$1,207,410. In December 2024, Twain Investment Fund 296, LLC (the "Twain Fund"), and the upstream effective owner of Harbor Community Fund XIII, LLC (holder of the promissory note due from the Organization) is expected to exercise its put option. Under the terms of the put option agreement Harbor Habitat Leverage II, LLC is expected to purchase the ownership interest of the Twain Fund. Exercise of the option will effectively allow the Organization to extinguish its outstanding debt owed to the Twain Fund. As of June 30, 2018, the investment in Harbor Habitat Leverage II, LLC balance was \$1,202,011.

### **Note 10—Escrow funds payable**

At June 30, 2018, a total of \$150,088 had been collected from homebuyers by the Organization for payment of property and insurance. This amount was held in escrow by the Organization.

**HABITAT FOR HUMANITY OF WAKE COUNTY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2018

**Note 11—Long-term debt**

The Organization's obligations under notes payable at June 30, 2018, consisted of the following:

Board of Commissioners of the Wake County Industrial Facilities and Pollution Control Financing Authority bond payable for \$4,400,000, secured by the facility, with annual interest based on the Bond Market Association ("BMA") rate (1.51% as of June 30, 2018) and principal and interest payments payable over 108 months. The loan will mature on November 1, 2032, when any unpaid principal balance and accrued interest will become due.	\$ 3,336,027
Pacific Western Bank note for borrowing up to \$2,466,222, with 2% interest rate, secured by the individual family mortgage loan. The debt is due in monthly installments with a final payment due based on individual family mortgage loan.	1,793,392
Pacific Western Bank note for borrowing up to \$1,244,135, interest free, due in monthly installments of \$3,466 payable through July 2047.	908,388
BB&T note payable with interest at the 30-day LIBOR rate (2.09% as of June 30, 2018) plus 2%. The loan will mature on March 24, 2021, when any unpaid principal balance and accrued interest will become due.	825,126
BB&T note payable for borrowing up to \$740,000, secured by 31 mortgages, with variable rate interest not to exceed 7.5%. Loan is payable in 59 consecutive monthly installments of \$5,763, including interest and principal. The loan will mature on December 1, 2020, when any unpaid principal balance and accrued interest will become due.	160,338
Habitat for Humanity International note payable, interest free, due in 48 monthly installments of \$781, payable through July 2021.	32,814
Habitat for Humanity International note payable, interest free, due in 48 monthly installments of \$937, payable through December 2020.	28,134
Habitat for Humanity International note payable, interest free, due in 48 monthly installments of \$339, payable through December 2022.	16,250
Habitat for Humanity International note payable, interest free, due in 46 monthly installments of \$468 payable through December 2020.	14,076
Habitat for Humanity International note payable, interest free, due in 48 monthly installments of \$234, payable through December 2020.	7,038
Habitat for Humanity International note payable, interest free, due in 46 monthly installments of \$742, payable through June 2019.	4,461
Habitat for Humanity International note payable, interest free, due in 48 monthly installments of \$80, payable through July 2021.	2,915
	<u>7,128,959</u>
Less debt issuance costs	<u>(271,101)</u>
	6,857,858
Less current portion of long-term debt	<u>(520,136)</u>
	<u>\$ 6,337,722</u>

**HABITAT FOR HUMANITY OF WAKE COUNTY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2018*

**Note 11—Long-term debt (continued)**

Scheduled maturities of long-term debt are as follows:

2019	\$ 520,136
2020	557,787
2021	988,912
2022	342,506
2023	345,025
Thereafter	4,374,593
	<u>\$ 7,128,959</u>

Due to joint venture consists of a promissory note to CCM Community Development XXVII, LLC in the amount of \$1,880,000. The note requires interest-only payments until November 2020 at 0.07608%. The note then requires principal payments in an amount sufficient to fully amortize the note over eight years. The note matures in July 2028. The loan is secured by substantially all the assets acquired by the Organization from the project loan proceeds. Debt has a put option feature that is exercisable November 2020.

Due to joint venture consists of a promissory note to Harbor Community Fund XIII, LLC in the amount of \$1,715,000. The note requires interest only payments until December 2024 at 0.7041%. The note then requires principal payments in an amount sufficient to fully amortize the note over 13 years. The loan matures in December 2037. The loan is secured by substantially all the assets acquired by the Organization from the project loan proceeds. Debt has a put option feature that is exercisable December 2024.

**Note 12—Interest rate swap agreements**

The Organization has interest rate swap agreements that were entered into as hedges of cash flow variability caused by changes in interest rates on variable rate bonds issued in 2007. The differential interest required to be paid or that will be received under this agreement is accrued consistent with the terms of the agreement and is recognized in interest expense as accrued. GAAP requires derivative instruments, such as interest rate swap agreements, to be recognized at fair value as either assets or liabilities in the statement of financial position. The fixed portion of the interest rate swap is 2.0%, during the year ended June 30, 2018. The variable interest rate that reduced the interest liability to be paid by the Organization is published weekly by the BMA Municipal Bond Index and was 0.91% at June 30, 2013. The original notional amount of the swap agreements was \$1,025,000. The swap agreement expired on December 1, 2017.

**Note 13—Restrictions on net assets**

At June 30, 2018, temporarily restricted net assets of \$683,663 represent unexpended amounts of cash and pledge receivables from house sponsors and grantors as well as the value of donated land.

The components of temporarily restricted net assets are as follows:

General pledges	\$ 237,537
Endowment	3,250
Designated pledges	188,238
Sponsorships	254,638
	<u>\$ 683,663</u>

# HABITAT FOR HUMANITY OF WAKE COUNTY, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

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### Note 13—Restrictions on net assets (continued)

Temporarily restricted net assets are subject to donor stipulations that expire by the passage of time or can be fulfilled or removed by actions pursuant to the stipulations. During 2018, the Organization fulfilled such stipulations which resulted in \$3,231,458 of temporarily restricted net assets being reclassified as unrestricted.

Permanently restricted net assets are contributions receivable from charitable remainder trusts in which the Organization is the single beneficiary. Permanently restricted net assets were \$427,203 at June 30, 2018.

### Note 14—Grant audits

The Organization receives grant funds at times from various federal, state, and local governments. Such costs are subject to final approval by the grantor agencies and deficiencies, if any, are the responsibility of the Organization.

### Note 15—Operating leases and maintenance contracts

The Organization leases certain facilities and other property under the terms of operating lease agreements. Total rental expense for the year ended June 30, 2018, was \$667,950. Future minimum lease payments under operating leases that have remaining terms in excess of one year as of June 30, 2018 are as follows:

#### Years Ending June 30,

2019	\$ 749,215
2020	615,715
2021	516,656
2022	306,920
2023	149,689
Thereafter	627,309
	<u>\$ 2,965,504</u>

### Note 16—Contribution to Habitat for Humanity International, Inc.

The Organization contributes to Habitat for Humanity International for their housing programs. The Organization's contributions served an additional 101 families globally. For the year ended June 30, 2018, contributions to Habitat for Humanity International were \$569,054.

### Note 17—Organization donation

During the year ended June 30, 2018 the Board of Directors of the Organization and Habitat for Humanity International approved the extending of the Organization's current service area to include Johnston County. As a result, the Organization was transferred the following:

Cash	\$ 167,797
Land	332,330
Mortgages Receivable	529,556
	<u>\$ 1,029,683</u>

**HABITAT FOR HUMANITY OF WAKE COUNTY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2018*

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**Note 17—Organization donation (continued)**

No liabilities were assumed. As a result of the donation, the Organization recorded a gain on donated entity of \$1,029,683 during the year ended June 30, 2018. This resulted in an \$861,886 noncash transaction. The balances as of and for the year ended June 30, 2018 include the assets transferred and the activities related to the Johnston County Habitat for Humanity.

**Note 18—Subsequent events**

The Organization has evaluated subsequent events through October 5, 2018, in connection with the preparation of these financial statements which is the date the financial statements were available to be issued.