

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

FINANCIAL STATEMENTS

***As of and for the Year Ended June 30, 2019
(With Comparative Totals for June 30, 2018)***

And Report of Independent Auditor

HABITAT FOR HUMANITY OF WAKE COUNTY, INC.

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Report of Independent Auditor

To the 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, 2019, 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, 2019, and the related 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 2018 financial statements, and our report dated October 5, 2018, 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, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived, except for terms and classifications related to the implementation of Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*.

Effect of Adopting New Accounting Standard

As discussed in Note 2, the Organization adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The ASU has been applied prospectively for the year ended June 30, 2019, except as discussed in the previous paragraph regarding the prior year summarized financial information. Our opinion is not modified with respect to this matter.

Channing R. Ricketts LLP

Raleigh, North Carolina
January 14, 2020

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

JUNE 30, 2019

(WITH COMPARATIVE TOTALS FOR JUNE 30, 2018)

	2019	2018
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 4,476,487	\$ 3,352,061
Accounts receivable	1,082,155	806,539
Current portion of long-term receivable	1,500,000	1,800,000
Prepaid expenses	147,058	159,597
Materials inventory	1,228,491	988,688
Land and construction in progress	10,974,883	10,134,146
Total Current Assets	19,409,074	17,241,031
Noncurrent Assets:		
Property and equipment, net	4,071,514	4,230,104
Investment in joint ventures	2,770,067	2,757,328
Other assets	778,229	766,710
Long-term receivables, net of current portion	14,251,596	12,039,152
Total Noncurrent Assets	21,871,406	19,793,294
Total Assets	\$ 41,280,480	\$ 37,034,325
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 937,104	\$ 574,514
Accrued expenses	350,605	336,313
Current portion of long-term debt	616,939	520,136
Total Current Liabilities	1,904,648	1,430,963
Noncurrent Liabilities:		
Deferred revenue	70,346	135,018
Due to joint venture	3,595,000	3,595,000
Long-term debt, net of current portion	9,671,290	6,337,722
Total Noncurrent Liabilities	13,336,636	10,067,740
Total Liabilities	15,241,284	11,498,703
Net Assets:		
Without donor restrictions	24,997,615	24,424,756
With donor restrictions	1,041,581	1,110,866
Total Net Assets	26,039,196	25,535,622
Total Liabilities and Net Assets	\$ 41,280,480	\$ 37,034,325

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

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

YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	
Support and Revenue:				
Public Support:				
Contributions	\$ 588,175	\$ 828,041	\$ 1,416,216	\$ 1,126,726
In-kind unrestricted	181,731	-	181,731	200,357
In-kind ReStore	5,734,145	-	5,734,145	5,175,784
House sponsorships	-	2,270,475	2,270,475	1,723,624
In-kind house sponsorship	-	314,998	314,998	466,565
In-kind land initiative	-	(68,869)	(68,869)	54,519
Federal, state, and local grants	67,954	165,578	233,532	455,941
Total Public Support	<u>6,572,005</u>	<u>3,510,223</u>	<u>10,082,228</u>	<u>9,203,516</u>
Revenue:				
ReStore revenue	6,907,726	-	6,907,726	5,989,036
House sales	7,923,564	-	7,923,564	5,576,196
Deconstruction fees	-	-	-	7,350
Investment income	95,390	(3,437)	91,953	47,796
Mortgage discount income	491,560	-	491,560	538,832
Construction rent	710	-	710	15,868
Loss on disposal of property	-	-	-	(458)
Other income	632,051	-	632,051	454,628
Gain on donated entity	-	-	-	1,029,683
Net assets released from restrictions	<u>3,576,071</u>	<u>(3,576,071)</u>	<u>-</u>	<u>-</u>
Total Revenue	<u>19,627,072</u>	<u>(3,579,508)</u>	<u>16,047,564</u>	<u>13,658,931</u>
Total Support and Revenue	<u>26,199,077</u>	<u>(69,285)</u>	<u>26,129,792</u>	<u>22,862,447</u>
Expenses:				
Program Services:				
Construction	9,758,555	-	9,758,555	8,082,030
Family services financing	2,314,748	-	2,314,748	2,538,172
Volunteer services	224,667	-	224,667	201,326
ReStore	11,452,700	-	11,452,700	9,832,840
Supporting Services:				
Management and general	921,001	-	921,001	756,420
Fundraising	954,547	-	954,547	827,247
Total Expenses	<u>25,626,218</u>	<u>-</u>	<u>25,626,218</u>	<u>22,238,035</u>
Changes in net assets from operations	572,859	(69,285)	503,574	624,412
Other Changes:				
Gain on interest rate swap agreement	-	-	-	4,117
Net increase (decrease) in net assets	572,859	(69,285)	503,574	628,529
Net assets, beginning of year	<u>24,424,756</u>	<u>1,110,866</u>	<u>25,535,622</u>	<u>24,907,093</u>
Net assets, end of year	<u>\$ 24,997,615</u>	<u>\$ 1,041,581</u>	<u>\$ 26,039,196</u>	<u>\$ 25,535,622</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, 2019
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2018)

	Program Services					Supporting Services		2019 Total	2018 Total
	Construction	Family Services Financing	Volunteer Services	ReStore	Total	Management and General	Fundraising		
Salaries	\$ 738,112	\$ 373,115	\$ 127,845	\$ 2,318,777	\$ 3,557,849	\$ 320,988	\$ 531,530	\$ 4,410,367	\$ 3,937,545
Payroll taxes and benefits	187,128	94,593	32,412	587,861	901,994	81,378	134,755	1,118,127	990,887
Publicity and marketing	1,840	844	968	207,653	211,305	19,909	97,804	329,018	368,508
Postage and direct mail cost	31	2,167	104	761	3,063	2,186	5,326	10,575	12,249
Telephone	10,520	3,921	1,725	36,624	52,790	2,693	3,608	59,091	45,637
Cost of sales	7,519,333	-	-	-	7,519,333	-	-	7,519,333	6,107,143
Americorp	98,578	-	-	-	98,578	-	-	98,578	99,769
Warranty and lot maintenance	27,222	-	-	-	27,222	-	-	27,222	5,872
Rental and maintenance	86,100	7,568	5,046	922,467	1,021,181	7,568	11,352	1,040,101	952,547
Utilities	-	8,450	5,633	105,627	119,710	8,450	12,675	140,835	33,512
Professional services	11,244	9,250	7,256	20,217	47,967	8,851	8,851	65,669	53,259
Insurance	80,163	7,687	7,687	37,455	132,992	7,687	7,687	148,366	108,433
Taxes and licenses	4,771	-	-	-	4,771	211	-	4,982	11,222
Travel	2,949	1,162	1,889	6,436	12,436	16,641	464	29,541	33,221
Tools and supplies	27,193	-	-	55,919	83,112	-	-	83,112	160,566
Office and stationary expenses	3,178	2,858	545	7,567	14,148	937	1,420	16,505	13,610
Computer tech support and training	14,083	51,880	11,999	40,489	118,451	7,042	7,042	132,535	66,002
Contract labor	4,334	149,342	-	147,837	301,513	160,613	13,500	475,626	135,984
Vehicle expense	37,510	1,787	1,269	157,399	197,965	2,227	3,848	204,040	173,382
Miscellaneous	-	-	-	215,747	215,747	6,993	-	222,740	43,226
Dues	479	200	1,753	10,738	13,170	30,542	740	44,452	44,300
Family services applications	-	128,945	-	-	128,945	-	-	128,945	43,542
Board and staff development	-	-	-	-	-	26,442	-	26,442	20,861
Depreciation	10,919	10,340	6,894	129,256	157,409	10,340	15,511	183,260	168,222
Meetings and conferences	1,048	1,705	2,659	4,308	9,720	6,755	69,026	85,501	74,918
Interest expense	176,124	1,448,509	4,586	85,979	1,715,198	6,878	10,317	1,732,393	2,044,612
In-kind expense	14,602	7,400	-	5,623,904	5,645,906	147,461	11,522	5,804,889	5,306,498
Contributions	700,954	-	-	-	700,954	-	-	700,954	569,104
Promotional items	140	3,025	4,397	1,743	9,305	9,195	7,569	26,069	20,358
Volunteer Services	-	-	-	-	-	29,014	-	29,014	27,082
Cost of inventory	-	-	-	727,936	727,936	-	-	727,936	565,964
	<u>\$ 9,758,555</u>	<u>\$ 2,314,748</u>	<u>\$ 224,667</u>	<u>\$ 11,452,700</u>	<u>\$ 23,750,670</u>	<u>\$ 921,001</u>	<u>\$ 954,547</u>	<u>\$ 25,626,218</u>	<u>\$ 22,238,035</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, 2019
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2018)

	2019	2018
Net cash from operating activities:		
Net increase in net assets	\$ 503,574	\$ 628,529
Adjustments to reconcile net increase in net assets to net cash from operating activities:		
Transfer to homeowners	(2,434,599)	(1,594,191)
Second mortgages transferred to homeowners	(470,000)	(555,670)
(Gain) loss on interest in charitable remainder unitrust	3,437	(8,550)
Depreciation	183,260	168,222
Donated inventory adjustment	(239,803)	(116,634)
Gain on disposal or impairment of construction assets	-	(458)
Gain on fair value of interest rate swaps	-	(4,117)
Changes in operating assets and liabilities:		
(Increase) decrease in operating assets:		
Accounts receivable	(275,616)	269,294
Grants and pledges receivable	31,848	17,141
Prepaid expenses	12,539	(23,638)
Land and construction in progress	(840,737)	(688,017)
Other assets	(71,926)	(45,086)
Increase (decrease) in operating liabilities:		
Accounts payable	362,590	(51,143)
Accrued expenses	14,292	128,725
Deferred revenue	(39,550)	(11,652)
Net cash from operating activities	<u>(3,260,691)</u>	<u>(1,887,245)</u>
Net cash from investing activities:		
Payments received on mortgage loans	1,973,557	1,871,204
Mortgage sales to Southern First	(981,402)	-
Cash investment in joint venture	(12,739)	(1,226,824)
Acquisition of property and equipment	(24,670)	(367,839)
Net cash from investing activities	<u>954,746</u>	<u>276,541</u>
Net cash from financing activities:		
Proceeds from long-term debt	3,950,252	796,454
Payment on long-term debt	(519,881)	(539,095)
Proceeds from investment in joint venture	-	1,715,000
Net cash from financing activities	<u>3,430,371</u>	<u>1,972,359</u>
Net changes in cash and cash equivalents	1,124,426	361,655
Cash and cash equivalents, beginning of year	3,352,061	2,990,406
Cash and cash equivalents, ending of year	<u>\$ 4,476,487</u>	<u>\$ 3,352,061</u>
Supplemental disclosure:		
Interest paid - expenses	<u>\$ 1,732,393</u>	<u>\$ 2,044,612</u>
Issuance of non-interest bearing mortgage loans	<u>\$ 7,683,600</u>	<u>\$ 5,887,827</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, 2019

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

Family Services Financing – 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 – 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 (“U.S. GAAP”), the Organization is required to report information regarding its financial position and activities according to two classes of net assets:

Without Donor Restrictions – Net assets without donor restrictions 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.

With Donor Restrictions – Net assets with donor restrictions include resources that have been donated to the Organization subject to restrictions as defined by the donor and 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 U.S. GAAP.

HABITAT FOR HUMANITY OF WAKE COUNTY, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

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.

Property and equipment – Property and equipment is recorded at cost or, if donated, at the approximate fair value at the date of donation. Property and equipment is 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 property and equipment is charged to expense as incurred. The cost of major renewals and betterments to property and equipment is capitalized and depreciated or amortized over their estimated useful lives. Upon disposition of property and equipment, 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 (2.8% at June 30, 2019). 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 \$1,580,130 and was able to secure a 15-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 8 through year 15 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, 2019

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 \$1,189,937 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.

Revenues and Support Without and With Donor Restrictions – Donor support and contributions received are recorded as without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in without donor restricted 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 with donor restriction 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), net assets with donor restrictions are reclassified to net assets without donor restrictions 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 net assets with donor restrictions 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.

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 net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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.

HABITAT FOR HUMANITY OF WAKE COUNTY, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

Note 2—Summary of significant accounting policies (continued)

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. While a majority of these costs are specifically identifiable to a functional expense category (e.g. Cost of Construction, Interest Expense on Notes Payable and on Mortgages Receivable, Event Costs, and Tithe to Habitat International), other costs are allocated. Allocation bases primarily include: estimates of time and effort (e.g. for Salaries and wages, Payroll taxes, Pension contributions); square footage (e.g. for Occupancy); headcount (e.g. for supplies, telephone); and employee-specific (e.g. telephone, staff development, employee mileage reimbursement).

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 U.S. 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, 2019. 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, 2019.

Use of Estimates – The preparation of financial statements in conformity with U.S. 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 equipment, 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, 2019, the Organization contributed \$95,840 to the plan.

New Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The ASU has been applied prospectively for the year ended June 30, 2019.

Recently Issued Accounting Pronouncements

In February 2016, the FASB, issued a new accounting standard, 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, 2021. 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, 2019

Note 2—Summary of significant accounting policies (continued)

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—Liquidity and availability

Financial assets available for general expenditures consisting of expenses for program, fundraising, and management and general expenses that are without donor or other restrictions, limiting their use within one year of the statement of financial position date, are comprised of the following as of June 30, 2019:

Financial Assets:

Cash and cash equivalents	\$ 4,476,487
Accounts receivable	1,082,155
Current portion of long-term receivable	<u>1,500,000</u>
Total financial assets	7,058,642

Less those unavailable for general expenditures within one year:

Contributions with donor restrictions	<u>(1,041,581)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 6,017,061</u></u>

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

JUNE 30, 2019

Note 4—Mortgages receivable

At June 30, 2019 mortgages receivable consisted of the following:

Various homebuyers	\$ 37,808,402
Less equity forgiveness, unamortized discounts on mortgages and second mortgages due to third parties	<u>(22,056,806)</u>
Mortgages receivable	15,751,596
Less current portion	<u>(1,500,000)</u>
Noncurrent portion of mortgages receivable	<u>\$ 14,251,596</u>

These mortgages are secured by deeds of trust on the houses. As of June 30, 2019, the total discount was \$9,125,679.

U.S. 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.

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 30 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, 2019, 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
\$ -	\$ 11,428	\$ 11,023	\$ 100,123	\$ 122,574	\$ 15,629,022	\$ 15,751,596

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, 2019, 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 and Amerinational Community Services services all of these mortgages.

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

JUNE 30, 2019

Note 4—Mortgages receivable (continued)

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

	<u>Gross Loan</u>	<u>City of Raleigh</u>	<u>North Carolina Housing Finance Agency</u>	<u>Equity Forgiveness</u>	<u>Loan Balance</u>	<u>Discount</u>	<u>Net Principal</u>
Beginning balance, June 30, 2018	\$ 33,934,719	\$ (1,590,785)	\$ (5,655,593)	\$ (4,682,821)	\$ 22,005,520	\$ (8,175,608)	\$ 13,829,912
New loans	7,683,600	-	(470,000)	(1,429,200)	5,784,400	(1,441,631)	4,342,769
Sales	(1,515,176)	44,500	84,933	46,203	(1,339,540)	358,138	(981,402)
Payments received	(2,294,741)	145,396	255,057	321,183	(1,573,105)	133,422	(1,439,683)
Ending balance, June 30, 2019	<u>\$ 37,808,402</u>	<u>\$ (1,400,889)</u>	<u>\$ (5,785,603)</u>	<u>\$ (5,744,635)</u>	<u>\$ 24,877,275</u>	<u>\$ (9,125,679)</u>	<u>\$ 15,751,596</u>

Note 5—Fair value of financial instruments, carried at fair value

U.S. 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.

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.

Financial instruments carried at fair value by level as of June 30, 2019, 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	\$ -	\$ -	\$ 423,766	\$ 423,766

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

JUNE 30, 2019

Note 5—Fair value of financial instruments, carried at fair value (continued)

Changes in Level 3 inputs are as follows:

	Interest in Charitable Remainder Trust
Beginning balance	\$ 427,203
Current year loss	(3,437)
Ending balance	<u>\$ 423,766</u>

Note 6—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, 2019 are as follows:

Receivable in less than one year	\$ 563,482
Receivable in one to five years	-
Total unconditional promises to give	<u>\$ 563,482</u>

Note 7—Land and construction in progress

At June 30, 2019, the Organization had construction in progress and property available for resale totaling \$10,974,883.

	Land	Land Gift-in-kind	Land Development	Construction in Progress	Finished Houses	Total
Beginning Balance	\$ 3,509,406	\$ 997,423	\$ 1,306,769	\$ 3,139,243	\$ 1,181,305	\$ 10,134,146
Additions	1,033,110	-	1,585,058	5,571,070	994,427	9,183,665
Transfers	(843,386)	(92,900)	(1,449,616)	(4,684,585)	(1,272,441)	(8,342,928)
Ending Balance	<u>\$ 3,699,130</u>	<u>\$ 904,523</u>	<u>\$ 1,442,211</u>	<u>\$ 4,025,728</u>	<u>\$ 903,291</u>	<u>\$ 10,974,883</u>

HABITAT FOR HUMANITY OF WAKE COUNTY, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

Note 8—Property and equipment

Net property and equipment consisted of the following at June 30, 2019:

Land	\$ 1,819,593
Building	2,803,224
Leasehold improvements	638,596
Computer and equipment	287,673
Furniture and fixtures	62,997
Vehicles	<u>132,136</u>
	5,744,219
Less accumulated depreciation	<u>(1,672,705)</u>
Net property and equipment	<u><u>\$ 4,071,514</u></u>

Note 9—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 a net asset with donor restriction 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 \$399,425 at June 30, 2019. 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 a net asset with donor restriction 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 \$24,341 at June 30, 2019. The fair market value approximates the present value of the future cash flows anticipated from the trust.

Note 10—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. 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, 2019, the investment in CCML Leverage II, LLC balance was \$1,580,130.

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

JUNE 30, 2019

Note 10—Investments in CCML Leverage II, LLC and Harbor Habitat Leverage II, LLC (continued)

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, 2019, the investment in Harbor Habitat Leverage II, LLC balance was \$1,189,937.

Note 11—Escrow funds payable

At June 30, 2019, a total of \$119,874 had been collected from homebuyers by the Organization for payment of property and insurance. This amount was held in escrow by the Organization.

Note 12—Long-term debt

The Organization’s obligations under notes payable at June 30, 2019, 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 (1.90% as of June 30, 2019) and principal and interest payments payable over 161 months. The loan will mature on November 1, 2032, when any unpaid principal balance and accrued interest will become due.	\$ 3,149,112
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.	1,701,035
Pacific Western Bank note for borrowing up to \$1,244,135, interest free, due in monthly installments of \$3,466 payable through July 2047.	877,064
BB&T note payable with interest at the 30-day LIBOR rate (2.40% as of June 30, 2019) plus 2%. The loan will mature on March 24, 2021, when any unpaid principal balance and accrued interest will become due.	743,678
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.	102,889
Habitat for Humanity International note payable, interest free, due in 48 monthly installments of \$781, payable through July 2021.	23,442
Habitat for Humanity International note payable, interest free, due in 48 monthly installments of \$937, payable through December 2020.	16,890

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

JUNE 30, 2019

Note 12—Long-term debt (continued)

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.	8,460
Habitat for Humanity International note payable, interest free, due in 48 monthly installments of \$234, payable through December 2020.	4,230
Habitat for Humanity International note payable, interest free, due in 48 monthly installments of \$80, payable through July 2021.	1,955
Home Trust Bank note payable, secured by 8 mortgages, with interest at 2%. The loan will mature January 2049, when any unpaid principal balance and accrued interest will become due.	992,731
North State Bank note payable, secured by 10 mortgages, with interest at 2%. The loan will mature April 2048, when any unpaid principal balance and accrued interest will become due.	969,629
Towne Bank note payable, secured by 8 mortgages, with interest at 3.49%. The loan will mature May 2049, when any unpaid principal balance and accrued interest will become due.	<u>1,892,527</u>
	10,499,892
Less debt issuance costs	<u>(211,663)</u>
	10,288,229
Less current portion of long-term debt	<u>(616,939)</u>
	<u>\$ 9,671,290</u>

Scheduled maturities of long-term debt are as follows:

2020	\$ 616,939
2021	1,148,557
2022	441,815
2023	452,597
2024	457,039
Thereafter	<u>7,382,945</u>
	<u>\$ 10,499,892</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.

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

JUNE 30, 2019

Note 12—Long-term debt (continued)

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 13—Net assets with donor restrictions

At June 30, 2019, net assets with donor restrictions of \$1,041,581 represent unexpended amounts of cash and pledge receivables from house sponsors and grantors, the value of donated land, and contributions receivable from charitable remainder trusts in which the Organization is the single beneficiary.

The components of net assets with donor restrictions are as follows:

General pledges	\$ 222,046
Endowment	3,250
Designated pledges	57,158
Sponsorships	335,361
Contribution receivables from charitable remainder trusts	423,766
	<u>\$ 1,041,581</u>

Net assets with donor restrictions 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 2019, the Organization fulfilled such stipulations which resulted in \$3,576,071 of net assets with donor restrictions being reclassified as net assets without donor restrictions.

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, 2019, was \$1,039,884. Future minimum lease payments under operating leases that have remaining terms in excess of one year as of June 30, 2019 are as follows:

<u>Years Ending June 30,</u>	
2020	\$ 1,124,146
2021	1,178,707
2022	964,016
2023	690,672
2023	433,062
Thereafter	864,890
	<u>\$ 5,255,493</u>

HABITAT FOR HUMANITY OF WAKE COUNTY, INC.
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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 154 families globally. For the year ended June 30, 2019, contributions to Habitat for Humanity International were \$700,954.

Note 17—Subsequent events

The Organization has evaluated subsequent events through January 14, 2020, in connection with the preparation of these financial statements which is the date the financial statements were available to be issued.

In November 2019, the Organization purchased the Durham ReStore building and related land at 5501 Durham-Chapel Hill Boulevard. The purchase was funded through a loan with TowneBank for the purchase contract price of \$2,800,000. The loan is to be paid in 119 monthly payments of \$16,291.17, at 3.49% interest, with any remaining principal and interest due upon maturity in November 2029.