

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

**FINANCIAL STATEMENTS**

*As of and for the Year Ended June 30, 2016*

*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, 2016, 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, 2016, 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.

**Emphasis of Matter**

As discussed in Note 18 to the financial statements, the Organization adopted a new policy for the accounting treatment and reporting of discount rates effective July 1, 2015. Our opinion is not modified with respect to this matter.

*Channing Roubert LLP*

Raleigh, North Carolina  
October 5, 2016

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

*JUNE 30, 2016*

**ASSETS**

Current Assets:

Cash and cash equivalents	\$ 2,618,153
Accounts receivable	1,277,200
Current portion of long-term receivable	1,400,000
Prepaid expenses	123,282
Materials inventory	723,031
Land and construction in progress	8,291,422
<b>Total Current Assets</b>	<b>14,433,088</b>

Noncurrent Assets:

Fixed assets - net	4,028,480
Investment in joint venture	1,505,692
Other assets	783,095
Long-term receivables, net of current portion (less equity forgiveness and unamortized discount \$16,863,536 at June 30, 2016)	12,388,276
<b>Total Noncurrent Assets</b>	<b>18,705,543</b>

**Total Assets** **\$ 33,138,631**

**LIABILITIES AND NET ASSETS**

Current Liabilities:

Accounts payable	\$ 629,009
Accrued expenses	216,188
Line of credit	795,865
Current portion of long-term debt	494,525
<b>Total Current Liabilities</b>	<b>2,135,587</b>

Noncurrent Liabilities:

Fair value of interest rate swap	19,451
Deferred revenue	154,994
Due to joint venture	1,880,000
Long-term debt, net of current portion	6,658,079
<b>Total Noncurrent Liabilities</b>	<b>8,712,524</b>

**Total Liabilities** **10,848,111**

Net Assets:

Unrestricted	20,771,647
Temporarily restricted	1,133,763
Permanently restricted	385,110
<b>Total Net Assets</b>	<b>22,290,520</b>

**Total Liabilities and Net Assets** **\$ 33,138,631**

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

YEAR ENDED JUNE 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue:				
Public Support:				
Contributions	\$ 653,585	\$ 303,209	\$ -	\$ 956,794
In-kind unrestricted	132,586	-	-	132,586
In-kind ReStore	3,910,535	-	-	3,910,535
House sponsorships	-	1,705,354	-	1,705,354
In-kind house sponsorship	-	398,566	-	398,566
In-kind land initiative	-	309,498	-	309,498
Federal, state, and local grants	-	574,250	-	574,250
Total Public Support	<u>4,696,706</u>	<u>3,290,877</u>	<u>-</u>	<u>7,987,583</u>
Revenue:				
ReStore revenue	4,264,793	-	-	4,264,793
House sales	3,881,842	-	-	3,881,842
Deconstruction fees	6,350	-	-	6,350
Investment income	39,257	-	(53,751)	(14,494)
Mortgage discount amortization	414,799	-	-	414,799
Loss on disposal of property	-	-	-	-
Other income	83,688	-	-	83,688
Net assets released from restrictions	2,911,428	(2,911,428)	-	-
Total Revenue	<u>11,602,157</u>	<u>(2,911,428)</u>	<u>(53,751)</u>	<u>8,636,978</u>
Total Support and Revenue	<u>16,298,863</u>	<u>379,449</u>	<u>(53,751)</u>	<u>16,624,561</u>
Expenses:				
Program Services:				
Construction	4,742,316	-	-	4,742,316
Family services financing	2,011,366	-	-	2,011,366
Volunteer services	179,401	-	-	179,401
ReStore and deconstruction	6,746,236	-	-	6,746,236
Supporting Services:				
Management and general	584,622	-	-	584,622
Fund-raising	653,632	-	-	653,632
Total Expenses	<u>14,917,573</u>	<u>-</u>	<u>-</u>	<u>14,917,573</u>
Change in net assets from operations	1,381,290	379,449	(53,751)	1,706,988
Other Changes:				
Gain on interest rate swap agreement	13,604	-	-	13,604
Net increase in net assets	1,394,894	379,449	(53,751)	1,720,592
Net Assets:				
Beginning of year	19,376,753	754,314	438,861	20,569,928
End of year	<u>\$ 20,771,647</u>	<u>\$ 1,133,763</u>	<u>\$ 385,110</u>	<u>\$ 22,290,520</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, 2016

	Program Services					Supporting Services		2016 Total
	Construction	Family Services Financing	Volunteer Services	ReStore and Deconstruction	Total	Management and General	Fundraising	
Salaries	\$ 637,769	\$ 295,878	\$ 92,411	\$ 1,171,064	\$ 2,197,122	\$ 260,195	\$ 391,363	\$ 2,848,680
Payroll taxes and benefits	144,037	66,823	20,871	264,480	496,211	58,764	88,388	643,363
Publicity and marketing	3,900	3,367	2,576	164,847	174,690	32,285	35,399	242,374
Postage and direct mail cost	125	3,228	75	465	3,893	616	3,820	8,329
Telephone	10,704	2,046	2,540	28,195	43,485	1,445	2,375	47,305
Cost of sales	3,138,119	-	-	-	3,138,119	-	-	3,138,119
Americorp	101,611	-	-	15,453	117,064	-	-	117,064
Warranty and lot maintenance	12,019	-	-	-	12,019	-	-	12,019
Rental and maintenance	39,625	6,315	4,210	409,118	459,268	6,315	9,472	475,055
Utilities	5,576	5,701	3,800	71,259	86,336	5,701	8,551	100,588
Professional services	14,528	12,219	9,911	24,916	61,574	11,758	11,758	85,090
Insurance	52,635	5,207	5,207	33,769	96,818	5,207	5,207	107,232
Taxes and licenses	17,175	-	-	-	17,175	202	-	17,377
Travel	2,699	2,600	10,413	4,949	20,661	10,256	7,410	38,327
Tools and supplies	18,668	-	-	60,628	79,296	-	-	79,296
Office and stationary expenses	3,118	1,841	354	6,349	11,662	620	1,997	14,279
Computer tech support and training	11,881	17,901	7,348	13,019	50,149	2,264	2,264	54,677
Contract labor	6,997	19,560	-	43,341	69,898	89,396	-	159,294
Vehicle expense	25,189	1,598	716	111,134	138,637	1,431	1,735	141,803
Miscellaneous	1,034	20,852	-	10,202	32,088	10,727	1,287	44,102
Dues	955	1,250	118	10,720	13,043	29,069	137	42,249
Family services applications	-	40,669	-	-	40,669	-	-	40,669
Board and staff development	-	-	-	-	-	9,897	-	9,897
Depreciation	18,859	7,799	5,199	97,489	129,346	7,799	11,699	148,844
Discounts on mortgages issued	-	1,410,753	-	-	1,410,753	-	-	1,410,753
Meetings and conferences	2,853	4,172	7,968	3,383	18,376	2,777	29,773	50,926
Interest expense	85,197	6,376	4,251	79,698	175,522	33,661	9,564	218,747
In-kind expense	44,015	72,700	-	3,779,436	3,896,151	191	15,680	3,912,022
Contributions	343,028	-	-	-	343,028	50	-	343,078
Promotional items	-	2,511	1,433	-	3,944	3,996	15,753	23,693
Cost of inventory	-	-	-	342,322	342,322	-	-	342,322
	<u>\$ 4,742,316</u>	<u>\$ 2,011,366</u>	<u>\$ 179,401</u>	<u>\$ 6,746,236</u>	<u>\$ 13,679,319</u>	<u>\$ 584,622</u>	<u>\$ 653,632</u>	<u>\$ 14,917,573</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, 2016

<b>Cash from operating activities:</b>	
Increase in net assets	\$ 1,720,592
Adjustments to reconcile increase in net assets to net cash used in operating activities:	
Transfer to homeowners	(2,235,636)
Second mortgages transferred to homeowners	(680,000)
Loss on interest in charitable remainder unitrust	53,751
Depreciation	148,844
Discounts on mortgages issued	414,799
Donated inventory adjustment	(159,619)
Gain on fair value of interest rate swaps	(13,604)
Changes in operating assets and liabilities:	
(Increase) decrease in operating assets:	
Accounts receivable	274,101
Grants and pledges receivable	(48,059)
Prepaid expenses	(33,404)
Land and construction in progress	(1,652,060)
Other assets	(49,595)
Increase (decrease) in operating liabilities:	
Accounts payable	58,924
Accrued expenses	(54,454)
Deferred revenue	(33,863)
Net cash from operating activities	<u>(2,289,283)</u>
<b>Cash from investing activities:</b>	
Payments received on mortgage loans	1,767,881
Acquisition of fixed assets	(71,917)
Net cash from investing activities	<u>1,695,964</u>
<b>Cash from financing activities:</b>	
Proceeds from line of credit	595,865
Payment on line of credit	(1,000,000)
Proceeds from long-term debt	3,479,153
Payment on long-term debt	(723,831)
Net cash from financing activities	<u>2,351,187</u>
Net change in cash and cash equivalents	1,757,868
Cash and cash equivalents, beginning	<u>860,285</u>
Cash and cash equivalents, ending	<u><u>\$ 2,618,153</u></u>
<b>Supplemental disclosure:</b>	
Interest paid - expenses	<u>\$ 218,747</u>
Issuance of non-interest bearing mortgage loans	<u><u>\$ 3,825,408</u></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, 2016

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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 affordable mortgage financing for low income residents.

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

*ReStore/Deconstruction Services* – 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. The ReStore program offers deconstruction services to the general public for a fee with any construction materials salvaged from the deconstruction project being sold at the ReStore.

### Note 2—Summary of significant accounting policies

*Basis of Presentation* – As required by generally accepted accounting principles ("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.

*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.

# HABITAT FOR HUMANITY OF WAKE COUNTY, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016

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

*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 (2.0% at June 30, 2016). On an annual basis, the Organization revalues the liability for future payments to beneficiaries based on actuarial assumptions.

*Investment in Joint Venture* – 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 \$1,505,692 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 .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 .7608%.

*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.

# HABITAT FOR HUMANITY OF WAKE COUNTY, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016

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

*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 change 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 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.

*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.

# HABITAT FOR HUMANITY OF WAKE COUNTY, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016

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

*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, 2016. 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, 2016.

*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. Eligibility is limited to these employees who are age 21 and older and who have completed one year of service (1,000 hours).

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 3% of compensation. In addition, the Board has discretion to make a profit-sharing contribution, which is allocated based on each employee's compensation as compared to total compensation. For the year ended June 30, 2016, the Organization contributed \$34,516 to the plan.

### Note 3—Mortgages receivable

At June 30, 2016, mortgages receivable consisted of the following:

Various homebuyers	\$ 30,664,359
Less equity forgiveness, unamortized discounts on mortgages, and second mortgages due to third parties	<u>(16,876,083)</u>
Mortgages receivable	13,788,276
Less current portion	<u>(1,400,000)</u>
Noncurrent portion of mortgages receivable	<u><u>\$ 12,388,276</u></u>

These mortgages do not earn interest and are secured by deeds of trust on the houses.

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, 2016

**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 discounts the mortgage receivable. Under both methods, homebuyers earn the equity over the life of their mortgages, typically twenty years or as the mortgages are repaid. 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, 2016, the delinquencies in our mortgage receivables 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
Mortgage Receivable	\$ 3,662	\$ 7,780	\$ 705	\$ 121,807	\$ 133,954	\$ 13,520,368	\$ 13,788,276

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, 2016, 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) services all of these mortgages.

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

	Gross Loan	COR	NCHFA	Equity Forgiveness	Loan Balance	Unamortized Discount	Net Principal
Beginning balance, June 30, 2015	\$ 29,038,958	\$ (2,099,132)	\$ (4,214,363)	\$ (3,951,257)	\$ 18,774,206	\$ (5,718,886)	\$ 13,055,320
New loans	3,825,408	(20,000)	(660,000)	(21,352)	3,124,056	(1,410,753)	1,713,303
Sales	(48,408)	4,902	-	14,308	(29,198)		(29,198)
Payments received	(2,151,599)	163,403	239,837	382,411	(1,365,948)	414,799	(951,149)
Ending balance, June 30, 2016	\$ 30,664,359	\$ (1,950,827)	\$ (4,634,526)	\$ (3,575,890)	\$ 20,503,116	\$ (6,714,840)	\$ 13,788,276

**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, 2016

**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* – The Level 1 investments are valued at the closing price reported on the active market on which the individual securities are traded. The 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, 2016, is as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Interest in charitable remainder trusts	\$ 343,082	\$ -	\$ 42,028	\$ 385,110
Interest rate swap	-	-	(19,451)	(19,451)
	<u>\$ 343,082</u>	<u>\$ -</u>	<u>\$ 22,577</u>	<u>\$ 365,659</u>

Changes in Level 3 inputs are as follows:

	<u>Interest in Charitable Remainder Trust</u>	<u>Interest Rate Swap</u>
Beginning balance	\$ 49,360	\$ (33,055)
Current year income	14,658	13,604
Transfers out of Level 3	(21,990)	-
Ending balance	<u>\$ 42,028</u>	<u>\$ (19,451)</u>

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

JUNE 30, 2016

**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, 2016, are as follows:

Receivable in less than one year	\$ 688,005
Receivable in one to five years	79,248
Total unconditional promises to give	<u>\$ 767,253</u>

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

At June 30, 2016, the Organization had construction in progress and property available for resale totaling \$8,291,422.

	<u>Land</u>	<u>Land GIK</u>	<u>Land Development</u>	<u>CIP</u>	<u>Finished Houses</u>	<u>Total</u>
Beginning Balance	\$ 4,393,406	\$ 656,623	\$ 742,963	\$ 654,485	\$ 191,885	\$ 6,639,362
Additions	262,700	291,900	674,387	4,144,359	87,696	5,461,042
Transfers	8,100	(8,100)	-	(356,760)	356,760	-
Deletions	(748,228)	-	(202,018)	(2,665,400)	(193,336)	(3,808,982)
Ending Balance	<u>\$ 3,915,978</u>	<u>\$ 940,423</u>	<u>\$ 1,215,332</u>	<u>\$ 1,776,684</u>	<u>\$ 443,005</u>	<u>\$ 8,291,422</u>

**Note 7—Fixed assets**

Net fixed assets consisted of the following at June 30, 2016:

Land	\$ 1,819,593
Building	2,803,224
Leasehold improvements	197,095
Computer and equipment	200,331
Furniture and fixtures	62,997
Vehicles	152,784
	<u>5,236,024</u>
Less accumulated depreciation	<u>(1,207,544)</u>
Net fixed assets	<u>\$ 4,028,480</u>

# HABITAT FOR HUMANITY OF WAKE COUNTY, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016

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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 \$371,935 at June 30, 2016. 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 \$13,175 at June 30, 2016. The fair market value approximates the present value of the future cash flows anticipated from the trust.

### **Note 9—Investment in CCML Leverage II, LLC**

In August 2012, the Organization participated in a NMTC program. The program provides 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 for \$1,000 plus certain other costs as defined by the put option agreement. Exercise of the option will effectively allow the Organization to extinguish its outstanding debt owed to the Fund. As of June 30, 2016 the investment in CCML Leverage II, LLC balance was \$1,505,692.

### **Note 10—Escrow funds payable**

At June 30, 2016, a total of \$55,613 had been collected from homebuyers by the Organization for payment of property and insurance. This amount was held in escrow by the Organization.

### **Note 11—Line of credit**

The Organization had available up to \$1,000,000 on a revolving line of credit with a financial institution through July 2016, which the maturity date was modified subsequent to year end to March 24, 2017. All other terms and conditions remain the same. The interest rate on the borrowings is one month LIBOR plus 2.0%. At June 30, 2016, the line of credit outstanding balance was \$795,865.



# HABITAT FOR HUMANITY OF WAKE COUNTY, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016

### Note 12—Long-term debt

The Organization's obligations under notes payable at June 30, 2016, consist of the following:

Habitat for Humanity International note payable, interest free, due in 48 monthly installments of \$781 beginning July 2017.	\$ 37,500
Habitat for Humanity International note payable, interest free, due in 48 monthly installments of \$80 beginning July 2017.	3,875
Habitat for Humanity International note payable, interest free, due in 48 monthly installments of \$234 beginning January 2017.	11,250
Habitat for Humanity International note payable, interest free, due in 48 monthly installments of \$937 beginning January 2017.	45,000
Habitat for Humanity International note payable, interest free, due in 46 monthly installments of \$742 beginning July 2017.	22,269
Habitat for Humanity International note payable, interest free, due in 46 monthly installments of \$468 beginning July 2016.	22,500
BB&T note payable, secured by land at Abbington Ridge Subdivision, with interest at the Bank's Prime Rate (3.5% as of June 30, 2016). The loan will mature on November 10, 2019, when any unpaid principal balance and accrued interest will become due.	63,016
BB&T note payable, secured by land at Dowling Ridge Subdivision, with interest at the 30-day LIBOR rate (0.45% as of June 30, 2016) plus 2.75%. The loan will mature on December 1, 2016, when any unpaid principal balance and accrued interest will become due.	112,144
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.	271,924
BB&T note payable with interest at the 30-day LIBOR rate (0.145% as of June 30, 2016) plus 2%. The loan will mature on March 24, 2021, when any unpaid principal balance and accrued interest will become due.	1,000,000
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 BMA rate (0.41% as of June 30, 2016) 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.	3,585,019
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.	<u>1,978,107</u>
Total long-term debt	7,152,604
Less current portion of long-term debt	<u>(494,525)</u>
Long-term debt	<u><u>\$ 6,658,079</u></u>

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

JUNE 30, 2016

**Note 12—Long-term debt (continued)**

Scheduled maturities of long-term debt are as follows:

2017	\$ 494,525
2018	408,204
2019	506,782
2020	506,565
2021	935,187
Thereafter	<u>4,301,341</u>
	<u>\$ 7,152,604</u>

Due to joint venture is a promissory note to CCM Community Development XXVII, LLC in the amount of \$1,880,000. The note requires interest-only payments until July 2019 at 0.07608%. 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 July 2019.

**Note 13—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%, at June 30, 2016. 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 0.06% at June 30, 2013. The original notional amount of the swap agreements was \$1,025,000. The swap agreement will expire on December 1, 2017.

**Note 14—Restrictions on net assets**

At June 30, 2016, temporarily restricted net assets of \$1,133,763 represent unexpended amounts of cash and pledge receivables from house sponsors and grantors as well as the value of donated land.

The breakdown of temporarily restricted net assets is as follows:

General pledges	\$ 280,976
Endowment	3,250
Designated pledges	487,609
Sponsorships	<u>361,928</u>
	<u>\$ 1,133,763</u>

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 2016, the Organization fulfilled such stipulations which resulted in \$2,911,428 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 \$385,110 at June 30, 2016.

# HABITAT FOR HUMANITY OF WAKE COUNTY, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016

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### Note 15—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 16—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, 2016, was \$301,590. Future minimum lease payments under operating leases that have remaining terms in excess of one year as of June 30, 2016, are as follows:

#### Years Ending June 30,

2017	\$	523,151
2018		555,026
2019		555,173
2020		434,716
2021		329,380
Thereafter		123,468
		<u>\$ 2,520,914</u>

### Note 17—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 75 families globally. For the year ended June 30, 2016, contributions to Habitat for Humanity International were \$337,500.

### Note 18—Change in Accounting Principle

The Organization adopted a new policy for the accounting treatment and reporting of discount rates effective July 1, 2015. Previously the Organization recorded the discount rate based off of the rate from Habitat International and currently has recorded a discount rate based off LIBOR plus 2% risk rate. As a result of the change in discount rate, beginning net asset balance for the Organization increased by \$4,145,234.

### Note 19—Mortgage Financing Agreement

The Organization entered into an agreement in which a third party financial institution will provide the funding of \$3,000,000 of future mortgages. Under this agreement, if a mortgage becomes non-performing, the Organization has the option of purchasing the mortgage from the lender and continuing collection efforts with the homeowner.

### Note 20—Subsequent events

The Organization has evaluated subsequent events through October 5, 2016, in connection with the preparation of these financial statements which is the date the financial statements were available to be issued.