

**HABITAT FOR HUMANITY,
ORANGE COUNTY, N.C., INC.**

FINANCIAL STATEMENTS

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

And Report of Independent Auditor

HABITAT FOR HUMANITY, ORANGE COUNTY, N.C., INC.

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Report of Independent Auditor

Board of Directors
Habitat for Humanity, Orange County, N.C., Inc.
Chapel Hill, North Carolina

We have audited the accompanying financial statements of Habitat for Humanity, Orange County, N.C., Inc. (a nonprofit organization) (the "Organization"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We previously audited the Organization's 2017 financial statements and our report dated September 21, 2017 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Raleigh, North Carolina
September 5, 2018

HABITAT FOR HUMANITY, ORANGE COUNTY, N.C., INC.
STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

(WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)

	<u>2018</u>	<u>2017</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 2,009,897	\$ 1,101,767
Cash - escrow	34,469	23,045
Certificates of deposit	75,835	878,447
Accounts receivable, net	348,694	112,222
Unconditional promises to give	37,861	56,035
Current portion of non-interest bearing mortgages receivable	264,497	250,354
Houses under construction	665,712	873,892
Homes held for sale	140,000	-
Other current assets	-	43,475
Total Current Assets	<u>3,576,965</u>	<u>3,339,237</u>
Property and Equipment:		
Vehicles	92,749	76,749
Office furniture and equipment	52,558	42,027
Software	11,020	11,020
Construction equipment	37,166	33,576
Rental house	15,000	15,000
Land	283,943	283,943
	<u>492,436</u>	<u>462,315</u>
Less accumulated depreciation	<u>(159,921)</u>	<u>(146,666)</u>
Net Property and Equipment	<u>332,515</u>	<u>315,649</u>
Other Assets:		
Land held for homesites	2,260,533	2,263,240
Investment in joint venture	1,459,602	1,459,602
Deposits	3,887	3,887
Non-interest bearing long-term mortgages receivable	4,481,717	4,237,265
Total Other Assets	<u>8,205,739</u>	<u>7,963,994</u>
Total Assets	<u><u>\$ 12,115,219</u></u>	<u><u>\$ 11,618,880</u></u>

HABITAT FOR HUMANITY, ORANGE COUNTY, N.C., INC.
STATEMENT OF FINANCIAL POSITION (CONTINUED)

JUNE 30, 2018

(WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)

	<u>2018</u>	<u>2017</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Current portion of non-interest bearing long-term debt	\$ 155,612	\$ 50,393
Affordable housing loan	-	55,000
Accounts payable	170,061	78,607
Escrow accounts payable	37,000	23,606
Deferred revenue	83,499	98,803
Accrued vacation	38,435	35,988
Accrued payroll	43,270	36,919
Total Current Liabilities	<u>527,877</u>	<u>379,316</u>
Long-Term Debt:		
Due to joint venture	2,133,922	2,133,922
Non-interest bearing notes	1,284,001	890,223
Total Long-Term Debt	<u>3,417,923</u>	<u>3,024,145</u>
Total Liabilities	<u>3,945,800</u>	<u>3,403,461</u>
Net Assets:		
Unrestricted	8,114,497	8,082,234
Temporarily restricted	54,922	133,185
Total Net Assets	<u>8,169,419</u>	<u>8,215,419</u>
Total Liabilities and Net Assets	<u>\$ 12,115,219</u>	<u>\$ 11,618,880</u>

HABITAT FOR HUMANITY, ORANGE COUNTY, N.C., INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

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

	2018			2017
	Unrestricted	Temporarily Restricted	Total	
Public Support and Revenue:				
Public Support:				
Contributions	\$ 596,702	\$ 602,714	\$ 1,199,416	\$ 1,279,484
Government grants	76,067	-	76,067	61,500
Donated property, materials, services	101,541	-	101,541	473,791
Total Public Support	<u>774,310</u>	<u>602,714</u>	<u>1,377,024</u>	<u>1,814,775</u>
Revenue:				
Home sales	2,012,250	-	2,012,250	930,096
Impact fee reimbursements	-	-	-	33,738
Expense reimbursement	12,924	-	12,924	5,194
Interest and dividend income	17,080	-	17,080	10,042
Rental income	33,063	-	33,063	15,479
Interest income on current year non-interest and below market interest bearing notes payable	376,571	-	376,571	119,367
Interest income on non-interest bearing mortgages receivable	356,025	-	356,025	350,712
Other income	243,059	-	243,059	281,132
Total Revenue	<u>3,050,972</u>	<u>-</u>	<u>3,050,972</u>	<u>1,745,760</u>
Net assets released from restrictions	<u>680,977</u>	<u>(680,977)</u>	<u>-</u>	<u>-</u>
Total Public Support and Revenue	<u>4,506,259</u>	<u>(78,263)</u>	<u>4,427,996</u>	<u>3,560,535</u>
Expenses:				
Program services - home construction	2,994,334	-	2,994,334	2,054,719
Program services - interest expense on current year non-interest bearing mortgages receivable	731,076	-	731,076	319,132
Program services - interest expense on non-interest and below market interest bearing notes payable	75,146	-	75,146	93,158
Total Program Services	<u>3,800,556</u>	<u>-</u>	<u>3,800,556</u>	<u>2,467,009</u>
Management and general	243,343	-	243,343	283,916
Fundraising	430,097	-	430,097	360,275
Total Expenses	<u>4,473,996</u>	<u>-</u>	<u>4,473,996</u>	<u>3,111,200</u>
Change in net assets	32,263	(78,263)	(46,000)	449,335
Net assets, beginning of year	<u>8,082,234</u>	<u>133,185</u>	<u>8,215,419</u>	<u>7,766,084</u>
Net assets, end of year	<u>\$ 8,114,497</u>	<u>\$ 54,922</u>	<u>\$ 8,169,419</u>	<u>\$ 8,215,419</u>

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

HABITAT FOR HUMANITY, ORANGE COUNTY, N.C., INC.
STATEMENT OF FUNCTIONAL EXPENSES

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

	Program Services	Management and General	Fundraising	2018 Total	2017 Total
Salaries and wages	\$ 589,046	\$ 141,684	\$ 252,673	\$ 983,403	\$ 880,518
Payroll taxes and employee benefits	115,900	24,896	50,935	191,731	190,973
Pension contributions	21,326	5,130	9,148	35,604	42,887
Cost of construction	1,924,644	-	-	1,924,644	1,044,171
Advertising	2,424	606	1,010	4,040	3,192
Temporary employees and interns	136	-	-	136	11,534
Interest expense on non-interest and below market bearing notes payable	75,146	-	-	75,146	93,158
Bank charges	-	2,090	-	2,090	890
Board and staff development	7,158	1,425	3,192	11,775	12,694
Computer expenses	12,338	2,457	11,601	26,396	29,029
Conferences and meetings	511	1,535	760	2,806	5,821
Depreciation	13,102	47	105	13,254	15,359
Interest expense on current year non-interest bearing mortgages receivable	731,076	-	-	731,076	319,132
Dues and subscriptions	9,710	150	535	10,395	14,734
Employee mileage reimbursement	3,267	171	3,252	6,690	6,078
Event costs	-	-	34,984	34,984	26,453
Family selection and support	22,919	-	-	22,919	20,590
Insurance	27,252	14,866	-	42,118	46,815
Legal and accounting	37,989	-	-	37,989	44,115
Licenses and fees	125	8,786	-	8,911	125
Meals and hospitality	233	500	1,644	2,377	2,989
Miscellaneous	718	-	-	718	1,597
Occupancy	34,034	8,061	17,822	59,917	55,130
Office supplies	7,626	2,323	5,202	15,151	9,315
Postage	1,892	1,892	2,192	5,976	6,371
Printing	1,988	1,988	1,987	5,963	4,582
Professional services	-	21,850	-	21,850	20,350
Recruitment - staff/personnel	-	803	-	803	19,505
Rental property expenses	9,621	-	-	9,621	7,910
Staff appreciation	1,928	384	860	3,172	4,266
Taxes - property	9,824	-	-	9,824	5,304
Telephone	9,770	1,437	4,342	15,549	18,706
Tithe to Habitat International	50,000	-	-	50,000	50,000
Travel	9,497	262	108	9,867	13,129
Vehicle expense	26,075	-	-	26,075	25,409
Volunteer appreciation	8,446	-	-	8,446	8,914
Other fundraising	-	-	27,745	27,745	15,255
New Market Tax Credit expenses	34,835	-	-	34,835	34,200
	<u>\$ 3,800,556</u>	<u>\$ 243,343</u>	<u>\$ 430,097</u>	<u>\$ 4,473,996</u>	<u>\$ 3,111,200</u>

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

HABITAT FOR HUMANITY, ORANGE COUNTY, N.C., INC.
STATEMENT OF CASH FLOWS

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

	<u>2018</u>	<u>2017</u>
Cash from operating activities:		
Change in net assets	\$ (46,000)	\$ 449,335
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	13,254	15,359
Donated materials	(101,541)	(473,791)
Interest expense on current year non-interest and below market interest bearing notes payable	(376,571)	(119,367)
Interest income on mortgages receivable discount	(356,025)	(350,712)
Interest income on current year non-interest bearing mortgage receivable	731,076	319,132
Interest expense on notes payable discount	75,146	93,158
Transfers of non-interest bearing debt to homeowners	(152,711)	(125,436)
Portion of Business interest expense	20,259	20,262
Changes in operating assets and liabilities that provided (used) cash:		
Cash - escrow	(11,424)	(3,889)
Land held for homesites	2,707	(425,901)
Mortgages receivable	(633,646)	(42,602)
Accounts receivable	(236,472)	(38,365)
Unconditional promises to give	18,174	(27,099)
Houses under construction	309,721	50,695
Homes held for sale	(140,000)	105,250
Other current assets	43,475	(17,008)
Accounts payable	91,454	27,945
Escrow accounts payable	13,394	4,536
Deferred revenue	(15,304)	(15,304)
Other financing costs and other	-	(2)
Accrued vacation	2,447	1,031
Accrued payroll	6,351	5,432
Net cash from operating activities	<u>(742,236)</u>	<u>(547,341)</u>
Cash flows from investing activities:		
Net change in certificates of deposit	802,612	(407,987)
Purchase of property and equipment	(30,120)	(16,718)
Net cash from investing activities	<u>772,492</u>	<u>(424,705)</u>
Cash from financing activities:		
Principal payments on notes payable	-	55,000
Proceeds received on new long-term notes payable	877,874	195,000
Net cash from financing activities	<u>877,874</u>	<u>250,000</u>
Net change in cash	908,130	(722,046)
Cash and cash equivalents, beginning of year	1,101,767	1,823,813
Cash and cash equivalents, end of year	<u>\$ 2,009,897</u>	<u>\$ 1,101,767</u>

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

HABITAT FOR HUMANITY, ORANGE COUNTY, N.C., INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 1—Organization and summary of significant accounting policies

Organization – Habitat for Humanity, Orange County, N.C., Inc. (the “Organization”) is a not-for-profit corporation organized primarily to bring together God’s people and resources to build quality affordable homes with people who need them. The Organization invites people from all walks of life to work together in partnership to build houses with families. The Organization offers homeownership to Orange County families who otherwise may not have the opportunity to own a home of their own.

Basis of Accounting – The financial statements of the Organization have been 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 accounting principles generally accepted in the United States of America (“GAAP”).

Financial Statement Presentation – As required by GAAP, the Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Cash and Cash Equivalents – Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and have an original maturity of 90 days or less. The Organization places its cash and cash equivalents on deposit with financial institutions in the United States. 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. As of June 30, 2018, the Organization had \$1,278,091 which exceeds these insured amounts.

Certificates of Deposit – Certificates of deposit totaled \$75,835 as of June 30, 2018. The certificates are held with various financial institutions. Interest rates as of June 30, 2018 ranged from 1.5% to 2.0%, with maturity dates on all certificates occurring in the next fiscal year. As of June 30, 2018, the Organization did not exceed the insured amount of \$250,000.

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. Management of the Organization determined \$6,587 of current year receivables will not be collected due to them being outstanding for over a year. Therefore, Management created an allowance for uncollectible accounts for \$6,587.

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. Management of the Organization believes that all pledge receivables will be collected. Therefore, no allowance for uncollectible accounts is considered necessary.

HABITAT FOR HUMANITY, ORANGE COUNTY, N.C., INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 1—Organization and summary of significant accounting policies (continued)

Mortgages Receivable – Mortgages receivable are carried at amortized cost (unpaid principal balance less unamortized discount). Mortgages receivable are secured by a deed of trust on the homeowner's property. Discounts are recognized as interest income over the term of the related mortgage.

The Organization reviews mortgages receivable for potential impairment at year-end. A mortgage receivable is considered impaired if it becomes probable the Organization will be unable to collect all amounts according to the loan's contractual terms and the amount of any impairment is measured by comparing the recorded amount of the loan to the expected recoveries. No impairment charges were recorded during the year ended June 30, 2018.

Deposits – Deposits are made up of security and land deposits-earnest money.

Houses Under Construction and Land Held for Homesites – The Organization records land, building materials, and labor at cost, at closing, or when payments are made during construction. Development costs are also added to land costs, as incurred.

Houses which are reclaimed are held for resale and recorded at fair value on the accompanying statement of financial position.

Property and Equipment – All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost, or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Software	3
Construction Equipment	5
Vehicles	5
Office Furniture and Equipment	5 - 7
Rental House	27.5

For the year ended June 30, 2018, depreciation expense totaled \$13,254.

Deferred Revenue – Deferred revenue consists of cash received from the New Markets Tax Credit ("NMTC") that will be recognized as revenue over the course of seven years as the related expenses are paid out, and grant monies from the Town of Chapel Hill for predevelopment costs for the Sunrise Road project received in advance of spending. Deferred revenue totaled \$83,499 as of June 30, 2018.

Investment in Joint Venture – The Organization invested, along with three other Habitat for Humanity affiliates, in a joint venture (HFHI NMTC Investment Fund 1, LLC) with 30.67% ownership to take advantage of 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, the Organization originally invested \$1,441,670 and was able to secure a 15-year loan in the amount of \$2,133,922 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.

HABITAT FOR HUMANITY, ORANGE COUNTY, N.C., INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 1—Organization and summary of significant accounting policies (continued)

Compensated Absences – The Organization is liable for accrued vacation pay up to the maximum approved by the executive director. Unused vacation pay will be reimbursed at the employee's current rate of pay upon the last day of their employment with the Organization. Accrued vacation as of June 30, 2018 totaled \$38,435.

Restricted and Unrestricted Public Support and Revenue – 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities and changes in net assets as net assets released from restrictions.

Income Tax Status – The Organization is exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code and the applicable state tax statutes. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(a) and has been qualified as an organization that is not a private foundation under Section 509(a)(2) of the Internal Revenue Code. Management has evaluated the effect of the guidance provided by GAAP on Accounting for Uncertainty in Income Taxes. Management believes that the Organization continues to satisfy the requirements of a tax-exempt organization at June 30, 2018.

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 in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

In-Kind Donated Materials, Services, and Facilities – Donated materials, specialized services, facilities, and land received by the Organization are reflected as both contribution revenue and contribution expense or fixed assets in the accompanying statements at their estimated fair value at the time of receipt. A substantial number of volunteers have made significant contributions of their time to the Organization principally in the areas of house construction, administration, and fundraising. The value of non-professional contributed time is not reflected in the accompanying financial statements.

Advertising – The Organization expenses advertising production costs as they are incurred, and advertising communication costs when the initial advertising takes place. Advertising expenses totaled \$4,040 for the year ended June 30, 2018.

Retirement Plan – The Organization offers a 401(k) retirement plan which includes a voluntary salary reduction component. The plan covers all employees and is funded by both the Organization and each participant. For the year ended June 30, 2018, the Organization's contribution amounted to \$35,604.

Use of Estimates and Assumptions – 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 accounts, mortgage discounts, depreciable lives of fixed assets, cost allocations among functional expenses, and value for in-kind donated materials and services.

HABITAT FOR HUMANITY, ORANGE COUNTY, N.C., INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 1—Organization and summary of significant accounting policies (continued)

Recently Issued Accounting Pronouncements

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

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

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

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

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

HABITAT FOR HUMANITY, ORANGE COUNTY, N.C., INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 2—Mortgages receivable

Future annual mortgage receipts for mortgages receivable are as follows for the years ending June 30:

2019	\$	264,497
2020		255,578
2021		255,578
2022		254,396
2023		253,108
Thereafter		3,463,057
	<u>\$</u>	<u>4,746,214</u>

For purposes of calculating loan present values, interest rates are determined based on the market rates for a similar type of loan on the date of closing and range from 6% to 10% for all loans outstanding. The Organization has not established an allowance for doubtful accounts as it can reclaim homes through foreclosure in the event that a loan is deemed to be uncollectible.

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

	1 - 30 Days Past Due	31 - 60 Days Past Due	61 - 90 Days Past Due	91 Days or More Past Due	Total Past Due	Current	Total Mortgages Receivable
Gross loans	<u>\$ 11,316</u>	<u>\$ 5,674</u>	<u>\$ 3,099</u>	<u>\$ 16,784</u>	<u>\$ 36,873</u>	<u>\$ 4,709,341</u>	<u>\$ 4,746,214</u>

There was no allowance in the current year due to the Organization expecting to collect all of the \$36,873 past due balance.

Note 3—Houses under construction

During the year ended June 30, 2018, the Organization had thirteen houses under construction which were still in progress at year-end. Houses under construction totaled \$665,712 as of June 30, 2018.

Note 4—Investment in HFHI NMTC Investment Fund 1, LLC

In April 2015, 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.

The Organization originally recorded its 30.67% investment in HFHI NMTC Investment Fund 1, LLC at the cost of \$1,441,670. In April 2022, under the terms of the put option agreement, the put option will be exercised. Exercise of the option will effectively allow the Organization to extinguish its outstanding debt owed to the Fund.

HABITAT FOR HUMANITY, ORANGE COUNTY, N.C., INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 5—Escrow accounts payable

Homeowners pay additional amounts monthly in escrow in order to pay for items such as property taxes and insurance. Effective September 1, 2015, the Organization transferred the responsibilities for servicing their mortgages to Habitat for Humanity - The Michigan Fund. As part of this transfer, the homeowner escrow funds were also transferred at that time. The Organization manages the banking responsibilities for five homeowner associations (HOA). These amounts are maintained in a separate bank account by the Organization. Escrow balances at June 30, 2018 totaled \$37,000.

Note 6—Long-term debt

Non-interest bearing long-term debt consists of the following at June 30, 2018:

Promissory note, deferred payment loan dated January 6, 2004, to Orange County for purchase of 17 acres on Sunrise Road property, payable in 40 years, with an interest rate of 0%, secured by deed of trust.	\$ 102,655
HOME Funds agreement with Orange County. For each closing, there will be a separate promissory note and deed of trust between the actual homebuyer and Orange County. These homes are expected to be sold within 12 months of closing.	30,000
Affordable housing development agreement with Orange County for assistance with the development of townhomes located in the Waterstone Residential Development. Houses included in current balance are expected to be completed, sold and closed on within the next two years.	216,234
Various promissory notes payable to North Carolina Housing Finance Agency for homeowner assistance in purchasing houses from the Organization. These loans range from \$15,000 to \$80,500 with monthly payments between \$56 and \$224 over periods between 20 to 30 years, including interest at 0%. These funds were obtained through the Self-Help Housing Program and are paid as monthly mortgages receivable payments are received from the homeowner. At June 30, 2018, there were 131 loans outstanding.	<u>1,280,732</u>
Less debt issuance costs	<u>1,629,621</u> <u>(190,008)</u>
Less current maturities	<u>1,439,613</u> <u>(155,612)</u>
Total long-term portion	<u>\$ 1,284,001</u>

HABITAT FOR HUMANITY, ORANGE COUNTY, N.C., INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 6—Long-term debt (continued)

Combined aggregate maturities of non-interest bearing debt are as follows for the year ended June 30, 2018:

2019	\$ 155,612
2020	212,506
2021	62,031
2022	62,031
2023	62,031
Thereafter	1,075,410
	<u>\$ 1,629,621</u>

Due to joint venture is a promissory note to HFHI NMTC Sub-qualified Community Development Entity (CDE) I, LLC in the amount of \$2,133,922. The note requires semi-annual interest-only payments until November 5, 2023, at 0.682930%. The note matures on December 23, 2044. The loan is secured by substantially all the assets acquired by the Organization from the project loan proceeds. During the current year, the Organization had \$14,573 of interest expense.

Note 7—Restrictions on net assets

Temporarily restricted net assets are available for the following purposes as of June 30, 2018:

Miscellaneous pledges	\$ 4,288
Partnership Program	50,634
	<u>\$ 54,922</u>

Note 8—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 9—Operating leases

The Organization has an operating lease for its office facilities, which was amended on April 1, 2018 and now expires on March 31, 2024. The Organization also leases office equipment under a month-to-month operating lease.

The future minimum lease payments for all leases are as follows for the years ending June 30:

2019	\$ 77,211
2020	79,390
2021	82,559
2022	85,768
Thereafter	158,031
	<u>\$ 482,959</u>

Rent expense under noncancelable operating lease agreements totaled \$64,020 for the year ended June 30, 2018.

HABITAT FOR HUMANITY, ORANGE COUNTY, N.C., INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Note 10—Organizational affiliate

The Organization annually remits a portion of its contributions (excluding in-kind contributions) to Habitat for Humanity International, Inc. These funds are used to construct homes in economically depressed areas around the world. For the year ended June 30, 2018, the Organization contributed \$50,000 to Habitat for Humanity International, Inc. and is included as a program services expense in the accompanying statement of activities and changes in net assets.

Note 11—Memorandum of understanding

The Organization entered into a new memorandum of understanding agreement with Habitat for Humanity of Durham, Inc. on September 6, 2016 which superseded the original agreement that was signed on July 2, 2009, regarding the acquisition and operation of real estate and Habitat Restore (the "Store") at the property known as 5501 Durham-Chapel Hill Boulevard, Durham, NC 27707, serving Durham and Orange Counties.

The memorandum of understanding acknowledges that the Organization has been involved in the successful operation of the Store, which is a resale store benefiting Habitat for Humanity in Orange and Durham Counties. The real estate, building, fixtures, and improvements are owned by Habitat for Humanity of Durham, Inc., who is named as the obligor in the debt instrument used to finance the purchase of the real estate and building for the Store. As part of the agreement, the value of the real estate, including any and all improvements, shall be shared equally with the Organization. The value of the real estate was approximately \$2.3 million as of the date of purchase and the outstanding debt balance totaled \$1,620,954 as of June 30, 2018. Additionally, the Organization will be entitled to a share of annual Store earnings after payment of debt service, reserves, and upfit costs.

The amount of Store earnings shall be allocated between the Organization and Habitat for Humanity of Durham, Inc. During the year ended June 30, 2018, the Organization recognized income of \$219,833 relating to its share of annual Store earnings. The memorandum of understanding contains additional information regarding equity sharing under a variety of circumstances, including, but not limited to, the sale of real estate and improvements. The agreement also provides the Organization with a guaranteed minimum distribution of the average of its previous three years of distributions.

The Organization guarantees the payment of debt service used to finance the Store. The agreement provides a provision for payments to be made by the Organization to the Store in the event there are shortfalls in payment of debt service or other costs as further described in the agreement. In the event of default, the Organization is responsible for 50% of any unpaid balance.

Note 12—Subsequent events

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