

Habitat for Humanity of Charlotte, Inc. and Subsidiaries

**Consolidated Financial Statements and
Other Financial Information**

As of and For the Years Ended June 30, 2016 and 2015



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Independent Auditors' Report

To the Board of Directors of
Habitat for Humanity of Charlotte, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Habitat for Humanity of Charlotte, Inc. and Subsidiaries (a North Carolina not-for-profit organization) ("the Organization"), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters - Other Financial Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2016, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

**Winston-Salem, North Carolina
September 27, 2016**

Habitat For Humanity of Charlotte, Inc. and Subsidiaries
Consolidated Statements of Financial Position
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 2,118,274	\$ 3,283,464
Restricted cash for Living Legacy fund	69,682	90,160
Restricted cash for escrow funds	684,513	639,716
Investments held at the Foundation for the Carolinas	47,673	54,560
Funds held for others	41,965	58,166
Sales tax and other receivables	221,183	107,799
Inventory	253,473	225,424
Prepaid expenses	168,626	114,763
Current portion of non-interest bearing mortgage loans receivable	2,234,405	2,343,659
Mortgage receivables held for sale, less discount	3,587,592	-
Current portion of unconditional promises to give, net	12,929	13,533
Current portion of repair ministry receivables	72,635	67,094
Grants and other assistance receivable	324,110	129,123
	<u>9,837,060</u>	<u>7,127,461</u>
Total Current Assets		
Non-interest bearing mortgage loans receivable, less discount	16,613,517	19,091,103
Unconditional promises to give, less discount	18,634	27,318
Repair ministry receivables, less discount and allowance	175,682	231,715
Real estate owned	3,337,910	4,086,319
Houses under construction	3,071,457	2,989,446
Property and equipment, net	4,115,036	3,951,394
	<u>4,115,036</u>	<u>3,951,394</u>
Total Assets	<u>\$ 37,169,296</u>	<u>\$ 37,504,756</u>

See accompanying notes.

	<u>2016</u>	<u>2015</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 748,047	\$ 676,139
Funds held for others	41,965	58,166
Escrow funds for taxes and insurance - mortgage escrow accounts	684,513	639,716
Deferred revenue	35,780	75,017
Current portion of non-interest bearing notes payable, less discount	185,325	134,661
Current portion of long-term debt	<u>360,153</u>	<u>396,166</u>
Total Current Liabilities	2,055,783	1,979,865
Non-interest bearing notes payable, less discount	2,261,478	1,935,436
Long-term debt, less current portion	<u>2,350,108</u>	<u>2,710,110</u>
Total Liabilities	<u>6,667,369</u>	<u>6,625,411</u>
NET ASSETS:		
Unrestricted	29,257,637	29,903,651
Temporarily restricted	261,091	289,407
Permanently restricted	<u>983,199</u>	<u>686,287</u>
Total Net Assets	<u>30,501,927</u>	<u>30,879,345</u>
Total Liabilities and Net Assets	<u>\$ 37,169,296</u>	<u>\$ 37,504,756</u>

Habitat For Humanity of Charlotte, Inc. and Subsidiaries
Consolidated Statements of Activities
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
UNRESTRICTED REVENUES:		
Contributions	\$ 2,467,810	\$ 1,615,549
Donated property, materials and services	788,236	945,187
Total Net Contributions	<u>3,256,046</u>	<u>2,560,736</u>
Home sale income	5,523,892	4,588,403
Imputed interest income on non-interest bearing mortgage loans receivable and repair ministry receivables	1,584,476	1,523,742
ReStore retail and coffee shop operations	4,519,354	4,421,959
Housing grants and other revenues	<u>1,193,455</u>	<u>1,367,474</u>
Total Unrestricted Revenues	<u>16,077,223</u>	<u>14,462,314</u>
Net assets released from restrictions	<u>233,978</u>	<u>382,730</u>
Total Unrestricted Revenues and Other Support	<u>16,311,201</u>	<u>14,845,044</u>
EXPENSES:		
Program:		
Construction, supervision, and support	6,746,993	5,679,942
ReStore retail and coffee shop operations	3,059,863	3,008,915
Family support	814,878	716,793
Repair ministry expenses	1,779,505	1,560,032
Interest expense, net	160,589	130,407
Support to Habitat International	226,484	237,171
Discount on current year non-interest bearing mortgage loans, mortgages held for sale and repair ministry receivables	2,595,677	2,136,354
Advocacy expenses	<u>160,593</u>	<u>127,414</u>
Program Expenses	<u>15,544,582</u>	<u>13,597,028</u>
Management and general	599,692	621,152
Fundraising and public relations	<u>812,941</u>	<u>611,668</u>
Total Expenses	<u>16,957,215</u>	<u>14,829,848</u>
	<u>\$ (646,014)</u>	<u>\$ 15,196</u>

See accompanying notes.

Habitat For Humanity of Charlotte, Inc. and Subsidiaries
Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
UNRESTRICTED NET ASSETS:		
Increase (decrease) in unrestricted net assets	\$ (646,014)	\$ 15,196
TEMPORARILY RESTRICTED NET ASSETS:		
Restricted contributions	200,000	318,942
Net assets released from restrictions	<u>(228,316)</u>	<u>(382,105)</u>
Decrease in temporarily restricted net assets	<u>(28,316)</u>	<u>(63,163)</u>
PERMANENTLY RESTRICTED NET ASSETS:		
Restricted contributions	303,799	631,727
Unrealized losses on investments	(2,432)	(942)
Realized gains on investments	1,207	2,459
Net assets released from restrictions	<u>(5,662)</u>	<u>(625)</u>
Increase in permanently restricted net assets	<u>296,912</u>	<u>632,619</u>
Increase (decrease) in Net Assets	(377,418)	584,652
Net Assets, Beginning of Year	<u>30,879,345</u>	<u>30,294,693</u>
Net Assets, End of Year	<u>\$ 30,501,927</u>	<u>\$ 30,879,345</u>

Habitat For Humanity of Charlotte, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (377,418)	\$ 584,652
Adjustments to reconcile increase (decrease) in net assets to net cash used by operating activities:		
Imputed interest income on non-interest bearing mortgage loans and repair ministry receivables	(1,584,476)	(1,523,742)
Imputed interest expense on non-interest bearing notes payable	72,689	39,594
Discount on current year non-interest bearing mortgage loans, mortgages held for sale, and repair ministry receivables	2,595,677	2,136,354
Discount on current year non-interest bearing notes payable	(141,834)	(206,606)
Provision for uncollectible promises to give	2,000	61,623
Provision for uncollectible repair ministry receivables	(40,848)	20,241
Depreciation	131,718	122,405
Gain on sale of property and equipment	(5,960)	(1,077)
Unrealized losses on investments held at Foundation for the Carolinas	2,432	942
Net changes in operating assets and liabilities:		
Mortgage loans receivable	(2,027,280)	(1,067,373)
Unconditional promises to give	7,288	(31,673)
Repair ministry receivables	106,667	(1,803)
Grant and other assistance receivable	(194,987)	28,743
Other receivables, prepaid expenses and other assets	(167,247)	5,528
Inventory	(28,049)	(50,870)
Houses under construction	(82,011)	(45,008)
Real estate owned	748,409	(994,328)
Accounts payable and accrued liabilities	71,908	85,415
Deferred revenue	(39,237)	9,268
Net cash used by operating activities	<u>(950,559)</u>	<u>(827,715)</u>
Cash flows from investing activities:		
Acquisition of and improvements to property and equipment	(295,360)	(148,354)
Proceeds from sale of property and equipment	5,960	15,210
Net change in investments held at Foundation for the Carolinas	4,455	(1,834)
Net cash used by investing activities	<u>(284,945)</u>	<u>(134,978)</u>

See accompanying notes.

Habitat For Humanity of Charlotte, Inc.
Consolidated Statements of Cash Flows
Years Ended June 30, 2016 and 2015

(Continued)

	<u>2016</u>	<u>2015</u>
Cash flows from financing activities:		
Payments on long-term debt and non-interest bearing notes payable	(540,486)	(422,512)
Proceeds from issuance of long-term debt and non-interest bearing notes payable	<u>590,322</u>	<u>1,853,173</u>
Net cash provided by financing activities	49,836	1,430,661
Net increase (decrease) in cash	(1,185,668)	467,968
Cash, at beginning of year	<u>3,373,624</u>	<u>2,905,656</u>
Cash, at end of year	<u>\$ 2,187,956</u>	<u>\$ 3,373,624</u>
Cash	\$ 2,118,274	\$ 3,283,464
Restricted cash for Living Legacy fund	<u>69,682</u>	<u>90,160</u>
	<u>\$ 2,187,956</u>	<u>\$ 3,373,624</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 64,390</u>	<u>\$ 61,795</u>

See accompanying notes.

Notes to Consolidated Financial Statements

1. Description of Organization and Summary of Significant Accounting Policies

Habitat for Humanity of Charlotte, Inc. (“Habitat” or “the Organization”) was incorporated on February 21, 1983, as an interdenominational non-profit organization whose purpose is to encourage, promote and assist in the building, redevelopment and repair of low-income housing in Charlotte, North Carolina. Habitat’s program sells housing to low-income persons at approximate cost utilizing non-interest bearing mortgage loans. Habitat’s repair ministry provides affordable repair services to homeowners utilizing non-interest bearing loans. Habitat finances its operations through continuing contributions, mortgage and note payment receipts, retail net income, low interest loans, and local, state and federal grants. In 2015, Habitat formed three wholly owned subsidiaries, Habitat Charlotte Homes, LLC, Habitat Charlotte Properties, LLC, and HFHC Holdings, LLC for purposes of purchasing land and building the houses.

Habitat operates three Habitat for Humanity ReStores (the “Re-Stores”), retail operations, where home furnishings, appliances, and other miscellaneous items are donated and then sold to the community at a greatly reduced price. Revenue is recognized by Habitat at the time the goods are sold; therefore, no value for the donated Re-Stores inventory is included in these consolidated financial statements. As part of operations at one of the Re-Stores, a coffee shop (“Julia’s Coffee”) is operated by employees and volunteers of the Organization. Both the Re-Stores and Julia’s Coffee are operated with the sole purpose of generating funds to assist in the Organization’s main purpose of building houses.

Basis of consolidation

The consolidated financial statements include the accounts of the Organization, Habitat Charlotte Homes, LLC, Habitat Charlotte Properties, LLC, and HFHC Holdings, LLC. All intercompany balances and transactions have been eliminated upon consolidation.

Basis of accounting

The accounts of Habitat are maintained, and the accompanying consolidated financial statements are prepared, on the accrual basis of accounting. Habitat reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Contributions and support

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Donor-restricted contributions are reported as increases in temporarily restricted 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. Temporarily restricted contributions are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

Contributed services

A substantial number of volunteers have made significant contributions of their time to Habitat, principally in the areas of house construction, administration and fundraising. The value of non-professional contributed time is not reflected in the accompanying consolidated financial statements. However, Habitat values donated professional services based on the market value of the service being provided. The market value of contributed professional services for the years ended June 30, 2016 and 2015 was approximately \$94,000 and \$23,000, respectively.

Habitat for Humanity of Charlotte, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Houses-under-construction and real estate owned

Real estate, including pre-acquisition, acquisition, and development costs, building materials, and labor are recorded at cost when assets are acquired or services are provided, as applicable, or at estimated fair market value when donated. Foreclosed homes purchased by the Organization are recorded at cost when the homes are acquired. A portion of overhead expenses is allocated to the cost of houses. No interest is capitalized as a cost of houses.

Reclaimed houses are recorded as a component of real estate owned at the outstanding mortgage balance at the date of reclamation. During the years ended June 30, 2016 and 2015, Habitat reclaimed four and eight houses with aggregate recorded values of approximately \$223,000 and \$511,000, respectively.

One requirement of homeownership is to have demonstrated one year of independent living prior to closing. As some potential homebuyers have not had previous independent living experience, they are able to satisfy this requirement by renting the home. The Organization has recognized rental income of approximately \$28,000 and \$76,000 in the years ended June 30, 2016 and 2015, respectively.

Inventory

Inventory consists of building materials used during the home building process and is stated at the lower of cost (determined by the first-in, first-out method) or market. Also included in inventory are the supplies for the coffee shop, Julia's Coffee, as well as products purchased by the Organization for future sales at the Re-store locations.

Property and equipment

Property and equipment is carried at cost or, if donated, at the approximate fair value at the date of donation. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long such long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Depreciation of property and equipment is computed over useful lives using the straight line method. Maintenance, repair costs and minor replacements are charged to expense as incurred.

Income taxes

Habitat is exempt from federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code; accordingly, the accompanying consolidated financial statements do not reflect a provision or liability for federal and state income taxes. Habitat has determined that it does not have any material unrecognized tax benefits or obligations as of June 30, 2016 and 2015.

Cash

The Company considers deposits on account and investments with maturity dates less than three months at the time of purchase to be cash. As of June 30, 2016 and 2015 there were no investments included in the cash balance. At various times throughout the year, the Company has deposits in excess of amounts covered by federal depository insurance. Cash accounts at a financial institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The uninsured portion of these accounts as of June 30, 2016 and 2015 totaled \$2,566,275 and \$3,621,964, respectively.

Habitat for Humanity of Charlotte, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Unconditional promises to give

Unconditional promises to give are recognized as revenues in the period received and as increases of assets or decreases of liabilities or expenses depending on the form of benefits received. Promises to give are recorded at their present value less an allowance for uncollectible promises to give. Pledges receivable are due at various dates through 2019. The gross long-term pledges receivable are discounted at a rate commensurate with the risks involved. This rate is 4.78% for the years ended June 30, 2016 and 2015. For the year ended June 30, 2015 the Organization had an allowance for uncollectible promises to give of approximately \$2,000. An allowance for uncollectible promises to give wasn't deemed necessary at June 30, 2016. The allowance for uncollectible promises to give is based upon a review of outstanding pledge receivables and historical collection information.

At June 30, 2016, the Organization had one contributor that accounted for approximately 91% of the outstanding unconditional promises to give. At June 30, 2015, the Organization had one contributor that accounted for approximately 88% of the outstanding unconditional promises to give.

Repair ministry receivables

Repair ministry receivables are recognized as revenues in the period the receivable is established and as increases of assets or decreases of liabilities or expenses depending on the form of benefits received. Repair ministry receivables are recorded at their present value less an allowance for uncollectible repair ministry receivables. Repair ministry receivables are due at various dates through 2070. The gross long-term repair ministry receivables are discounted at a rate commensurate with the risks involved. This rate is 7.57% and 7.58% for the years ended June 30, 2016 and 2015, respectively. For the years ended June 30, 2016 and 2015 the Organization had an allowance for repair ministry receivables of approximately \$244,000 and \$203,000, respectively. The allowance for repair ministry receivables is based upon a review of outstanding repair ministry receivables and historical collection information.

Mortgage loans receivable

The Organization records and accounts for mortgage loans receivable based on the present value of the loan at the time of closing. 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. This method of accounting properly reflects the value of the mortgage loans receivable in the consolidated financial statements and recognizes interest income over the life of the loans. An expense is recorded upon the sale of houses for the difference between the face value of the mortgage loans receivable and the present value of the loans. The Organization has not established an allowance for doubtful accounts as it can reclaim houses through foreclosure in the event that a loan is deemed to be uncollectible, and management believes any reclaimed house can be resold at or above the amount of unpaid, discounted loan principle plus costs to sell the home. Mortgage loans receivable are generally considered delinquent when payment is thirty days past due; however, delinquency status may be mitigated by other qualitative factors.

Grants and other assistance receivable

The Organization is a beneficiary of grants from the Department of Housing and Urban Development ("HUD"). The Organization recognizes grant revenue as eligible expenditures are made. A portion of grants receivable represents that portion of grants revenue recognized, but not yet collected.

Estimates

The preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Habitat for Humanity of Charlotte, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Fair value measurements

The following methods and assumptions were used by Habitat in estimating the fair value of its financial instruments at June 30, 2016 and 2015:

Non-interest Bearing Mortgage Loans Receivable, Repair Ministry Receivables, and Unconditional Promises to Give – The fair value of non-interest bearing mortgage loans receivable, repair ministry receivables, and unconditional promises to give are estimated using discounted cash flow analysis. The discount rates for mortgage loans and repair ministry receivables are based on current market interest rates for loans of this type. The discount rates for unconditional promises to give are based on the risk-free rate at the time of the gift. The carrying amounts of these assets approximate fair value.

Notes Payable – The fair value of the non-interest and below market interest bearing notes payable is estimated using discounted cash flow analysis, based on the Organization’s incremental borrowing rates at the time the loan was entered into. The carrying amounts of the Organization’s non-interest and below market interest bearing notes payable approximate fair value.

Temporarily and permanently restricted net assets

Temporarily restricted net assets are those whose use by Habitat has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by Habitat in perpetuity.

GAAP provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutions Funds Act of 2006 (“UPMIFA”). UPMIFA is a model act approved by the Uniform Law Commission that serves as a guideline for states to use in enacting legislation. The State of North Carolina enacted a version of UPMIFA on March 16, 2009. See Note 12.

Subsequent events

The Organization evaluated the effect subsequent events would have on the consolidated financial statements through September 27, 2016, which is the date the consolidated financial statements were available to be issued.

2. Restricted Net Assets

Restricted net assets at June 30, 2016 and 2015 are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Temporarily Restricted:		
Unconditional promises to give for capital campaign	\$ -	\$ 1,778
Unconditional promises to give for future construction	28,624	35,529
Adopt a Home	95,812	92,562
Neighborhood Stabilization Program	56,971	56,971
Other	15,000	15,000
Foundation for the Carolinas grant	-	900
Sustainability Program grant	8,000	-
Piedmont Natural Gas grant	7,964	12,349
Wells Fargo Priority Markets grant	10,000	49,318
Knight Foundation grant	20,220	25,000
Neighborhood Revitalization grants	18,500	-
	<u>\$ 261,091</u>	<u>\$ 289,407</u>

Habitat for Humanity of Charlotte, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

	<u>2016</u>	<u>2015</u>
Permanently Restricted:		
Endowment held at The Foundation for the Carolinas	\$ 47,672	\$ 54,560
Living Legacy	<u>935,527</u>	<u>631,727</u>
	<u>\$ 983,199</u>	<u>\$ 686,287</u>

3. Housing Activities

During the year ended June 30, 2016 Habitat started 44 new houses, and received 4 houses through donations. During the year ended June 30, 2015 Habitat started 46 new houses and received 3 houses through donations. Completed houses were either sold at cost or held in inventory at cost, as real estate owned, pending sale.

At June 30, 2016 and 2015, Habitat had 31 and 45, respectively, houses under construction on land owned by Habitat. At June 30, 2016 and 2015, there were 6 and 9 vacant foreclosed houses held in inventory with a book value of approximately \$415,000 and \$592,000, respectively. Sales of houses were approximately \$5,437,000 and \$4,521,000 during the years ended June 30, 2016 and 2015, respectively. During the fiscal year ended June 30, 2016, approximately \$106,000 of home sale revenue was from sales of homes related to the federal grants received from HUD. During the fiscal year ended June 30, 2015, there were no home sale revenue from the sales of homes related to the federal grants received from HUD.

As of June 30, 2016, scheduled annual mortgage receipts (net of mortgages held for sale disclosed in Note 4) are approximately:

2017	\$ 2,234,405
2018	2,210,405
2019	2,109,411
2020	2,071,962
2021	1,932,040
Thereafter	<u>20,333,964</u>
	30,892,187
Less discount	<u>(12,044,265)</u>
	<u>\$ 18,847,922</u>

4. Mortgages Held for Sale

The Organization records and accounts for mortgages held for sale based on the present value of the loan at the time of closing. 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. During 2016, management proposed to sell 108 of their mortgage notes to a financial institution. Mortgages held for sale net of the \$3,364,592 discount are \$3,587,592 at June 30, 2016.

Habitat for Humanity of Charlotte, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

5. Unconditional Promises to Give

As of June 30, 2016, unconditional promises to give are expected to be collected as follows:

2017	\$	12,929
2018		9,990
2019		9,990
		<u>32,909</u>
Less: discount		<u>(1,346)</u>
Total	\$	<u>31,563</u>

6. Repair Ministry Receivables

As of June 30, 2016, repair ministry receivables are expected to be collected as follows:

2017	\$	72,635
2018		58,765
2019		47,239
2020		40,353
2021		32,348
Thereafter		<u>406,580</u>
		657,920
Less: discount		(165,870)
Less: allowance for uncollectible repair ministry receivables		<u>(243,733)</u>
Total	\$	<u>248,317</u>

7. Property and Equipment

A summary of property and equipment at June 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Land	\$ 2,329,034	\$ 2,329,034
Automobiles	238,938	249,840
Tools	69,216	55,990
Equipment	127,328	86,154
Computer equipment	295,779	181,534
Leasehold improvements	116,242	19,463
Real property	<u>1,822,297</u>	<u>1,807,375</u>
	4,998,834	4,729,390
Less accumulated depreciation	<u>(883,798)</u>	<u>(777,996)</u>
Property and equipment, net	<u>\$ 4,115,036</u>	<u>\$ 3,951,394</u>

Habitat for Humanity of Charlotte, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

8. Notes Payable and Long Term Debt

Notes payable at June 30, 2016 and 2015, consist of the following:

	<u>2016</u>	<u>2015</u>
North Carolina Housing Financing Agency (“NCHFA”), non-interest bearing notes, payable in monthly installments ranging from \$69 to \$222 maturing through February 2046	\$ 2,838,509	\$ 2,415,200
Self-Help Homeownership Opportunity Program (“SHOP”), non-interest bearing notes, payable in monthly installments ranging from \$73 to \$1,586, maturing through December 2021	272,280	249,738
Mortgage payable to a bank in monthly installments of \$17,599, including interest at 3.00%, secured by land and building of the Wendover ReStore, maturing through October 2019	668,594	856,276
Bank of America Community Development loan, payable in quarterly installments of \$41,667, including interest at 3.00%, unsecured, maturing through September 2028	<u>2,041,667</u>	<u>2,250,000</u>
	5,821,050	5,771,214
Less: discount	<u>(663,986)</u>	<u>(594,841)</u>
	5,157,064	5,176,373
Less: current portion	<u>(545,478)</u>	<u>(530,827)</u>
	<u>\$ 4,611,586</u>	<u>\$ 4,645,546</u>

Interest rates used to discount the notes were determined based on the market rates for similar types of notes on the origination dates. Management determined the following interest rates to be reasonable:

	<u>2016</u>	<u>2015</u>
NCHFA and SHOP Notes	2.53% and 2.55%	2.52% and 2.57%

Terms of the mortgage payable agreement to a bank, which is secured by the land and building of the Wendover ReStore, requires the Organization to maintain a ratio of funded debt to unrestricted net assets of not less than 1.0:1.0. In addition, the Organization is subject to certain financial-related covenants related to the Bank of America Community Development loan. At June 30, 2016, the Organization is in compliance with these requirements.

Scheduled maturities for debt outstanding at June 30, 2016, for each of the next five years are as follows:

2017	\$ 545,478
2018	570,417
2019	577,664
2020	410,464
2021	318,854
Thereafter	<u>3,398,173</u>
	<u>\$ 5,821,050</u>

Habitat for Humanity of Charlotte, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

9. Line of Credit

The Organization has a \$600,000 line of credit from Bank of America N.A. The line of credit bears interest at the British Bankers' Association LIBOR daily floating rate (approximately .46% at June 30, 2016) plus 2.2%. The line of credit expires on March 1, 2018. At June 30, 2016 and 2015, no amounts had been drawn on this line of credit.

10. Operating Leases

The Organization leases the space for a Re-Store through December 31, 2021, under an operating lease with payments of \$10,000 per month plus taxes and insurance with a 2% increase each year. The Organization leases the space for a second Re-Store through December 31, 2017, under an operating lease with monthly payments of \$7,455, adjusted annually by one to three percent based on annual inflation rates. Other equipment is leased under various operating leases through August 31, 2020. Rent expense was approximately \$185,000 and \$192,000 for the years ended June 30, 2016 and 2015, respectively.

Future minimum lease payments are as follows:

2017	\$	202,466
2018		194,268
2019		140,477
2020		141,290
2021		133,898
Thereafter		<u>60,724</u>
		<u>\$ 873,123</u>

11. Endowment Fund

According to the governing agreement, the endowment funds held by Foundation for the Carolinas (the "FFTC") are the property of FFTC. However, as Habitat may collect its donor advised account balances on request and is considered to be the beneficiary of the endowment funds, these amounts are shown as investments on the accompanying statements of financial position. The funds held by FFTC include mutual funds, hedge funds and alternative investments. Investment gains and losses flow through permanently restricted net assets.

The Board of Directors of the FFTC has absolute authority and discretion as to the investment and reinvestment of the assets of the fund. The Organization utilizes earnings from the fund to assist with operations. The entirety of the endowment funds are permanently restricted and held by the FFTC.

Habitat for Humanity of Charlotte, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Changes in endowment net assets for the fiscal years ended June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Endowment net assets, beginning of year	\$ 54,560	\$ 53,668
Investment return:		
Unrealized losses on investments	(2,432)	(942)
Realized gains	<u>1,207</u>	<u>2,460</u>
Total investment return	(1,225)	1,518
Fees	(533)	(626)
Grants approved	<u>(5,129)</u>	<u>-</u>
Net increase (decrease)	<u>(6,887)</u>	<u>892</u>
Endowment net assets, end of year	<u>\$ 47,673</u>	<u>\$ 54,560</u>

12. Fair Value Measurements

Fair value as defined under GAAP is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Organization utilizes market data or assumptions that market participants would use in pricing the asset or liability. GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The Organization has investments in an endowment fund which are measured at fair value on a recurring basis. The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

The Organization recognizes transfers between levels in the fair value hierarchy at the end of the reporting period. For the year ended June 30, 2016, there were no transfers between fair value levels. There were no changes in the valuation methodologies used in the fair value hierarchy for the years ended June 30, 2016 and 2015, respectively.

Endowment Fund

Fair values for the endowment fund are based on the values of the underlying investments held by the fund at any given time. The underlying investments within the fund are made up of items including mutual funds, marketable securities, hedge funds, common collective trusts, and alternative investments. The investments in the endowment fund fall into the Level 3 category based on the lowest level of any input in the endowment investments that is significant to the fair value measurements. This investment account is held at the Foundation for the Carolinas on behalf of the Organization. Prices or valuations require using significant unobservable inputs in determining fair value. The inputs into the determination of fair value require significant judgment or estimation by the investment manager. The investment manager uses either the market approach, which generally consists of using comparable market transactions, or the income approach which generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors. The inputs used by the investment manager in estimating the value of Level 3 investments include the Net Asset Value ("NAV") and capital account values provided by the managers for investment fund positions, original transaction price, recent transaction in the same or similar instruments for private equity positions, original transaction price for the common stock position and a single broker quote for the corporate bond position.

Habitat for Humanity of Charlotte, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

The following table sets forth by level within the fair value hierarchy the Organization's financial assets and liabilities accounted for at fair value on a recurring basis as of June 30, 2016 and 2015. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

	<u>As of June 30, 2016</u>			<u>Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Endowment Fund	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 47,673</u>	<u>\$ 47,673</u>

	<u>As of June 30, 2015</u>			<u>Fair Value</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Endowment Fund	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 54,560</u>	<u>\$ 54,560</u>

The table below sets forth a summary of changes in the fair value of the Organization's level 3 assets that use significant unobservable inputs (Level 3 measurements) for the years ended June 30, 2016 and 2015:

	<u>Endowment Fund</u>	
	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 54,560	\$ 53,668
Unrealized losses	(2,432)	(942)
Realized gains	1,207	2,460
Expenditures	<u>(5,662)</u>	<u>(626)</u>
Balance, end of year	<u>\$ 47,673</u>	<u>\$ 54,560</u>

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

13. Living Legacy Fund

The Living Legacy Fund is a permanently restricted fund that finances mortgages for Habitat homeowners and invests mortgage payments back into the future mortgage financing. Unlike an endowment fund, the Organization invests the principal immediately in mortgages for new housing. Contributions to the Living Legacy Fund of \$303,800 were made during the year ended June 30, 2016. The balance of this fund includes \$69,682 of cash on hand and \$865,845 of mortgages receivable as of June 30, 2016. Contributions to the Living Legacy Fund of \$631,727 were made during the year ended June 30, 2015. The balance of this fund includes \$90,160 of cash on hand and \$541,567 of mortgages receivable as of June 30, 2015.

Habitat for Humanity of Charlotte, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

14. Retirement Plan

The Organization maintains a retirement savings plan (the "Plan") under the terms of Section 403(b) of the Internal Revenue Code. All salaried employees over the age of 18 are eligible to participate upon hire date. In accordance with the Plan document, the Organization, at the discretion of management, may provide matching contributions equal to 100% of the employee's pre-tax contributions, up to 3% of eligible compensation. During the years ended June 30, 2016 and 2015, the Organization contributed approximately \$82,000 and \$74,000 respectively.

15. Related Party Transactions

The Organization pays quarterly tithes and management service fees to Habitat for Humanity International ("HFHI"), an affiliate of the Organization. The Organization paid approximately \$214,500 to HFHI to support HFHI's international work for the years ended June 30, 2016 and 2015. In addition, the Organization paid approximately \$199,500 and \$193,600 to HFHI for AmeriCorps volunteers serving at the Organization for the years ended June 30, 2016 and June 30, 2015, respectively.

As of June 30, 2016 and June 30, 2015, the Organization had a payable balance due to HFHI of approximately \$70,000 and \$54,000, respectively. As of June 30, 2016, the Organization had a receivable balance due from HFHI of approximately \$81,000.

Other Financial Information

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Consolidated Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors of
Habitat for Humanity of Charlotte, Inc. and Subsidiaries

We have audited, in accordance with the auditing standards generally accepted in the United States Of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Habitat for Humanity of Charlotte, Inc. and Subsidiaries (a North Carolina not-for-profit organization) (the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities, statements of changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 27, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance *with Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dixon Hughes Goodman LLP

**Winston-Salem, North Carolina
September 27, 2016**

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

Board of Directors of
Habitat for Humanity of Charlotte, Inc. and Subsidiaries

Report on Compliance for Each Major Federal Program

We have audited Habitat for Humanity of Charlotte, Inc. and Subsidiaries' (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2016. The Organization's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Dixon Hughes Goodman LLP

**Winston-Salem, North Carolina
September 27, 2016**



**HABITAT FOR HUMANITY OF CHARLOTTE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

A. SUMMARY OF AUDIT RESULTS

1. The independent auditors' report expresses an unmodified opinion on the basic consolidated financial statements of Habitat for Humanity of Charlotte, Inc. and Subsidiaries
2. We did not note any significant deficiencies or material weaknesses relating to the audit of the consolidated financial statements reported in the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the consolidated financial statements of Habitat for Humanity of Charlotte, Inc. and Subsidiaries were disclosed during the audit.
4. We did not note any significant deficiencies or material weaknesses relating to major federal award programs reported in our Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The independent auditors' report on compliance for the major federal award programs for Habitat for Humanity of Charlotte, Inc. and Subsidiaries expressed an unmodified opinion.
6. Audit findings relative to the major federal award programs for Habitat for Humanity of Charlotte, Inc. and Subsidiaries are reported in Part C of this schedule.
7. The program tested as major program include: Department of Housing and Urban Development Community Development Block Grants (CFDA 14.218).
8. The threshold for distinguishing Type A and Type B programs was \$750,000.
9. The auditee qualified as a low-risk auditee.

B. FINDINGS- CONSOLIDATED FINANCIAL STATEMENTS AUDIT

None

C. FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

Habitat for Humanity of Charlotte, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development Pass-through programs from: City of Charlotte, North Carolina		
Self-Help Homeownership Opportunity Program	14.247	\$ 307,650
Entitlement Grant Cluster		
Community Development Block Grants	14.218	<u>624,434</u>
Total Expenditures		<u><u>\$ 932,084</u></u>

Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Habitat for Humanity of Charlotte, Inc. under the programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Habitat for Humanity of Charlotte, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Habitat for Humanity of Charlotte, Inc.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting.

3. Program Income

In accordance with terms of the grants, program income totaling \$83,261 was used to reduce the amount of federal funds used in completing the projects.