# Habitat for Humanity of Charlotte, Inc. and Subsidiaries

**Consolidated Financial Statements and Other Financial Information**

**Years Ended June 30, 2018 and 2017**

DIXON HUGHES GOODMAN LLP

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# Independent Auditors' Report

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, 2018 and 2017, 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, 2018 and 2017, 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.

DIXON HUGHES GOODMAN LLP

***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 October 11, 2018, 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**
**October 11, 2018**

**Habitat For Humanity of Charlotte, Inc. and Subsidiaries**
**Consolidated Statements of Financial Position**
**June 30, 2018 and 2017**

| | 2018 | 2017 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash | **$ 7,878,200** | $ 4,740,893 |
| Restricted cash for Living Legacy fund | **47,413** | 90,510 |
| Restricted cash for escrow funds | **694,414** | 709,961 |
| Restricted cash for joint venture reserves | **186,220** | - |
| Investments held at the Foundation for the Carolinas | **52,148** | 50,743 |
| Funds held for others | **54,485** | 44,645 |
| Sales tax and other receivables | **101,640** | 205,575 |
| Inventory | **245,704** | 251,159 |
| Prepaid expenses | **134,545** | 210,794 |
| Current portion of non-interest-bearing mortgage loans receivable | **2,707,561** | 2,478,575 |
| Mortgage receivables held for sale, less discount | **-** | 1,036,036 |
| Current portion of unconditional promises to give, net | **943,849** | 20,472 |
| Current portion of repair ministry receivables | **61,690** | 56,178 |
| Grants and other assistance receivable | **230,336** | 158,472 |
| Total current assets | **13,338,205** | 10,054,013 |
| Non-interest-bearing mortgage loans receivable, less discount | **21,759,853** | 19,995,134 |
| Unconditional promises to give, less discount | **8,881** | 17,601 |
| Repair ministry receivables, less discount and allowance | **16,380** | 36,473 |
| Investment in joint venture | **2,999,654** | - |
| Real estate owned | **3,087,607** | 2,673,160 |
| Houses under construction | **3,296,754** | 2,700,405 |
| Property and equipment, net | **4,178,476** | 4,079,574 |
| Total assets | **$ 48,685,810** | $ 39,556,360 |

**See accompanying notes.**

| | 2018 | 2017 |
|---|---|---|
| **LIABILITIES AND NET ASSETS** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | **$ 914,873** | $ 857,385 |
| Funds held for others | **54,485** | 44,645 |
| Escrow funds for taxes and insurance - mortgage escrow accounts | **694,414** | 709,961 |
| Deferred revenue | **62,350** | 71,939 |
| Current portion of non-interest-bearing notes payable, less discount | **279,305** | 240,983 |
| Current portion of long-term debt | **613,743** | 465,331 |
| Total current liabilities | **2,619,170** | 2,390,244 |
| Non-interest-bearing notes payable, less discount | **3,100,439** | 2,758,490 |
| Long-term debt, less current portion, net of unamortized debt issuance costs, less discount | **10,255,831** | 4,173,697 |
| Total liabilities | **15,975,440** | 9,322,431 |
| Net assets: | | |
| Unrestricted | **31,062,476** | 28,795,150 |
| Temporarily restricted | **193,391** | 188,731 |
| Permanently restricted | **1,454,503** | 1,250,048 |
| Total net assets | **32,710,370** | 30,233,929 |
| Total liabilities and net assets | **$ 48,685,810** | $ 39,556,360 |

**Habitat For Humanity of Charlotte, Inc. and Subsidiaries**
**Consolidated Statements of Activities**
**Years Ended June 30, 2018 and 2017**

| | 2018 | 2017 |
|---|---|---|
| Unrestricted revenues: | | |
| Contributions | **$ 5,036,801** | $ 2,688,856 |
| Donated property, materials and services | **543,819** | 685,672 |
| Total net contributions | **5,580,620** | 3,374,528 |
| Home sale income | **4,805,675** | 6,200,315 |
| Mortgage sale income | **-** | 1,025,985 |
| Imputed interest income on non-interest-bearing mortgage loans receivable and repair ministry receivables | **1,719,934** | 1,642,065 |
| ReStore retail and coffee shop operations | **5,646,306** | 5,196,311 |
| Housing grants and other revenues | **2,561,437** | 1,412,896 |
| Total unrestricted revenues | **20,313,972** | 18,852,100 |
| Net assets released from restrictions | **213,627** | 285,064 |
| Total unrestricted revenues and other support | **20,527,599** | 19,137,164 |
| Expenses: | | |
| Program: | | |
| Construction, supervision, and support | **5,671,166** | 7,472,382 |
| Cost of mortgage sales and securitization | **180,969** | 791,162 |
| ReStore retail and coffee shop operations | **4,473,519** | 3,861,054 |
| Family support | **1,059,637** | 1,036,574 |
| Repair ministry expenses | **2,211,264** | 2,041,002 |
| Interest expense, net | **393,511** | 181,324 |
| Support to Habitat International | **441,857** | 255,428 |
| Discount on current year below-market-interest mortgage loans, mortgages held for sale and repair ministry receivables | **1,751,914** | 2,254,396 |
| Advocacy expenses | **120,399** | 148,771 |
| | **16,304,236** | 18,042,093 |
| Investment expenses, joint venture | **36,901** | - |
| Management and general | **815,249** | 645,821 |
| Fundraising and public relations | **1,103,887** | 911,737 |
| Total expenses | **18,260,273** | 19,599,651 |
| | **$ 2,267,326** | $ (462,487) |

**Habitat For Humanity of Charlotte, Inc. and Subsidiaries**
**Consolidated Statements of Changes in Net Assets**
**Years Ended June 30, 2018 and 2017**

| | 2018 | 2017 |
|---|---|---|
| Unrestricted net assets: | | |
| Increase (decrease) in unrestricted net assets | **$ 2,267,326** | $ (462,487) |
| Temporarily restricted net assets: | | |
| Restricted contributions | **215,849** | 209,600 |
| Net assets released from restrictions | **(211,189)** | (281,960) |
| Increase (decrease) in temporarily restricted net assets | **4,660** | (72,360) |
| Permanently restricted net assets: | | |
| Restricted contributions | **203,050** | 263,779 |
| Unrealized losses on investments | **-** | - |
| Realized gains on investments | **3,843** | 6,174 |
| Net assets released from restrictions | **(2,438)** | (3,104) |
| Increase in permanently restricted net assets | **204,455** | 266,849 |
| Increase (decrease) in net assets | **2,476,441** | (267,998) |
| Net assets, beginning of year | **30,233,929** | 30,501,927 |
| Net assets, end of year | **$ 32,710,370** | $ 30,233,929 |

**See accompanying notes.**

**Habitat for Humanity of Charlotte, Inc. and Subsidiaries**
**Consolidated Statements of Cash Flows**
**Years Ended June 30, 2018 and 2017**

| | 2018 | 2017 |
|---|---|---|
| Cash flows from operating activities: | | |
| Increase (decrease) in net assets | **$ 2,476,441** | $ (267,998) |
| 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 | **(1,719,934)** | (1,642,065) |
| Imputed interest expense on non-interest-bearing notes payable | **234,750** | 88,257 |
| Discount on current year non-interest-bearing mortgage loans, mortgages held for sale, and repair ministry receivables | **1,751,914** | 2,254,396 |
| Discount on current year below-market-interest notes payable | **(1,030,709)** | (272,723) |
| Provision for uncollectible repair ministry receivables | **5,410** | 10,921 |
| Price adjustment on repair ministry receivables | **-** | 157,390 |
| Gain on sale of mortgages | **-** | (381,167) |
| Depreciation | **192,130** | 166,184 |
| Amortization of debt issuance costs | **7,285** | - |
| (Gain) loss on sale of property and equipment | **(1,351)** | 45 |
| Net changes in operating assets and liabilities: | | |
| Mortgage loans receivable | **(2,053,460)** | (2,667,273) |
| Mortgages held for sale | **1,036,036** | 368,593 |
| Unconditional promises to give | **(914,657)** | (6,510) |
| Repair ministry receivables | **36,946** | (8,957) |
| Grant and other assistance receivable | **(71,864)** | 165,638 |
| Other receivables, prepaid expenses and other assets | **180,184** | (26,560) |
| Inventory | **5,455** | 2,314 |
| Houses under construction | **(596,349)** | 371,052 |
| Real estate owned | **(414,447)** | 664,750 |
| Accounts payable and accrued liabilities | **57,488** | 109,338 |
| Deferred revenue | **(9,589)** | 36,159 |
| Net cash used by operating activities | **(828,321)** | (878,216) |
| Cash flows from investing activities: | | |
| Acquisition of and improvements to property and equipment | **(291,032)** | (153,235) |
| Proceeds from sale of property and equipment | **1,351** | 22,468 |
| Net change in investments held at Foundation for the Carolinas | **(1,405)** | (3,070) |
| Investment in joint venture | **(2,999,654)** | - |
| Net cash used by investing activities | **(3,290,740)** | (133,837) |

**See accompanying notes.**

| | 2018 | 2017 |
|---|---|---|
| Cash flows from financing activities: | | |
| Payments on long-term debt and non-interest-bearing notes payable | **$ (857,580)** | $ (777,529) |
| Proceeds from issuance of long-term debt and non-interest-bearing notes payable | **8,495,476** | 3,443,432 |
| Net proceeds from sale of mortgages | **-** | 989,597 |
| Payment of debt issuance costs | **(238,405)** | - |
| Net cash provided by financing activities | **7,399,491** | 3,655,500 |
| Net increase in cash | **3,280,430** | 2,643,447 |
| Cash, at beginning of year | **4,831,403** | 2,187,956 |
| Cash, at end of year | **$ 8,111,833** | $ 4,831,403 |
| Cash | **$ 7,878,200** | $ 4,740,893 |
| Restricted cash for Living Legacy fund | **47,413** | 90,510 |
| Restricted cash for joint venture reserves | **186,220** | - |
| | **$ 8,111,833** | $ 4,831,403 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | **$ 151,476** | $ 93,071 |

**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. In 2016, Habitat formed another wholly owned subsidiary, HFHC Funding, LLC, for the purposes of holding mortgages securitizing debt with financial institutions.

Habitat operates four 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, HFHC Holdings, LLC, and HFHC Funding, 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, 2018 and 2017 was approximately $99,000 and $117,000, respectively.

### *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, 2018 and 2017, Habitat reclaimed four and two houses with aggregate recorded values of approximately $276,000 and $129,000, 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 $27,000 in the years ended June 30, 2018 and 2017, 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.

### *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, 2018 and 2017 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, 2018 and 2017 totaled $8,382,024 and $5,393,531, respectively.

### *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, 2018 and 2017. For the years ended June 30, 2018 and 2017, an allowance for uncollectible promises to give wasn't deemed necessary. The allowance for uncollectible promises to give is based upon a review of outstanding pledge receivables and historical collection information.

At June 30, 2018, the Organization had one contributor that accounted for approximately 97% of the outstanding unconditional promises to give. At June 30, 2017, the Organization had one contributor that accounted for approximately 51% 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 7.55% and 7.53% for the years ended June 30, 2018 and 2017, respectively. For the years ended June 30, 2018 and 2017, the Organization had an allowance for repair ministry receivables of approximately $113,000 and $107,000, 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 5.4% 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.

### *Investment in Joint Venture*

The Organization's investment in the New Markets Tax Credit joint venture is accounted for under the cost method, as the Organization is not able to influence the operating and financial policies of the entity in which it invests (see Note 13). Accordingly, the investment is recorded at transaction cost, and distributions received from the investment are reported as revenue on the consolidated statement of activities.

### *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.

### *Fair value measurements*

The following methods and assumptions were used by Habitat in estimating the fair value of its financial instruments at June 30, 2018 and 2017:

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 loans were 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 October 11, 2018, which is the date the consolidated financial statements were available to be issued. See Note 17.

## 2. Restricted Net Assets

Restricted net assets at June 30, 2018 and 2017 are available for the following purposes:

| | 2018 | 2017 |
|---|---|---|
| Temporarily restricted: | | |
| Unconditional promises to give for future construction | **$ 9,370** | $ 18,741 |
| Adopt a Home | **125,000** | 133,812 |
| Reemprise Grant for Data Project | **32,550** | 6,800 |
| URP Grant Funds | **2,516** | 12,516 |
| Knight Foundation grant | **$ 15,655** | $ 16,862 |
| Contributions for El Salvador | **8,300** | - |
| | **$ 193,391** | $ 188,731 |
| Permanently restricted: | | |
| Endowment held at The Foundation for the Carolinas | **$ 52,148** | $ 50,743 |
| Living Legacy | **1,402,355** | 1,199,305 |
| | **$ 1,454,503** | $ 1,250,048 |

## 3. Housing Activities

During the year ended June 30, 2018, Habitat started 52 new houses, and received one house through donation. During the year ended June 30, 2017, Habitat started 45 new houses, and received no 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, 2018 and 2017, respectively, Habitat had 50 and 38 houses under construction on land owned by Habitat. At June 30, 2018 and 2017, there were 4 and 3 vacant foreclosed houses held in inventory with a book value of approximately $342,000 and $219,000, respectively. Sales of houses were approximately $4,711,000 and $6,229,000 during the years ended June 30, 2018 and 2017, respectively. During each of the years ended June 30, 2018 and 2017, there was no home sales revenue from the sales of homes related to the federal grants received from HUD.

As of June 30, 2018, scheduled annual mortgage receipts are approximately:

| | |
|---|---|
| 2019 | $ 2,707,561 |
| 2020 | 2,621,475 |
| 2021 | 2,532,034 |
| 2022 | 2,442,256 |
| 2023 | 2,343,288 |
| Thereafter | 27,221,336 |
| | 39,867,950 |
| Less discount | (15,400,536) |
| | $ 24,467,414 |

Effective March 23, 2018 the Organization entered into a Loan Origination Agreement with Charlotte Metro Federal Credit Union. In accordance with the agreement, Charlotte Metro Federal Credit Union ("CMFCU") committed to originating mortgage loans for homes sold by the Organization to qualified low-income individuals and families, in the aggregate amount of $3,000,000 plus or minus 5%, at a rate of $1,000,000 per year beginning on March 1, 2018. The Organization is responsible for servicing the loans. The Organization, if requested by CMFCU, must either purchase or provide a substitute mortgage loan, for any mortgage loans delinquent more than 60 days under the agreement. As of June 30, 2018, no mortgage loans have been originated under the agreement with CMFCU.

Subsequent to June 30, 2018, the Organization entered into a similar agreement with First Bank.

## 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 5.4% to 10% for all loans outstanding.

At times, the Organization will identify high performing mortgages receivable for sale to financial institutions. During the year ended June 30, 2017, the Organization sold 19 mortgages receivable to a financial institution, with an aggregate face value of $1,305,002, to a financial institution. The 0% interest receivables were sold at a 2% discount rate resulting in cash proceeds from the sale of $1,025,985. Because the receivables had been carried on the Organization's books at an average discount rate of approximately, 7.1%, there was a resulting gain on the sale of approximately $381,000, after legal and broker fees. Mortgages held for sale, net of the $784,024 discount, were $1,036,036 at June 30, 2017.

During the year ended June 30, 2018, management decided that the mortgages held for sale as of June 30, 2017 would not be sold, and reclassified these loans to general mortgage loans receivable. No mortgages were sold by the Organization during the year ended June 30, 2018.

## 5. Unconditional Promises to Give

As of June 30, 2018, unconditional promises to give are expected to be collected as follows:

| | |
|---|---|
| 2019 | $ 943,849 |
| 2020 | 3,850 |
| 2021 | 3,350 |
| 2022 | 1,800 |
| 2023 | 500 |
| | 953,349 |
| Less discount | (619) |
| Total | $ 952,730 |

## 6. Repair Ministry Receivables

As of June 30, 2018, repair ministry receivables are expected to be collected as follows:

| | |
|---|---|
| 2019 | $ 74,310 |
| 2020 | 44,784 |
| 2021 | 36,449 |
| 2022 | 27,142 |
| 2023 | 17,972 |
| | 200,657 |
| Less discount | (9,586) |
| Less allowance for uncollectible repair ministry receivables | (113,001) |
| Total | $ 78,070 |

## 7. Property and Equipment

A summary of property and equipment at June 30, 2018 and 2017 is as follows:

| | 2018 | 2017 |
|---|---|---|
| Land | **$ 2,329,034** | $ 2,329,034 |
| Automobiles | **287,483** | 267,488 |
| Tools | **92,505** | 79,316 |
| Equipment | **130,429** | 127,328 |
| Computer equipment | **369,655** | 328,039 |
| Leasehold improvements | **308,611** | 159,986 |
| Real property | **1,892,516** | 1,838,365 |
| | **5,410,233** | 5,129,556 |
| Less accumulated depreciation | **(1,231,757)** | (1,049,982) |
| Property and equipment, net | **$ 4,178,476** | $ 4,079,574 |

## 8. Notes Payable and Long-Term Debt

Notes payable at June 30, 2018 and 2017 consist of the following:

| | 2018 | 2017 |
|---|---|---|
| North Carolina Housing Financing Agency ("NCHFA"), non-interest-bearing notes, payable in monthly installments ranging from $69 to $222, maturing through January 2047 | **$ 4,136,856** | $ 3,564,847 |
| Self-Help Homeownership Opportunity Program ("SHOP"), non-interest-bearing notes, payable in monthly installments ranging from $73 to $1,586, maturing through June 2023 | **256,454** | 283,078 |

| | 2018 | 2017 |
|---|---|---|
| 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 | **275,560** | 475,062 |
| Bank of North Carolina loan, payable in monthly installments of $9,264, including interest at 2.00%, secured by mortgages receivable on homes, maturing through August 2045 | **1,663,267** | 1,793,017 |
| First Bank loan, payable in monthly installments of $2,952, including interest at 2.50%, secured by mortgages receivable on homes, maturing through September 2044 | **472,658** | 495,949 |
| Bank of America Community Development loan, payable in quarterly installments of $41,667, including interest at 3.00%, unsecured, maturing through September 2028 | **1,708,333** | 1,875,000 |
| First Bank loan, payable in monthly installments of $2,664, including interest at 2.50%, secured by mortgages receivable on homes, maturing through August 2047 | **586,007** | - |
| People's Bank loan, payable in monthly installments of $14,679, including interest at 2.00%, secured by mortgages receivable on homes, maturing through June 2046 | **2,590,437** | - |
| Loan payable to HFHI HMTC Sub-CDE II, LLC, interest only payments due semi-annually beginning in October 2017 and principal and interest payments beginning in October 2024, interest at 0.68%, maturing through July 2047 (see Note 13) | **4,435,278** | - |
| | **16,124,850** | 8,486,953 |
| Less discount | **(1,644,412)** | (848,452) |
| Less unamortized debt issuance costs | **(231,120)** | - |
| | **14,249,318** | 7,638,501 |
| Less current portion | **(893,048)** | (706,314) |
| | **$ 13,356,270** | $ 6,932,187 |

Amortization of the discount is reported in the Statement of Activities as interest expense.

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:

| | 2018 | 2017 |
|---|---|---|
| NCHFA, SHOP Notes, Sub-CDE II Note | **2.74%, 2.85%, 3.38%** | 2.62%, 2.65%, N/A |

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, 2018, the Organization is in compliance with these requirements.

Scheduled maturities for debt outstanding at June 30, 2018, for each of the next five years are as follows:

| | |
|---|---|
| 2019 | $ 893,048 |
| 2020 | 747,674 |
| 2021 | 663,747 |
| 2022 | 650,550 |
| 2023 | 643,779 |
| Thereafter | 12,526,052 |
| | $ 16,124,850 |

## 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 2.09% at June 30, 2018) plus 2.2%. The line of credit expires on March 31, 2020. At June 30, 2018 and 2017, no amounts had been draw 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, 2023, under an operating lease with monthly payments of $8,337 plus taxes and insurance with a 3% increase each year. The Organization leases the space for a third Re-Store through January 2025, under an operating lease with monthly payments of $13,298 plus taxes and insurance for years 1 through 5, and monthly payments of $14,628 plus taxes and insurance for years 6 and 7. Other equipment is leased under various operating leases through November 2023. Rent expense was approximately $519,000 and $315,500 for the years ended June 30, 2018 and 2017, respectively.

Future minimum lease payments are as follows:

| | |
|---|---|
| 2019 | $ 563,223 |
| 2020 | 563,213 |
| 2021 | 558,959 |
| 2022 | 462,889 |
| 2023 | 298,197 |
| Thereafter | 305,782 |
| | $ 2,752,263 |

## 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.

Changes in endowment net assets for the years ended June 30, 2018 and 2017 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Endowment net assets, beginning of year | **$ 50,743** | $ 47,672 |
| Investment return: | | |
| Realized gains | **4,343** | 6,175 |
| Total investment return | **4,343** | 6,175 |
| Fees | **(500)** | (500) |
| Grants approved | **(2,438)** | (2,604) |
| Net increase (decrease) | **1,405** | 3,071 |
| Endowment net assets, end of year | **$ 52,148** | $ 50,743 |

## 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, 2018, 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, 2018 and 2017, 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.

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, 2018 and 2017. 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.

| | As of June 30, 2018 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Fair Value** |
| Endowment fund | **$ -** | **$ -** | **$ 52,148** | **$ 52,148** |

| | As of June 30, 2017 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Fair Value** |
| Endowment fund | $ - | $ - | $ 50,743 | $ 50,743 |

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, 2018 and 2017:

| | Endowment Fund | |
|---|---|---|
| | **2018** | **2017** |
| Balance, beginning of year | **$ 50,743** | $ 47,672 |
| Realized gains | **4,343** | 6,175 |
| Expenditures | **(2,938)** | (3,104) |
| Balance, end of year | **$ 52,148** | $ 50,743 |

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. New Market Tax Credits and Associated Joint Venture

On July 19, 2017, the Organization closed on a New Market Tax Credit ("NMTC") transaction involving U.S. Bancorp Community Development Corporation (USBCDC), its related entities and agents. The NMTC program was established as part of the Community Renewal Tax Relief Act of 2000. The goal of the NMTC program is to spur revitalization efforts of low-income and impoverished communities across the United States and its Territories by providing tax credit incentives to investors in a certified community development entity. The tax credit for investors equals 39% of the investment, which is credited over a seven-year period. A community development entity is required to participate and has a primary mission of providing financing for revitalization projects in low-income communities.

NMTC financing allows organizations such as affiliates of Habitat for Humanity International to receive low-interest loans or investment capital from community development entities, primarily financial institutions, which allow their investors to receive tax credits to be applied against their federal tax liability.

The following is a summary of the NMTC transaction entered into during the year ended June 30, 2018:

***HFHI NMTC Leverage Lender 2016-1, LLC***

In July 2017 the Organization acquired a 24.40% membership interest in HFHI NMTC Leverage Lender, LLC (the “LLC”) in exchange for a cash investment of $2,999,654. The LLC was formed to provide financing for the borrower’s equity investment in a community development entity – HFHI NMTC Sub-CDE II, LLC (“CDE”), and is solely managed by a third party. Accordingly, the LLC entered into a Loan Agreement to lend $12,292,681 to Twain Investment Fund 250, LLC. (“Borrower”). The Borrower used the loan proceeds as its equity investment in the CDE which, in turn, used the proceeds of the Borrower’s equity investment to fund the loans to the members of the LLC, including Habitat for Humanity of Charlotte, Inc. Effective November 2, 2017, the operating agreement of the LLC was amended to admit additional members, reducing Habitat for Humanity of Charlotte, Inc.’s membership interest to 13.88%.

The LLC’s loan receivable bears interest at a rate of 1% per annum. The loan receivable matures on July 19, 2040 and requires semi-annual accrued interest payments until November 10, 2024 and semi-annual principal and interest payments commencing on November 10, 2024 sufficient to fully amortize the loan. Simultaneous with these transactions, the LLC entered into an Option Agreement with USBCDC to put the ownership interest in the Borrower for $1,000 commencing 15 calendar days after the end of the 7-year credit period applicable to each qualified equity investment made by the Borrower in the CDE, beginning on the first credit allowance date and ending on the last day prior to the seventh anniversary of the last credit allowance date and continuing for 6 months, or call the ownership interest for a 12-month period following the expiration of the Put Option at fair market value.

***Loan payable – HFHI NMTC Sub-CDE II, LLC***

As a component of the NMTC transaction, the Organization received a loan of $4,435,278 from the CDE and entered into a Loan and Security Agreement (“Agreement”) dated July 19, 2017. The Organization is obligated under the Agreement and related Promissory Note to pay interest on the borrowings at a rate of 0.68% per annum with a maturity date of July 19, 2047. Commencing on November 5, 2017 and semi-annually until May 5, 2024, the Organization is required to make payments of accrued interest. Commencing on November 5, 2024 and semi-annually thereafter, the Organization is required to make equal principal and interest payments in an amount to fully amortize the loan by its maturity date. Pursuant to the Agreement, the Organization is required to comply with the NMTC requirements as generally set forth in the Internal Revenue Code (“IRC”) Section 45D, including that the Organization maintain a Separate Business such that the Separate Business will qualify as a qualified active low-income community business as defined in IRC Section 45D. Only the Separate Business assets of the Organization were pledged as security under the Agreement to the CDE.

In accordance with the Agreement, the Organization is required to maintain a separate Affiliate Expense Reserve, which is used to pay compliance and servicing fees to Habitat for Humanity International in semi-annual installments. The initial required funding under the Agreement as it relates to the Organization was $221,663. As of June 30, 2018 the balance of the Affiliate Expense Reserve was $186,220, and is included in restricted cash for joint venture reserves on the consolidated statement of financial position.

Upon exercise of the put/call option, the promissory notes will become the property of the LLC. The exercise will effectively allow the Organization to extinguish the outstanding debt and realize its joint venture investment and note receivable without further cash flow activity.

## 14. 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 $203,050 were made during the year ended June 30, 2018. The balance of this fund includes $47,413 of cash on hand and $1,354,942 of mortgages receivable as of June 30, 2018. Contributions to the Living Legacy Fund of $263,779 were made during the year ended June 30, 2017. The balance of this fund includes $90,510 of cash on hand and $1,108,795 of mortgages receivable as of June 30, 2017.

## 15. 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, 2018 and 2017, the Organization contributed approximately $104,000 and $91,000 respectively.

## 16. 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 $428,000 and $241,900 to HFHI to support HFHI’s international work for the years ended June 30, 2018 and 2017, respectively. In addition, the Organization paid approximately $190,700 and $233,900 to HFHI for AmeriCorps volunteers serving at the Organization for the years ended June 30, 2018 and June 30, 2017, respectively.

As of June 30, 2018, and June 30, 2017, the Organization had a payable balance due to HFHI of approximately $256,000 and $50,000, respectively. As of June 30, 2018, and June 30, 2017, the Organization had a receivable balance due from HFHI of approximately $7,400.

## 17. Subsequent Event – Purchase of Office Space

Effective August 21, 2018 the Organization entered into a purchase and sale agreement with an unrelated party for the purchase of additional office space for the agreed upon price of $1,925,000. As of October 11, 2018, the sale has not yet closed. The Organization has made deposits totaling $34,000 to the seller under the purchase and sale agreement. Additionally, the Organization obtained a commitment from South State Bank to finance the purchase for a maximum principal amount of $2,100,000, with interest at a rate of 4.0% per annum.