

**HABITAT FOR HUMANITY  
OF DURHAM, INC.**

Financial Statements

June 30, 2018 and 2017

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Habitat for Humanity of Durham, Inc.  
Durham, North Carolina

We have audited the accompanying financial statements of Habitat for Humanity of Durham, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Durham, Inc. 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.

*Thomas, Judy + Tucker, P.A.*

October 16, 2018

**HABITAT FOR HUMANITY OF DURHAM, INC**  
**STATEMENTS OF FINANCIAL POSITION**  
June 30, 2018 and 2017

<u>ASSETS</u>	2018		Total
	Unrestricted	Temporarily Restricted	
Current Assets:			
Cash	\$ 724,148	\$ 1,187,031	\$ 1,911,179
Grants and Other Receivables	372,239		372,239
Promises to Give, Net		522,610	522,610
Non-Interest Bearing Mortgage Loans Receivable (Net of Unamortized Discount of \$545,096 for 2018 and \$493,248 for 2017)	283,872		283,872
Land and Construction in Progress	1,903,885		1,903,885
Prepaid Expenses and Deposits	12,852		12,852
Total Current Assets	3,296,996	1,709,641	5,006,637
Property and Equipment, Net	1,969,622		1,969,622
Other Assets:			
Promises to Give, Net		649,170	649,170
Prepaid Joint Venture Fees	109,362		109,362
Non-Interest Bearing Mortgage Loans Receivable (Net of Unamortized Discount of \$8,797,491 for 2018 and \$7,821,242 for 2017)	6,708,104		6,708,104
Land Held for Development	1,349,630		1,349,630
Investment in Joint Ventures	3,064,727		3,064,727
Total Other Assets	11,231,823	649,170	11,880,993
Total Assets	\$ 16,498,441	\$ 2,358,811	\$ 18,857,252
 <u>LIABILITIES AND NET ASSETS</u>			
Current Liabilities:			
Accounts Payable and Accrued Expenses	\$ 577,941	\$	\$ 577,941
Line of Credit	500,900		500,900
Deferred Revenue	49,207		49,207
Current Maturities of Long-Term Debt	132,427		132,427
Total Current Liabilities	1,260,475		1,260,475
Line of Credit			
Long-Term Debt	6,546,877		6,546,877
Guarantee Liability	249,941		249,941
Total Liabilities	8,057,293		8,057,293
Net Assets:			
Unrestricted:			
Undesignated	7,997,562		7,997,562
Board Designated	443,586		443,586
Total Unrestricted Net Assets	8,441,148		8,441,148
Temporarily Restricted		2,358,811	2,358,811
Total Net Assets	8,441,148	2,358,811	10,799,959
Total Liabilities and Net Assets	\$ 16,498,441	\$ 2,358,811	\$ 18,857,252

2017		
Unrestricted	Temporarily Restricted	Total
\$ 60,404	\$ 876,460	\$ 936,864
299,732		299,732
	375,175	375,175
380,041		380,041
1,477,536		1,477,536
10,252		10,252
<u>2,227,965</u>	<u>1,251,635</u>	<u>3,479,600</u>
<u>2,019,987</u>		<u>2,019,987</u>
	219,616	219,616
6,120,588		6,120,588
1,789,196		1,789,196
1,882,606		1,882,606
<u>9,792,390</u>	<u>219,616</u>	<u>10,012,006</u>
<u>\$ 14,040,342</u>	<u>\$ 1,471,251</u>	<u>\$ 15,511,593</u>
\$ 490,372	\$	\$ 490,372
36,941		36,941
67,333		67,333
<u>594,646</u>		<u>594,646</u>
100,000		100,000
4,221,243		4,221,243
249,941		249,941
<u>5,165,830</u>		<u>5,165,830</u>
8,704,512		8,704,512
170,000		170,000
<u>8,874,512</u>		<u>8,874,512</u>
	<u>1,471,251</u>	<u>1,471,251</u>
<u>8,874,512</u>	<u>1,471,251</u>	<u>10,345,763</u>
<u>\$ 14,040,342</u>	<u>\$ 1,471,251</u>	<u>\$ 15,511,593</u>

See Accompanying Notes

**HABITAT FOR HUMANITY OF DURHAM, INC.**  
**STATEMENTS OF ACTIVITIES**  
Years Ended June 30, 2018 and 2017

	2018		
	Unrestricted	Temporarily Restricted	Total
Support and Revenue:			
Transfers to Homeowners	\$ 3,389,000	\$	\$ 3,389,000
Contributions	728,492	1,820,109	2,548,601
Grants and Contracts:			
City of Durham			
Other Grants and Contracts		517,500	517,500
NC Housing Finance Agency	81,500		81,500
ReStore Sales	1,538,349		1,538,349
Mortgage Loan Discount Amortization	637,287		637,287
In-Kind Contributions	141,789	227,861	369,650
Interest Income	8,117		8,117
Repairs	91,637		91,637
Deconstruction	18,141		18,141
Gain on Sale of Property and Equipment			
Miscellaneous Income	93,654		93,654
	<u>6,727,966</u>	<u>2,565,470</u>	<u>9,293,436</u>
Total Support and Revenue			
Net Assets Released from Restrictions			
Satisfaction of Program Restrictions	1,677,910	(1,677,910)	
	<u>8,405,876</u>	<u>887,560</u>	<u>9,293,436</u>
Total Support and Revenue and Net Assets Released from Restrictions			
Expenses:			
Program Services	8,109,494		8,109,494
Support Services:			
Management and General	207,197		207,197
Fundraising	522,549		522,549
	<u>729,746</u>		<u>729,746</u>
Total Support Services			
Total Expenses	<u>8,839,240</u>		<u>8,839,240</u>
Change in Net Assets	(433,364)	887,560	454,196
Net Assets at Beginning of Year	<u>8,874,512</u>	<u>1,471,251</u>	<u>10,345,763</u>
Net Assets at End of Year	<u>\$ 8,441,148</u>	<u>\$ 2,358,811</u>	<u>\$ 10,799,959</u>

2017		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 2,867,000	\$	\$ 2,867,000
899,430	1,471,202	2,370,632
341,204		341,204
120,500		120,500
1,528,929		1,528,929
564,286		564,286
446,579		446,579
13,784		13,784
16,569		16,569
20,781		20,781
5,817		5,817
79,338		79,338
6,904,217	1,471,202	8,375,419
1,206,110	(1,206,110)	
8,110,327	265,092	8,375,419
7,078,505		7,078,505
203,415		203,415
530,312		530,312
733,727		733,727
7,812,232		7,812,232
298,095	265,092	563,187
8,576,417	1,206,159	9,782,576
<u>\$ 8,874,512</u>	<u>\$ 1,471,251</u>	<u>\$ 10,345,763</u>

See Accompanying Notes



**HABITAT FOR HUMANITY OF DURHAM, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
Year Ended June 30, 2018

	2018						Total
	Construction	Family Services	ReStore	Total Program Services	Management and General	Fundraising	
Cost of Homes Transferred	\$ 3,889,229			\$ 3,889,229			\$ 3,889,229
Cost of Repair Program	493,119			493,119			493,119
Salaries and Benefits	52,827	159,488	655,872	868,187	128,624	309,767	1,306,578
Mortgage Discounts		1,665,384		1,665,384			1,665,384
Donation to Habitat for Humanity International	39,911			39,911			39,911
Other Donations			219,833	219,833			219,833
Rent and Utilities	6,500	6,500	63,339	76,339	6,500	6,500	89,339
Professional Services	91,484	5,219	33,322	130,025	5,219	5,508	140,752
Office Expenses		4,320	40,780	45,100	20,949	19,572	85,621
Contract Labor		6,446	17,294	23,740			23,740
Interest Expense	58,749		83,900	142,649			142,649
Tools and Equipment	20,637	2,258	3,564	26,459	4,276	7,949	38,684
Depreciation and Amortization	2,715	2,715	52,625	58,055	2,715	2,715	63,485
Vehicle and Mileage Reimbursement	17,545	3,684	65,833	87,062	9,652	4,842	101,556
Bad Debt Expense					13,066		13,066
Marketing	584		29,939	30,523	546	29,382	60,451
Maintenance and Repairs			44,069	44,069			44,069
Insurance	9,317	9,317	21,108	39,742	9,317	9,317	58,376
Staff and Board Development	5,000	2,376	2,696	10,072	971	456	11,499
Telephone	3,370	2,965	12,398	18,733	4,182	4,213	27,128
Fundraising and Special Events						31,899	31,899
Postage	1,607		4,697	6,304	1,180	1,465	8,949
Family Selection Expenses		3,696		3,696			3,696
Volunteer Expense	65,279			65,279			65,279
Purchases for Resale			125,984	125,984			125,984
Discount on Pledges Receivable						88,964	88,964
<b>Total Functional Expenses</b>	<b>\$ 4,757,873</b>	<b>\$ 1,874,368</b>	<b>\$ 1,477,253</b>	<b>\$ 8,109,494</b>	<b>\$ 207,197</b>	<b>\$ 522,549</b>	<b>\$ 8,839,240</b>

See Accompanying Notes

**HABITAT FOR HUMANITY OF DURHAM, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
Year Ended June 30, 2017

	2017						
	Construction	Family Services	ReStore	Total Program Services	Management and General	Fundraising	Total
Cost of Homes Transferred	\$ 3,510,055			\$ 3,510,055			\$ 3,510,055
Cost of Repair Program	267,811			267,811			267,811
Salaries and Benefits	55,663	132,490	731,434	919,587	109,878	346,445	1,375,910
Mortgage Discounts		1,206,127		1,206,127			1,206,127
Donation to Habitat for Humanity International	67,500			67,500			67,500
Other Donations			261,500	261,500			261,500
Rent and Utilities	5,875	5,875	106,240	117,990	5,875	5,875	129,740
Professional Services	100,167	4,829	23,046	128,042	4,829	12,416	145,287
Office Expenses		7,695	16,153	23,848	19,653	15,487	58,988
Contract Labor			30,920	30,920			30,920
Interest Expense	39,259		84,988	124,247			124,247
Tools and Equipment		2,735	26,442	29,177	3,999	8,494	41,670
Depreciation and Amortization	1,700	1,700	53,640	57,040	2,400	1,700	61,140
Vehicle and Mileage Reimbursement		4,016	27,216	31,232	11,356	4,841	47,429
Bad Debt Expense					26,374		26,374
Marketing		987	68,454	69,441	1,239	44,048	114,728
Maintenance and Repairs			47,598	47,598			47,598
Insurance	10,710	10,710	22,655	44,075	10,710	14,193	68,978
Staff and Board Development	3,402	3,876	5,680	12,958	2,615	4,495	20,068
Telephone		2,735	15,019	17,754	3,407	4,879	26,040
Fundraising and Special Events						58,991	58,991
Postage		2,525	151	2,676	1,080	6,880	10,636
Family Selection Expenses		5,884		5,884			5,884
Volunteer Expense	46,739			46,739			46,739
Purchases for Resale			56,304	56,304			56,304
Discount on Pledges Receivable						1,568	1,568
<b>Total Functional Expenses</b>	<b>\$ 4,108,881</b>	<b>\$ 1,392,184</b>	<b>\$ 1,577,440</b>	<b>\$ 7,078,505</b>	<b>\$ 203,415</b>	<b>\$ 530,312</b>	<b>\$ 7,812,232</b>

See Accompanying Notes

**HABITAT FOR HUMANITY OF DURHAM, INC.**  
**STATEMENTS OF CASH FLOWS**  
Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 454,196	\$ 563,187
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Original Issue Discount on Mortgage Loans Receivable	1,665,384	1,206,127
Amortization of Mortgage Discounts	(637,287)	(564,286)
Forgivable Mortgages	(86,250)	(51,500)
Depreciation and Amortization	63,485	61,140
Amortization of Deferred Finance Costs	20,961	17,444
Gain on Sale of Property and Equipment		(5,817)
Change in Current Assets and Liabilities:		
Mortgage Loans Receivable	(1,433,194)	(837,609)
Grants and Other Receivables	(72,507)	289,942
Promises to Give, Net	(576,989)	42,283
Land and Construction in Progress and Land Held for Development	13,217	(639,620)
Prepaid Expenses and Deposits	(2,600)	(2,474)
Prepaid Joint Venture Expenses	(109,362)	
Investment in Joint Ventures	(71,868)	19,889
Accounts Payable and Accrued Expenses	87,569	190,195
Deferred Revenue	12,266	34,441
Net Cash Provided (Used) by Operating Activities	(672,979)	323,342
Cash Flows from Investing Activities:		
Proceeds from Sale of Property and Equipment		9,750
Purchase of Property and Equipment	(13,120)	(47,299)
Net Cash Used by Investing Activities	(13,120)	(37,549)
Cash Flows from Financing Activities:		
Net Borrowings (Payments) on Line of Credit	400,900	(201,928)
Proceeds from Long-Term Debt	1,392,447	
Principal Payments on Long-Term Debt	(66,458)	(70,478)
Cash Paid for Deferred Finance Costs	(66,475)	
Net Cash Provided (Used) by Financing Activities	1,660,414	(272,406)
Net Increase in Cash	974,315	13,387
Cash, Beginning of Year	936,864	923,477
Cash, End of Year	\$ 1,911,179	\$ 936,864
Supplemental Disclosure of Cash Flow Information:		
Cash Paid During the Year for Interest	\$ 83,778	\$ 76,105
Supplemental Schedule of Noncash Investing and Financing Activities:		
Contribution to Investment in JV in Exchange for Long-Term Debt	\$ 1,110,253	\$

See Accompanying Notes

**HABITAT FOR HUMANITY OF DURHAM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2018 and 2017

1. Organization and Summary of Significant Accounting Policies

Organization

Habitat for Humanity of Durham, Inc. (the "Organization") (a not-for-profit organization) was incorporated in December 1985. The Organization is a nondenominational Christian organization whose mission is to transform lives and communities by making home ownership possible in partnership with people who care. The Organization is an affiliate of Habitat for Humanity International, Inc. ("HFHI"). Although HFHI assists with information resources, training, publications, prayer support and in other ways, the Organization is primarily and directly responsible for its own operations. Since its inception in 1985, the Organization has built or rehabilitated 396 homes (of which 99 were in the past five years) which are sold, interest free, to qualified buyers. In October 2009, the Organization changed its name from Durham County Habitat for Humanity.

In late 2010, the Organization joined the Neighborhood Revitalization Initiative ("NRI"), a HFHI initiative. NRI focuses on repairs and weatherization of homes, as well as beautification and landscaping for qualified, low-income homeowners. Funding for the NRI program has come from various sources. In the past three years, the Organization has completed 168 repairs, including landscaping projects. Additionally, the Organization has been contributing to HFHI to provide funding to build homes internationally. Over \$1,119,950 has been contributed since the Organization began and those contributions, according to HFHI, have built 314 homes. In the past 10 years, Honduras has been the country of focus.

In total, 1,044 families have been the recipients of the Organization's various housing solution programs since the Organization's inception in 1985.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting.

Financial Statement Presentation

The Organization has adopted and prepares financial statements in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-205, *Financial Statements of Not-for-Profit Organizations*. Under this standard, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

Cash and Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and have an original maturity of ninety days or less. There were no cash equivalents at June 30, 2018 and 2017.

**HABITAT FOR HUMANITY OF DURHAM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2018 and 2017

1. Organization and Summary of Significant Accounting Policies (Continued)

Concentration of Credit Risk

The Organization occasionally maintains deposits in excess of federally insured limits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000 for all accounts. The risk is managed by maintaining all deposits in high quality financial institutions. As of June 30, 2018, the Organization's cash balances were in excess of federally insured limits by \$1,135,152.

Restricted and Unrestricted Revenue

Contributions of cash and other assets, as well as grants, are accounted for in accordance with FASB ASC 958-605, *Accounting for Contributions Received and Contributions Made*. In accordance with this standard, contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence or nature of any donor restrictions.

All donor-restricted contributions and grants are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Contributions

All unconditional promises to give (contributions) are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. All unconditional promises to give are considered available for unrestricted use unless specifically restricted by the donor. Amounts received that are designed for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support that increases that net asset class.

Unconditional promises to give are recorded at the present value of estimated future cash flows and net of an allowance for uncollectible promises. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue.

Conditional promises to give are recognized only when the conditions on which they depend are substantially met. The Organization currently has no conditional promises to give.

Non-Interest Bearing Mortgage Loans Receivable

Mortgage loans receivable consist of non-interest bearing mortgages which are secured by real estate and payable in monthly installments over the life of the mortgage. Accounting principles generally accepted in the United States require that receivables that are contractual rights to receive money in the future at a fixed or determinable date be recorded at the present value of the consideration given in the exchange. The Organization follows this method of accounting for its mortgages using effective interest rates supplied by HFHI.

**HABITAT FOR HUMANITY OF DURHAM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2018 and 2017

1. Organization and Summary of Significant Accounting Policies (Continued)

Land, Construction in Progress and Land Held for Development

Land, construction in progress, and land held for development is stated at cost if purchased, or appraised value at date of donation, if donated. Land and construction costs are recognized as program service expense in the period that the property is transferred to the homeowner.

Property and Equipment

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

	<u>Years</u>
Buildings	39
Office Furniture	5
Computer Equipment and Software	5
Machinery and Equipment	5
Leasehold Improvements	39
Vehicles	5

For the years ended June 30, 2018 and 2017, depreciation expense totaled \$63,485 and \$61,140, respectively.

Forgivable Mortgages

To assist participants whose annual incomes do not meet certain levels in qualifying for the purchase of a home, some homes are sold to those participants at an amount below fair market value. In these cases, revenue for the transfer of the home is recorded at full fair market value and the difference between the fair market value and the sales price is recorded as a forgivable mortgage expense. Per written contracts, at the end of the first mortgage term the full amount is forgiven; however, should the homeowner dispose of the home prior to the end of the first mortgage term, the entire forgivable mortgage is due. The Organization approved a total of \$86,250 and \$51,500 in forgivable mortgages for the years ended June 30, 2018 and 2017, of which none was due or repaid in both the years ended June 30, 2018 and 2017.

In-Kind Contributions

The Organization records in-kind contributions of professional services, materials, donated office space, utilities and property and equipment at fair market value at the date of the donation.

**HABITAT FOR HUMANITY OF DURHAM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2018 and 2017

1. Organization and Summary of Significant Accounting Policies (Continued)

In-Kind Contributions (Continued)

The Organization is also the recipient of services donated by volunteers consisting of individuals in the community as well as church and corporate groups. Volunteers also include homeowners who volunteer hours as part of their commitment to home ownership. No amounts have been reflected in the financial statements for volunteer hours since these services do not meet the requirements for recognition in the financial statements. The Organization was the recipient of approximately 58,321 and 55,527 volunteer hours for 2018 and 2017, respectively.

Transfer to Homeowners

Transfer to homeowners represent the sales price at the date of closing.

Functional Allocation of Expenses

Expenses by function have been allocated among program and support services on the basis of time allocations developed by the Organization's staff.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution donation under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

Accounting for Uncertainty in Income Taxes

The Organization has adopted the provisions of FASB ASC 740, *Income Taxes*. Using this guidance, tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the positions will be sustained upon examination by the tax authorities. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of June 30, 2018, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

Advertising

The Organization uses advertising primarily to promote its Restore operations within the community. The costs of advertising are expensed as incurred, and totaled \$60,451 and \$114,728 for the years ended June 30, 2018 and 2017, respectively.

**HABITAT FOR HUMANITY OF DURHAM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2018 and 2017

1. Organization and Summary of Significant Accounting Policies (Continued)

Investment in Joint Ventures

In July 2011, the Organization invested, along with four other Habitat affiliates, in a joint venture (HFHI-SA Leverage IX, LLC) with approximately twenty-three percent (22.45%) ownership to take advantage of New Market Tax Credit ("NMTC") financing. NMTC financing allows an entity to receive a loan or investment capital from outside investors, who will receive new market tax credits to be applied against their federal income tax liability. As a result, the Organization initially invested \$1,982,054 and was able to secure a loan in the amount of \$2,633,117 payable to a community development entity. The investment is accounted for under the equity method. The loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low income residents.

In December 2017, the Organization invested, along with six other Habitat affiliates, in a joint venture (Harbor Community Fund XIII, LLC) with approximately seventeen percent (16.67%) ownership to take advantage of NMTC financing. As a result, the Organization initially invested \$1,207,441 and was able to secure a loan in the amount of \$1,715,000 payable to a community development entity. The investment is accounted for under the equity method. The loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low income residents.

2. Promises to Give

Promises to give at June 30 include the following:

	<u>2018</u>	<u>2017</u>
Unconditional Promises to Give	\$ 1,381,740	\$ 702,722
Less: Unamortized Discount	<u>(136,313)</u>	<u>(47,349)</u>
Net Present Value	1,245,427	655,373
Less: Allowance for Uncollectible Promises	<u>(73,647)</u>	<u>(60,582)</u>
Unconditional Promises to Give-Net	1,171,780	594,791
Less: Amount Due within One Year	<u>(522,610)</u>	<u>(375,175)</u>
Amount Due after One Year	<u>\$ 649,170</u>	<u>\$ 219,616</u>

Unconditional promises to give at June 30, 2018 are due according to the following schedule:

Less Than One Year	\$ 522,610
One to Five Years	<u>649,170</u>
Total Unconditional Promises to Give	<u>\$ 1,171,780</u>

Amounts receivable in future periods were discounted using a rate of 4.40%.



**HABITAT FOR HUMANITY OF DURHAM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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3. Mortgage Loans Receivable

Non-interest bearing mortgage loans receivable consisted of the following at June 30:

	2018	2017
Non-Interest Bearing Mortgage Loans Receivable	\$ 16,334,563	\$ 14,815,119
Less: Unamortized Discount	(9,342,587)	(8,314,490)
Net Present Value	6,991,976	6,500,629
Less: Amount Due within One Year	(283,872)	(380,041)
Amount Due after One Year	\$ 6,708,104	\$ 6,120,588

These mortgages do not earn interest and are secured by deeds of trust on homes. If homeowners default on their mortgages, the Organization retains all or a portion of the equity in the home. Future annual mortgage receipts for mortgage loans receivable, net of discount, are as follows for the years ending June 30:

2019	\$ 828,969
2020	813,180
2021	797,932
2022	765,238
2023	751,350
Thereafter	12,377,894
	16,334,563
Less: Discount	(9,342,587)
	\$ 6,991,976

4. Land, Construction in Progress and Land Held for Development

Land and construction in progress and land held for development consisted of the following at June 30:

	2018	2017
Land (including infrastructure)	\$ 1,657,487	\$ 1,828,083
Construction in Progress	1,596,028	1,438,649
	3,253,515	3,266,732
Less: Current Portion	(1,903,885)	(1,477,536)
	\$ 1,349,630	\$ 1,789,196

**HABITAT FOR HUMANITY OF DURHAM, INC.**  
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June 30, 2018 and 2017

5. Property and Equipment

Property and equipment consisted of the following at June 30:

	2018	2017
Buildings	\$ 2,077,833	\$ 2,077,833
Office Furniture, Computer Equipment and Software	81,231	81,231
Machinery and Equipment	18,294	13,708
Leasehold Improvements	271,466	260,312
Vehicles	57,607	52,512
	2,506,431	2,485,596
Less: Accumulated Depreciation	(536,809)	(465,609)
Net Property and Equipment	\$ 1,969,622	\$ 2,019,987

6. Investment in Joint Ventures

In July 2011, the Organization participated in a NMTC program. The program provides tax credits to eligible organizations for investment in “qualified low-income community investments”. Program compliance requirements included creation of a promissory note and investment in a qualified community development entity (“CDE”). Tax credit recapture is required if compliance requirements are not met over a seven-year period.

In July 2011, the Organization recorded its 22.45% investment in HFHI-SA Leverage IX, LLC at an initial cost of \$1,982,054. The Organization continues to record the investment under the equity method. The investment is recorded at \$1,862,716 and \$1,882,606 at June 30, 2018 and 2017, respectively.

In November 2018, HFHI-SA Investment Fund VI, LLC, (the “Fund”), and the upstream effective owner of HFHI-SA NMTC VI, LLC (holder of the promissory note due from the Organization) expects the equity fund owners of the Fund to exercise their put option. Under the terms of the put option agreement, HFHI-SA Leverage IX, LLC is expected to purchase the ownership interest of the Fund for \$1,000 plus certain other costs as defined by the put option agreement. Exercise of the option will effectively allow the Organization to extinguish its outstanding debt owed to the Fund. (See Note 9 for details of promissory note.)

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6. Investment in Joint Ventures (Continued)

In December 2017, the Organization participated in another NMTC program. The Organization recorded its 16.67% investment in Harbor Habitat Leverage II, LLC at an initial cost of \$1,207,441. The Organization records the investment under the equity method. The investment is recorded at \$1,202,011 at June 30, 2018.

In December 2024, Twain Investment Fund 296, LLC, (the "Twain Fund"), and the upstream effective owner of Harbor Habitat Leverage II, LLC (holder of the promissory note due from the Organization) expects the equity owners of the Twain Fund to exercise their put option. Under the terms of the put option agreement Harbor Habitat Leverage II, LLC is expected to purchase the ownership interest of the Twain Fund for \$1,000 plus certain other costs as defined by the put option agreement. Exercise of the option will effectively allow the Organization to extinguish its outstanding debt owed to the Twain Fund. (See Note 9 for details of promissory note.)

7. Deferred Revenue

The balance in deferred revenue at June 30, 2018 and 2017 totaled \$49,207 and \$36,941, respectively, and consisted of amounts received in advance for future home maintenance and repairs.

8. Line of Credit

The Organization has a revolving line of credit with Branch Banking & Trust Company that has an interest rate based on prime (5.00% at June 30, 2018) and matures in March 2019. The line of credit was renewed during the year ended June 30, 2018 and requires monthly interest only payments until maturity. The maximum available on the line of credit is \$700,000 and is secured by twenty mortgage loans receivable totaling \$789,283 as of June 30, 2018. The outstanding balance on the line of credit as of June 30, 2018 and 2017 was \$500,900 and \$100,000, respectively.

**HABITAT FOR HUMANITY OF DURHAM, INC.**  
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9. Long-Term Debt

Non-interest bearing long-term debt consisted of the following at June 30:

	2018	2017
Note payable, real estate, with a fixed interest rate of 3.250%, monthly payments of \$9,170 beginning October 2013 with final payment and accrued interest due September 2023, secured by building, leases and rents.	\$ 1,620,955	\$ 1,676,569
Note payable, Habitat for Humanity International, Inc., monthly payments of \$145 from January 2014 through April 2018, with a final payment of \$185 due May 2018, non-interest bearing, unsecured (discount is based on imputed interest rate of 8.0%).		1,591
Note payable, Habitat for Humanity International, Inc., monthly payments of \$312 from January 2016 through December 2019, with a final payment of \$336 due January 2020, non-interest bearing, unsecured (discount is based on imputed interest rate of 3.25%).	5,640	9,384
Note payable, Habitat for Humanity International, Inc., monthly payments of \$78 from January 2016 through December 2019, with a final payment of \$84 due January 2020, non-interest bearing, unsecured (discount is based on imputed interest rate of 3.25%).	1,410	2,346
Note payable, Habitat for Humanity International, Inc., monthly payments of \$225 from January 2016 through June 2020, non-interest bearing, unsecured (discount is based on imputed interest rate of 3.25%).	5,380	8,080
Note payable, Habitat for Humanity International, Inc., monthly payments of \$156 from July 2016 through July 2020, non-interest bearing, unsecured (discount is based on imputed interest rate of 3.25%).	4,691	6,564

**HABITAT FOR HUMANITY OF DURHAM, INC.**  
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9. Long-Term Debt (Continued)

	2018	2017
Note payable Habitat for Humanity International (See paragraph below for terms.)	787,700	
Note payable to Harbor Habitat Leverage II, LLC (See paragraph below for terms.)	1,715,000	
Note payable to HFHI – SA NMTC VI, LLC (See paragraph below for terms.)	2,633,117	2,633,117
Less: Discount	6,773,893 (1,929)	4,337,651 (3,166)
Less: Current Maturities	6,771,964 (132,427)	4,334,485 (67,333)
Less: Unamortized Deferred Finance Costs	(92,660)	(45,910)
Total Long-Term Portion	<u>\$ 6,546,877</u>	<u>\$ 4,221,243</u>

Combined aggregate maturities of long-term debt are as follows for the years ending June 30:

2019	\$ 132,427
2020	134,888
2021	133,837
2022	138,003
2023	1,452,611
Thereafter	4,782,127
	6,773,893
Less: Discount	(1,929)
Less: Unamortized Deferred Finance Costs	(92,660)
	<u>\$ 6,679,304</u>

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9. Long-Term Debt (Continued)

In July 2011, the Organization entered into a \$2,633,117 note payable to HFHI-SA NMTC, LLC. The note payable requires interest only payments until November 15, 2019 at 0.76%. Commencing on November 15, 2019, the Organization will make semi-annual payments in an amount sufficient to fully amortize the remaining principal balance of the loan over eight years. The loan matures on the earlier of July 13, 2027 or the date on which lender exercises its right to accelerate the debt upon occurrence of an event of default, as defined by the agreement. The loan is secured by substantially all assets acquired by the Organization from the project loan proceeds. The note payable has a put option feature that is expected to be exercised in November 2018 (see Note 6). As part of the NMTC program, 99% of the interest payments will be refunded to the Organization on a monthly basis.

In December 2017, the Organization entered into a \$1,715,000 note payable to Harbor Habitat Leverage II, LLC. The note payable requires interest only payments until June 10, 2025 at 1.00%. Commencing on June 10, 2025, the Organization will make semi-annual payments in an amount sufficient to fully amortize the remaining principal balance of the loan over thirteen years. The loan matures on the earlier of December 20, 2037 or the date on which lender exercises its right to accelerate the debt upon occurrence of an event of default, as defined by the agreement. The loan is secured by substantially all assets acquired by the Organization from the project loan proceeds. The note payable has a put option feature that is expected to be exercised in December 2024 (see Note 6). As part of the NMTC program, 99% of the interest payments will be refunded to the Organization on a monthly basis.

The real estate notes payable are secured by a letter of credit, which is secured by a deed of trust on the property. In addition, the notes payable provide for certain restrictive covenants, of which all were met as of June 30, 2018 and 2017.

The net book value of assets securing debt totaled \$1,931,049 as of June 30, 2018.

In June 2018, the Organization entered into a \$787,700 note payable to Habitat for International, Inc. The note payable accrues interest at 4.25% and requires quarterly principal and interest payments through maturity on June 25, 2028. The note is secured by the Organization's mortgage receivables and all corresponding property titles and rights.

10. Retirement Plan

The Organization provides a 401(k) retirement plan covering all eligible employees meeting age and service requirements. The interest in any participant's account is at all times 100% vested and non-forfeitable. During 2013, the Organization switched from a 403(b) plan to a 401(k) plan. The Organization may make an annual contribution up to 5% of employee annual salaries plus a matching contribution equal to the amount of the employee annual contribution up to a maximum of 2%. The Organization made a contribution of 5% and a matching contribution of 2% for the years ended June 30, 2018 and 2017. The Organization contributed a total of \$81,437 and \$93,914 to the 401(k) plan for the years ended June 30, 2018 and 2017, respectively.

**HABITAT FOR HUMANITY OF DURHAM, INC.**  
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11. Habitat ReStore

The Organization entered into a memorandum of understanding agreement with Habitat for Humanity, Orange County, N.C., Inc. (“HHOC”) on July 2, 2009, regarding the acquisition and operation of real estate and Habitat Restore (the “Store”) serving Durham and Orange Counties. The memorandum of understanding acknowledges that the Organization has been involved in the successful operation of the Store, which is a resale store benefiting Habitat for Humanity in Orange and Durham Counties.

The real estate upon which the Store exists is owned by the Organization. The debt instrument used to finance the purchase of the real estate and building for the Store is also in the Organization’s name. As part of the agreement, the value of the real estate shall be shared equally with HHOC.

The value of the real estate was approximately \$2.3 million as of the date of purchase and the outstanding debt balance totaled approximately \$1.62 million and \$1.68 million as of June 30, 2018 and 2017, respectively. (See Note 9 for details of promissory note.)

The Store sells good quality, donated household goods and select building supplies to the public. The profits and equity from the Store’s operations are to be shared by the Organization and HHOC. All of the assets are owned by the Organization. In September 2016, the Organization entered into a new memorandum of understanding with HHOC regarding the joint ownership and operation of real estate and the store serving Durham and Orange Counties. The new memorandum granted sole ownership of the Store to the Organization and altered the allocation of excess cash resulting from Store operations between the Organization and HHOC. HHOC receives distributions equal to or greater than the average distribution for the proceeding three years, but not to exceed 125% of the average. Once HHOC has received its distribution, any remaining excess cash is distributed equally between the Organization and HHOC. The Agreement between the Organization and HHOC provides that were the Store to dispose of the building, each organization would split the net proceeds equally.

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

**HABITAT FOR HUMANITY OF DURHAM, INC.**  
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**12. Related Party Transactions**

The Organization made a distribution of excess cash to HHOC of \$219,833 and \$261,500 in 2018 and 2017, respectively, in connection with the Store's operations.

Each year the Organization makes a contribution to Habitat for Humanity International, Inc. which uses these funds to construct homes in economically depressed areas around the world. Program service expense includes \$39,911 and \$67,500 contributed to Habitat for Humanity International, Inc. for the years ended June 30, 2018 and 2017, respectively.

**13. Operating Leases**

The Organization leases office equipment and vehicles under six operating lease agreements that provide for monthly payments ranging from \$48 to \$1,366 through September 2021. Rent expense totaled \$57,221 and \$48,819 for the years ended June 30, 2018 and 2017, respectively. Future minimum lease payments are as follows for the years ending June 30:

2019	\$ 44,225
2020	44,033
2021	<u>7,339</u>
	<u>\$ 95,597</u>

The Organization also leases warehouse space and other equipment on a month-to-month basis. Equipment and warehouse space rental expense totaled \$19,140 and \$18,350 for the years ended June 30, 2018 and 2017.

The Organization also occupies donated office space. Donated office space and utilities valued at \$20,000 is recorded as an in-kind contribution and offsetting expense in 2018 and 2017.

**14. Restrictions on Net Assets**

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

	<u>2018</u>	<u>2017</u>
Cash and Pledges Designated for Homebuilding or Operations	\$ 2,358,811	\$ 594,791
Sponsorships Paid in Advance	<u>                    </u>	<u>876,460</u>
	<u>\$ 2,358,811</u>	<u>\$ 1,471,251</u>



**HABITAT FOR HUMANITY OF DURHAM, INC.**  
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15. Designation of Unrestricted Net Assets

The Board of Directors has designated a portion of unrestricted net assets for specific projects or emergencies. As of June 30, 2018 and 2017, designated unrestricted net assets are:

	2018	2017
Future Projects	\$ 273,586	\$
ReStore / Store Emergencies	170,000	170,000
 Total Designated Unrestricted Net Assets	 \$ 443,586	 \$ 170,000

In October 2016, the Board of Directors released \$80,000 from the ReStore / Store Emergencies unrestricted net assets.

In September 2018, the Board of Directors released the remaining \$170,000 from the ReStore / Store Emergencies unrestricted net assets.

16. Guarantee Liability

The Organization has entered into mortgage buy-back covenant agreements with the City of Durham and NCHFA for eligible homebuyers who receive second and third mortgages issued by the City and NCHFA. In the event the homeowners become delinquent with mortgage payments, the Organization may be required to assume the outstanding balance of the loan. The Organization executed a total of \$765,900 and \$962,075 of mortgages under the agreements during the 2018 and 2017 fiscal years, respectively. Second and third mortgages issued under the agreements totaled \$10,715,088 and \$9,949,188 as of June 30, 2018 and 2017, respectively.

Under the provisions of FASB ASC 460, *Guarantees*, the Organization is required to record a liability at the fair value the Organization expects to assume upon inception of the agreement. The liability was estimated based upon historical performance under the agreements and estimated future obligations to perform under the guarantees. Amounts accrued totaled \$249,941 as of June 30, 2018 and 2017.

17. Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through October 16, 2018, which is the date the financial statements were available to be issued. See Note 15 for the release of designated unrestricted net assets subsequent to year end.