

**HABITAT FOR HUMANITY OF
NEW CASTLE COUNTY, INC.**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORTS**

JUNE 30, 2018 AND 2017

HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.
TABLE OF CONTENTS
JUNE 30, 2018 AND 2017

	<u>Page No.</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	7
Supplementary Information	
Independent Auditors' Report on Supplementary Information	22
Schedules of Functional Expenses	23



BELFINT • LYONS • SHUMAN
Certified Public Accountants

www.belfint.com

Independent Auditors' Report

To the Board of Directors
Habitat for Humanity of New Castle County, Inc.

Report on Financial Statements

We have audited the accompanying financial statements of Habitat for Humanity of New Castle County, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities 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 organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such

To the Board of Directors
Habitat for Humanity of New Castle County, Inc.

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 New Castle County, 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.

Belfint, Lyons & Shuman, P.A.

November 29, 2018
Wilmington, Delaware

HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

ASSETS

	2018	2017
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,023,895	\$ 910,191
Accounts Receivable	11,734	15,945
Pledges and Grants Receivable (Current Portion, Net of Allowance)	2,695	10,925
Prepaid Expenses	35,538	47,975
Inventory	202,338	188,195
Non-Interest-Bearing Mortgages Receivable (Current Portion)	315,853	263,739
TOTAL CURRENT ASSETS	1,592,053	1,436,970
NON-INTEREST-BEARING MORTGAGES RECEIVABLE		
Non-Interest-Bearing Mortgages Receivable (Net of Current Portion)	6,159,668	5,246,361
Discount on Non-Interest-Bearing Mortgages Receivable	(3,031,927)	(2,623,045)
TOTAL NON-INTEREST-BEARING MORTGAGES RECEIVABLE (NET OF CURRENT PORTION)	3,127,741	2,623,316
PROPERTY AND EQUIPMENT (NET)	867,298	906,261
OTHER ASSETS		
Pledges and Grants Receivable (Net of Current Portion)	20,225	34,050
Investments in Endowment Fund	890,812	771,808
Construction in Progress, Net of Accrued Subsidies	1,318,264	1,683,738
Security Deposits	22,874	22,874
TOTAL OTHER ASSETS	2,252,175	2,512,470
TOTAL ASSETS	\$ 7,839,267	\$ 7,479,017

LIABILITIES AND NET ASSETS

	<u>2018</u>	<u>2017</u>
CURRENT LIABILITIES		
Notes Payable (Current Maturities)	\$ 8,624	\$ 13,287
Accounts Payable	205,650	127,509
Accrued Expenses	35,633	31,313
Deferred Revenue	6,100	-
	<u>256,007</u>	<u>172,109</u>
TOTAL CURRENT LIABILITIES	256,007	172,109
OTHER LIABILITIES		
Notes Payable (Net of Current Maturities)	83,000	180,432
	<u>83,000</u>	<u>180,432</u>
TOTAL LIABILITIES	<u>339,007</u>	<u>352,541</u>
NET ASSETS		
Unrestricted	6,216,979	5,953,316
Temporarily Restricted	983,281	873,160
Permanently Restricted	300,000	300,000
	<u>7,500,260</u>	<u>7,126,476</u>
TOTAL NET ASSETS	7,500,260	7,126,476
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,839,267</u>	<u>\$ 7,479,017</u>

The accompanying notes are an integral part of these financial statements

HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2018 AND 2017

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE				
Contributions and Grants	\$ 614,809	\$ 1,108,630	\$ -	\$ 1,723,439
Transfers to Homeowners	1,241,286	-	-	1,241,286
Noncash Donations for Resale at ReStore	1,441,820	-	-	1,441,820
Merchandise and ReStore Revenues	1,439,401	-	-	1,439,401
Less: Merchandise and Cost of Goods Sold	(1,533,288)	-	-	(1,533,288)
Event Income	197,269	-	-	197,269
Less: Event Expenses	(123,431)	-	-	(123,431)
Other Revenue	18,748	-	-	18,748
Mortgage Loan Discount Amortization	198,325	-	-	198,325
Interest Income	2,166	-	-	2,166
Gain on Debt Extinguishment and Liquidation of Investment in Joint Venture HFHI-SA Leverage III	-	-	-	-
Investment Gain	38,852	-	-	38,852
	<u>3,535,957</u>	<u>1,108,630</u>	<u>-</u>	<u>4,644,587</u>
Net Assets Released from Restrictions	998,509	(998,509)	-	-
TOTAL SUPPORT AND REVENUE	<u>4,534,466</u>	<u>110,121</u>	<u>-</u>	<u>4,644,587</u>
EXPENSES				
Program Services (89%, 86%)	3,787,559	-	-	3,787,559
Supporting Services				
Management and General (5%, 6%)	216,132	-	-	216,132
Fundraising (6%, 8%)	267,112	-	-	267,112
TOTAL EXPENSES	<u>4,270,803</u>	<u>-</u>	<u>-</u>	<u>4,270,803</u>
CHANGE IN NET ASSETS	263,663	110,121	-	373,784
NET ASSETS - Beginning of Year	<u>5,953,316</u>	<u>873,160</u>	<u>300,000</u>	<u>7,126,476</u>
NET ASSETS - End of Year	<u>\$ 6,216,979</u>	<u>\$ 983,281</u>	<u>\$ 300,000</u>	<u>\$ 7,500,260</u>

2017

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 582,761	\$ 1,146,555	\$ -	\$ 1,729,316
973,447	-	-	973,447
1,364,939	-	-	1,364,939
1,361,851	-	-	1,361,851
(1,459,352)	-	-	(1,459,352)
221,465	-	-	221,465
(77,078)	-	-	(77,078)
7,500	-	-	7,500
625,500	-	-	625,500
3,034	-	-	3,034
255,208	-	-	255,208
77,391	-	-	77,391
3,936,666	1,146,555	-	5,083,221
644,488	(644,488)	-	-
4,581,154	502,067	-	5,083,221
3,733,649	-	-	3,733,649
263,089	-	-	263,089
330,493	-	-	330,493
4,327,231	-	-	4,327,231
253,923	502,067	-	755,990
5,699,393	371,093	300,000	6,370,486
\$ 5,953,316	\$ 873,160	\$ 300,000	\$ 7,126,476

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

HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 373,784	\$ 755,990
Adjustments to Reconcile Change in Net Assets to Net Cash from Operating Activities		
Bad Debt Expense	15,730	-
Depreciation Expense	54,730	70,841
Interest From Amortization of Loan Fees	-	60,863
Investment Gain	(38,852)	(77,391)
Gain on Debt Extinguishment and Liquidation of Investment in Joint Venture HFHI-SA Leverage III	-	(255,208)
Net Mortgage Discounts Issued	607,207	567,417
Mortgage Loan Discount Amortization	(198,325)	(625,500)
Transfer to Homeowners	(1,241,286)	(973,447)
Notes Payable Converted to Grant Revenue	(88,823)	(118,431)
Changes in Assets and Liabilities		
Mortgages Receivable (including Changes in Discount from Exchanges)	275,865	228,453
Accounts Receivable	4,211	(15,945)
Pledges and Grants Receivable	6,325	(38,475)
Prepaid Expenses	12,437	1,599
Inventories	(14,143)	(12,330)
Construction in Progress, Net of Accrued Subsidies	365,474	(27,161)
Restricted Cash Released to Operations	-	150,153
Accounts Payable	78,141	5,843
Accrued Expenses	4,320	4,295
Accrued Interest	-	(1,868)
Deferred Revenue	6,100	-
	222,895	(300,302)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(15,767)	(2,560)
Deposits to Investments in Endowment Fund	(80,152)	-
	(95,919)	(2,560)

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

HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.
STATEMENTS OF CASH FLOWS - CONTINUED
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of Notes Payable	<u>\$ (13,272)</u>	<u>\$ (13,272)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	113,704	(316,134)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>910,191</u>	<u>1,226,325</u>
CASH AND CASH EQUIVALENTS - End of Year	<u>\$ 1,023,895</u>	<u>\$ 910,191</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for Interest	<u>\$ 13,242</u>	<u>\$ 11,271</u>
Noncash Investing and Financing Activities		
Reduction in Investment in Joint Venture from Exercised Put Option	<u>\$ -</u>	<u>\$ 2,503,538</u>
Reduction in Notes Payable from Exercised Put Option	<u>\$ -</u>	<u>\$ 2,758,746</u>
Reduction in Notes Payable from Notes Payable Converted to Grant Revenue	<u>\$ 88,823</u>	<u>\$ 118,431</u>

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

HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1: NATURE OF ACTIVITIES

Habitat for Humanity of New Castle County, Inc., a nonprofit organization (Organization), was incorporated in 1986. The Organization is an affiliate of Habitat for Humanity International, Inc. (Habitat International), a nondenominational, Christian, nonprofit organization whose purpose is to create decent, affordable housing for those in need and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists with information resources, training, publications, prayer support, and in other ways, the Organization is primarily and directly responsible for its own operations.

The Organization also provides its “A Brush with Kindness” (ABWK) program. ABWK is a nationwide effort to serve low-income homeowners who struggle to maintain the exterior of their homes. Groups of volunteers work alongside the homeowner to revitalize a home's exterior.

The Organization operates two ReStores, with locations in Wilmington and Middletown, Delaware. These ReStores are retail outlets where quality used and surplus building materials, furniture, and appliances are sold at a fraction of normal prices. The materials sold by the ReStores are usually donated from building supply stores, contractors, demolition crews or from individuals who wish to show their support for the Organization. In addition to raising funds, the ReStores help the environment by rechanneling good, usable materials into use. The proceeds from the ReStores help the Organization fund the construction of houses within the community. The ReStores are a department of the Organization and not a separate legal entity.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The Organization prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this basis, revenues are recognized when earned and expenses are recognized when the obligation is incurred.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Statement Reporting - As required by the *Financial Statements of Not-for-Profit Entities* of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) No. 958, the Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Financial Statement Reporting - Continued

Unrestricted Net Assets - Unrestricted net assets are those that are neither permanently restricted nor temporarily restricted for a specific purpose or purposes, and are available for the general operations of the Organization.

Temporarily Restricted Net Assets - Operating funds restricted by the donor, grantor, or other outside party for particular operating purposes are deemed to be earned and reported as revenues when the Organization has incurred expenditures in compliance with the specific restrictions, or as a result of the passage of time restricting the use of the funds. Donor-restricted support is reported as an increase in temporarily restricted net assets. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as assets released from restrictions.

Permanently Restricted Net Assets - Permanently restricted funds are restricted by the donor to be maintained in perpetuity for the use of the donee organization. Generally, the donors of these funds permit the donee organization to use all or part of the income earned on related investments for general or specific purposes. Accumulated unexpended investment gains on permanently restricted funds are considered temporarily restricted until such accumulated gains are spent; temporarily restricted net assets are then reclassified and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Cash and Cash Equivalents - The Organization considers all highly liquid investments with a maturity of three months or less to be cash equivalents. Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Organization has never experienced any losses related to these balances. Deposit balances in excess of federally insured limits as of June 30, 2018 and 2017 were \$569,866 and \$469,729, respectively.

Accounts Receivable - Accounts receivable are carried at cost. The Organization does not accrue finance or interest charges. On a periodic basis, management evaluates its accounts receivable based on the history of past write-offs and collections. An account is written off when it is determined that all collection efforts have been exhausted.

The Organization has not recognized an allowance for doubtful accounts receivable since experience and management's estimation indicate an allowance for such amounts is immaterial.

HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Pledges and Grants Receivable - Unconditional pledges receivable are recognized as revenues or gains in the period received. Conditional pledges receivable are recognized when the conditions on which they depend are substantially met. Based on management's assessment, the Organization provides for estimated uncollectible amounts through a charge to expense and a credit to a valuation allowance. Balances that remain outstanding after the Organization has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to pledges and grants receivable.

Fair Value of Financial Instruments - FASB ASC 820, *Fair Value Measurement*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The carrying amounts for cash and cash equivalents, receivables, prepaid expenses, payables, accrued expenses, and deferred revenue approximate their fair value because of their short-term maturity. The carrying value amount of long-term debt approximates its fair value since the Organization's interest rates approximate current interest rates.

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fair Value of Financial Instruments - Continued

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Pursuant to the accounting guidance for fair value measurements and its subsequent updates, fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurement for assets and liabilities required or permitted to be recorded at fair value, the Organization considers the principal or most advantageous market in which it would transact, and it considers assumptions that market participants would use when pricing the asset or liability.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of June 30, 2018 and 2017.

Endowment Fund, Pooled Separate Accounts - Valued at the net asset value (NAV) of units held by the Organization at year end based on the market value of its underlying investments. Although the pooled separate accounts are not available in an active market, the NAV of the units are approximated based on the quoted prices of the underlying investments that are traded in an active market.

The following tables set forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30:

	2018			
	Level 1	Level 2	Level 3	Total
Investment in Pooled Separate Accounts	\$ -	\$ 890,812	\$ -	\$ 890,812
	<u>\$ -</u>	<u>\$ 890,812</u>	<u>\$ -</u>	<u>\$ 890,812</u>
	2017			
	Level 1	Level 2	Level 3	Total
Investment in Pooled Separate Accounts	\$ -	\$ 771,808	\$ -	\$ 771,808
	<u>\$ -</u>	<u>\$ 771,808</u>	<u>\$ -</u>	<u>\$ 771,808</u>

HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Inventories - Inventories are valued at the lower of cost or market, with cost determined by the first-in, first-out method.

Mortgages Receivable - Mortgages receivable consist of non-interest-bearing mortgages which are secured by real estate and payable in monthly installments over the life of the mortgage. Non-interest-bearing mortgages have been discounted based upon prevailing market rates for low income housing at the inception of the mortgages. Utilizing a straight-line basis, this discount will be recognized as mortgage loan discount amortization income over the term of the mortgage.

Because mortgages receivable are secured by real estate, and ultimately through the process of foreclosure, management believes that procedures will result in collection. Accordingly, no allowance for uncollectible accounts has been provided.

Allowance for Mortgage Receivable Losses - The Organization uses established underwriting criteria to ensure that only families who meet the Organization's financial and credit criteria are approved to be partner families and receive a non-interest-bearing mortgage loan from the Organization. This includes, but is not limited to, a thorough review of each prospective homeowner's credit report, sources of income, and financial history.

The Organization regularly reviews its portfolio of mortgage notes receivable and monitors the accounts for delinquencies. Homeowners whose mortgages are more than 30 days past due are considered to be in an early stage of default. During the period of delinquency, the Organization contacts the homeowner using collection efforts and establishes a payment plan with the homeowner, if necessary. Homeowners whose mortgages are more than 90 days past due, who have not made satisfactory payment arrangements or reached a deed-in-lieu of foreclosure agreement, are subject to foreclosure proceedings.

Non-interest-bearing mortgages originated are discounted at the time of sale based on historical experience from the Organization's portfolio mortgages and upon prevailing market rates. This results in the net mortgage receivable balances being less than the home's fair market value. Therefore, the Organization believes that losses resulting from nonpayment of mortgage notes receivable, given its collateral value, are not likely. Accordingly, the Organization has not recorded an allowance for mortgage notes receivable losses.

Investment in Joint Venture - The investment in joint venture is accounted for using the equity method. Under the equity method, the initial investment is recorded at cost and is subsequently increased or decreased by its share of income or loss and increased or decreased by the amount of any contributions made or distributions received.

HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property and Equipment - Property and equipment acquired by the Organization are considered owned by the Organization and are valued at cost. Donated property and equipment acquired by the Organization are considered owned by the Organization and are valued at fair value at the time of the donation. Depreciation is provided on the straight-line method. Maintenance and minor repairs are charged to operations when incurred. When assets are retired or sold, the related costs and accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in current operations.

The estimated useful lives for depreciation are:

Automobiles	5 Years
Buildings and Improvements	7 - 39 Years
Equipment, Furniture, and Software	3 - 7 Years

Long-Lived Assets - As required by FASB ASC 360, *Property, Plant, and Equipment*, long-lived assets are required to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less the cost to sell. There was no impairment loss as of June 30, 2018 and 2017.

Intangible Assets - Intangible assets consist of loan origination fees incurred in connection with obtaining long-term financing. During the year ended June 30, 2017, the Organization retroactively adopted the requirements in ASC 835-30, *Imputation of Interest*, to present debt issuance costs as a reduction of the carrying amount of the debt rather than as an asset. Amortization of the loan origination fees is calculated using the straight-line method over the term of the related financing agreement and is reported as interest expense.

Construction in Progress - Construction in progress is carried at cost less accrued subsidies. Cost includes initial acquisition and all subsequent costs to develop the property. It is not the Organization's intent to earn a profit selling developed property. Generally, sales are at a loss. The Organization considers losses incurred to be a subsidy to the respective buyer. However, in accordance with accounting principles generally accepted in the United States of America, the Organization records a provision of estimated losses on construction in progress in the period such losses are determined. These estimated losses are recorded on the statements of financial position as accrued subsidies included in the cost of construction incurred. As of June 30, 2018 and 2017, accrued subsidies on construction in progress were \$1,699,508 and \$1,594,714, respectively.

Revenue Recognition - Contributions received are recorded as unrestricted, temporarily, or permanently restricted support depending on the existence or nature of any donor restrictions. Contributions are recognized when the donor makes an unconditional promise to give. Contributions that are restricted by the donor are reported as increases in

HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Revenue Recognition - Continued - temporarily or permanently restricted net assets. When a temporary restriction expires, the net assets are reclassified to unrestricted net assets as net assets released from restrictions in the statements of activities.

Donated Services - The Organization receives a significant amount of donated services from unpaid volunteers who assist in program services and support services. No amounts have been recognized in the statements of activities because the criteria for recognition under accounting principles generally accepted in the United States of America have not been satisfied.

Donated Inventory - The Organization received noncash contributions from donors in the amount of \$1,441,820 and \$1,364,939 for the years ended June 30, 2018 and 2017, respectively. These noncash items were provided to the ReStore for resale to support the Organization's mission.

Transfers to Homeowners - Transfers to homeowners are recorded at the gross mortgage amount plus down payment received. Non-interest-bearing mortgages have been discounted based upon prevailing market rates for low income housing at the inception of the mortgages. Utilizing a straight-line basis, this discount will be recognized as mortgage loan discount amortization income over the term of the mortgage.

Home Construction Costs - Costs incurred in conjunction with home construction are capitalized as construction in progress. Capitalized construction costs are expensed when ownership transfers to the homeowners. Any post-settlement costs are expensed as incurred.

Functional Allocation of Expenses - The costs of providing programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the programs and supporting services benefited.

Income Taxes - The Organization is exempt from federal income tax under Internal Revenue Code Section 501(c)(3). However, a Form 990, Return of Organization Exempt from Income Taxes, is required to be filed each year. The Organization complies with other Internal Revenue Service reporting requirements regarding contributions received and payments to independent contractors.

The Organization has evaluated the effects of FASB ASC 740, *Income Taxes*, and has concluded that the Organization recognizes tax benefits only to the extent that the Organization believes it is “more likely than not” that its tax positions will be sustained upon a taxing authorities' examination.

The federal informational returns of the Organization for the years ended June 30, 2015, 2016, and 2017 are subject to examination by the tax authorities, generally for three years after they were filed.

HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Subsequent Events - The Organization's policy is to evaluate events and transactions subsequent to its year end for potential recognition in the financial statements or disclosure in the notes to the financial statements. Management has evaluated events and transactions through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

NOTE 3: PLEDGES AND GRANTS RECEIVABLE

As of June 30, 2018 and 2017, unconditional promises to give for the construction of homes were \$28,650 and \$44,975, respectively. The balances in the allowance for uncollectible pledges and grants receivable as of June 30, 2018 and 2017 were \$5,730 and \$0, respectively. The Organization considers the discount to net present value to be immaterial as of June 30, 2018 and 2017, and therefore, a provision for the present value discount has not been made.

Pledges and grants receivable consisted of the following unconditional promises to give:

	<u>2018</u>	<u>2017</u>
Amounts Due in		
Less than One Year	\$ 8,425	\$ 10,925
One to Five Years	<u>20,225</u>	<u>34,050</u>
 Gross Pledges and Grants Receivable	 28,650	 44,975
 Less: Allowance for Uncollectible Pledges and Grants Receivable	 <u>(5,730)</u>	 <u>-</u>
 Pledges and Grants Receivable (Net) - June 30	 <u><u>\$ 22,920</u></u>	 <u><u>\$ 44,975</u></u>

NOTE 4: CONDITIONAL PROMISES TO GIVE

As of June 30, 2018 and 2017, the Organization had conditional promises to give in the amount of \$0 and \$160,000, respectively. The conditions to satisfy the grants were to complete and sell various housing projects.

HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE 5: PROPERTY AND EQUIPMENT

Property and equipment as of June 30 were as follows:

	2018	2017
Land	\$ 152,523	\$ 152,523
Automobiles	98,953	98,953
Building and Improvements	1,127,782	1,115,223
Equipment, Furniture, and Software	138,822	135,614
	1,518,080	1,502,313
Less: Accumulated Depreciation	650,782	596,052
Net Property and Equipment	\$ 867,298	\$ 906,261

Depreciation expense for the years ended June 30, 2018 and 2017 was \$54,730 and \$70,841, respectively.

NOTE 6: ENDOWMENT FUND

The endowment fund consists of pooled investments managed by the Delaware Community Foundation (DCF). The Organization is the primary income beneficiary. DCF reserves the right to make the final decision regarding distributions to the Organization.

Endowment fund activity consisted of the following for the years ended June 30:

	2018	2017
Beginning Balance - July 1	\$ 771,808	\$ 694,417
Contributions	80,152	-
Investment Income	38,852	77,391
Ending Balance - June 30	\$ 890,812	\$ 771,808

The Organization does not believe that investments within the DCF endowment fund are within the scope of the Financial Accounting Standards Board's Accounting Standard Codification 958 (ASC 958), *Not-for-Profit Organizations*, in regard to required disclosures for endowments, because in contrast to donor-restricted endowment funds, no ongoing decisions about the investment of the trust or distributions from the trust are within the authority of the Organization.

HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE 6: ENDOWMENT FUND - CONTINUED

Endowment fund income consisted of the following for the years ended June 30:

	2018	2017
Realized and Unrealized Gain	\$ 37,363	\$ 75,986
Income Earned	11,818	10,773
Administrative and Investment Fees	(10,329)	(9,368)
Investment Income, Net of Fees	\$ 38,852	\$ 77,391

NOTE 7: INVESTMENT IN JOINT VENTURE HFHI-SA LEVERAGE III, LLC

In 2010, the Organization invested, along with ten (10) other Habitat International affiliates, in a joint venture (HFHI-SA Leverage III, LLC) with thirteen percent (13%) 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 tax liability. The program provided funds to eligible organizations for investment in “qualified low-income community investment.”

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. As a result, the Organization was able to secure a 15-year loan in the amount of \$2,758,746 payable to a community development entity (an affiliate of the joint venture). The loan proceeds were to be used solely for the purpose of constructing and selling qualified housing properties to low-income residents. The loan accrued interest only for years one (1) through seven (7) at a reduced rate of 0.8126%. Beginning in year 8 through year 15 the principal balance of the loan was reduced by an eight-year amortization at the same rate of 0.8126%.

In 2010, the Organization recorded its 13% investment in HFHI-SA Leverage III, LLC at the cost of investment plus transaction costs, expendable construction funds, escrow cash, and program cost liabilities.

In December 2016, City First Capital Investment Fund 21, LLC (Fund) and the upstream effective owner of City First Capital 21, LLC (holder of the promissory note due from the Organization) exercised its put option. Under the terms of the put option agreement, HFHI-SA Leverage III, LLC purchased the ownership interest of the Fund. Exercise of the option allowed the Organization to extinguish its outstanding debt owed to the Fund. As a result, the carrying amount of the investment was reduced to \$0 as of June 30, 2017.

HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE 8: NOTE PAYABLE - DEMAND

The Organization has a revolving line of credit with a local financial institution in the amount of \$300,000. Principal is payable on demand with interest paid monthly at the bank's prime rate (5.00% as of June 30, 2018) less 1% annually on all outstanding balances. The line of credit is considered due on demand; therefore, renewal documentation is not required each year unless changes are made to the original agreement. The line of credit is collateralized by a security interest in the assets of the Organization. No amounts were outstanding on the line of credit as of June 30, 2018 and 2017.

NOTE 9: NOTES PAYABLE

Notes payable as of June 30 were as follows:

	2018	2017
<i>Habitat for Humanity International, Inc.</i> - Interest-free note payable, payable in monthly installments of \$445 starting July 2013 through June 2018. The note payable is collateralized by mortgages receivable and assets of the Organization.	\$ -	\$ 5,355
<i>City of Wilmington, Delaware</i> - The Organization has interest-free forgivable loans with the City of Wilmington. There were no loans outstanding as of June 30, 2018 and three loans outstanding as of June 30, 2017. The notes do not require principal payments. The notes convert to grants at the date of the sale to the homeowner. The notes payable are collateralized by the real estate.	-	88,823
<i>City of Wilmington, Delaware</i> - Forgivable loan with interest payable at 5.0%. Note requires payments of interest only. Upon sale of a home to a qualified buyer, the obligation reverts to grant revenue. The note payable is collateralized by the real estate.	21,000	21,000
<i>City of Wilmington, Delaware</i> - Forgivable loan with interest payable at 5.0%. Note requires payments of interest only. Upon sale of a home to a qualified buyer, the obligation reverts to grant revenue. The note payable is collateralized by the real estate.	56,000	56,000
<i>City of Wilmington, Delaware</i> - Forgivable loan with interest payable at 5.0%. Note requires payments of interest only. Upon sale of a home to a qualified buyer, the obligation reverts to grant revenue. The note payable is collateralized by the real estate.	6,000	6,000

HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE 9: NOTES PAYABLE - CONTINUED

	2018	2017
<i>Habitat for Humanity International, Inc.</i> - Interest-free note payable, payable in monthly installments of \$661 starting July 2015 through May 2019 with a balloon payment of \$678 due June 2019. The note payable is collateralized by mortgages receivable and assets of the Organization.	\$ 8,624	\$ 16,541
Total Notes Payable	91,624	193,719
Less: Current Portion	8,624	13,287
Total Notes Payable, Net of Current Portion	\$ 83,000	\$ 180,432

Loan origination fees were originally capitalized at \$109,552. As a result of the extinguishment of debt owed to City First Capital 21, LLC, the remaining unamortized intangible asset was expensed during the year ended June 30, 2017. Accumulated amortization as of June 30, 2018 and 2017 was \$ 109,552. Amortization expensed as interest for the years ended June 30, 2018 and 2017 was \$0 and \$60,863, respectively.

The following are the annual maturities of the long-term debt for the years ending June 30:

2019	\$	8,624
2020		-
2021		-
2022		-
2023		-
Thereafter		83,000
Total	\$	91,624

NOTE 10: LEASE COMMITMENTS

The Organization leases various facilities and a copier under noncancelable operating leases which expire in various years through November 30, 2025. Rent expense on the facilities and copier was \$276,856 and \$3,659, respectively, for the year ended June 30, 2018 and \$275,445 and \$8,039, respectively, for the year ended June 30, 2017.

HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE 10: LEASE COMMITMENTS - CONTINUED

The following are the future minimum lease payments required by these leases for the years ending June 30:

	<u>Facilities</u>	<u>Copiers</u>	<u>Total</u>
2019	\$ 308,683	\$ 3,504	\$ 312,187
2020	308,683	3,504	312,187
2021	193,072	3,504	196,576
2022	169,950	584	170,534
2023	177,482	-	177,482
Thereafter	<u>441,917</u>	<u>-</u>	<u>441,917</u>
Total Minimum Lease Payments	<u>\$ 1,599,787</u>	<u>\$ 11,096</u>	<u>\$ 1,610,883</u>

NOTE 11: COMMITMENTS AND CONTINGENCIES

The Organization is required to repurchase any mortgage loan that becomes 120 days past due. The Organization is notified regularly of delinquent mortgages that are at risk of repurchase. During the years ended June 30, 2018 and 2017, the Organization was required to repurchase \$0 and \$348,561, respectively in delinquent mortgage receivables. The mortgage receivable repurchases occurred in simultaneous transactions with sales of mortgage receivables in the amount of \$0 and \$376,431 during the years ended June 30, 2018 and 2017, respectively.

The Organization received \$0 and \$25,489 in net proceeds during the years ended June 30, 2018 and 2017, respectively, from these transactions.

NOTE 12: NET ASSETS RELEASED FROM TEMPORARILY RESTRICTED NET ASSETS

Net assets released from donor restrictions by incurred expenses satisfying the restricted purposes or by occurrence of other events specified by donors were as follows for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Purpose Restrictions Accomplished		
Construction of Homes	\$ 976,010	\$ 602,016
A Brush With Kindness	<u>22,499</u>	<u>42,472</u>
Total Releases from Restrictions	<u>\$ 998,509</u>	<u>\$ 644,488</u>

HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE 12: NET ASSETS RELEASED FROM TEMPORARILY RESTRICTED NET ASSETS - CONTINUED

Net assets were temporarily restricted for the following purpose as of June 30:

	<u>2018</u>	<u>2017</u>
Construction of Homes	<u>\$ 983,281</u>	<u>\$ 873,160</u>

NOTE 13: HOME CONSTRUCTION COSTS

Following is a summary of home building activity:

	<u>Years Ended June 30</u>	
	<u>2018</u>	<u>2017</u>
Construction in Process (Net of Accrued Subsidies) - Beginning	\$ 1,683,738	\$ 1,656,577
Cost of Homes Transferred	(1,386,284)	(1,238,712)
Capitalized Home Development Costs	1,125,604	1,295,360
Change in Accrued Subsidies on Homes Under Construction	<u>(104,794)</u>	<u>(29,487)</u>
Construction in Process (Net of Accrued Subsidies) - Ending	<u>\$ 1,318,264</u>	<u>\$ 1,683,738</u>
	<u>Years Ended June 30</u>	
	<u>2018</u>	<u>2017</u>
Homes Under Construction - Beginning	13	21
Homes Transferred to Homeowners	(8)	(7)
Homes Rented	(2)	-
Home Managed by HFH for Visiting Groups	-	(1)
New Homes Entering Development Stage	<u>8</u>	<u>-</u>
Homes Under Construction - Ending	<u>11</u>	<u>13</u>

NOTE 14: RELATED-PARTY TRANSACTION

The Organization is an affiliate of Habitat International. Affiliate fees paid to Habitat International were \$15,000 for the years ended June 30, 2018 and 2017.

HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2018

NOTE 15: RETIREMENT PLAN

The Organization sponsors a 401(k) plan. Full-time employees with 30 days of service are eligible to participate in the plan. Matching contributions are made on a discretionary basis as approved by the Organization's board of directors. For the years ended June 30, 2018 and 2017, matching contributions of \$13,214 and \$13,822, respectively, were determined based on 2% eligible compensation.

NOTE 16: RESTORE

Selected operating information for the Organization's Restore program is as follows:

	<u>Years Ended June 30</u>	
	<u>2018</u>	<u>2017</u>
Noncash Donations for Resale at ReStore	\$ 1,441,820	\$ 1,364,939
Merchandise and ReStore Revenues	1,439,401	1,361,851
Less: Merchandise and Cost of Goods Sold	<u>(1,533,288)</u>	<u>(1,459,352)</u>
	1,347,933	1,267,438
Other Restore Expenses	<u>(1,099,415)</u>	<u>(1,118,155)</u>
Net Restore Activity	<u>\$ 248,518</u>	<u>\$ 149,283</u>



BELFINT • LYONS • SHUMAN
Certified Public Accountants

www.belfint.com

Independent Auditors' Report on Supplementary Information

To the Board of Directors
Habitat for Humanity of New Castle County, Inc. Wilmington, Delaware

We have audited the financial statements of Habitat for Humanity of New Castle County, Inc. as of and for the years ended June 30, 2018 and 2017, and our report thereon dated November 29, 2018, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses are presented for the purpose of additional analysis and are not required parts of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Belfint, Lyons & Shuman, P.A.

November 29, 2018
Wilmington, Delaware

HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	<u>Program Services</u>				<u>Supporting Services</u>			<u>Total Expenses</u>	
	<u>Construction</u>	<u>Discounts on Mortgage Originations</u>	<u>A Brush with Kindness</u>	<u>ReStore</u>	<u>Total Program Services</u>	<u>Fundraising</u>	<u>Management and General</u>		<u>Total Supporting Services</u>
Salary and Related Costs	\$ 444,441	\$ -	\$ 12,039	\$ 464,873	\$ 921,353	\$ 230,183	\$ 42,961	\$ 273,144	\$ 1,194,497
Construction Administration	57,892	-	-	-	57,892	-	23,351	23,351	81,243
Advertising	-	-	-	59,010	59,010	-	-	-	59,010
Bad Debt Expense	-	-	-	-	-	-	15,730	15,730	15,730
Building Materials and Supplies	1,465,773	-	-	-	1,465,773	-	-	-	1,465,773
Depreciation	10,891	-	-	30,491	41,382	-	13,348	13,348	54,730
Fundraising	-	-	-	-	-	36,929	-	36,929	36,929
HFHI Franchise Fee	-	-	-	-	-	-	15,000	15,000	15,000
Loan Servicing Fees	-	-	-	-	-	-	4,966	4,966	4,966
Miscellaneous	-	-	16,059	-	16,059	-	-	-	16,059
Mortgage Discounts	-	607,207	-	-	607,207	-	-	-	607,207
Occupancy	-	-	-	425,139	425,139	-	6,380	6,380	431,519
Professional Services	-	-	-	-	-	-	94,396	94,396	94,396
Restore Supplies	-	-	-	82,984	82,984	-	-	-	82,984
Telephone	8,733	-	-	-	8,733	-	-	-	8,733
Tithe to Habitat International	46,884	-	-	36,918	83,802	-	-	-	83,802
Training	18,225	-	-	-	18,225	-	-	-	18,225
TOTAL	<u>\$ 2,052,839</u>	<u>\$ 607,207</u>	<u>\$ 28,098</u>	<u>\$ 1,099,415</u>	<u>\$ 3,787,559</u>	<u>\$ 267,112</u>	<u>\$ 216,132</u>	<u>\$ 483,244</u>	<u>\$ 4,270,803</u>

HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017

	<u>Program Services</u>				<u>Supporting Services</u>			<u>Total Expenses</u>	
	<u>Construction</u>	<u>Discounts on Mortgage Originations</u>	<u>A Brush with Kindness</u>	<u>ReStore</u>	<u>Total Program Services</u>	<u>Fundraising</u>	<u>Management and General</u>		<u>Total Supporting Services</u>
Salary and Related Costs	\$ 423,472	\$ -	\$ 12,039	\$ 498,829	\$ 934,340	\$ 304,103	\$ 45,433	\$ 349,536	\$ 1,283,876
Construction Administration	44,106	-	-	-	44,106	-	33,402	33,402	77,508
Advertising	-	-	-	85,760	85,760	-	-	-	85,760
Interest - Loan Fee Amortization	-	-	-	-	-	-	60,863	60,863	60,863
Building Materials and Supplies	1,386,427	-	-	-	1,386,427	-	-	-	1,386,427
Depreciation	18,136	-	-	38,181	56,317	-	14,524	14,524	70,841
Fundraising	-	-	-	-	-	26,390	-	26,390	26,390
HFHI Franchise Fee	-	-	-	-	-	-	15,000	15,000	15,000
Loan Servicing Fees	-	-	-	-	-	-	11,684	11,684	11,684
Miscellaneous	-	-	84,516	-	84,516	-	-	-	84,516
Mortgage Discounts	-	567,417	-	-	567,417	-	-	-	567,417
Occupancy	-	-	-	398,106	398,106	-	5,846	5,846	403,952
Professional Services	-	-	-	-	-	-	76,322	76,322	76,322
Restore Supplies	-	-	-	74,412	74,412	-	-	-	74,412
Telephone	8,915	-	-	-	8,915	-	15	15	8,930
Tithe to Habitat International	53,279	-	-	22,867	76,146	-	-	-	76,146
Training	17,187	-	-	-	17,187	-	-	-	17,187
TOTAL	<u>\$ 1,951,522</u>	<u>\$ 567,417</u>	<u>\$ 96,555</u>	<u>\$ 1,118,155</u>	<u>\$ 3,733,649</u>	<u>\$ 330,493</u>	<u>\$ 263,089</u>	<u>\$ 593,582</u>	<u>\$ 4,327,231</u>