

**HABITAT FOR HUMANITY OF EVANSVILLE, INC.
AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2018 and 2017

(With Independent Auditor's Report Thereon)

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Habitat for Humanity of Evansville, Inc. and Subsidiary

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Riney Hancock CPAs PSC

Evansville, Indiana
September 25, 2018

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HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets:		
Cash	\$ 1,131,168	\$ 2,461,697
Certificates of deposit	1,605,421	-
Promises to give, current	262,906	566,758
Houses available for sale	138,238	130,839
Construction in process	759,448	537,255
Land held for development	399,165	418,275
Current portion of mortgages receivable, net	664,064	636,870
Other current assets	<u>135,274</u>	<u>32,723</u>
 Total current assets	 5,095,684	 4,784,417
Other assets:		
Mortgages receivable, net	3,816,525	3,623,652
Investment in joint venture	971,351	2,237,608
Promises to give, net	95,455	376,314
Beneficial interest in assets held by others	39,553	35,539
Property and equipment, net	134,724	145,648
Other assets	<u>-</u>	<u>11,286</u>
 Total other assets	 <u>5,057,608</u>	 <u>6,430,047</u>
 Total assets	 \$ <u>10,153,292</u>	 \$ <u>11,214,464</u>
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 76,625	\$ 90,488
Accrued expenses	41,509	26,529
Other current liabilities	<u>10,130</u>	<u>6,960</u>
 Total current liabilities	 128,264	 123,977
 Long-term debt	 <u>1,371,518</u>	 <u>3,111,128</u>
 Total liabilities	 1,499,782	 3,235,105
Net assets:		
Unrestricted	8,239,824	6,980,770
Temporarily restricted	374,133	963,050
Permanently restricted	<u>39,553</u>	<u>35,539</u>
 Total net assets	 <u>8,653,510</u>	 <u>7,979,359</u>
 Total liabilities and net assets	 \$ <u>10,153,292</u>	 \$ <u>11,214,464</u>

See Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years Ended June 30, 2018 and 2017

	2018			2017				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support:								
Contributions and grants	\$ 1,414,733	\$ 41,049	\$ 2,075	\$ 1,457,857	\$ 1,098,567	\$ 77,442	\$ 1,550	\$ 1,177,559
Sales of homes	1,723,330	-	-	1,723,330	845,490	-	-	845,490
Mortgage discount amortization	355,407	-	-	355,407	390,305	-	-	390,305
ReStore income, net	412,095	-	-	412,095	-	-	-	-
In-kind donations	73,158	-	-	73,158	69,551	-	-	69,551
Casualty gain	51,992	-	-	51,992	-	-	-	-
Investment income	8,484	-	-	8,484	1,949	-	-	1,949
Gain on debt cancellation	923,923	-	-	923,923	-	-	-	-
Other income	49,639	-	-	49,639	43,521	-	-	43,521
Change in beneficial interest in assets held by others	-	-	1,939	1,939	-	-	1,866	1,866
Net assets released from restrictions	629,966	(629,966)	-	-	803,958	(803,958)	-	-
Total revenue and other support	5,642,727	(588,917)	4,014	5,057,824	3,253,341	(726,516)	3,416	2,530,241
Expenses:								
Program services:								
Construction costs	2,168,911	-	-	2,168,911	1,219,394	-	-	1,219,394
Restore	316,288	-	-	316,288	-	-	-	-
Other program costs	1,391,634	-	-	1,391,634	918,217	-	-	918,217
Total program costs	3,876,833	-	-	3,876,833	2,137,611	-	-	2,137,611
Supporting services:								
General and administrative	218,221	-	-	218,221	169,071	-	-	169,071
Fundraising	288,619	-	-	288,619	254,874	-	-	254,874
Total supporting services	506,840	-	-	506,840	423,945	-	-	423,945
Total expenses	4,383,673	-	-	4,383,673	2,561,556	-	-	2,561,556
Change in net assets	1,259,054	(588,917)	4,014	674,151	691,785	(726,516)	3,416	(31,315)
Net assets, beginning of year	6,980,770	963,050	35,539	7,979,359	6,288,985	1,689,566	32,123	8,010,674
Net assets, end of year	\$ 8,239,824	\$ 374,133	\$ 39,553	\$ 8,653,510	\$ 6,980,770	\$ 963,050	\$ 35,539	\$ 7,979,359

See Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended June 30, 2018 and 2017

	2018						
	Program Services			General & Admin.	Fund- raising	Total	
	Construction Costs	ReStore	Other				Total
Building costs	\$ 1,952,971	\$ -	\$ -	\$ 1,952,971	\$ -	\$ -	\$ 1,952,971
Mortgage discount	-	-	877,391	877,391	-	-	877,391
Salaries & related costs	215,940	160,160	158,236	534,336	86,345	178,838	799,519
Advertising	-	17,288	-	17,288	-	7,223	24,511
Amortization	-	-	50,215	50,215	-	-	50,215
Bank charges	-	-	30,396	30,396	7,728	-	38,124
Depreciation	-	4,533	8,037	12,570	5,164	-	17,734
Insurance	-	4,850	6,633	11,483	4,062	-	15,545
Interest	-	-	24,735	24,735	-	-	24,735
Miscellaneous	-	27,651	18,805	46,456	20,319	30,136	96,911
Office	-	443	9,508	9,951	39,232	-	49,183
Printing & postage	-	-	9,433	9,433	899	40,429	50,761
Professional fees	-	-	64,970	64,970	14,960	-	79,930
Rent	-	76,254	29,700	105,954	11,562	-	117,516
Repairs & maintenance	-	4,653	6,350	11,003	-	-	11,003
Special events	-	-	-	-	-	29,364	29,364
Supplies	-	-	10,329	10,329	-	811	11,140
Telephone & utilities	-	10,832	9,895	20,727	8,669	-	29,396
Tithe & contributions	-	-	64,200	64,200	-	-	64,200
Travel & education	-	9,624	4,258	13,882	10,295	1,818	25,995
Volunteer	-	-	8,543	8,543	8,986	-	17,529
	<u>\$ 2,168,911</u>	<u>\$ 316,288</u>	<u>\$ 1,391,634</u>	<u>\$ 3,876,833</u>	<u>\$ 218,221</u>	<u>\$ 288,619</u>	<u>\$ 4,383,673</u>

	2017						
	Program Services			General & Admin.	Fund- raising	Total	
	Construction Costs	ReStore	Other				Total
Building costs	\$ 1,027,907	\$ -	\$ -	\$ 1,027,907	\$ -	\$ -	\$ 1,027,907
Mortgage discount	-	-	475,563	475,563	-	-	475,563
Salaries & related costs	191,487	-	154,965	346,452	85,974	158,731	591,157
Advertising	-	-	-	-	-	4,328	4,328
Amortization	-	-	16,927	16,927	-	-	16,927
Bank charges	-	-	20,659	20,659	1,597	-	22,256
Depreciation	-	-	8,792	8,792	1,809	-	10,601
Insurance	-	-	4,055	4,055	1,594	-	5,649
Interest	-	-	27,465	27,465	-	-	27,465
Miscellaneous	-	-	9,405	9,405	329	11,335	21,069
Office	-	-	5,531	5,531	22,781	-	28,312
Printing & postage	-	-	14,202	14,202	282	42,870	57,354
Professional fees	-	-	52,611	52,611	12,017	-	64,628
Rent	-	-	37,070	37,070	12,617	-	49,687
Repairs & maintenance	-	-	15,378	15,378	-	-	15,378
Special events	-	-	-	-	-	33,346	33,346
Supplies	-	-	13,138	13,138	-	1,865	15,003
Telephone & utilities	-	-	11,337	11,337	3,989	-	15,326
Tithe & contributions	-	-	39,900	39,900	-	-	39,900
Travel & education	-	-	6,001	6,001	18,629	2,399	27,029
Volunteer	-	-	5,218	5,218	7,453	-	12,671
	<u>\$ 1,219,394</u>	<u>\$ -</u>	<u>\$ 918,217</u>	<u>\$ 2,137,611</u>	<u>\$ 169,071</u>	<u>\$ 254,874</u>	<u>\$ 2,561,556</u>

See Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 674,151	\$ (31,315)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	62,797	31,218
Gain on extinguishment of debt	(923,923)	-
Origination of mortgages	(1,588,363)	(863,417)
Transfer of homes to Habitat	48,129	50,275
Mortgage discount	877,391	475,563
Mortgage discount amortization income	(355,407)	(390,305)
Donated property and equipment	-	(11,256)
Change in beneficial interest in assets held by others	(1,939)	(1,866)
Decrease (increase) in assets:		
Houses available for sale	(7,399)	(69,826)
Construction in process	(222,193)	(324,880)
Land held for development	19,110	20,660
Promises to give	584,711	746,494
Other current assets	(102,551)	(17,517)
Increase (decrease) in liabilities:		
Accounts payable	(13,863)	84,211
Accrued expenses	14,980	3,278
Other current liabilities	3,170	6,090
Net cash used in operating activities	<u>(931,199)</u>	<u>(292,593)</u>
Cash flows from investing activities:		
Principal collected on mortgages	798,183	701,781
Purchases of property and equipment	(6,810)	(129,256)
Distribution from joint venture investment	24,916	23,771
Purchase of joint venture investment	(977,844)	-
Purchase of certificates of deposit	(1,605,421)	-
Transfer to beneficial interest in assets held by others	(2,075)	(1,550)
Net cash provided by (used in) investing activities	<u>(1,769,051)</u>	<u>594,746</u>
Cash flows from financing activities:		
Proceeds on debt issuance, net of closing cost	1,369,721	-
Net cash provided by investing activities	<u>1,369,721</u>	<u>-</u>
Net increase in cash	(1,330,529)	302,153
Cash, beginning of year	<u>2,461,697</u>	<u>2,159,544</u>
Cash, end of year	<u>\$ 1,131,168</u>	<u>\$ 2,461,697</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 18,426</u>	<u>\$ 23,775</u>

See Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2018 and 2017

1. Organization and Summary of Significant Accounting Policies

Nature of Organization

Habitat for Humanity of Evansville, Inc. (HFHE) is an Indiana not-for-profit organization founded in 1984 whose mission is to build safe, decent and affordable houses with low-income families in partnership with God's people in need in Vanderburgh and Posey counties in Indiana. HFHE is an affiliate of Habitat for Humanity International, Inc. (HFHI), a Christian not-for-profit organization that seeks to eliminate poverty housing from the world and to make decent shelter a matter of conscience and action. Although HFHI assists with information resources, training, publications, prayer support, and in other ways, HFHE is primarily and directly responsible for its own operations.

HFHE builds houses utilizing volunteer labor and donated materials, in addition to paid services and materials. The houses are sold to qualified homebuyers at no profit with non-interest-bearing mortgages. Prospective homeowners must have a need for housing, the ability to pay the mortgage, and are required to participate in the construction of homes.

Habitat for Humanity of Evansville ReStore LLC (ReStore) is an Indiana limited liability company formed in 2017 that is a wholly owned subsidiary of Habitat for Humanity of Evansville, Inc. ReStore operates a home improvement store in Evansville, Indiana that sells new and used home furnishings, building materials, and home improvement materials to the general public. Donations to the ReStore are made by contractors and other businesses, organizations, and individuals that have surplus or discontinued merchandise. The purpose of the ReStore is to raise funds to support HFHE programs. As most revenue earned by the ReStore is from the sale of donated goods, ReStore revenue is classified as support in the consolidated statements of activities and changes in net assets.

Consolidated Financial Statements

The consolidated financial statements include the accounts of Habitat for Humanity of Evansville, Inc. and Habitat for Humanity of Evansville ReStore LLC. Such entities are collectively referred to as "Habitat" in the consolidated financial statements. All material inter-organization transactions have been eliminated.

Basis of Presentation

Habitat 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 EVANSVILLE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2018 and 2017

1. **Organization and Summary of Significant Accounting Policies, Continued**

Cash and Cash Equivalents

Habitat considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

Houses Available for Sale and Land Held for Development

Houses available for sale represent the cost of homes that Habitat has received from a qualifying family due to foreclosure on the mortgage.

Land held for development is stated at cost and includes land under development, developed lots, and capitalized property taxes and other costs incurred for development. Donated land is recorded as a contribution at the estimated value at the date of receipt. If donors stipulate a time period during which the land must be used, the contributions are recorded as temporarily restricted support. In the absence of such stipulations, contributions of land are recorded as unrestricted support.

Real estate assets are evaluated for impairment if impairment indicators are present. An impairment write-down to fair value less costs to sell occurs when management believes that events or changes in circumstances indicate that its carrying amount may not be recoverable.

Construction In Process

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

Promises to Give

Unconditional promises to give are recognized as revenues in the period received, net of an allowance for uncollectible amounts. Management utilizes the allowance method of accounting for uncollectible promises to give, based on historical collection experience and current economic conditions. Promises to give are recorded at net realizable value. Promises to give expected to be collected in more than one year are discounted to the present value of future cash flows using a 2.86% discount rate.

HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2018 and 2017

1. **Organization and Summary of Significant Accounting Policies, Continued**

Mortgages Receivable & Allowance

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. Mortgages have an original maturity of 20 to 30 years and arise in connection with Habitat's home building initiatives. Mortgages are discounted based on prevailing market rates for low income housing at the inception of mortgages, as provided by Habitat for Humanity International, Inc., and range from 7.39% to 8.48%. Discounts are amortized using the straight-line method over the term of the mortgages. Management believes that losses resulting from non-payment of mortgages receivable, given its collateral value and discount, are not likely. Accordingly, Habitat has not recorded an allowance for mortgage notes receivable losses. Homeowners whose mortgages are more than 60 days past due, who have not made satisfactory payment arrangements, and who have not attended required counseling sessions, may be subject to foreclosure proceedings.

Investment in Joint Venture

Habitat invested in joint ventures to take advantage of New Market Tax Credit (NMTC) financing. Habitat's investment in joint ventures is accounted for on the cost basis. Distributions received are reported as a return of the investment. Management has not identified any events or changes in circumstances that might have an adverse effect on value of the investment.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Acquisitions of property and equipment in excess of \$500 and with estimated useful lives in excess of one year are capitalized.

Donated furniture and equipment are recorded as contributions at their estimated values at the date of receipt. If donors stipulate a time period during which the assets must be used, the contributions are recorded as temporarily restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Habitat recognized \$11,256 in donated property and equipment for the year ended June 30, 2017. Habitat did not receive any donated property and equipment for the year ended June 30, 2018.

HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2018 and 2017

1. **Organization and Summary of Significant Accounting Policies, Continued**

Debt Issuance Costs

Unamortized costs related to the issuance of long-term debt are amortized to interest expense over the term of the debt using the straight-line method. The unamortized amount is presented in the consolidated statement of financial position as a reduction of the long-term debt.

Sales to Homeowners

Revenues are recognized when houses are completed and a signed mortgage is received by Habitat. Sales to homeowners are recorded at the gross mortgage amount plus down payments received.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. Contributions that are restricted by donors are reported as increases in unrestricted net assets if the restrictions expire in the same reporting period. All other restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When restrictions expire (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 statement of activities as net assets released from restrictions.

Donated Materials and Services

Donated materials consist primarily of construction materials. Habitat recognized \$65,813 and \$55,550 in donated materials for the years ended June 30, 2018 and 2017, respectively.

Donated services are not recognized as contributions unless the services create or enhance a non-financial asset, require specialized skills which are provided by individuals with those skills, and would otherwise need to be purchased. Habitat recognized \$7,345 and \$2,745 in donated services for the years ended June 30, 2018 and 2017, respectively. However, a substantial number of volunteers donate significant amounts of their time to Habitat, but the value of these services is not reflected in the financial statements, as it does not meet the criteria for recognition.

HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2018 and 2017

1. **Organization and Summary of Significant Accounting Policies, Continued**

Sales Tax

The State of Indiana imposes a sales tax of 7% on the organization's ReStore sales to nonexempt customers. Habitat collects that sales tax from customers and remits the entire amount to the State. Habitat's accounting policy is to exclude the tax collected and remitted to the State from revenue and expenses.

Income Taxes

The Organization is exempt from income taxes as a nonprofit corporation under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Organization believes that it has support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

Functional Allocation of Expenses

The costs of providing various services and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising

Advertising costs are expensed as incurred.

Use of Estimates

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications

Certain accounts in the 2017 consolidated financial statements have been reclassified for comparative purposes to conform with the presentation in the 2018 consolidated financial statements.

HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2018 and 2017

2. Promises to Give

Promises to give consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Receivable in less than one year	\$ 262,906	\$ 566,758
Receivable in one to five years	<u>109,678</u>	<u>400,299</u>
Total promises to give	372,584	967,057
Less discount to net present value	<u>(14,223)</u>	<u>(23,985)</u>
Promises to give, net	<u>\$ 358,361</u>	<u>\$ 943,072</u>

3. Mortgages Receivable

Mortgages receivable consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Mortgages receivable – current	\$ 664,064	\$ 636,870
Mortgages receivable – long-term	<u>9,246,392</u>	<u>8,625,467</u>
Total mortgages receivable	9,910,456	9,262,337
Less discount to net present value	<u>(5,429,867)</u>	<u>(5,001,815)</u>
Mortgages receivable, net	<u>\$ 4,480,589</u>	<u>\$ 4,260,522</u>

4. Investment in Joint Venture

In 2011 and 2017, Habitat participated in a New Market Tax Credit (NMTC) program. The program provides tax credits over a seven year period to eligible investors for making a qualified low-income community investment. Program compliance requirements include creation of a promissory note and investment in a qualified community development entity (CDE).

In 2017, Habitat and four other Habitat affiliates invested in a joint venture, HFHI NMTC Leverage Lender 2016-1, LLC. Habitat invested \$977,844 for a 10.5% ownership interest and secured a 30-year loan in the amount of \$1,450,557 payable to HFHI NMTC Sub-CDE II, LLC, an affiliate of the joint venture (see Note 8). The loan proceeds are to be used solely for the purpose of constructing qualified homes to low-income residents. Investment in the joint venture was \$971,351 at June 30, 2018.

HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2018 and 2017

4. Investment in Joint Venture, Continued

In 2011, Habitat and three other Habitat affiliates invested in a joint venture, HFHI-SA Leverage VIII, LLC, to take advantage of NMTC financing. Habitat invested \$2,386,637 for a 25.7% ownership interest and secured a 15-year loan in the amount of \$3,143,108 payable to HFHI-SA NMTC V, LLC (sub-CDE), an affiliate of the joint venture (see Note 8). The loan proceeds were used to construct qualified homes to low-income residents. Investment in the joint venture was \$2,237,608 at June 30, 2017. In March 2018, a put option was exercised on the loan which extinguished Habitat's ownership in the investment in the joint venture and the outstanding debt owed to the sub-CDE (see Note 8).

5. Beneficial Interest in Assets Held by Others

The beneficial interest in assets held by others consists of donor-restricted contributions Habitat transferred to a community foundation in which Habitat specified itself as the beneficiary. Income is distributed to Habitat for unrestricted purposes and the principal must remain intact for perpetuity. The community foundation was granted variance power to modify any restriction or condition of the distribution of the funds for any specified charitable purposes or to specified organizations if such restriction becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community and area served. The beneficial interest in assets held by others is reported as permanently restricted net assets in the consolidated financial statements.

The fair value was \$39,553 and \$35,539 at June 30, 2018 and 2017, respectively. The historical cost of the beneficial interest was \$36,175 and \$34,100 at June 30, 2018 and 2017, respectively. An unrealized gain of \$1,939 and \$1,866 for the years ended June 30, 2018 and 2017, respectively, related to the beneficial interest are reported as changes in permanently restricted net assets.

6. Fair Value Measurements

Fair value of assets measured on a recurring basis consisted of the beneficial interest in assets held by others. Fair values were \$39,553 and \$35,539 at June 30, 2018 and 2017, respectively.

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using Level 2 inputs are based primarily on similar assets in active or inactive markets and are Level 2 inputs. Financial assets using Level 3 inputs are based on unobservable inputs. Habitat had no assets valued using Level 1 or 2 inputs. Habitat recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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6. Fair Value Measurements, Continued

Fair value of the beneficial interest in assets held by others is measured using the unadjusted fair value of the assets held in the fund as reported by the trustee. Habitat considers the measurement of its beneficial interest to be a Level 3 input because Habitat will never receive those assets or have the ability to direct the trustee to redeem them.

The table below presents information about the fair value measurements of the beneficial interest in assets held by others for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Beginning of year	\$ 35,539	\$ 32,123
Contribution of assets to community foundation	2,075	1,550
Total gains or losses recognized in the change in permanently restricted net assets:		
Change in value	<u>1,939</u>	<u>1,866</u>
End of year	<u>\$ 39,553</u>	<u>\$ 35,539</u>

At least annually, management and the Board of Directors review and approve Habitat's fair value measurement policies and procedures and determine if the valuation techniques used in fair value measurements are still appropriate. There have been no changes in valuation techniques and related inputs.

7. Property and Equipment

Property and equipment consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Equipment	\$ 139,760	\$ 134,550
Vehicles	28,357	26,757
Leasehold improvements	<u>78,850</u>	<u>78,850</u>
	246,967	240,157
Accumulated depreciation	<u>(112,243)</u>	<u>(94,509)</u>
Property and equipment, net	<u>\$ 134,724</u>	<u>\$ 145,648</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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8. Long-Term Debt

Long term debt at June 30, 2018 consisted of a \$1,450,557 note payable to HFHI NMTC Sub-CDE II, LLC (Sub-CDE 1), in conjunction with Habitat's participation in NMTC (see Note 4). This note requires interest only payments until November 2024 at 0.674252% and matures November 2047. The loan is secured by substantially all the assets acquired by Habitat from the project loan proceeds. The loan has a put option exercisable in November 2024 that will enable HFHI NMTC Leverage Lender 2016-1, LLC to become owner of the sub-CDE 1. Exercise of the option will effectively extinguish Habitat's outstanding debt owed to the sub-CDE 1. Unamortized debt issuance costs were \$79,039 at June 30, 2018.

Long term debt at June 30, 2017 consisted of a \$3,143,108 note payable to HFHI-SA NMTC V, LLC (Sub-CDE 2), in conjunction with Habitat's participation in a NMTC in 2011 (see Note 4). This note required interest only payments until June 2018 at 0.756432% and matured February 2026. The loan was secured by substantially all the assets acquired by Habitat from the project loan proceeds. Unamortized debt issuance costs were \$31,980 at June 30, 2017. The loan had a put option that was exercised in March 2018 that enabled HFHI-SA Leverage VIII, LLC to become owner of the sub-CDE 2 and extinguished Habitat's outstanding debt owed to the sub-CDE 2 of \$3,143,108 and its investment in the joint venture with a remaining cost of \$2,219,185, resulting in a gain on extinguishment of \$923,923 for the year ended June 30, 2018.

9. Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Time-restricted contributions	\$ 358,361	\$ 943,072
Restricted for specific program use	<u>15,772</u>	<u>19,978</u>
	<u>\$ 374,133</u>	<u>\$ 963,050</u>

Net assets released from restrictions were as follows for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Time-restricted contributions	\$ 625,760	\$ 803,958
Restricted for specific program use	<u>4,206</u>	<u>-</u>
	<u>\$ 629,966</u>	<u>\$ 803,958</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2018 and 2017

10. Leases

Habitat leases office and warehouse space under noncancelable operating lease agreements which expire at various dates through March 2022. These leases generally contain renewal options for periods ranging from three to five years and require Habitat to pay all executory costs such as taxes, maintenance, and insurance. Total rent expense was \$117,516 and \$49,687 for the years ended June 30, 2018 and 2017, respectively.

Future minimum lease payments under operating leases that have remaining terms in excess of one year are as follows for the years ended June 30:

2019	133,211
2020	133,211
2021	61,285
2022	<u>31,267</u>
	<u>\$ 358,974</u>

11. Retirement Plan

Habitat maintains a Simple IRA defined contribution plan covering substantially all of its employees. Habitat matches employee contributions up to 3% of eligible wages. Total contributions to this plan were \$14,906 and \$12,111 for the years ended June 30, 2018 and 2017.

12. ReStore Income, Net

Net ReStore income is summarized as follows for the year ended June 30, 2018:

Donations to ReStore	\$ 485,555
Sales of donated items	382,207
Fair market value of donated items sold	<u>(455,667)</u>
Net revenue from ReStore	<u>\$ 412,095</u>

13. Transactions with Affiliate

Habitat remits a portion of its contributions to HFHI annually. These funds are used to construct homes in economically depressed areas around the world. Habitat contributed \$56,700 and \$32,400 to HFHI for the years ended June 30, 2018 and 2017, respectively. In addition, Habitat paid HFHI \$7,500 for operational support for each of the years ended June 30, 2018 and 2017, respectively.

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14. Concentrations of Credit Risk

Financial instruments that potentially subject Habitat to credit risk consist principally of cash on deposit at financial institutions, promises to give, and mortgages receivable. Cash in banks may, at times, exceed federal deposit insurance limits. Habitat attempts to minimize this risk by using high-credit quality financial institutions. Promises to give, which represent unsecured support, are periodically reviewed by management for their collectability and an allowance for doubtful accounts is established, as deemed necessary. Mortgages receivable are secured by the property purchased.

15. Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The amendments of this ASU will be effective for annual reporting periods beginning after December 15, 2018.

In August, 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Earlier adoption is permitted.

In February 2016, FASB issued ASU 2016-02, *Leases* (Topic 842). This ASU will increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under ASU 2016-02, a lessee will recognize in the statement of financial position a liability to make lease payments and a right-to-use asset representing its right to use the underlying asset for the lease term for all leases with a lease term of more than 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from current GAAP. The amendments of this ASU are effective for reporting periods beginning after December 15, 2019, with early adoption permitted. An entity will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach.

Management is currently assessing the impact the adoption of these ASUs will have on its financial statements.

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16. Subsequent Events

The Organization has evaluated subsequent events through September 25, 2018, the date the consolidated financial statements were available to be issued.