



Asheville Area
Habitat
for Humanity®



Asheville Area Habitat for Humanity, Inc.
Asheville, NC

FINANCIAL STATEMENTS

Years Ended June 30, 2018 and 2017



Asheville Area Habitat for Humanity, Inc.

Asheville, North Carolina

Financial Statements
Years Ended June 30, 2018 and 2017
and
Independent Auditors' Report

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Independent Auditors' Report

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

We have audited the accompanying financial statements of Asheville Area Habitat for Humanity, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, changes in net assets, 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 auditors consider 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.

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Johnson Price Sprinkle PA

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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 Asheville Area Habitat for Humanity, 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.

Johnson Price Sprinkle PA

September 13, 2018

Asheville Area Habitat For Humanity, Inc.

Statements of Financial Position

June 30,

2018

2017

Assets

Cash and equivalents	\$ 2,323,564	\$ 1,110,354
Restricted cash	239,754	216,217
Prepaid expenses	59,197	53,706
Grants receivable	18,296	46,746
Promises to give, net	97,565	156,905
Inventory	1,890,997	1,866,041
Construction in progress	593,744	496,154
Mortgages receivable	8,285,001	8,038,818
Property and equipment, net of depreciation	8,632,466	8,822,412
Investments	554,931	482,340
Other assets	78,404	138,493

Total assets

\$ 22,773,919 \$ 21,428,186

Liabilities

Accounts payable and accrued expenses	\$ 162,589	\$ 175,230
Funds held for others:		
Payroll liabilities	170,167	205,630
Homeowners' escrow payable	238,900	212,277
Refundable deposits	8,586	4,805
Notes payable	8,970,230	7,902,570
Total liabilities	9,550,472	8,500,512

Net assets

Unrestricted	10,470,951	10,093,429
Temporarily restricted	115,775	267,485
Permanently restricted	2,636,721	2,566,760
Total net assets	13,223,447	12,927,674

Total liabilities and net assets

\$ 22,773,919 \$ 21,428,186

Asheville Area Habitat For Humanity, Inc.

Statements of Activities

Years Ended June 30,

2018

2017

Changes in unrestricted net assets:**Public support, revenues and gains:**

Contributions	\$ 1,714,645	\$ 1,626,789
Contributions – Building A Way Home Capital Campaign	-	4,145
Sale of homes	2,049,321	1,794,805
Home repair sales	51,439	40,540
Government grants	362,067	750,801
ReStore income	2,793,451	2,682,793
Rents, net of related expenses	2,787	2,738
Amortization of mortgage discounts	802,354	858,625
Investment income (loss)	8,262	2,888
Forgiven mortgage income	102,285	68,873
Other income	58,653	64,563
Total public support, revenues and gains	7,945,264	7,897,560

Net assets released from restrictions:

Satisfaction of program restrictions	110,580	43,461
Total net assets released from restrictions	110,580	43,461
Total unrestricted public support, revenues and gains	8,055,844	7,941,021

Expenditures:

Program services	6,972,367	6,718,880
Management and general	188,804	208,474
Fundraising	517,151	469,095
Total expenditures	7,678,322	7,396,449
Increase in unrestricted net assets	377,522	544,572

Changes in temporarily restricted net assets:

Contributions	(59,340)	185,195
Endowment spendable income	18,210	15,580
Temporarily restricted income	(41,130)	200,775

Net assets released from restrictions:

Satisfaction of program restrictions	(110,580)	(43,461)
Total net assets released from restrictions	(110,580)	(43,461)
Increase (decrease) in temporarily restricted net assets	(151,710)	157,314

Changes in permanently restricted net assets:

Rents, net of related expenses	55,435	53,008
Endowment spendable income	(18,210)	(15,580)
Unrealized gains (losses)	32,736	47,963
Increase in permanently restricted net assets	69,961	85,391

Increase (decrease) in net assets	\$ 295,773	\$ 787,277
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The accompanying notes are an integral part of these financial statements.

Asheville Area Habitat For Humanity, Inc.
 Statements of Changes in Net Assets
 Years Ended June 30, 2018 and 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, June 30, 2016	\$ 9,548,857	\$ 110,171	\$ 2,481,369	\$ 12,140,397
Increase (decrease) in net assets	544,572	157,314	85,391	787,277
Net assets, June 30, 2017	\$ 10,093,429	\$ 267,485	\$ 2,566,760	\$ 12,927,674
Increase (decrease) in net assets	377,522	(151,710)	69,961	295,773
Net assets, June 30, 2018	\$ 10,470,951	\$ 115,775	\$ 2,636,721	\$ 13,223,447

Asheville Area Habitat For Humanity, Inc.

Statement of Functional Expenses

Year Ended June 30, 2018

	Program Services	Supporting Services		Totals
		Management and General	Fundraising	
Salaries and wages	\$ 568,697	\$ 146,682	\$ 310,281	\$ 1,025,660
Payroll taxes	41,029	10,945	22,804	74,778
Employee benefits	80,555	20,280	45,017	145,852
Construction and repair of homes	2,497,000	-	-	2,497,000
Discounts on mortgages	918,993	-	-	918,993
ReStore operations	2,179,258	-	-	2,179,258
Advertising and promotion	6,147	98	550	6,795
Supplies	23,280	253	1,707	25,240
Other expenses	10,787	2,997	6,096	19,880
IT technical services	32,095	1,412	10,447	43,954
Bad debt expense	23,375	-	-	23,375
Mortgage servicing	18,013	-	-	18,013
Special events	23,433	1,515	34,602	59,550
Travel and entertainment	17,844	51	2,249	20,144
Grants to other organizations	55,390	-	-	55,390
Maintenance and repairs	30,131	1,238	9,224	40,593
Insurance	32,860	(6,598)	1,207	27,469
Interest expense	123,694	-	-	123,694
Dues and subscriptions	17,327	449	3,330	21,106
Taxes and licenses	3,493	31	178	3,702
Postage and printing	6,196	172	36,759	43,127
Professional fees	85,495	1,795	4,705	91,995
Equipment rental	20,943	411	3,042	24,396
Staff development, training and internships	60,005	943	2,081	63,029
Utilities	31,645	1,694	7,645	40,984
Vehicle expense	2,241	-	-	2,241
Depreciation expense	62,441	4,436	15,227	82,104
	\$ 6,972,367	\$ 188,804	\$ 517,151	\$ 7,678,322

Asheville Area Habitat For Humanity, Inc.
Statement of Functional Expenses
Year Ended June 30, 2017

	Program Services	Supporting Services		Totals
		Management and General	Fundraising	
Salaries and wages	\$ 610,247	\$ 158,639	\$ 279,258	\$ 1,048,144
Payroll taxes	48,575	12,650	21,682	82,907
Employee benefits	175,224	19,966	46,084	241,274
Construction and repair of homes	2,150,431	-	-	2,150,431
Discounts on mortgages	1,056,288	-	-	1,056,288
ReStore operations	2,071,127	-	-	2,071,127
Advertising and promotion	4,613	13	978	5,604
Supplies	21,289	946	1,823	24,058
Other expenses	6,481	2,561	5,178	14,220
IT technical services	31,663	1,394	10,308	43,364
Special events	10,898	1,213	20,969	33,080
Travel and entertainment	9,141	896	1,533	11,570
Grants to other organizations	49,964	136	300	50,400
Maintenance and repairs	33,966	1,513	9,876	45,355
Insurance	33,921	(6,913)	1,162	28,170
Interest expense	94,622	-	-	94,622
Dues and subscriptions	10,146	700	2,368	13,214
Taxes and licenses	1,660	32	83	1,775
Postage and printing	9,703	212	31,444	41,359
Professional fees	121,331	5,063	5,147	131,541
Equipment rental	16,460	410	3,031	19,901
Staff development, training and internships	49,942	1,845	4,057	55,844
Utilities	33,179	1,789	7,613	42,581
Vehicle expense	2,637	-	1	2,638
Depreciation expense	65,372	5,409	16,200	86,981
	\$ 6,718,880	\$ 208,474	\$ 469,095	\$ 7,396,449

Asheville Area Habitat For Humanity, Inc.

Statements of Cash Flows

Years Ended June 30,

2018

2017

Cash flows from operating activities:

Change in net assets	\$	295,773	\$	787,277
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:				
Depreciation		207,645		214,749
Non-cash interest expense		2,363		1,763
Donated inventory (lots)		(35,000)		(40,500)
Change in unrealized gain on investments		(13,215)		(31,413)
Bad debt expense home repair		23,375		-
(Increase) decrease in:				
Prepaid expenses		(5,491)		(53,706)
Grants receivable		28,450		15,941
Promises to give, net		59,340		(90,195)
Inventory		10,044		(225,030)
Construction in progress		(97,590)		(83,750)
Mortgages receivable		(269,558)		(524,675)
Other assets		60,089		(72,949)
Increase (decrease) in:				
Accounts payable and accrued expenses		(12,641)		(58,225)
Payroll liabilities		(35,463)		57,752
Homeowners' escrow payable		26,623		10,258
Refundable deposits		3,781		2,020

Net cash provided by (used in) operating activities		248,525		(90,683)
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Cash flows from investing activities:

Acquisition of property and equipment		(17,699)		(26,502)
Purchase of investments Crosby endowment fund, net		(59,376)		(56,348)

Net cash provided by (used in) investing activities		(77,075)		(82,850)
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Cash flows from financing activities:

Proceeds from issuance of notes payable		2,146,916		818,985
Payments for debt issuance costs		(12,000)		-
Payments on notes payable		(1,069,619)		(554,446)

Net cash provided by (used in) financing activities		1,065,297		264,539
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Net increase (decrease) in cash and equivalents		1,236,747		91,006
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Cash and equivalents, beginning of year		1,326,571		1,235,565
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Cash and equivalents, end of year	\$	2,563,318	\$	1,326,571
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Cash as presented on statement of assets, liabilities and net assets:

Cash and equivalents	\$	2,323,564	\$	1,110,354
Restricted cash		239,754		216,217

Cash and equivalents	\$	2,563,318	\$	1,326,571
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Supplemental disclosures:

Interest expense paid	\$	158,145	\$	132,709
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Asheville Area Habitat for Humanity, Inc.

Notes to Financial Statements

June 30, 2018 and 2017

Note A – Summary of significant accounting policies:

Nature of activities

Asheville Area Habitat for Humanity, Inc. is a nonprofit ministry that fosters community by partnering with qualified families and individuals to build new houses and preserve existing homes. Its vision is to provide a safe and decent home for every family. The Organization has been building houses and changing lives in Buncombe County since 1983.

The Organization receives its support principally through contributions, grants, and net proceeds from its ReStore operations.

Basis of accounting

The Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States of America which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and equivalents

Cash consists of funds held in demand deposits with banks. The Organization considers all highly liquid investments with maturities of three months or less to be cash equivalents. Cash and investment balances exceeded federally insured amounts by \$1,089,425 and \$49,825 as of June 30, 2018 and 2017, respectively.

Restricted cash

Restricted cash consists of amounts held in escrow to pay taxes and insurance for homeowners.

Prepaid expenses

Prepaid expenses consist primarily of prepaid insurance premiums.

Asheville Area Habitat for Humanity, Inc.

Notes to Financial Statements – continued

June 30, 2018 and 2017

Note A – Summary of significant accounting policies – continued:

Promises to give

Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Investments

Investments purchased by the Organization are initially recorded at their cost, and donated investments are recorded at fair value on the date they are received as a donation. Endowment investments are adjusted to fair values as of the date of the statement of financial position. Unrealized gains and losses are included in the changes in net assets.

Fair value measurement

Fair value is the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. Certain valuation techniques are used to measure fair value. There are three broad levels as follows:

Level 1 – (the highest level) inputs are based on quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date. For example, securities traded in an active market, such as the New York Stock Exchange, are valued using Level 1 inputs.

Level 2 – inputs are observable inputs other than quoted prices, either directly or indirectly through corroboration with observable market data. If the asset or liability has a specified term, the Level 2 input must be observable for substantially the full term.

Level 3 – inputs are unobservable inputs for the asset or liability, meaning the inputs reflect the Organization’s own assumptions about the assumptions market participants would use in pricing the asset or liability, including inputs related to risk, which have been developed based on the best information available in the circumstances.

Asheville Area Habitat for Humanity, Inc.

Notes to Financial Statements – continued

June 30, 2018 and 2017

Note A – Summary of significant accounting policies – continued:

Property and equipment

The Organization capitalizes all property and equipment with a cost, if purchased, or fair value, if donated, of \$500 or more. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor, and reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over the assets' estimated useful lives, ranging from 5 to 40 years for leasehold improvements and buildings, 5 to 10 years for equipment and furniture, and 2 to 5 years for vehicles.

Net assets

Net assets are classified based on the existence or absence of donor-imposed restrictions. The following is a description of each class:

Unrestricted – Unrestricted net assets include all net assets which are neither temporarily nor permanently restricted and are available for use in the performance of the activities of the Organization. If the Board of Directors specifies a purpose where none has been stated by the original donor, such funds are classified as designated, unrestricted funds.

Temporarily restricted – Temporarily restricted net assets include contributed net assets for which donor-imposed time and purpose restrictions have not been met and the ultimate purpose of the contribution is not permanently restricted.

Permanently restricted – Permanently restricted net assets consist of contributions subject to donor imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets would permit the Organization to use all or part of the income earned on the related investments for general or specific purposes.

Asheville Area Habitat for Humanity, Inc.

Notes to Financial Statements – continued

June 30, 2018 and 2017

Note A – Summary of significant accounting policies – continued:

Contributions and grants

Contributions and grants are recognized as received. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Contributed services

Contributed services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair market value when received.

Additionally, the Organization receives a significant amount of contributed time which does not meet the two recognition criteria described above. Accordingly, the value of this contributed time, an estimated 69,784 hours at a value of \$1,633,643 for the year ended June 30, 2018 and 64,915 hours at a value of \$1,567,047 for the year ended June 30, 2017, is not reflected in the accompanying financial statements.

Sales tax

The State of North Carolina imposes a sales tax of 7% on all of the Organization's ReStore sales to nonexempt customers. The Organization collects that sales tax from customers and remits the entire amount to the State. The Organization's accounting policy is to include the tax collected and remitted to the State in revenue and cost of sales. The Organization's revenue and cost of sales of the ReStore included \$173,653 and \$170,564 in sales tax collected and remitted for the years ended June 30, 2018 and 2017, respectively.

Advertising

The Organization uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. Advertising costs totaled \$96,191 and \$94,841 for the years ended June 30, 2018 and 2017, respectively. The amount paid by the Organization is included in advertising and promotion and ReStore income, net of related expenses.

Asheville Area Habitat for Humanity, Inc.

Notes to Financial Statements – continued

June 30, 2018 and 2017

Note A – Summary of significant accounting policies – continued:

Income taxes

The Organization is tax-exempt under Internal Revenue Code Section 501(c)(3) and, as such, is not subject to income taxes on net income from exempt purposes. It is the Organization's policy to evaluate all tax positions to identify any that may be considered uncertain. All identified material tax positions are assessed and measured by a "more-likely-than-not" threshold to determine if the tax position is uncertain, and what, if any, effect the uncertain tax position may have on the financial statements. No material uncertain tax positions were identified for tax years 2018 and 2017. Currently, the statute of limitations remains open subsequent to and including tax year 2015; however, no examinations are in process or anticipated.

Concentration of credit risk

Financial instruments that potentially subject the Organization to credit risk consist of notes receivable that are secured by the residential property constructed with the proceeds. These undiscounted non-interest bearing notes receivable totaled \$17,487,997 and \$17,125,174 as of June 30, 2018 and 2017, respectively.

Reclassifications

Certain amounts for the year ended June 30, 2017 have been reclassified to conform to current year presentation. These reclassifications had no effect on the increase (decrease) in net assets for the year ended June 30, 2017.

Subsequent events

The Organization has evaluated events that have occurred after June 30, 2018 and prior to September 13, 2018 (the date of issuance) for potential recognition or disclosure in the financial statements.

Asheville Area Habitat for Humanity, Inc.

Notes to Financial Statements – continued

June 30, 2018 and 2017

Note B – Promises to give, net:

Unconditional promises to give as of June 30 are as follows:

	2018	2017
Receivable in less than one year	\$ 69,988	\$ 89,342
Receivable in one to five years	38,417	84,996
Total unconditional promises to give	108,405	174,338
Less allowance for uncollectible promises receivable	10,840	17,433
Unconditional promises to give, net	\$ 97,565	\$ 156,905

Promises to give receivable in more than one year are discounted at 5% when material.

The allowance for uncollectible amounts is based on an estimated amount that the Organization feels is reasonable.

Note C – Mortgages receivable:

All mortgage notes are receivable in monthly installments. In keeping with the stated purpose of the Organization, persons who purchase homes built by the Organization are not charged interest on their mortgage obligations. The implied market rate interest is considered to be a grant to the homeowner. Notes are amortized over various lives of between 20 and 30 years, and the notes are secured by the residential property sold to the homeowners.

Mortgages receivable are considered past due if a payment has not been received by the 15th of the month. A penalty or late fee of 4% of the monthly principal is assessed. The note holder is notified of the penalty by a past-due letter.

Asheville Area Habitat for Humanity, Inc.

Notes to Financial Statements – continued

June 30, 2018 and 2017

Note C – Mortgages receivable – continued:

The total amount of net mortgages receivable was \$8,285,001, including discounted principal payments of \$9,202,996 as of June 30, 2018 and \$8,038,818, including discounted principal payments of \$9,086,356 as of June 30, 2017. Net present value of mortgages receivable was \$8,244,782, based on imputed interest rates ranging from 7.39% to 9.00% as of June 30, 2018 and \$7,948,101 based on imputed interest rates ranging from 7.39% to 9.00% as of June 30, 2017. The current portion of mortgages receivable was \$845,976 and \$791,875 as of June 30, 2018 and 2017, respectively.

Note D – Investments:

Investments consisted of the following for the year ended June 30:

	2018	2017
Crosby Endowment Fund:		
Cost	\$ 482,340	\$ 403,520
Distribution taken	(15,580)	(13,210)
Unrealized gain (loss)	88,171	92,030
Fair value	\$ 554,931	\$ 482,340

The Crosby Endowment Fund is managed by the Community Foundation of Western North Carolina (CFWNC). The investment and spending policies of CFWNC are the governing policies for the Crosby Endowment Fund. In setting its policies, CFWNC complies with the Uniform Prudent Management of Institutional Funds Act (UPMIFA), adopted by the State of North Carolina in April 2009, and FASB ASC 958-205. The Organization relies on CFWNC for compliance with State law, and does not purport to report its endowment position or activity in compliance with FASB 958-205.

Fair value of the investments above are considered to be valued using Level 3 inputs.

Asheville Area Habitat for Humanity, Inc.

Notes to Financial Statements – continued

June 30, 2018 and 2017

Note E – Inventory:

The Organization operates a used furniture and appliance store. Most of the ReStore inventory is donated and is recorded as unrestricted contributions at fair value on the date of receipt. Inventory of such goods totaled \$172,297 and \$214,630 as of June 30, 2018 and 2017, respectively. Inventory also included developed and undeveloped lots held for future homes. The cost of acquiring and developing the lots was \$1,718,700 and \$1,651,411, which does not exceed net realizable value, as of June 30, 2018 and 2017, respectively.

Note F – Construction in progress:

As homes are constructed, the corresponding amounts for direct materials and other costs are recorded as construction in progress. Construction in progress consisted of twenty-seven homes under construction at a cost of \$593,744 as of June 30, 2018 and twenty-seven homes under construction at a cost of \$496,154 as of June 30, 2017.

Note G – Property and equipment:

Property and equipment consisted of the following as of June 30:

	2018	2017
Land	\$ 4,059,733	\$ 4,059,733
Buildings	6,256,110	6,256,110
Store equipment	144,487	134,224
Office equipment	408,286	400,850
Deconstruction equipment	1,480	1,480
Jobsite equipment	104,201	104,201
Vehicles	286,019	286,019
Accumulated depreciation	(2,627,850)	(2,420,205)
Net property and equipment	\$ 8,632,466	\$ 8,822,412

Asheville Area Habitat for Humanity, Inc.

Notes to Financial Statements – continued

June 30, 2018 and 2017

Note G – Property and equipment – continued:

Depreciation expense consisted of the following for the year ended June 30:

		2018		2017
ReStore operations	\$	125,541	\$	127,768
Other depreciation		82,104		86,981
Total depreciation expense	\$	207,645	\$	214,749

Note H – Other assets:

Other assets consisted of the following as of June 30:

		2018		2017
Refundable deposits and escrows	\$	37,269	\$	103,384
Cash surrender value of life insurance		41,135		35,109
Total other assets	\$	78,404	\$	138,493

Note I – Homeowners' escrow payable:

The homeowners' escrow account consists of monies collected from homeowners in conjunction with the payment of mortgages receivable, which is retained by the Organization for the payment of homeowners' insurance and property taxes when due. The balance payable was \$238,900 and \$212,277 as of June 30, 2018 and 2017, respectively.

Asheville Area Habitat for Humanity, Inc.

Notes to Financial Statements – continued

June 30, 2018 and 2017

Note J – Notes payable:

Notes payable are summarized as follows as of June 30:

	2018	2017
Note payable to First Bank, at an interest rate of 2.75%, due on August 13, 2021, with 53 monthly principal payments of \$17,797 plus accrued unpaid interest and a principal balloon payment due on August 13, 2021. This note is secured by property and improvements thereon, with a carrying value of \$6,458,224 as of June 30, 2018.	\$ 3,675,771	\$ 3,938,174
Thirty-four notes payable to the North Carolina Housing Finance Agency, which run concurrently with homeowners' first mortgages, each in the original note amount of \$20,000, at interest rates of 0%, payable in monthly installments of \$56, beginning on various dates from 7/1/2006 through 3/1/2009, secured by homeowners' property.	436,804	501,751
Forty-nine notes payable to the North Carolina Housing Finance Agency, which run concurrently with homeowners' first mortgages, each in the original note amount of \$25,000, at interest rates of 0%, payable in monthly installments of \$69, beginning on various dates from 4/1/2009 through 09/06/2013, secured by homeowners' property.	945,818	1,025,189
Twenty-three notes payable to the North Carolina Housing Finance Agency, which run concurrently with homeowners' first mortgages, each in the original note amount of \$30,000, at interest rates of 0%, payable in monthly installments of \$83, beginning on various dates from 2/12/2015 through 8/25/2016, secured by homeowners' property.	629,169	680,502

Asheville Area Habitat for Humanity, Inc.

Notes to Financial Statements – continued

June 30, 2018 and 2017

Note J – Notes payable – continued:

	2018	2017
Thirteen notes payable to the North Carolina Housing Finance Agency, which run concurrently with homeowners' first mortgages, each in the original note amount of \$40,000, at interest rates of 0%, payable in monthly installments of \$111, beginning on various dates from 10/10/2013 through 11/13/2016, secured by homeowners' property.	447,667	465,000
Fourteen notes payable to the North Carolina Housing Finance Agency, which run concurrently with homeowners' first mortgages, each in the original note amount of \$35,000, at interest rates of 0%, payable in monthly installments of \$97 beginning on various dates from 10/27/2016 through 6/14/2018, secured by homeowners' property.	475,028	275,431
Eight notes payable to the North Carolina Housing Finance Agency, which run concurrently with homeowners' first mortgages, each in the original note amount of \$66,500, at interest rates of 0%, payable in monthly installments of \$185, beginning on various dates from 5/11/2017 through 1/11/2018, secured by homeowners' property.	517,845	199,315
Three notes payable to the North Carolina Housing Finance Agency, which run concurrently with homeowners' first mortgages, each in the original note amount of \$63,000, at an interest rate of 0%, payable in monthly installments of \$175, beginning on various dates from 6/29/2017 through 3/06/2018, secured by homeowners' property.	184,217	63,000

Asheville Area Habitat for Humanity, Inc.

Notes to Financial Statements – continued

June 30, 2018 and 2017

Note J – Notes payable – continued:

	2018	2017
Note payable to TD Bank at an interest rate equal to 2.0% above the ICE LIBOR rate, due on April 10, 2018, with monthly interest payments beginning on May 10, 2015, secured by building lots for affordable single family housing units.	-	170,000
Note payable to TD Bank at an interest rate equal to 2.1% above the ICE LIBOR rate, due on June 2, 2020, with monthly interest payments beginning on July 2, 2017, secured by building lots for affordable single family housing units.	-	35,200
Note payable to Pinnacle Bank, at the current prime interest rate, due on April 20, 2022, with monthly payments beginning on May 20, 2017, secured by a single family house to be redeveloped for affordable housing.	96,149	99,471
Note payable to an LLC at the current prime interest rate, due on July 23, 2018, with quarterly interest payments beginning on October 23, 2015, secured by land.	-	275,000

Asheville Area Habitat for Humanity, Inc.

Notes to Financial Statements – continued

June 30, 2018 and 2017

Note J – Notes payable – continued:

	2018	2017
Note payable to Buncombe County, at an interest rate of 2.0%, for the construction of 20 affordable single-family homes. \$4,846 of this liability will be passed through to each homeowner in the form of a second mortgage to be repaid only in the event that the home is resold to a family which does not meet Buncombe County's income guidelines for affordable housing. The balance per house of \$7,464 plus accrued interest on the full \$12,310 per house will be due and payable upon the sale of the house. The second mortgages will be used to reduce the Organization's mortgages receivable resulting from the sale of the completed house.	149,571	181,785
Note payable to Buncombe County, at an interest rate of 2.0%, for the construction of 12 affordable homes. \$7,563 of this liability will be passed through to each homeowner in the form of a second mortgage to be repaid only in the event that the home is resold to a family which does not meet Buncombe County's income guidelines for affordable housing. The balance per house of \$15,354 plus accrued interest on the full \$22,917 per house will be due and payable upon the sale of the house. The second mortgages will be used to reduce the Organization's mortgages receivable resulting from the sale of the completed house.	188,273	-
Note payable to Pinnacle Bank, at the interest rate of 4.75%, due on May 15, 2019, with interest only due monthly, secured by a building lot and construction in progress for an affordable single family house.	73,892	-

Asheville Area Habitat for Humanity, Inc.

Notes to Financial Statements – continued

June 30, 2018 and 2017

Note J – Notes payable – continued:

	2018	2017
Note payable to Habitat for Humanity International, at an interest rate of 4%, payable in 40 installments of \$36,547, beginning 3/31/2018, secured by pledged mortgages receivable with a total balance of \$ 4,248,562 as of June 30, 2018.	1,150,661	-
Note payable to Habitat for Humanity International, at an interest rate of 0%, payable in 47 installments of \$338, beginning 01/01/2020, and one final payment of \$364 payable no later 1/01/2024.	16,250	-
	8,987,115	7,909,818
Less debt issuance costs-net of amortization	16,885	7,248
Total notes payable	\$ 8,970,230	\$ 7,902,570

Prime interest rate was 5.0% and 4.25% as of June 30, 2018 and 2017, respectively. The 3-month US Dollar ICE LIBOR rate was 2.34% and 1.30% as of June 30, 2018 and 2017, respectively.

Maturities of notes payable are as follows:

Year ending June 30:

2019	\$ 754,388
2020	692,617
2021	523,985
2022	3,221,586
2023	263,417
Thereafter	3,531,122
Total	\$ 8,987,115

The notes payable to Habitat for Humanity International TD Bank contain various covenants. For the years ended June 30, 2018 and 2017, no violations of debt covenants were noted.

Asheville Area Habitat for Humanity, Inc.

Notes to Financial Statements – continued

June 30, 2018 and 2017

Note K – Line of credit:

The Organization established an unsecured line of credit in the amount of \$250,000 with First Bank in October 2017. This line carries a variable interest rate of the Wall Street Prime rate. The line matures on October 30, 2018. As of June 30, 2018, there was no outstanding balance on the line.

Note L – Restricted net assets:

As of June 30, temporarily restricted net assets are available for the following purposes:

	2018	2017
Building of homes	\$ 115,775	\$ 267,485
Total temporarily restricted net assets	\$ 115,775	\$ 267,485

Permanently restricted net assets were established in 2006, when the Organization received a contribution of rental property (land) valued at \$2.1 million, to establish an endowment fund. Under the terms of the contribution, the original property or the proceeds from sale of such property is permanently restricted, and a portion of the earnings on the property is permanently restricted and a portion is temporarily restricted until spent for the support of the Organization. As a condition of the gift, an endowment fund was established.

The \$5,000 used to establish the endowment fund is also permanently restricted.

The endowment fund had income, net of expenses, in the amount of \$88,172 and \$100,971 for the years ended June 30, 2018 and 2017, respectively. A portion of the endowment income is spendable and is temporarily restricted until spent, according to the agreement between The Community Foundation of Western North Carolina, Inc. and the Organization. The endowment fund's spendable income is made available annually to the Organization and those amounts are determined under the spending policies of the Community Foundation of Western North Carolina, Inc.

Asheville Area Habitat for Humanity, Inc.

Notes to Financial Statements – continued

June 30, 2018 and 2017

Note M – Net assets released from restriction:

Net assets were released from donor restrictions by incurring expenses satisfying restricted purposes as follows for the years ended June 30:

	2018	2017
Building of homes	\$ 110,580	\$ 13,210
Home repair projects	-	30,251
Total net assets released from restriction	\$ 110,580	\$ 43,461

Note N – Operating lease commitments:

The Organization leases two parking lots under non-cancelable operating leases with varying terms. One lease expires September 2018 and a replacement lease is currently in negotiation with the same tenant. The other lease expires December 2018. The following is a schedule by years of the future minimum rentals under the leases in effect:

Year ending June 30:		
2019		\$ 21,633
Total future minimum rentals		\$ 21,633

Rental income from these leases and the costs of operating the rental property for the years ended June 30:

	2018	2017
Gross rents	\$ 68,302	\$ 66,081
Less cost of operations	8,925	9,733
Rents, net of related expenses	\$ 59,377	\$ 56,348

Asheville Area Habitat for Humanity, Inc.

Notes to Financial Statements – continued

June 30, 2018 and 2017

Note N – Operating lease commitments – continued:

The Organization also leases two copiers, several printers and a postage meter under three separate leases for varying amounts and varying time frames. The following is a schedule by years of future minimum rental payments:

Year ending June 30:		
2019	\$	17,870
2020		17,870
2021		13,293
2022		11,272
2023		11,107
<hr/>		
Total future minimum rentals	\$	71,412

Operating lease expense was \$11,688 for the years ended June 30, 2018 and 2017.

Note O – Retirement plan:

The Organization has a defined contribution retirement plan covering substantially all employees. Employees are eligible to participate in the plan after six months of service and reaching age 21. Employees become 100% vested after five years of service. Contributions provided to the plan for the year ended June 30, 2018 were \$212,562 which consisted of \$92,855 from the Organization and \$119,707 from employees. Contributions provided to the plan for the year ended June 30, 2017 were \$206,738, which consisted of \$83,496 from the Organization and \$123,242 from employees. The amount paid by the Organization is included in Employee benefits.

Asheville Area Habitat for Humanity, Inc.

Notes to Financial Statements – continued

June 30, 2018 and 2017

Note P – Commitments and contingencies:

Contingent receivable

When the Organization sells a home, the difference between the cost of the home and its appraised value is recorded as a second mortgage by the Organization. The second mortgage is amortized and forgiven over the life of the original first mortgage. If the home is sold by its owner before the first mortgage is satisfied, the seller is required to pay to the Organization any remaining balance on the second mortgage. The value of this contingent receivable totaled \$4,085,362 and \$3,866,178 as of June 30, 2018 and 2017, respectively. No provision for this contingency has been made in these financial statements, because the potential receipts from these second mortgages cannot be reasonably estimated.

Risk management

The Organization is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Organization carries commercial insurance coverage for all risks of loss. Claims have not exceeded coverage in any of the previous three years.

Contingent liabilities

The Organization owns a piece of property for which there is a possible contingent liability due to the condition of the property. No provision for this contingency has been made in these financial statements, because there is no fixed and determinable amount that can be reasonably estimated.

Note Q – Related party transactions:

The Organization had three bank accounts with a financial institution, of which a Board member was an officer through October 31, 2017. The balances totaled \$-0- and \$173,597 as of June 30, 2018 and 2017, respectively. Additionally, the same financial institution provided processing services for the Organization's mortgages receivable. The fair value of those services, which is recorded as a contribution in kind, totaled \$31,875 and \$62,245 for the years ended June 30, 2018 and 2017, respectively.

A paid employee of the Organization had an outstanding mortgage balance with the Organization that was satisfied in March 2017. The mortgage was entered into in August 2003 for a 25-year term in the amount of \$97,900, with monthly payments of \$273. The total payments made were \$47,213 for the year ended June 30, 2017.

Asheville Area Habitat for Humanity, Inc.

Notes to Financial Statements – continued

June 30, 2018 and 2017

Note R – Fair value of financial instruments:

As required by FASB ASC 820-10, as of June 30, 2018, the Organization’s fair value measurements for investments that are measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall are as follows:

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Assets:				
Pledges receivable	\$ -	\$ -	\$ 97,565	\$ 97,565
Investments:				
Corporate fixed income instruments	-	-	554,931	554,931
Cash surrender value of life insurance	-	41,135	-	41,135
Total assets measured at fair value	\$ -	\$ 41,135	\$ 652,496	\$ 693,631

The reconciliation of significant unobservable inputs (level 3) for pledges receivable is as follows:

Beginning balance, July 1, 2017	\$ 156,905
Additional contributions	45,744
Add decrease in allowance	6,593
Less write-offs	15,083
Less payments	96,594
Ending balance, June 30, 2018	\$ 97,565

Asheville Area Habitat for Humanity, Inc.

Notes to Financial Statements – continued

June 30, 2018 and 2017

Note R – Fair value of financial instruments – continued:

The reconciliation of significant unobservable inputs (level 3) for corporate fixed income instruments is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Beginning balance, July 1, 2017	\$ 15,580	\$ 466,760	\$ 482,340
Contributions	-	59,376	59,376
Interest and dividends, net	-	5,029	5,029
Unrealized gains (losses)	-	9,497	9,497
Spendable income	18,210	-	18,210
Less administrative fees	-	3,941	3,941
Less distributions	15,580	-	15,580
Ending balance, June 30, 2018	\$ 18,210	\$ 536,721	\$ 554,931

As required by FASB ASC 820-10, as of June 30, 2017, the Organization's fair value measurements for investments that are measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall are as follows:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Assets:				
Pledges receivable	\$ -	\$ -	\$ 156,905	\$ 156,905
Investments:				
Corporate fixed income instruments	-	-	482,340	482,340
Cash surrender value of life insurance	-	35,109	-	35,109
Total assets measured at fair value	\$ -	\$ 35,109	\$ 639,245	\$ 674,354

Asheville Area Habitat for Humanity, Inc.

Notes to Financial Statements – continued

June 30, 2018 and 2017

Note R – Fair value of financial instruments – continued:

The reconciliation of significant unobservable inputs (level 3) for pledges receivable is as follows:

Beginning balance, July 1, 2016	\$	66,710
Additional contributions		170,554
Less increase in allowance		10,022
Less payments		70,337
Ending balance, June 30, 2017	\$	156,905

The reconciliation of significant unobservable inputs (level 3) for corporate fixed income instruments is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Beginning balance, July 1, 2016	\$ 13,210	\$ 381,369	\$ 394,579
Contributions	-	56,348	56,348
Interest and dividends, net	-	4,625	4,625
Unrealized gains (losses)	-	27,758	27,758
Spendable income	15,580	-	15,580
Less administrative fees	-	3,340	3,340
Less distributions	13,210	-	13,210
Ending balance, June 30, 2017	\$ 15,580	\$ 466,760	\$ 482,340

Valuation techniques: Fair values for pledges receivable are based on a discounted interest rate to net present value. Fair values for investments are based on other observable inputs for the investment in the Community Foundation. Fair values for cash surrender value of life insurance are based on the Organization's share of the cash surrender value of the respective life insurance policy as presented by the insurance company.

Change in valuation techniques: None.