



WILMINGTON AREA
REBUILDING MINISTRY, INC.
and
HOPE COMES HOME

Combined
Audited Financial Statements
for the year ended
December 31, 2018
(with comparative totals for 2017)



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Wilmington Area Rebuilding Ministry, Inc./Hope Comes Home
Wilmington, North Carolina

We have audited the accompanying combined financial statements of Wilmington Area Rebuilding Ministry, Inc. (WARM) and its affiliate Hope Comes Home (HCH), each a nonprofit organization, which are comprised of the combined statement of financial position as of December 31, 2018 and the related combined statements of activities, functional expenses, and cash flows, for the year then ended, and the notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit 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 of material misstatement.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WARM and its affiliate HCH as of December 31, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Summarized Comparative Information

We have previously audited WARM's 2017 financial statements and our report dated April 17, 2018 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Bearman CPA PC

Wilmington, North Carolina
May 7, 2019

Wilmington Area Rebuilding Ministry, Inc. / Hope Comes Home

Combined Statement of Financial Position

as of December 31, 2018
(with comparative totals for 2017)

	<u>2018</u>	<u>2017</u>
Assets		
Cash and Cash Equivalents (Note 3c)	\$ 807,685	\$ 100,352
Accounts Receivable (Note 5)	219,339	218,251
Property & Equipment, net (Note 6)	<u>297,104</u>	<u>287,370</u>
Total Assets	<u>\$1,324,128</u>	<u>\$ 605,973</u>
Liabilities & Net Assets		
Liabilities		
Accounts Payable & Accrued Liabilities (Note 7)	\$ 108,899	\$ 61,699
Capital Lease (Note 9)	9,583	-
Long-Term Debt (Note 10)	<u>164,279</u>	<u>198,268</u>
Total Liabilities	<u>282,761</u>	<u>259,967</u>
Net Assets		
Without Donor Restrictions (Note 3b)	576,292	242,174
With Donor Restrictions (Note 3b and 11)	<u>465,075</u>	<u>103,832</u>
Total Net Assets	<u>1,041,367</u>	<u>346,006</u>
Total Liabilities & Net Assets	<u>\$1,324,128</u>	<u>\$ 605,973</u>

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

Wilmington Area Rebuilding Ministry, Inc. / Hope Comes Home

Combined Statement of Activities
for the year ended December 31, 2018
(with comparative totals for 2017)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2018 Total</u>	<u>2017 Total</u>
Revenue				
Grants and Contributions (Note 5 and 11)	\$ 620,387	\$ 49,100	\$ 669,487	\$ 411,634
Government Grants & Contracts (Note 5 and 11)	425,920	300,000	725,920	379,481
Hurricane Recovery Funds (Note 5)		337,286	337,286	-
Special Events Revenue	121,074	-	121,074	103,950
Less Direct Costs of the Events	<u>(31,466)</u>	<u>-</u>	<u>(31,466)</u>	<u>(26,571)</u>
Special Events, net (Note 3e)	89,608	-	89,608	77,379
Net Assets Released from Restriction for Operations	245,736	(245,736)	-	-
Net Assets Released from Restriction for Disaster Recovery	<u>79,407</u>	<u>(79,407)</u>	<u>-</u>	<u>-</u>
Total Revenue	<u>1,461,058</u>	<u>361,243</u>	<u>1,822,301</u>	<u>868,494</u>
Expense				
Program (Note 3e)	951,035	-	951,035	716,194
Management & General (Note 3e)	48,328	-	48,328	39,508
Fundraising (Note 3e)	<u>127,577</u>	<u>-</u>	<u>127,577</u>	<u>89,251</u>
Total Expense	<u>1,126,940</u>	<u>-</u>	<u>1,126,940</u>	<u>844,953</u>
Change in Net Assets	<u>334,118</u>	<u>361,243</u>	<u>695,361</u>	<u>23,541</u>
Net Assets Beginning of Year	<u>242,174</u>	<u>103,832</u>	<u>346,006</u>	<u>322,465</u>
Net Assets End of Year	<u>\$ 576,292</u>	<u>\$ 465,075</u>	<u>\$ 1,041,367</u>	<u>\$ 346,006</u>

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

Wilmington Area Rebuilding Ministry, Inc. / Hope Comes Home
Combined Statement of Functional Expenses
for the year ended December 31, 2018
(with comparative totals for 2017)

<u>Expense Type</u>	<u>Program</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>2018 Total</u>	<u>2017 Total</u>
Wages and Benefits	\$ 425,623	\$ 26,969	\$ 91,884	\$ 544,476	\$ 459,041
Contracted Services	-	6,800	-	6,800	11,131
Home Repair Projects	418,468	-	-	418,468	251,893
General Operations	42,175	9,808	25,211	77,194	64,029
Occupancy	24,336	2,271	5,841	32,448	15,355
Insurance	21,498	1,362	4,641	27,501	22,510
Depreciation (Note 6)	18,935	1,118	-	20,053	20,994
Total Expenses per Statement of Activities	\$ 951,035	\$ 48,328	\$ 127,577	\$ 1,126,940	\$ 844,953
 <u>Additional Expense Items Netted Against Revenue on the Statement of Activities</u>					
Special Events Expense	-	-	31,466	31,466	26,571
Total Expense by Function	951,035	48,328	159,043	1,158,406	871,524

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

Wilmington Area Rebuilding Ministry, Inc. / Hope Comes Home

Combined Statement of Cash Flows

for the year ended December 31, 2018

(with comparative totals for 2017)

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activity		
Change in Net Assets	\$ 695,361	23,541
Adjustments to reconcile the change in net assets to net cash used in operating activities:		
Depreciation	20,053	20,994
Changes in certain assets and liabilities:		
Accounts Receivable	(1,088)	(62,458)
Accounts Payable & Accrued Expenses	<u>47,200</u>	<u>6,348</u>
Net Cash Provided by Operating Activities	<u>761,526</u>	<u>(11,575)</u>
Cash Flows from Investing Activities		
Equipment Purchases	<u>(29,787)</u>	<u>(49,155)</u>
Net Cash Used in Operating Activities	<u>(29,787)</u>	<u>(49,155)</u>
Cash Flows from Financing Activities		
Proceeds from Debt Financing	13,480	30,101
Payments on Line of Credit	-	-
Payments on Long-term Debt	<u>(37,886)</u>	<u>(17,704)</u>
Net Cash Provided by (Used in) Financing Activities	<u>(24,406)</u>	<u>12,397</u>
Net Increase (Decrease) in Cash	707,333	(48,333)
Cash and Cash Equivalents, beginning of year	<u>100,352</u>	<u>148,685</u>
Cash and Cash Equivalents, end of year	<u>\$ 807,685</u>	<u>\$ 100,352</u>

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

Wilmington Area Rebuilding Ministry, Inc. / Hope Comes Home

Notes to the Combined Financial Statements

December 31, 2018

1. Combined Organizations

The audited financial statements combine the operations of Wilmington Area Rebuilding Ministry, Inc. (“WARM”) and Hope Comes Home. The entities (hereafter “the Organization”) are North Carolina nonprofit organizations incorporated in March 1998 and August 2015, respectively. The organizations are exempt from income taxes under the Internal Revenue Service Code Section 501(c)(3). As such, contributions to the organizations are tax deductible.

The Financial Accounting Standards Board *Accounting Standards Codification* (FASB ASC) topic 810, “Consolidation,” suggests that the reporting of combined financial statements is more meaningful than the reporting of separate financial statements when two entities are under common management and have related operations. WARM and Hope Comes Home have separate boards of directors but share one executive director, common facilities and staff. As such, the financial statements have been prepared as if the two entities were one and all inter-company transactions have been eliminated.

2. Mission

WARM unites people of compassion to rebuild homes and restore hope for their low-income neighbors, many of whom are elderly or disabled, enabling them to live safely and independently in their own homes and communities. WARM serves Brunswick, New Hanover, and Pender Counties of North Carolina. In 2018, WARM volunteers performed home repair projects for 121 households.

Hope Comes Home helps low-income home owners age-in-place safely and independently. Hope Comes Home serves southeastern North Carolina.

3. Summary of Significant Accounting Policies

The Organization prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for not-for-profit organizations using the accrual basis of accounting. As such, revenues are recorded when earned and expenses are recorded when incurred. The significant accounting and reporting policies used by the organization are described below to enhance the usefulness and understandability of the financial statements.

3a. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the organization’s management evaluates the estimates and assumptions based upon

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historical experience and various other factors and circumstances. The organization's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

3b. Net Asset Classes

The Financial Accounting Standards Board *Accounting Standards Codification* (FASB ASC) topic 958, "Not-for-Profit Entities," requires the reporting of an organization's activities by net asset class. The financial statements report net assets and changes in net assets based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Net assets without donor restrictions are resources available for use in general operations and not subject to donor (or certain grantor) restrictions. The only limits on their use are the broad limits resulting from the nature of the organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net assets with donor restrictions are resources that are subject to donor (or certain grantor) - imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are permanent in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. *As of December 31, 2018, the Organization held no net assets with permanent donor restrictions.* See Note 11 for a discussion of other donor-restricted net assets held as of December 31.

3c. Cash and Cash Equivalents

The Organization considers short-term, interest bearing, highly liquid investments with original maturities of three months or less to be cash equivalents for purposes of financial statement presentation.

3d. Contributions, Grant and Contracts

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in unrestricted net assets unless the use of the contributed assets is specifically restricted by the donor (see *Note 3b*, previously). Also see *Note 11, Restrictions on Net Assets*.

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Contributed services are only recorded if they meet the requirements for recognition (such as if they require specialized skills). These requirements are outlined in FASB ASC 958-605-25-16, "Contributed Services." While the many members of the Organization's volunteer workforce are a critical element of its operating success, their services do not meet the criteria for recognition and are, therefore, not reflected in the financial statements.

3e. Functional Allocation of Expenses

The Statement of Activities presents expenses by functional classification (program, management and general, and fundraising). Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using an objective basis for each expense category:

<u>Expense Category</u>	<u>Method of Allocation by Function</u>
Wages & Benefits	Time and effort (e.g. staff members' time tracking)
Contracted Services	Time and effort
Home Repair Projects	No allocation; direct costs.
General Operations	Time and effort (e.g. staff members' time tracking)
Occupancy	Usage of space (e.g. square footage by function)
Insurance	Usage of space, time and effort.
Depreciation	Usage of space (e.g. square footage by function)

The Statement of Functional Expenses presents these same expenses by both the functional category (program, management and general, and fundraising) and by natural classification (e.g. wages, contracted services).

Management and General activities include the functions necessary to provide support for the organization's program. These include those that provide governance (Board of Directors), oversight, business management, financial recordkeeping, budgeting, legal services, human resource management, and similar activities that ensure an adequate working environment and an equitable employment program.

Fundraising activities include publicizing and conducting fundraising campaigns; maintaining donor lists; conducting special fundraising events; and other activities involved with soliciting contributions from corporations, foundations, individuals, and others.

WARM sponsors occasional special events to raise awareness of its mission and to raise funds for the organization. In 2018, WARM earned \$121,074 of special events revenue and incurred \$31,466 of expense in connection with these events. The disbursements are considered primarily fundraising costs and are therefore netted against revenue. The net revenue amount of \$89,608

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appears on the Statement of Activities as “Special Events, net.” These expenses also appear as a reconciling item on the Statement of Functional Expenses in order to arrive at total expenses by function.

3f. Property & Equipment

The Organization capitalizes property and equipment costing more than \$2,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor specifically restricts the asset’s use. Also see *Note 6, Property & Equipment*.

3g. Prior Year Information

The financial statements display prior-year, summarized information for comparative purposes. The prior year information is presented in total but not by net asset class (unrestricted, temporarily restricted, and permanently restricted). Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year then ended, from which the summarized information is derived. Certain prior year amounts have been reclassified for consistency with the current period presentation.

4. Liquidity and Availability

As of December 31, 2018, the Organization had working capital (the difference between current assets and current liabilities) of \$918,125 including unrestricted cash on hand of \$342,610. This amount translates to 113 days of unrestricted cash on hand (calculated by dividing the unrestricted cash on hand by average daily expenses of \$3,033, excluding depreciation).

Financial assets not considered available for general expenditure within one year for the purpose of the above calculations include property and equipment of \$297,104 and donor-restricted funds of \$465,075 (see *Note 11*).

As part of the Organization’s liquidity management plan, cash in excess of daily requirements may be invested in short-term investments and money market funds.

5. Grants & Contributions

The Organization receives its funding from a wide base of support that includes many individuals, businesses, churches, civic organizations and foundations. During 2018, it received \$669,487 of private grants and contributions. Additionally, it recorded \$725,920 of government grants and contracts.

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WARM and Hope Comes Home were awarded grants of \$200,000 and \$100,000, respectively, from the State-appropriated North Carolina Housing Trust Funds through the North Carolina Housing Finance Agency (NCHFA). The funds are to be used by the Organization to provide urgent repairs to homes in New Hanover, Brunswick and Pender counties during 2018 and 2019. Also see *Note 11, Restrictions on Net Assets*.

WARM was also awarded grants from the State-appropriated Essential Single-Family Rehabilitation Loan Pool through the NCHFA to provide essential single-family home rehabilitation and disaster recovery. These grants are reimbursement-based and during the year WARM recognized revenues of \$218,422 and \$122,840 related to these grants, respectively.

The Organization also received \$84,658 of grant funding from local governments.

In mid-September 2018, the Cape Fear region of North Carolina sustained widespread damage from Hurricane Florence. WARM was the beneficiary of a tremendous outpouring of support from donors both locally and throughout the United States. It re-aligned its activities in order to begin to directly address the needs of those most adversely impacted by the storm. From September to December 2018, the organization received \$337,286 of funds restricted by donors for disaster recovery.

Accounts Receivable

The accounts receivable balance of \$219,339 consists of the following:

NCHFA Grant Awards	\$ 176,991
Other Grant-Funded Reimbursement Requests	28,418
Pledges and Other Receivables	<u>13,930</u>
	\$ 219,339

Management believes the amounts to be fully collectible and so no provision has been made for uncollectible amounts.

6. Property and Equipment

The property and equipment balance of \$287,370 is stated at cost and consists of the categories in the following table. Depreciation is computed on a straight-line basis over the useful lives of the assets (5 years for equipment, 39 years for buildings and improvements). Depreciation expense totaled \$20,053 and appears as a line item on the Statement of Functional Expenses.

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Land	\$ 89,105
Building	117,094
Improvements	12,314
Construction in Progress	32,363
Machinery & Equipment	<u>113,107</u>
	\$ 377,463
Less accumulated depreciation	<u>(80,359)</u>
Total	\$ 297,104

7. Accounts Payable and Accrued Liabilities

The accounts payable and accrued liabilities balance of \$108,899 consists of operational accounts payable of \$55,682 and payroll and related liabilities of \$53,217.

8. Line of Credit

WARM maintains a line of credit with First Citizens Bank to assist with seasonal cash flow needs. The line has a credit limit of \$30,000. Interest on any outstanding balance is computed at 8% per annum. There was no outstanding balance as of December 31, 2018.

9. Capital Lease

In August 2018, WARM acquired a vehicle under a capital lease agreement. The leased asset appears in the line item "Property & Equipment, net" on the Statement of Financial Position. The related obligation, in amounts equal to the present value of future minimum lease payments payable during the remaining term of the lease appear in the line item "Capital Lease" on the Statement of Financial Position. Due to the complexity of estimating imputed interest and the immaterial impact such an estimate would make on the financial statements, management has elected not to recognize any portion of the lease payments as imputed interest expense.

Future minimum lease payments are as follows:

FY 2019	\$ 3,594
FY 2020	3,594
FY 2021	<u>2,395</u>
Total	<u>\$ 9,583</u>

10. Long-Term Debt

In November 2015, WARM obtained \$174,250 of financing from South State Bank to assist in the purchase of the property serving as administrative and program space for the organization. As of December 31, 2018, the loan had a principal balance of \$131,717, due in monthly installments of

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\$1,259, including interest at a fixed rate of 3.6% per annum. The loan is secured by the property at 5058 Wrightsville Avenue, Wilmington, NC. Interest expense for the year ended December 31, 2018 totaled \$5,420. The loan matures in November 2025, when a final balloon payment of \$51,685 is due.

In March 2016, WARM obtained \$25,125 from First Citizens Bank for the purchase of a truck. As of December 31, 2018, the loan had a principal balance of \$10,231, due in monthly installments of \$503, including interest at a fixed rate of 3.4% per annum. The loan is secured by the truck. Interest expense for the year ended December 31, 2018 totaled \$454. The loan matures in September 2020.

In April 2017, WARM obtained \$30,101 from First Citizens Bank for the purchase of a truck. As of December 31, 2018, the loan had a principal balance of \$22,331, due in monthly installments of \$461, including interest at a fixed rate of 3.24% per annum. The loan is secured by the truck. Interest expense for the year ended December 31, 2018 totaled \$820. The loan matures in April 2023.

Future scheduled maturities of long-term debt are as follows:

FY 2019	\$ 21,204
FY 2020	20,424
FY 2021	16,537
FY 2022	17,123
FY 2023	13,980
Thereafter	<u>75,011</u>
Total	<u>\$ 164,279</u>

11. Restrictions on Net Assets

During the course of the year, funds totaling \$245,736 that were initially restricted for a variety of uses were expended for their intended purposes and released from restriction. These appear as the line item “Net Assets Released from Restriction for Operations” on the Statement of Activities.

Additionally, as described in Note 5, WARM received \$337,286 of funds restricted by donors for disaster recovery. As of December 31, WARM had spent \$79,407 of this amount in its recovery efforts and therefore released that amount from restriction. It anticipates using the remaining \$257,879 in 2019 to fund on-going recovery efforts.

As of December 31, the Organization’s total net assets of \$1,041,367 were comprised of net assets without donor restriction of \$576,292 and net assets with donor restrictions of \$465,075 (disaster

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recovery \$257,879; other restrictions \$207,196). Once the Organization has expended the funds for their intended purposes, it will release them from restriction.

12. Income Taxes

The organizations are both exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code. Additionally, they do not generate business income unrelated to their exempt purposes and therefore no provision has been made for income taxes or uncertain tax positions in the financial statements. There are no federal or state tax audits of the organization in progress and WARM believes it is not subject to tax examinations for fiscal years prior to 2015. WARM and Hope Comes Home intend to file separate IRS information returns (Form 990) for 2018.

13. Related Party Transactions

During the year 2018, WARM provided contracted services to Hope Comes Home in the amount of \$56,974. This amount was outstanding at year-end. However, due to the combined nature of the financial statements, the amount that is to be collected by WARM is not included as revenue or a receivable on the financial statements and, likewise, the amount to be paid by HCH is not recorded as an expense or a payable.

14. Subsequent Events

WARM has evaluated events that have occurred subsequent to the statement of financial position date (December 31, 2018) and through the date that the Independent Auditor's Report was available to be issued (May 7, 2019). No events have occurred during that period that would require adjustments to the audited financial statements or disclosures in these notes.

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