

**HABITAT FOR HUMANITY,
ORANGE COUNTY, N.C., INC.**

FINANCIAL STATEMENTS

*As of and for the Year Ended June 30, 2022
(With Comparative Totals for June 30, 2021)*

And Report of Independent Auditor

HABITAT FOR HUMANITY, ORANGE COUNTY, N.C., INC.
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Report of Independent Auditor

To the Board of Directors
Habitat for Humanity, Orange County, N.C., Inc.
Chapel Hill, North Carolina

Opinion

We have audited the accompanying financial statements of Habitat for Humanity, Orange County, N.C., Inc. (a nonprofit organization) (the “Organization”), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2022, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization’s ability to continue as a going concern within one year after the date the financial statements are available to be issued.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We previously audited the Organization's 2021 financial statements and our report dated September 23, 2021 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 June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Cherry Bekaert LLP

Raleigh, North Carolina
March 6, 2023

HABITAT FOR HUMANITY, ORANGE COUNTY, N.C., INC.
STATEMENT OF FINANCIAL POSITION

JUNE 30, 2022
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2021)

	<u>2022</u>	<u>2021</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 9,201,799	\$ 3,527,020
Cash - escrow	38,329	63,288
Certificates of deposit	-	80,229
Investments	72,125	77,241
Accounts receivable, net	236,033	472,445
Unconditional promises to give	49,324	28,267
Current portion of capital campaign pledges receivable, net of discount	552,431	588,753
Current portion of non-interest bearing mortgages receivable	487,774	340,143
Houses under construction	1,267,629	565,333
Homes held for sale	467,105	210,000
Prepaid assets	8,560	16,387
Total Current Assets	<u>12,381,109</u>	<u>5,969,106</u>
Property and Equipment:		
Vehicles	145,784	131,150
Office furniture and equipment	67,770	67,249
Software	11,020	11,020
Construction equipment	52,610	43,669
Rental house	15,000	15,000
	<u>292,184</u>	<u>268,088</u>
Less accumulated depreciation	<u>(239,361)</u>	<u>(219,996)</u>
Net Property and Equipment	<u>52,823</u>	<u>48,092</u>
Other Assets:		
Land held for homesites	7,464,223	5,099,022
Investment in joint venture	1,205,504	1,459,602
Deposits	137,461	24,713
Noncurrent portion of capital campaign pledges receivable, net of discount	351,504	487,793
Non-interest bearing long-term mortgages receivable	<u>4,926,575</u>	<u>5,148,325</u>
Total Other Assets	<u>14,085,267</u>	<u>12,219,455</u>
Total Assets	<u><u>\$ 26,519,199</u></u>	<u><u>\$ 18,236,653</u></u>

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

HABITAT FOR HUMANITY, ORANGE COUNTY, N.C., INC.
STATEMENT OF FINANCIAL POSITION (CONTINUED)

JUNE 30, 2022
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2021)

	2022	2021
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Current portion of below market and non-interest bearing long-term debt	\$ 470,930	\$ 277,975
Accounts payable	936,032	166,447
Escrow accounts payable	135,571	62,379
Deferred revenue	30,033	42,713
Deferred rent	12,222	14,433
Accrued vacation	38,463	33,891
Accrued payroll	29,624	23,531
Total Current Liabilities	1,652,875	621,369
Long-Term Debt:		
Due to joint venture	2,133,922	2,133,922
Below market and non-interest bearing notes	1,783,424	2,029,837
Total Long-Term Debt	3,917,346	4,163,759
Total Liabilities	5,570,221	4,785,128
Net Assets:		
Without donor restrictions		
Designated by the Board for support of working capital	5,000,000	-
Undesignated	15,833,547	12,334,801
	20,833,547	12,334,801
With donor restrictions		
	115,431	1,116,724
Total Net Assets	20,948,978	13,451,525
Total Liabilities and Net Assets	\$ 26,519,199	\$ 18,236,653

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

HABITAT FOR HUMANITY, ORANGE COUNTY, N.C., INC.
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2022
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2021)

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	
Public Support and Revenue:				
Public Support:				
Contributions	\$ 6,355,374	\$ 2,196,638	\$ 8,552,012	\$ 4,798,250
Government grants	1,598,222	-	1,598,222	616,835
Donated property, materials, services	53,266	-	53,266	53,317
Total Public Support	<u>8,006,862</u>	<u>2,196,638</u>	<u>10,203,500</u>	<u>5,468,402</u>
Revenue:				
Home sales	983,479	-	983,479	2,273,719
Expense reimbursement	-	-	-	9,923
Interest and dividend income	11,080	-	11,080	6,008
Rental income	10,450	-	10,450	26,380
Interest income on current year non-interest and below market interest bearing notes receivable	84,328	-	84,328	218,998
Interest income on non-interest bearing mortgages receivable	447,463	-	447,463	431,227
Store Income	279,209	-	279,209	332,500
Other income	19,057	-	19,057	82,807
Total Revenue	<u>1,835,066</u>	<u>-</u>	<u>1,835,066</u>	<u>3,381,562</u>
Net assets released from restrictions	<u>3,197,931</u>	<u>(3,197,931)</u>	<u>-</u>	<u>-</u>
Total Public Support and Revenue	<u>13,039,859</u>	<u>(1,001,293)</u>	<u>12,038,566</u>	<u>8,849,964</u>
Expenses:				
Program services - home construction	2,944,966	-	2,944,966	3,252,056
Program services - interest expense on current year non-interest bearing mortgages receivable	408,539	-	408,539	727,739
Program services - interest expense on non-interest and below market interest bearing notes payable	224,991	-	224,991	148,685
Total Program Services	<u>3,578,496</u>	<u>-</u>	<u>3,578,496</u>	<u>4,128,480</u>
Management and general	338,152	-	338,152	276,230
Fundraising	624,465	-	624,465	580,295
Total Expenses	<u>4,541,113</u>	<u>-</u>	<u>4,541,113</u>	<u>4,985,005</u>
Change in net assets	8,498,746	(1,001,293)	7,497,453	3,864,959
Net assets, beginning of year	<u>12,334,801</u>	<u>1,116,724</u>	<u>13,451,525</u>	<u>9,586,566</u>
Net assets, end of year	<u>\$ 20,833,547</u>	<u>\$ 115,431</u>	<u>\$ 20,948,978</u>	<u>\$ 13,451,525</u>

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

HABITAT FOR HUMANITY, ORANGE COUNTY, N.C., INC.
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2022
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2021)

	Program Services	Management and General	Fundraising	2022 Total	2021 Total
Salaries and wages	\$ 881,460	\$ 193,897	\$ 307,117	\$ 1,382,474	\$ 1,123,217
Payroll taxes and employee benefits	207,925	35,596	56,725	300,246	233,579
Pension contributions	18,846	4,146	6,566	29,558	46,693
Cost of construction	1,028,032	-	-	1,028,032	1,991,075
Advertising	51,439	7,678	12,284	71,401	16,938
Advocacy	4,369	-	-	4,369	5,585
Americorps	37,761	-	-	37,761	21,432
Interest expense on non-interest and below market bearing note payable	224,991	-	-	224,991	148,685
Bank charges	2,324	-	-	2,324	11,264
Board and staff development	11,647	1,738	2,781	16,166	8,715
Computer expenses	23,755	3,060	10,101	36,916	31,442
Depreciation	17,250	813	1,302	19,365	19,202
Discount amortization on pledges receivable	-	-	40,961	40,961	3,519
Interest expense on current year non-interest bearing mortgages receivable	408,539	-	-	408,539	727,739
Dues and subscriptions	10,032	2,437	1,848	14,317	14,849
Employee mileage reimbursement	480	534	4,002	5,016	822
Event costs	-	-	68,979	68,979	37,971
Homeowner support and family selection	35,883	-	-	35,883	32,215
Insurance	45,371	4,811	-	50,182	42,335
Interest expense	27,972	-	-	27,972	14,427
Legal and accounting	42,749	-	-	42,749	48,750
Licenses and fees	8,701	-	-	8,701	7,940
Meals and hospitality	2,924	437	1,796	5,157	1,115
Miscellaneous	-	35,497	-	35,497	7,312
Occupancy	52,587	13,572	18,088	84,247	77,459
Office supplies	8,903	2,619	6,057	17,579	9,632
Postage	1,019	1,019	1,885	3,923	6,389
Printing	-	-	-	-	4,393
Professional services	-	26,075	-	26,075	25,475
Recruitment - staff/personnel	-	930	-	930	847
Rental property expenses	1,171	-	-	1,171	2,473
Staff appreciation	6,094	1,732	1,811	9,637	2,696
Taxes - property	8,991	-	-	8,991	15,053
Telephone	11,782	1,304	2,560	15,646	15,570
Tithe to Habitat International	75,000	-	-	75,000	60,000
Travel	3,821	257	1,669	5,747	228
Vehicle expense	25,512	-	-	25,512	29,865
Volunteer appreciation	20,585	-	-	20,585	9,065
Other fundraising	-	-	77,933	77,933	94,174
New Markets Tax Credit expenses	270,581	-	-	270,581	34,865
	<u>\$ 3,578,496</u>	<u>\$ 338,152</u>	<u>\$ 624,465</u>	<u>\$ 4,541,113</u>	<u>\$ 4,985,005</u>

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

HABITAT FOR HUMANITY, ORANGE COUNTY, N.C., INC.
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2022
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2021)

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ 7,497,453	\$ 3,864,959
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	19,365	19,202
Donated materials	(53,266)	(53,317)
Interest expense on current year non-interest and below market interest bearing notes payable	(84,328)	(218,998)
Interest income on mortgages receivable discount	(447,463)	(431,227)
Interest income on current year non-interest bearing mortgage receivable	408,539	727,739
Interest expense on notes payable discount	224,991	148,685
Transfers of non-interest bearing debt to homeowners	(205,924)	(609,388)
Portion of business interest expense	82,998	20,262
Changes in operating assets and liabilities:		
Investments	5,116	(10,975)
Land held for homesites	(2,365,201)	(947,228)
Deposits	(112,748)	(20,826)
Mortgages receivable	113,043	(534,136)
Accounts receivable	236,412	(71,328)
Unconditional promises to give	(21,057)	(5,710)
Capital campaign pledges receivable	172,611	(833,489)
Houses under construction	(649,030)	106,519
Homes held for sale	(257,105)	167,632
Prepaid assets	7,827	3,526
Accounts payable	769,585	(51,639)
Escrow accounts payable	73,192	10,572
Deferred revenue	(12,680)	(10,177)
Deferred grant revenue	-	(242,638)
Deferred rent	(2,211)	998
Accrued vacation	4,572	(2,156)
Accrued payroll	6,093	(32,015)
Investment in joint venture	254,098	-
Net cash flows from operating activities	<u>5,664,882</u>	<u>994,847</u>
Cash flows from investing activities:		
Purchase of property and equipment	(24,096)	(19,849)
Net cash flows from investing activities	<u>(24,096)</u>	<u>(19,849)</u>
Cash flows from financing activities:		
Principal payments on long-term notes payable	(211,195)	-
Proceeds received on new long-term notes payable	140,000	1,041,016
Net cash flows from financing activities	<u>(71,195)</u>	<u>1,041,016</u>
Net change in cash and cash equivalents	5,569,591	2,016,014
Cash and cash equivalents, beginning of year	3,670,537	1,654,523
Cash and cash equivalents, end of year	<u>\$ 9,240,128</u>	<u>\$ 3,670,537</u>

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

HABITAT FOR HUMANITY, ORANGE COUNTY, N.C., INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

Note 1—Organization and summary of significant accounting policies

Organization – Habitat for Humanity, Orange County, N.C., Inc. (the “Organization”) is a not-for-profit corporation organized primarily to bring together God’s people and resources to build quality affordable homes with people who need them. The Organization invites people from all walks of life to work together in partnership to build houses with families. The Organization offers homeownership to Orange County families who otherwise may not have the opportunity to own a home of their own.

Basis of Accounting – The financial statements of the Organization have been prepared on the accrual basis of accounting, whereby, revenues are recognized when earned and expenditures are recognized when incurred. This basis of accounting conforms to accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Financial Statement Presentation – As required by U.S. GAAP, the Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ended June 30, 2021, from which the summarized information was derived.

Expense Allocation – The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and the statements of functional expenses. Program expenses include costs to construct or rehabilitate housing for lower income families; recruit, review, and select qualified families to purchase houses; provide affordable mortgage financing; provide financial and home ownership education to homeowners; recruit and train volunteers to assist in construction; and amortization of mortgage discount expense associated with affordable mortgages. Fundraising expenses include costs to solicit funds from individual, corporate, foundation, and organizational donors, as well as government and other funding sources. Management and general expenses are all other costs, and generally include costs to operate and administer an organization.

While a majority of these costs are specifically identifiable to a functional expense category (e.g., cost of construction, interest expense on notes payable and on mortgages receivable, event costs, and tithe to Habitat for Humanity International, Inc.), other costs are allocated. Allocation bases primarily include estimates of time and effort (e.g., for salaries and wages, payroll taxes, and pension contributions); square footage (e.g., for occupancy); headcount (e.g., for supplies and telephone); and employee-specific (e.g., telephone, staff development, and employee mileage reimbursement).

Most of the Organization’s expense lines do not vary significantly year-to-year; however, the largest components do vary significantly based on the timing closings on the sales of houses. These components include cost of construction and interest expense on notes payable, which may account for between one-half and two-thirds of the Organization’s total expenses. These are classified as program costs. The significant variations in these costs may result in significant swings from year-to-year in the percent of total costs by function, especially for management and general (“M&G”) and for fundraising (“FR”). For example, in a year with fewer house sale closings, the percent of total costs for M&G and FR will be higher than in a year with more house sale closings.

HABITAT FOR HUMANITY, ORANGE COUNTY, N.C., INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

Note 1—Organization and summary of significant accounting policies (continued)

Cash and Cash Equivalents – Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and have an original maturity of 90 days or less. The Organization places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (“FDIC”) covers \$250,000 for substantially all depository accounts. The Organization from time to time may have amounts on deposit in excess of the insured limits. As of June 30, 2022, the Organization had \$7,977,331 which exceeds these insured amounts.

Investments – The Organization holds an investment through Wells Fargo for Triangle Community Foundation. This investment includes approximately \$50,000 of funds that are restricted and not readily convertible into known amounts of cash. The Organization’s investment totaled \$72,125 as of June 30, 2022. The Organization’s investment balance is included in the previously stated FDIC disclosure calculation for cash and cash equivalents.

For the statements of cash flows purposes, cash and cash equivalents at June 30, 2022 is comprised of the following:

Cash and cash equivalents	\$ 9,201,799
Cash - escrow	38,329
	<u>\$ 9,240,128</u>

Accounts Receivable – Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on receivables using the allowance method. The allowance method is based on experience, third party contracts, and other circumstances, which may affect the ability of debtors to meet their obligations. Receivables are considered impaired if full principal payments are not received in accordance with contractual terms. It is the Organization’s policy to charge-off uncollectible receivables when all attempts to collect have been exhausted and management determines the receivable will not be collected. Management of the Organization determined \$17,899 of current year receivables will not be collected; therefore, an allowance for uncollectible accounts was recorded.

Pledges Receivable – Contributions are recognized when the donor makes a promise to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows if deemed material to the financial statements. The discount on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in campaign pledge revenue. The Organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years’ experience and management’s analysis of specific promises to give. Management of the Organization believes all pledge receivables will be collected. Therefore, no allowance for uncollectible accounts is considered necessary.

Mortgages Receivable – Mortgages receivable are carried at amortized cost (unpaid principal balance less unamortized discount). Mortgages receivable are secured by a deed of trust on the homeowner’s property. Discounts are recognized as interest income over the term of the related mortgage.

HABITAT FOR HUMANITY, ORANGE COUNTY, N.C., INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

Note 1—Organization and summary of significant accounting policies (continued)

The Organization reviews mortgages receivable for potential impairment at year-end. A mortgage receivable is considered impaired if it becomes probable the Organization will be unable to collect all amounts according to the loan's contractual terms and the amount of any impairment is measured by comparing the recorded amount of the loan to the expected recoveries. No impairment charges were recorded during the year ended June 30, 2022.

Deposits – Deposits are made up of security and land deposits-earnest money.

Houses Under Construction and Land Held for Homesites – The Organization records land, building materials, and labor at cost, at closing, or when payments are made during construction. Development costs are also added to land costs, as incurred.

Houses which are reclaimed are held for resale and recorded at fair value on the accompanying statements of financial position.

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

	<u>Years</u>
Software	3
Construction equipment	5
Vehicles	5
Office furniture and equipment	5 – 7
Rental House	27.5

For the year ended June 30, 2022, depreciation expense totaled \$19,365.

Deferred Revenue – Deferred revenue consists of cash received from the New Markets Tax Credit (“NMTC”) that will be recognized as revenue over the course of seven years as the related expenses are paid out, and grant monies from the Town of Chapel Hill for predevelopment costs for the Weavers Grove project received in advance of spending. Deferred revenue totaled \$30,033 as of June 30, 2022.

Deferred Rent – The Organization leases its corporate office space through an operating lease ending March 2024. Deferred rent totaled \$ 12,222 as of June 30, 2022.

Investment in Joint Venture – The Organization invested, along with three other Habitat for Humanity affiliates, in a joint venture (HFHI NMTC Investment Fund 1, LLC) with 30.67% ownership to take advantage of NMTC financing. NMTC financing allows an entity to receive a loan or investment capital from outside investors, who will receive new markets tax credits to be applied against their federal tax liability. The Organization accounts for this investment under the equity method of accounting.

Compensated Absences – The Organization is liable for accrued vacation pay up to the maximum approved by the executive director. Unused vacation pay will be reimbursed at the employee's current rate of pay upon the last day of their employment with the Organization. Accrued vacation as of June 30, 2022 totaled \$38,463.

HABITAT FOR HUMANITY, ORANGE COUNTY, N.C., INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

Note 1—Organization and summary of significant accounting policies (continued)

Public Support and Revenue With and Without Donor Restrictions – Donor support, contributions and government grants received are recognized as revenue when received or unconditionally promised. The Organization receives government grants from Orange County and local townships in the area. Public support revenue streams are recorded as without or with donor restrictions, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statements of activities as net assets released from restrictions.

Home Sales – A portion of the Organization’s revenue is derived from home sales during the year. Due to the nature of contracts, there is no variable consideration and only one performance obligation. Such revenue is conditioned upon meeting a certain performance obligation, and amounts received are recognized as revenue once the requirement has been met. Once construction is complete on a home and closing procedures have been completed, buyers take possession of the home and the performance obligation is considered to have been met. Once the home closing process has been completed, homebuyers take possession of the home. Each house sold has a defined purchase price based on a third party appraisal. Contracts are considered to have commercial substance as they all involve a cash down payment and a signed promissory note, which is paid in accordance with the note terms.

Store Income – Effective July 1, 2019, the Organization entered into a Memorandum of Understanding (“MOU”) agreement with Habitat for Humanity of Durham, Inc. (“Habitat Durham”) and Habitat for Humanity of Wake County, Inc. (“Habitat Wake”), regarding the operation of all ReStores in the service area of Orange, Durham, and Wake Habitat affiliates, including the Highway 15-501 location that was previously shared by the Organization and Habitat Durham and the location in Hillsborough. The executed MOU allows Habitat Wake to operate these businesses on behalf of Habitat Durham and the Organization.

The amount of store earnings from all stores in the Organization, Habitat Wake and Habitat Durham service areas shall be allocated between the three Organizations based on the percentage of product donations made to the store by residents from each county. During the year ended June 30, 2022, the Organization recognized income of \$279,209 relating to its share of annual store earnings. Per the MOU, Habitat Wake shall pay all store debt and related expenses out of the store revenue prior to any distributions made to the Organization or Habitat Durham. If this revenue is not sufficient to cover the necessary expenses, Habitat Wake may make payments out of their own funds and credit future distributions to the Organization and Habitat Durham.

Income Tax Status – The Organization is exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code (“IRC”) and the applicable state tax statutes. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(a) and has been qualified as an organization that is not a private foundation under Section 509(a)(2) of the IRC. Management has evaluated the effect of the guidance provided by U.S. GAAP on Accounting for Uncertainty in Income Taxes. Management believes the Organization continues to satisfy the requirements of a tax-exempt organization.

HABITAT FOR HUMANITY, ORANGE COUNTY, N.C., INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

Note 1—Organization and summary of significant accounting policies (continued)

Donated Property, Materials, and Services – Donated materials, specialized services, facilities, and land received by the Organization are reflected as both contribution revenue and contribution expense or fixed assets in the accompanying statements at their estimated fair value at the time of receipt. A substantial number of volunteers have made significant contributions of their time to the Organization principally in the areas of house construction, administration, and fundraising. The value of non-professional contributed time is not reflected in the accompanying financial statements. Donated materials was comprised of the following for the year ended June 30, 2022:

Home appliances	\$ 22,314
Electrical supplies	19,032
Other	11,920
	<u>\$ 53,266</u>

Advertising – The Organization expenses advertising production costs as they are incurred, and advertising communication costs when the initial advertising takes place. Advertising expenses totaled \$71,401 for the year ended June 30, 2022.

Retirement Plan – The Organization offers a 401(k) retirement plan which includes a voluntary salary reduction component. The plan covers all employees and is funded by both the Organization and each participant. For the year ended June 30, 2022, the Organization’s contribution amounted to \$29,558.

Use of Estimates and Assumptions – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates and assumptions are used for, but not limited, to the allowance for uncollectible accounts, mortgage discounts, depreciable lives of fixed assets, cost allocations among functional expenses, and value for in-kind donated materials and services.

Future Pronouncements – In February 2016, the Federal Accounting Standards Board (“FASB”) issued a new accounting standard, Accounting Standards Update (“ASU”) 2016-02, *Leases (Topic 842)*, which says lessees will be required to recognize a lease liability and a right-of-use asset for all leases, operating and capital, at the commencement date. The new standard will be effective for the Organization for the year ended June 30, 2023. Early adoption is permitted. The Organization is currently evaluating the effect the standard will have on its financial statements and related disclosures.

Current Pronouncements – In July 2020, FASB issued ASU 2016-02, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires presentation of contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. It also requires a disclosure of disaggregated contributions of nonfinancial assets by category that depicts the type of contributed nonfinancial assets. This distinction increased transparency of contributions recognized. Adoption of this standard did not have a significant impact on the financial statements in the current year. See *Donated Property, Materials, and Services* note above.

HABITAT FOR HUMANITY, ORANGE COUNTY, N.C., INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

Note 2—Liquidity and availability

Financial assets available for general expenditures consisting of expenses for program, fundraising, and management and general expenses that are without donor or other restrictions, limiting their use within one year of the statements of financial position date, are comprised of the following as of June 30, 2022:

Financial assets:	
Cash and cash equivalents	\$ 9,201,799
Cash - escrow	38,329
Investments	72,125
Accounts receivable, net	236,033
Unconditional promises to give	953,259
Current portion of noninterest bearing mortgages receivable	<u>487,774</u>
Total financial assets	10,989,319
Less those unavailable for general expenditures within one year:	
Cash - escrow	(38,329)
Noncurrent portion of capital campaign pledges receivable, net of discount	(351,504)
Contributions with donor restrictions	<u>(115,431)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 10,484,055</u></u>

Note 3—Campaign pledges receivable

Campaign pledge contribution receivables, net of discount, due in more than one year are expected to be received as follows:

2023	\$ 552,431
2024	180,350
2025	95,337
2026	<u>75,817</u>
	<u><u>\$ 903,935</u></u>

Note 4—Mortgages receivable

Future annual mortgage receipts for mortgages receivable are as follows for the years ending June 30:

2023	\$ 487,774
2024	448,692
2025	426,646
2026	418,507
2027	406,195
Thereafter	<u>3,226,535</u>
	<u><u>\$ 5,414,349</u></u>

HABITAT FOR HUMANITY, ORANGE COUNTY, N.C., INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

Note 4—Mortgages receivable (continued)

For purposes of calculating loan present values, interest rates are determined based on the market rates for a similar type of loan on the date of closing and range from 6% to 10% for all loans outstanding. The Organization has not established an allowance for doubtful accounts as it can reclaim homes through foreclosure in the event a loan is deemed to be uncollectible.

At June 30, 2022, the delinquencies in our mortgages receivable consisted of the following:

1 - 30 Days Past Due	31 - 60 Days Past Due	61 - 90 Days Past Due	91 Days or More Past Due	Total Past Due	Total Current	Mortgage Discount	Total Mortgages Receivable
\$ 10,895	\$ 6,786	\$ 4,031	\$ 40,216	\$ 61,928	\$ 13,501,190	\$ (8,148,769)	\$ 5,414,349

There was no allowance in the current year due to the Organization expecting to collect all of the \$61,928 past due balance.

Note 5—Houses under construction

During the year ended June 30, 2022, the Organization had 14 houses under construction, which were still in progress at year-end. Houses under construction totaled \$1,267,629 as of June 30, 2022.

Note 6—Investment in HFHI NMTC Investment Fund 1, LLC

In April 2015, the Organization participated in a NMTC program. This program provides tax credits to eligible organizations for investment in qualified low-income community investments. Program compliance requirements included creation of a promissory note and investment in a qualified community development entity ("CDE"). Tax credit recapture is required if compliance requirements are not met over a seven-year period.

NMTC financing allows an entity to receive a loan or investment capital from outside investors, who will receive new markets tax credits to be applied against their federal tax liability. The Organization originally recorded its 30.67% investment in HFHI NMTC Investment Fund 1, LLC at the cost of \$1,441,670 and was able to secure a 15-year loan in the amount of \$2,133,922 payable to a community development entity. The investment balance at June 30, 2022 totaled \$1,205,504. The loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low income residents. In April 2022, the agreement allows a put option which, if exercised, will effectively allow the Organization to extinguish its outstanding debt owed to the fund.

Note 7—Escrow accounts payable

The Organization manages the banking responsibilities for six homeowner associations. These amounts are maintained in a separate bank account by the Organization. Escrow payable balances at June 30, 2022 totaled \$135,571.

HABITAT FOR HUMANITY, ORANGE COUNTY, N.C., INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

Note 8—Long-term debt

Below market debt and non-interest bearing long-term debt consists of the following at June 30, 2022:

Promissory note, deferred payment loan dated January 6, 2004, to Orange County for purchase of 17 acres on Sunrise Road property, payable in 40 years, with an interest rate of 0%, secured by deed of trust.	\$ 124,352
HOME Funds agreement with Orange County. These funds will be used for repurchased and foreclosed houses that are expected to be sold within 12 months of closing.	75,000
Various promissory notes payable to North Carolina Housing Finance Agency for homeowner assistance in purchasing houses from the Organization. These loans range from \$15,000 to \$80,500 with monthly payments between \$28 and \$135 over periods between 20 to 30 years, including interest at 0%. These funds were obtained through the Self-Help Housing Program and are paid as monthly mortgages receivable payments are received from the homeowner. At June 30, 2022, there were 164 loans outstanding.	1,542,184
Habitat Mortgage Solutions loan for assistance with land acquisition of large parcel for future development. Monthly payments of \$6,941, amortized quarterly with interest of 3.70%, and a maturity date of December 31, 2029.	<u>559,042</u>
	2,300,578
Less debt issuance costs	<u>(46,224)</u>
	2,254,354
Less current maturities	<u>(470,930)</u>
Total long-term portion	<u><u>\$ 1,783,424</u></u>

Combined aggregate maturities of below market debt and non-interest bearing debt are as follows for the years ending June 30:

2023	\$ 470,930
2024	148,325
2025	150,803
2026	153,375
2027	156,044
Thereafter	<u>1,221,101</u>
	<u><u>\$ 2,300,578</u></u>

Due to joint venture is a promissory note to HFHI NMTC Sub-qualified CDE I, LLC in the amount of \$2,133,922. The note requires semi-annual, interest-only payments until November 5, 2023 at 0.682930%. The note matures on December 23, 2044. The loan is secured by substantially all the assets acquired by the Organization from the project loan proceeds. During the current year, the Organization incurred \$14,573 of interest expense.

HABITAT FOR HUMANITY, ORANGE COUNTY, N.C., INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

Note 9—Net assets with donor restrictions

Net assets with donor restrictions are available for the following purposes as of June 30, 2022:

Partnership Program	\$ 38,939
Phoenix Place Playground	61,442
HFHI R&M Award	15,000
Global Impact Fund	50
	<u>\$ 115,431</u>

Note 10—Board-designated net assets

The Organization's Board of Directors has the ability to designate net assets for certain funds. As of June 30, 2022, the Board had designated net assets from the Mackenzie Scott grant funds received to support working capital of the Organization in the amount of \$5,000,000.

Note 11—Grant audits

The Organization receives grant funds at times from various federal, state, and local governments. Such costs are subject to final approval by the grantor agencies, and deficiencies, if any, are the responsibility of the Organization.

Note 12—Operating leases

The Organization has an operating lease for its office facilities with varying monthly payments ranging from \$6,298 to \$7,665 and expires on March 31, 2024. The Organization also leases office equipment under a month-to-month operating lease.

The future minimum lease payments for all leases are as follows for the years ending June 30:

2023	\$ 89,048
2024	68,983
	<u>\$ 158,031</u>

Rent expense under noncancelable operating lease agreements totaled \$87,711 for the year ended June 30, 2022.

Note 13—Organizational affiliate

The Organization annually remits a portion of its contributions (excluding in-kind contributions) to Habitat for Humanity International, Inc. These funds are used to construct homes in economically depressed areas around the world. For the year ended June 30, 2022, the Organization contributed \$75,000 to Habitat for Humanity International, Inc. and is included as a program services expense in the accompanying statements of activities.

Note 14—Subsequent events

The Organization has evaluated subsequent events through March 6, 2023, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.