

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

FINANCIAL STATEMENTS

*As of and for the Year Ended June 30, 2020
(With Comparative Totals for June 30, 2019)*

And Report of Independent Auditor

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

TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITOR 1-2

FINANCIAL STATEMENTS

Statement of Financial Position 3-4
Statement of Activities 5
Statement of Functional Expenses 6
Statement of Cash Flows 7
Notes to the Financial Statements 8-18

Report of Independent Auditor

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

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, 2020, 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.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such 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 the Organization as of June 30, 2020, and the related statements of activities and changes in net assets and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We previously audited the Organization's 2019 financial statements and our report dated September 5, 2019 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, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Effect of Adopting New Accounting Standards

As discussed in Note 1, the Organization adopted Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, ASU 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, and ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. These ASUs did not have any impact on prior year net assets. Our opinion is not modified with respect to these matters.

Handwritten signature of Cherry Roubert LLP in cursive script.

Raleigh, North Carolina
September 17, 2020

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

JUNE 30, 2020

(WITH COMPARATIVE TOTALS FOR JUNE 30, 2019)

	<u>2020</u>	<u>2019</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,520,547	\$ 1,398,400
Cash - escrow	55,088	46,890
Certificates of deposit	78,888	77,341
Investments	66,266	67,597
Accounts receivable, net	401,117	215,793
Unconditional promises to give	265,614	79,449
Current portion of non-interest bearing mortgages receivable	367,357	303,493
Houses under construction	618,535	1,034,223
Homes held for sale	377,632	677,417
Prepaid assets	19,913	19,621
Total Current Assets	<u>3,770,957</u>	<u>3,920,224</u>
Property and Equipment:		
Vehicles	119,331	106,249
Office furniture and equipment	65,721	57,627
Software	11,020	11,020
Construction equipment	37,166	37,166
Rental house	15,000	15,000
	<u>248,238</u>	<u>227,062</u>
Less accumulated depreciation	<u>(200,793)</u>	<u>(184,261)</u>
Net Property and Equipment	<u>47,445</u>	<u>42,801</u>
Other Assets:		
Land held for homesites	4,151,794	3,447,062
Investment in joint venture	1,459,602	1,459,602
Deposits	3,887	3,887
Non-interest bearing long-term mortgages receivable	4,883,487	4,352,647
Total Other Assets	<u>10,498,770</u>	<u>9,263,198</u>
Total Assets	<u>\$ 14,317,172</u>	<u>\$ 13,226,223</u>

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

JUNE 30, 2020

(WITH COMPARATIVE TOTALS FOR JUNE 30, 2019)

	<u>2020</u>	<u>2019</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Current portion of below market and non-interest bearing long-term debt	\$ 476,166	\$ 895,306
Accounts payable	218,086	206,264
Escrow accounts payable	51,807	46,856
Deferred revenue	52,890	68,194
Deferred grant revenue	242,638	-
Deferred rent	13,435	9,269
Accrued vacation	36,047	25,301
Accrued payroll	55,546	42,114
Total Current Liabilities	<u>1,146,615</u>	<u>1,293,304</u>
Long-Term Debt:		
Due to joint venture	2,133,922	2,133,922
Below market and non-interest bearing notes	1,450,069	1,165,527
Total Long-Term Debt	<u>3,583,991</u>	<u>3,299,449</u>
Total Liabilities	<u>4,730,606</u>	<u>4,592,753</u>
Net Assets:		
Without donor restrictions	9,504,566	8,469,409
With donor restrictions	82,000	164,061
Total Net Assets	<u>9,586,566</u>	<u>8,633,470</u>
Total Liabilities and Net Assets	<u>\$ 14,317,172</u>	<u>\$ 13,226,223</u>

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

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

YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2019)

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	
Public Support and Revenue:				
Public Support:				
Contributions	\$ 801,188	\$ 921,865	\$ 1,723,053	\$ 1,438,254
Government grants	611,739	-	611,739	250,215
Donated property, materials, services	77,090	-	77,090	93,610
Total Public Support	<u>1,490,017</u>	<u>921,865</u>	<u>2,411,882</u>	<u>1,782,079</u>
Revenue:				
Home sales	3,267,411	-	3,267,411	1,448,375
Expense reimbursement	9,053	-	9,053	18,679
Interest and dividend income	11,847	-	11,847	21,142
Rental income	41,969	-	41,969	25,822
Interest income on current year non-interest and below market interest bearing notes payable	598,351	-	598,351	263,345
Interest income on non-interest bearing mortgages receivable	397,672	-	397,672	371,046
Other income	669,546	-	669,546	599,923
Total Revenue	<u>4,995,849</u>	<u>-</u>	<u>4,995,849</u>	<u>2,748,332</u>
Net assets released from restrictions	<u>1,003,926</u>	<u>(1,003,926)</u>	<u>-</u>	<u>-</u>
Total Public Support and Revenue	<u>7,489,792</u>	<u>(82,061)</u>	<u>7,407,731</u>	<u>4,530,411</u>
Expenses:				
Program services - home construction	4,228,488	-	4,228,488	2,733,086
Program services - interest expense on current year non-interest bearing mortgages receivable	1,333,487	-	1,333,487	489,673
Program services - interest expense on non-interest and below market interest bearing notes payable	138,339	-	138,339	122,919
Total Program Services	<u>5,700,314</u>	<u>-</u>	<u>5,700,314</u>	<u>3,345,678</u>
Management and general	261,504	-	261,504	250,769
Fundraising	492,817	-	492,817	469,913
Total Expenses	<u>6,454,635</u>	<u>-</u>	<u>6,454,635</u>	<u>4,066,360</u>
Change in net assets	1,035,157	(82,061)	953,096	464,051
Net assets, beginning of year	<u>8,469,409</u>	<u>164,061</u>	<u>8,633,470</u>	<u>8,169,419</u>
Net assets, end of year	<u>\$ 9,504,566</u>	<u>\$ 82,000</u>	<u>\$ 9,586,566</u>	<u>\$ 8,633,470</u>

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

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

YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2019)

	Program Services	Management and General	Fundraising	2020 Total	2019 Total
Salaries and wages	\$ 635,886	\$ 137,991	\$ 274,934	\$ 1,048,811	\$ 978,694
Payroll taxes and employee benefits	112,814	25,078	49,800	187,692	189,633
Pension contributions	24,859	5,394	10,748	41,001	45,529
Cost of construction	2,975,343	-	-	2,975,343	1,583,421
Advertising	1,706	427	711	2,844	4,602
Interest expense on non-interest and below market bearing note payable	138,339	-	-	138,339	122,919
Bank charges	-	2,171	-	2,171	1,977
Board and staff development	6,754	1,320	2,616	10,690	14,890
Computer expenses	16,025	3,027	11,143	30,195	27,270
Depreciation	14,621	641	1,269	16,531	24,342
Interest expense on current year non-interest bearing mortgages receivable	1,333,487	-	-	1,333,487	489,673
Dues and subscriptions	17,815	4,559	-	22,374	18,818
Employee mileage reimbursement	1,033	810	2,352	4,195	7,452
Event costs	-	-	32,506	32,506	45,041
Homeowner support and family selection	47,579	-	-	47,579	44,780
Insurance	42,767	7,923	-	50,690	53,087
Legal and accounting	42,183	-	-	42,183	43,014
Licenses and fees	359	8,508	-	8,867	7,552
Meals and hospitality	-	1,068	1,451	2,519	3,557
Miscellaneous	52,453	266	-	52,719	24,685
Occupancy	53,439	11,019	19,701	84,159	86,257
Office supplies	6,910	2,347	4,650	13,907	16,983
Postage	1,252	1,252	2,323	4,827	5,721
Printing	1,262	1,262	1,261	3,785	3,706
Professional services	-	20,850	-	20,850	21,725
Recruitment - staff/personnel	-	19,793	-	19,793	1,337
Rental property expenses	4,270	-	-	4,270	2,399
Staff appreciation	633	1,996	54	2,683	2,975
Taxes - property	10,443	-	-	10,443	3,891
Telephone	9,194	1,238	4,734	15,166	14,856
Tithe to Habitat International	50,134	-	-	50,134	49,883
Travel	18,484	2,564	1,332	22,380	11,870
Vehicle expense	24,667	-	-	24,667	28,837
Volunteer appreciation	10,592	-	-	10,592	15,248
Other fundraising	-	-	71,232	71,232	45,032
New Markets Tax Credit expenses	45,011	-	-	45,011	24,704
	<u>\$ 5,700,314</u>	<u>\$ 261,504</u>	<u>\$ 492,817</u>	<u>\$ 6,454,635</u>	<u>\$ 4,066,360</u>

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

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

YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2019)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 953,096	\$ 464,051
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	16,531	24,342
Donated materials	(77,090)	(93,610)
Interest expense on current year non-interest and below market interest bearing notes payable	(598,351)	(263,345)
Interest income on mortgages receivable discount	(397,672)	(371,046)
Interest income on current year non-interest bearing mortgage receivable	1,333,487	489,673
Interest expense on notes payable discount	138,339	122,919
Transfers of non-interest bearing debt to homeowners	(890,129)	(187,275)
Portion of business interest expense	30,394	10,133
Changes in operating assets and liabilities:		
Investments	1,331	(51,441)
Land held for homesites	(704,732)	(1,222,586)
Mortgages receivable	(1,530,519)	(28,553)
Accounts receivable	(185,324)	126,498
Unconditional promises to give	(186,165)	(41,588)
Houses under construction	492,778	(274,901)
Homes held for sale	299,785	(217,417)
Prepaid assets	(292)	(13,218)
Accounts payable	11,822	41,801
Escrow accounts payable	4,951	9,856
Deferred revenue	(15,304)	(15,305)
Deferred grant revenue	242,638	-
Deferred rent	4,166	9,269
Accrued vacation	10,746	(13,134)
Accrued payroll	13,432	(6,754)
Net cash flows from operating activities	<u>(1,032,082)</u>	<u>(1,501,631)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(21,175)	(18,571)
Net cash flows from investing activities	<u>(21,175)</u>	<u>(18,571)</u>
Cash flows from financing activities:		
Proceeds received on new long-term notes payable	1,185,149	938,788
Net cash flows from financing activities	<u>1,185,149</u>	<u>938,788</u>
Net change in cash and cash equivalents	131,892	(581,414)
Cash and cash equivalents, beginning of year	1,522,631	2,104,045
Cash and cash equivalents, end of year	<u>\$ 1,654,523</u>	<u>\$ 1,522,631</u>

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

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

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

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, 2019, from which the summarized information was derived.

Certain prior period amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

Expense Allocation – The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets and in the statement 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 includes costs to operate and administer the 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, 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, 2020

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, 2020, the Organization had \$503,885 which exceeds these insured amounts.

Certificates of Deposit – Certificates of deposit totaled \$78,888 as of June 30, 2020. The certificate of deposit is held through a credit union with an interest rate as of June 30, 2020 of 1.70%, with a maturity date occurring in the next fiscal year. As of June 30, 2020, the Organization did not exceed these insured limits.

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 \$66,266 as of June 30, 2020. The Organization’s investment balance is included in the previously stated FDIC disclosure calculation for cash and cash equivalents.

As discussed later in Note 1, the Organization adopted ASU 2016-18 during the year, resulting in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents being considered together for cash flow statement purposes. Cash, cash equivalents, restricted cash and restricted cash equivalents at June 30, 2020 is comprised of the following:

Cash and cash equivalents	\$ 1,520,547
Cash - escrow	55,088
Certificates of deposit	78,888
	<u>\$ 1,654,523</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 \$11,784 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 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. 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 that all pledge receivables will be collected. Therefore, no allowance for uncollectible accounts is considered necessary.

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

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

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

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.

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, 2020.

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 statement 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, 2020, depreciation expense totaled \$16,531.

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 Sunrise Road project received in advance of spending. Deferred revenue totaled \$52,890 as of June 30, 2020.

Deferred Grant Revenue – The Organization obtained Paycheck Protection Loan funds during the year ending June 30, 2020 and recorded as deferred grant revenue, as discussed in Note 13.

Deferred Rent – The Organization leases its corporate office space through an operating lease ending March 2024. Deferred rent totaled \$13,435 as of June 30, 2020.

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

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

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

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. As a result, the Organization originally invested \$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 loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low income residents. The Organization accounts for this investment under the cost 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, 2020 totaled \$36,047.

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 statement of activities and changes in net assets 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.

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 that the Organization continues to satisfy the requirements of a tax-exempt organization at June 30, 2020.

In-Kind Donated Materials, Services, and Facilities – 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.

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

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

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

Advertising – The Organization expenses advertising production costs as they are incurred, and advertising communication costs when the initial advertising takes place. Advertising expenses totaled \$2,844 for the year ended June 30, 2020.

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, 2020, the Organization’s contribution amounted to \$41,001.

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.

Current Pronouncements – The Organization has adopted Accounting Standards Update (“ASU”) 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies and improves the scope and the accounting guidance for contributions received and contributions made. The Organization adopted this standard during the year ended June 30, 2020, and has adjusted the presentation of the statements accordingly. The update had no impact on prior year net assets.

The Organization also adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing the users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue. The Organization adopted this standard during the year ended June 30, 2020, and has adjusted the presentation of the statements accordingly. Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

The Organization adopted ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts general described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The update had no impact on prior year net assets.

Future Pronouncements – In February 2016, the Federal Accounting Standards Board issued a new accounting standard, 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 on July 1, 2021. Early adoption is permitted. The Organization is currently evaluating the effect that the standard will have on its financial statements and related disclosures.

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

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

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 statement of financial position date, are comprised of the following as of June 30, 2020:

Financial assets:

Cash and cash equivalents	\$	1,520,547
Cash - escrow		55,088
Certificates of deposit		78,888
Investments		66,266
Accounts receivable, net		401,117
Unconditional promises to give		265,614
Current portion of noninterest bearing mortgages receivable		<u>367,357</u>
Total financial assets		2,754,877

Less those unavailable for general expenditures within one year:

Cash - escrow		(55,088)
Contributions with donor restrictions		<u>(82,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$	<u><u>2,617,789</u></u>

Note 3—Mortgages receivable

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

2021	\$	367,357
2022		316,000
2023		314,714
2024		304,100
2025		283,623
Thereafter		<u>3,665,050</u>
	\$	<u><u>5,250,844</u></u>

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 that a loan is deemed to be uncollectible.

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

JUNE 30, 2020

Note 3—Mortgages receivable (continued)

At June 30, 2020, 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
<u>\$ 11,377</u>	<u>\$ 5,584</u>	<u>\$ 3,595</u>	<u>\$ 22,300</u>	<u>\$ 42,856</u>	<u>\$ 13,099,169</u>	<u>(7,891,181)</u>	<u>\$ 5,250,844</u>

There was no allowance in the current year due to the Organization expecting to collect all of the \$42,856 past due balance.

Note 4—Houses under construction

During the year ended June 30, 2020, the Organization had ten houses under construction, which were still in progress at year-end. Houses under construction totaled \$618,535 as of June 30, 2020.

Note 5—Investment in HFHI NMTC Investment Fund 1, LLC

In April 2015, the Organization participated in a NMTC program. The 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.

The Organization originally recorded its 30.67% investment in HFHI NMTC Investment Fund 1, LLC at the cost of \$1,441,670. In April 2022, under the terms of the put option agreement, the put option will be exercised. Exercise of the option will effectively allow the Organization to extinguish its outstanding debt owed to the fund.

Note 6—Escrow accounts payable

The Organization manages the banking responsibilities for five homeowner associations (HOA). These amounts are maintained in a separate bank account by the Organization. Escrow payable balances at June 30, 2020 totaled \$51,807.

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

JUNE 30, 2020

Note 7—Long-term debt

Below market debt and non-interest bearing long-term debt consists of the following at June 30, 2020:

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.	\$ 109,733
Affordable housing development agreement with Orange County for assistance with the development of townhomes located in the Waterstone Residential Development. Houses included in current balance are expected to be completed, sold and closed on within the next two years.	267,304
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.	163,803
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, 2020, there were 154 loans outstanding.	1,497,065
Small Business Administration Economic Injury Disaster Loan provided to use as financial assistance through the global COVID-19 pandemic and its impacts. Installment payments, including principal and interest, of \$641 per month will begin 12 months from the date of the promissory Note. All remaining principal and interest, 2.75% per annum, will be payable upon maturity in June 2051.	37,812
	<u>2,075,717</u>
Less debt issuance costs	(149,482)
	<u>1,926,235</u>
Less current maturities	(476,166)
Total long-term portion	<u>\$ 1,450,069</u>

Combined aggregate maturities of below market debt and non-interest bearing debt are as follows for the year ended June 30, 2020:

2021	\$ 476,166
2022	101,550
2023	324,722
2024	74,816
2025	74,912
Thereafter	1,023,551
	<u>\$ 2,075,717</u>

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

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 7—Long-term debt (continued)

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.

Note 8—Net assets with donor restrictions

Net assets with donor restrictions are available for the following purposes as of June 30, 2020:

Partnership Program	\$	23,052
Phoenix Place Playground		52,739
Construction Apprenticeships		6,209
	\$	<u>82,000</u>

Note 9—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 10—Operating leases

The Organization has an operating lease for its office facilities, which was amended on April 1, 2018 and now 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:

2021	\$	83,488
2022		85,768
2023		89,048
2024		68,983
	\$	<u>327,287</u>

Rent expense under noncancelable operating lease agreements totaled \$84,159 for the year ended June 30, 2020.

Note 11—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, 2020, the Organization contributed \$50,134 to Habitat for Humanity International, Inc. and is included as a program services expense in the accompanying statement of activities and changes in net assets.

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

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 12—Memorandum of understanding

The Organization previously entered into a memorandum of understanding (“MOU”) with Habitat for Humanity of Durham, Inc. (“Habitat Durham”) regarding the acquisition and operation of real estate and Habitat Restore (the “Store”) at the property known as 5501 Durham-Chapel Hill Boulevard, serving Durham and Orange Counties. This MOU acknowledged that the Organization was involved in successful operation of the Store and as such, the value of the real estate, including any and all improvements, was to be shared equally between the Organization and Habitat Durham.

Effective July 1, 2019, the Organization entered into a MOU agreement with Habitat Durham and Habitat for Humanity of Wake County, Inc. (“Habitat Wake”), which supersedes the previous agreement regarding the operation of the Store at the property known as 5501 Durham-Chapel Hill Boulevard, Durham, NC 27707, serving Durham, Orange and Wake Counties. An executed Management Agreement allows Habitat Wake to operate the business on behalf of Habitat Durham and the Organization. As a result of the new MOU agreement, Habitat Wake purchased the land and building at 5501 Durham-Chapel Hill Boulevard, resulting in a \$518,900 gain on the Organization’s share of proceeds from the sale, recorded in other income.

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, 2020, the Organization recognized income of \$91,274 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.

Note 13—COVID-19 pandemic

On January 30, 2020, the World Health Organization declared the coronavirus “COVID-19” outbreak a “Public Health Emergency of International Concern” and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of COVID-19 include restrictions on travel, quarantines, or “stay-at-home” restrictions in certain areas and forced closures for certain types of public places and businesses. COVID-19 and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets globally, including the geographical areas in which the Organization operates. The Organization’s office, Store locations, and home building construction sites were initially closed to all staff and volunteers temporarily for the safety of employees, families, and the community. The Organization began reopening in June 2020 using a phased approach that allows a small number of employees to return to work.

While it is unknown how long these conditions will last and what the complete financial impact will be to the Organization, they are closely monitoring the impact of the COVID-19 pandemic on all aspects of our business and are unable at this time to predict the continued impact that COVID-19 will have on their business, financial position, and operating results in future periods due to numerous uncertainties.

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

JUNE 30, 2020

Note 13—COVID-19 pandemic (continued)

On April 20, 2020, the Organization received a Paycheck Protection Program (“PPP”) loan for \$242,638 from the Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). This loan was funded by First Horizon Bank. PPP loans are considered conditional contributions, with right of return in the form of an obligation to be repaid if a barrier to entitlement is not met. The barrier is that PPP loan funds must be used to maintain compensation costs and employee headcount, and other qualifying expenses (mortgage interest, rent, and utilities) incurred following the receipt of the loan funds. As the application for the forgiveness process is considered to be a barrier for recognition, the Organization recognized \$242,638 as deferred grant revenue for the year ended June 30, 2020 representing funds received. The Organization selected Accounting Standards Codification 958-605 as the applicable standard for not-for-profits. As of June 30, 2020, the Organization was in the process of applying for full loan forgiveness.

Note 14—Subsequent events

The Organization has evaluated subsequent events through September 17, 2020, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.