

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

FINANCIAL STATEMENTS

*As of and for the Year Ended June 30, 2019
(With Comparative Totals for June 30, 2018)*

And Report of Independent Auditor

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

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Report of Independent Auditor

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, 2019, 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, 2019, 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 2018 financial statements and our report dated September 5, 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 June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Effect of Adopting New Accounting Standard

As discussed in Note 1, the Organization adopted Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The ASU has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Chauney R. Ricketts LLP

Raleigh, North Carolina
September 5, 2019

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

JUNE 30, 2019

(WITH COMPARATIVE TOTALS FOR JUNE 30, 2018)

	2019	2018
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,291,916	\$ 1,257,388
Cash - escrow	46,890	34,469
Certificates of deposit	183,825	812,188
Investments	67,597	16,156
Accounts receivable, net	215,793	342,291
Unconditional promises to give	79,449	37,861
Current portion of non-interest bearing mortgages receivable	303,493	264,497
Houses under construction	1,034,223	665,712
Homes held for sale	357,417	140,000
Prepaid assets	19,621	6,403
Total Current Assets	<u>3,600,224</u>	<u>3,576,965</u>
Property and Equipment:		
Vehicles	106,249	92,749
Office furniture and equipment	57,627	52,558
Software	11,020	11,020
Construction equipment	37,166	37,166
Rental house	15,000	15,000
Land	283,943	283,943
	<u>511,005</u>	<u>492,436</u>
Less accumulated depreciation	<u>(184,261)</u>	<u>(159,921)</u>
Net Property and Equipment	<u>326,744</u>	<u>332,515</u>
Other Assets:		
Land held for homesites	3,483,119	2,260,533
Investment in joint venture	1,459,602	1,459,602
Deposits	3,887	3,887
Non-interest bearing long-term mortgages receivable	4,352,647	4,481,717
Total Other Assets	<u>9,299,255</u>	<u>8,205,739</u>
Total Assets	<u><u>\$ 13,226,223</u></u>	<u><u>\$ 12,115,219</u></u>

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

JUNE 30, 2019

(WITH COMPARATIVE TOTALS FOR JUNE 30, 2018)

	<u>2019</u>	<u>2018</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Current portion of non-interest bearing long-term debt	\$ 895,306	\$ 155,612
Accounts payable	206,264	164,463
Escrow accounts payable	46,856	37,000
Deferred revenue	68,194	83,499
Deferred rent	9,269	-
Accrued vacation	25,301	38,435
Accrued payroll	42,114	48,868
Total Current Liabilities	<u>1,293,304</u>	<u>527,877</u>
Long-Term Debt:		
Due to joint venture	2,133,922	2,133,922
Non-interest bearing notes	1,165,527	1,284,001
Total Long-Term Debt	<u>3,299,449</u>	<u>3,417,923</u>
Total Liabilities	<u>4,592,753</u>	<u>3,945,800</u>
Net Assets:		
Without donor restrictions	8,469,409	8,114,497
With donor restrictions	164,061	54,922
Total Net Assets	<u>8,633,470</u>	<u>8,169,419</u>
Total Liabilities and Net Assets	<u><u>\$ 13,226,223</u></u>	<u><u>\$ 12,115,219</u></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, 2019
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	
Public Support and Revenue:				
Public Support:				
Contributions	\$ 807,921	\$ 630,333	\$ 1,438,254	\$ 1,199,416
Government grants	250,215	-	250,215	76,067
Donated property, materials, services	93,610	-	93,610	101,541
Total Public Support	<u>1,151,746</u>	<u>630,333</u>	<u>1,782,079</u>	<u>1,377,024</u>
Revenue:				
Home sales	1,448,375	-	1,448,375	2,012,250
Expense reimbursement	18,679	-	18,679	12,924
Interest and dividend income	21,142	-	21,142	17,080
Rental income	25,822	-	25,822	33,063
Interest income on current year non-interest and below market interest bearing notes payable	263,345	-	263,345	376,571
Interest income on non-interest bearing mortgages receivable	371,046	-	371,046	356,025
Other income	599,923	-	599,923	243,059
Total Revenue	<u>2,748,332</u>	<u>-</u>	<u>2,748,332</u>	<u>3,050,972</u>
Net assets released from restrictions	<u>521,194</u>	<u>(521,194)</u>	<u>-</u>	<u>-</u>
Total Public Support and Revenue	<u>4,421,272</u>	<u>109,139</u>	<u>4,530,411</u>	<u>4,427,996</u>
Expenses:				
Program services - home construction	2,733,086	-	2,733,086	2,994,334
Program services - interest expense on current year non-interest bearing mortgages receivable	489,673	-	489,673	731,076
Program services - interest expense on non-interest and below market interest bearing notes payable	122,919	-	122,919	75,146
Total Program Services	<u>3,345,678</u>	<u>-</u>	<u>3,345,678</u>	<u>3,800,556</u>
Management and general	250,769	-	250,769	243,343
Fundraising	469,913	-	469,913	430,097
Total Expenses	<u>4,066,360</u>	<u>-</u>	<u>4,066,360</u>	<u>4,473,996</u>
Change in net assets	354,912	109,139	464,051	(46,000)
Net assets, beginning of year	<u>8,114,497</u>	<u>54,922</u>	<u>8,169,419</u>	<u>8,215,419</u>
Net assets, end of year	<u>\$ 8,469,409</u>	<u>\$ 164,061</u>	<u>\$ 8,633,470</u>	<u>\$ 8,169,419</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, 2019
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2018)

	Program Services	Management and General	Fundraising	2019 Total	2018 Total
Salaries and wages	\$ 590,246	\$ 134,442	\$ 254,006	\$ 978,694	\$ 983,403
Payroll taxes and employee benefits	114,924	24,155	50,554	189,633	191,731
Pension contributions	27,459	6,254	11,816	45,529	35,604
Cost of construction	1,583,421	-	-	1,583,421	1,924,644
Advertising	2,761	690	1,151	4,602	4,040
Temporary employees and interns	-	-	-	-	136
Interest expense on non-interest and below market bearing note payable	122,919	-	-	122,919	75,146
Bank charges	-	1,977	-	1,977	2,090
Board and staff development	5,707	717	1,606	8,030	11,775
Computer expenses	13,280	2,495	11,495	27,270	26,396
Conferences and meetings	2,310	1,585	2,965	6,860	2,806
Depreciation	22,966	425	951	24,342	13,254
Interest expense on current year non-interest bearing mortgages receivable	489,673	-	-	489,673	731,076
Dues and subscriptions	15,615	3,203	-	18,818	10,395
Employee mileage reimbursement	2,567	1,716	3,169	7,452	6,690
Event costs	-	-	45,041	45,041	34,984
Homeowner support and family selection	44,780	-	-	44,780	22,919
Insurance	33,243	19,844	-	53,087	42,118
Legal and accounting	43,014	-	-	43,014	37,989
Licenses and fees	342	7,210	-	7,552	8,911
Meals and hospitality	316	1,344	1,897	3,557	2,377
Miscellaneous	24,549	136	-	24,685	718
Occupancy	53,005	10,903	22,349	86,257	59,917
Office supplies	8,548	2,604	5,831	16,983	15,151
Postage	1,132	1,132	3,457	5,721	5,976
Printing	1,235	1,235	1,236	3,706	5,963
Professional services	-	21,725	-	21,725	21,850
Recruitment - staff/personnel	-	1,337	-	1,337	803
Rental property expenses	2,399	-	-	2,399	9,621
Staff appreciation	185	2,462	328	2,975	3,172
Taxes - property	3,891	-	-	3,891	9,824
Telephone	8,790	1,308	4,758	14,856	15,549
Tithe to Habitat International	49,883	-	-	49,883	50,000
Travel	7,729	1,870	2,271	11,870	9,867
Vehicle expense	28,837	-	-	28,837	26,075
Volunteer appreciation	15,248	-	-	15,248	8,446
Other fundraising	-	-	45,032	45,032	27,745
New Market Tax Credit expenses	24,704	-	-	24,704	34,835
	<u>\$ 3,345,678</u>	<u>\$ 250,769</u>	<u>\$ 469,913</u>	<u>\$ 4,066,360</u>	<u>\$ 4,473,996</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, 2019
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2018)

	<u>2019</u>	<u>2018</u>
Cash from operating activities:		
Change in net assets	\$ 464,051	\$ (46,000)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	24,342	13,254
Donated materials	(93,610)	(101,541)
Interest expense on current year non-interest and below market interest bearing notes payable	(263,345)	(376,571)
Interest income on mortgages receivable discount	(371,046)	(356,025)
Interest income on current year non-interest bearing mortgage receivable	489,673	731,076
Interest expense on notes payable discount	122,919	75,146
Transfers of non-interest bearing debt to homeowners	(187,275)	(152,711)
Portion of Business interest expense	10,133	20,259
Changes in operating assets and liabilities:		
Cash - escrow	(12,421)	(11,424)
Investments	(51,441)	(433)
Land held for homesites	(1,222,586)	2,707
Mortgages receivable	(28,553)	(633,646)
Accounts receivable	126,498	(186,449)
Unconditional promises to give	(41,588)	18,174
Houses under construction	(274,901)	309,721
Homes held for sale	(217,417)	(140,000)
Prepaid assets	(13,218)	(6,548)
Accounts payable	41,801	90,632
Escrow accounts payable	9,856	13,394
Deferred revenue	(15,304)	(15,304)
Deferred rent	9,269	-
Accrued vacation	(13,134)	2,447
Accrued payroll	(6,754)	(7,171)
Net cash from operating activities	<u>(1,514,051)</u>	<u>(757,013)</u>
Cash flows from investing activities:		
Net change in certificates of deposit	628,363	66,259
Purchase of property and equipment	(18,572)	(31,499)
Net cash from investing activities	<u>609,791</u>	<u>34,760</u>
Cash from financing activities:		
Proceeds received on new long-term notes payable	938,788	877,874
Net cash from financing activities	<u>938,788</u>	<u>877,874</u>
Net change in cash and cash equivalents	34,528	155,621
Cash and cash equivalents, beginning of year	1,257,388	1,101,767
Cash and cash equivalents, end of year	<u>\$ 1,291,916</u>	<u>\$ 1,257,388</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, 2019

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, 2018, 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 International), 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, telephone); and employee-specific (e.g. telephone, staff development, 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 and on Mortgages Receivable, 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, 2019

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 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, 2019, the Organization had \$867,857 which exceeds these insured amounts.

Certificates of Deposit – Certificates of deposit totaled \$183,825 as of June 30, 2019. The certificates are held with various financial institutions. Interest rates as of June 30, 2019 ranged from 2.00% to 2.35%, with maturity dates on all certificates occurring in the next fiscal year. As of June 30, 2019, the Organization did not exceed the insured amount of \$250,000.

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 \$67,597 as of June 30, 2019. The Organization's investment balance is included in the previously stated Federal Deposit Insurance Corporation disclosure calculation for cash and cash equivalents.

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 \$7,201 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.

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, 2019.

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

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

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

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, 2019, depreciation expense totaled \$24,342.

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 \$68,194 as of June 30, 2019.

Deferred Rent – The Organization leases its corporate office space through an operating lease ending March 2024. Deferred rent totaled \$9,269 as of June 30, 2019.

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, 2019 totaled \$25,301.

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

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

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

Public Support and Revenue With and Without Donor Restrictions – Donor support and contributions received 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.

Income Tax Status – The Organization is exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code 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 Internal Revenue Code. Management has evaluated the effect of the guidance provided by 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, 2019.

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.

Advertising – The Organization expenses advertising production costs as they are incurred, and advertising communication costs when the initial advertising takes place. Advertising expenses totaled \$4,602 for the year ended June 30, 2019.

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, 2019, the Organization's contribution amounted to \$45,529.

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.

New Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted presentation of these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

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

JUNE 30, 2019

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

Recently Issued Accounting Pronouncements

In February 2016, the FASB 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.

In August 2016, the FASB issued a new accounting standard, ASU 2016-15, *Statement of Cash Flows (Topic 230)*, which provides classification guidance over many areas of the cash flow statement. The new standard will be effective for the Organization on July 1, 2019. Early adoption is permitted. The Organization is currently evaluating the effect that the standard will have on its financial statements and related disclosures.

In November 2016, the FASB issued a new accounting standard, ASU 2016-18, *Statement of Cash Flows: Restricted Cash (Topic 230)*, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally 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 new standard will be effective for the Organization on July 1, 2019. Early adoption is permitted. The Organization is currently evaluating the effect that the standard will have on its financial statements and related disclosures.

In June 2018, the FASB issued a new accounting standard, ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*, which is intended to clarify issues that have been faced when characterizing grants and similar contracts with government agencies and others as reciprocal transactions or nonreciprocal transactions. The new standard is also intended to help with difficulties in distinguishing between conditional and unconditional contributions for reporting purposes. The new standard will be effective for the Organization on July 1, 2019. 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, 2019

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, 2019:

Financial Assets:

Cash and cash equivalents	\$ 1,291,916
Cash - escrow	46,890
Certificates of deposit	183,825
Investments	67,597
Accounts receivable, net	215,793
Unconditional promises to give	79,449
Current portion of noninterest bearing mortgages receivable	<u>303,493</u>
Total financial assets	2,188,963

Less those unavailable for general expenditures within one year:

Cash - escrow	(46,890)
Contributions with donor restrictions	<u>(164,061)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 1,978,012</u></u>

Note 3—Mortgages receivable

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

2020	\$ 303,493
2021	266,411
2022	265,229
2023	263,943
2024	253,381
Thereafter	<u>3,303,683</u>
	<u><u>\$ 4,656,140</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.

At June 30, 2019, 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>\$ 10,436</u>	<u>\$ 4,141</u>	<u>\$ 2,313</u>	<u>\$ 18,192</u>	<u>\$ 35,082</u>	<u>11,576,424</u>	<u>(6,955,366)</u>	<u>\$ 4,656,140</u>

There was no allowance in the current year due to the Organization expecting to collect all of the \$35,082 past due balance.

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

JUNE 30, 2019

Note 4—Houses under construction

During the year ended June 30, 2019, the Organization had ten houses under construction which were still in progress at year-end. Houses under construction totaled \$1,034,223 as of June 30, 2019.

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, 2019 totaled \$46,856.

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

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

Note 7—Long-term debt

Non-interest bearing long-term debt consists of the following at June 30, 2019:

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
HOME Funds agreement with Orange County. For each closing, there will be a separate promissory note and deed of trust between the actual homebuyer and Orange County. These homes are expected to be sold within 12 months of closing.	25,180
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.	718,595
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.	86,763
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 \$56 and \$224 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, 2019, there were 139 loans outstanding.	<u>1,300,436</u>
	2,240,707
Less debt issuance costs	<u>(179,874)</u>
	2,060,833
Less current maturities	<u>(895,306)</u>
Total long-term portion	<u>\$ 1,165,527</u>

Combined aggregate maturities of non-interest bearing debt are as follows for the year ended June 30, 2019:

2019	\$ 895,306
2020	64,768
2021	64,768
2022	64,768
2023	64,768
Thereafter	<u>1,086,329</u>
	<u>\$ 2,240,707</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, 2019

Note 8—Net assets with donor restrictions

Net assets with donor restrictions are available for the following purposes as of June 30, 2019:

Partnership Program	\$ 76,051
Phoenix Place Playground	56,532
Construction Apprenticeships	24,058
Homeowner Success Center	7,420
	<u>164,061</u>
	<u>\$ 164,061</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:

2020	\$ 80,319
2021	82,559
2022	85,768
2023	89,048
2024	68,983
	<u>406,677</u>
	<u>\$ 406,677</u>

Rent expense under noncancelable operating lease agreements totaled \$86,257 for the year ended June 30, 2019.

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, 2019, the Organization contributed \$49,883 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, 2019

Note 12—Memorandum of understanding

The Organization entered into a new memorandum of understanding agreement with Habitat for Humanity of Durham, Inc. on September 6, 2016 which superseded the original agreement that was signed on July 2, 2009, regarding the acquisition and operation of real estate and Habitat Restore (the “Store”) at the property known as 5501 Durham-Chapel Hill Boulevard, Durham, NC 27707, serving Durham and Orange Counties.

The memorandum of understanding acknowledges that the Organization has been involved in the successful operation of the Store, which is a resale store benefiting Habitat for Humanity in Orange and Durham Counties. The real estate, building, fixtures, and improvements are owned by Habitat for Humanity of Durham, Inc., who is named as the obligor in the debt instrument used to finance the purchase of the real estate and building for the Store. As part of the agreement, the value of the real estate, including any and all improvements, shall be shared equally with the Organization. The value of the real estate was approximately \$2.3 million as of the date of purchase and the outstanding debt balance totaled \$1,563,475 as of June 30, 2019. Additionally, the Organization will be entitled to a share of annual Store earnings after payment of debt service, reserves, and upfit costs.

The amount of Store earnings shall be allocated between the Organization and Habitat for Humanity of Durham, Inc. During the year ended June 30, 2019, the Organization recognized income of \$307,754 relating to its share of annual Store earnings. The memorandum of understanding contains additional information regarding equity sharing under a variety of circumstances, including, but not limited to, the sale of real estate and improvements. The agreement also provides the Organization with a guaranteed minimum distribution of the average of its previous three years of distributions.

The Organization guarantees the payment of debt service used to finance the Store. The agreement provides a provision for payments to be made by the Organization to the Store in the event there are shortfalls in payment of debt service or other costs as further described in the agreement. In the event of default, the Organization is responsible for 50% of any unpaid balance.

Note 13—Subsequent events

The Organization entered into a new memorandum of understanding agreement with Habitat for Humanity of Durham, Inc. (“Habitat Durham”) and Habitat for Humanity of Wake County, Inc. (“Habitat Wake”) on July 1, 2019, which supersedes the amended agreement signed on September 6, 2016, regarding the operation of the Habitat Restore 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. The Organization, Habitat Durham and Habitat Wake will split the proceeds of all Restore operations in the area managed by the three organizations, based on the percentage of contributions made to all stores by residents from each county.

The Organization has evaluated subsequent events through September 5, 2019, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.