

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

FINANCIAL STATEMENTS

*As of and for the Year Ended June 30, 2021
(With Comparative Totals for June 30, 2020)*

And Report of Independent Auditor

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

TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITOR 1

FINANCIAL STATEMENTS

Statement of Financial Position2-3
Statement of Activities 4
Statement of Functional Expenses 5
Statement of Cash Flows6
Notes to the Financial Statements7-16

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, 2021, 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, 2021, 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 2020 financial statements and our report dated September 17, 2020 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, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Durham, North Carolina
September 23, 2021

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

JUNE 30, 2021

(WITH COMPARATIVE TOTALS FOR JUNE 30, 2020)

	<u>2021</u>	<u>2020</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 3,527,020	\$ 1,520,547
Cash - escrow	63,288	55,088
Certificates of deposit	80,229	78,888
Investments	77,241	66,266
Accounts receivable, net	472,445	401,117
Unconditional promises to give	28,267	22,557
Current portion of capital campaign pledges receivable, net of discount	588,753	218,057
Current portion of non-interest bearing mortgages receivable	340,143	367,357
Houses under construction	565,333	618,535
Homes held for sale	210,000	377,632
Prepaid assets	16,387	19,913
Total Current Assets	<u>5,969,106</u>	<u>3,745,957</u>
Property and Equipment:		
Vehicles	131,150	119,331
Office furniture and equipment	67,249	65,721
Software	11,020	11,020
Construction equipment	43,669	37,166
Rental house	15,000	15,000
	<u>268,088</u>	<u>248,238</u>
Less accumulated depreciation	<u>(219,996)</u>	<u>(200,793)</u>
Net Property and Equipment	<u>48,092</u>	<u>47,445</u>
Other Assets:		
Land held for homesites	5,099,022	4,151,794
Investment in joint venture	1,459,602	1,459,602
Deposits	24,713	3,887
Noncurrent portion of capital campaign pledges receivable, net of discount	487,793	25,000
Non-interest bearing long-term mortgages receivable	<u>5,148,325</u>	<u>4,883,487</u>
Total Other Assets	<u>12,219,455</u>	<u>10,523,770</u>
Total Assets	<u><u>\$ 18,236,653</u></u>	<u><u>\$ 14,317,172</u></u>

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

JUNE 30, 2021

(WITH COMPARATIVE TOTALS FOR JUNE 30, 2020)

	<u>2021</u>	<u>2020</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Current portion of below market and non-interest bearing long-term debt	\$ 277,975	\$ 476,166
Accounts payable	166,447	218,086
Escrow accounts payable	62,379	51,807
Deferred revenue	42,713	52,890
Deferred grant revenue	-	242,638
Deferred rent	14,433	13,435
Accrued vacation	33,891	36,047
Accrued payroll	23,531	55,546
Total Current Liabilities	<u>621,369</u>	<u>1,146,615</u>
Long-Term Debt:		
Due to joint venture	2,133,922	2,133,922
Below market and non-interest bearing notes	2,029,837	1,450,069
Total Long-Term Debt	<u>4,163,759</u>	<u>3,583,991</u>
Total Liabilities	<u>4,785,128</u>	<u>4,730,606</u>
Net Assets:		
Without donor restrictions	12,334,801	9,504,566
With donor restrictions	1,116,724	82,000
Total Net Assets	<u>13,451,525</u>	<u>9,586,566</u>
Total Liabilities and Net Assets	<u><u>\$ 18,236,653</u></u>	<u><u>\$ 14,317,172</u></u>

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

YEAR ENDED JUNE 30, 2021
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2020)

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	
Public Support and Revenue:				
Public Support:				
Contributions	\$ 987,227	\$ 3,811,023	\$ 4,798,250	\$ 1,723,053
Government grants	616,835	-	616,835	611,739
Donated property, materials, services	53,317	-	53,317	77,090
Total Public Support	<u>1,657,379</u>	<u>3,811,023</u>	<u>5,468,402</u>	<u>2,411,882</u>
Revenue:				
Home sales	2,273,719	-	2,273,719	3,267,411
Expense reimbursement	9,923	-	9,923	9,053
Interest and dividend income	6,008	-	6,008	11,847
Rental income	26,380	-	26,380	41,969
Interest income on current year non-interest and below market interest bearing notes payable	218,998	-	218,998	598,351
Interest income on non-interest bearing mortgages receivable	431,227	-	431,227	397,672
Store Income	332,500	-	332,500	91,274
Other income	82,807	-	82,807	578,272
Total Revenue	<u>3,381,562</u>	<u>-</u>	<u>3,381,562</u>	<u>4,995,849</u>
Net assets released from restrictions	<u>2,776,299</u>	<u>(2,776,299)</u>	<u>-</u>	<u>-</u>
Total Public Support and Revenue	<u>7,815,240</u>	<u>1,034,724</u>	<u>8,849,964</u>	<u>7,407,731</u>
Expenses:				
Program services - home construction	3,252,056	-	3,252,056	4,228,488
Program services - interest expense on current year non-interest bearing mortgages receivable	727,739	-	727,739	1,333,487
Program services - interest expense on non-interest and below market interest bearing notes payable	148,685	-	148,685	138,339
Total Program Services	<u>4,128,480</u>	<u>-</u>	<u>4,128,480</u>	<u>5,700,314</u>
Management and general	276,230	-	276,230	261,504
Fundraising	580,295	-	580,295	492,817
Total Expenses	<u>4,985,005</u>	<u>-</u>	<u>4,985,005</u>	<u>6,454,635</u>
Change in net assets	2,830,235	1,034,724	3,864,959	953,096
Net assets, beginning of year	<u>9,504,566</u>	<u>82,000</u>	<u>9,586,566</u>	<u>8,633,470</u>
Net assets, end of year	<u>\$ 12,334,801</u>	<u>\$ 1,116,724</u>	<u>\$ 13,451,525</u>	<u>\$ 9,586,566</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, 2021
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2020)

	Program Services	Management and General	Fundraising	2021 Total	2020 Total
Salaries and wages	\$ 651,373	\$ 152,371	\$ 319,473	\$ 1,123,217	\$ 1,048,811
Payroll taxes and employee benefits	138,093	33,088	62,398	233,579	187,692
Pension contributions	27,078	6,334	13,281	46,693	41,001
Cost of construction	1,991,075	-	-	1,991,075	2,975,343
Advertising	10,162	2,541	4,235	16,938	2,844
Advocacy	5,585	-	-	5,585	-
Americorps	21,432	-	-	21,432	-
Interest expense on non-interest and below market bearing note payable	148,685	-	-	148,685	138,339
Bank charges	9,750	1,514	-	11,264	2,171
Board and staff development	5,207	1,264	2,244	8,715	10,690
Computer expenses	16,751	3,276	11,415	31,442	30,195
Depreciation	17,404	648	1,150	19,202	16,531
Discount amortization on pledges receivab	-	-	3,519	3,519	-
Interest expense on current year non-interest bearing mortgages receivable	727,739	-	-	727,739	1,333,487
Dues and subscriptions	12,515	2,089	245	14,849	22,374
Employee mileage reimbursement	-	168	654	822	4,195
Event costs	-	-	37,971	37,971	32,506
Homeowner support and family selection	32,215	-	-	32,215	47,579
Insurance	36,080	6,255	-	42,335	50,690
Interest expense	14,427	-	-	14,427	-
Legal and accounting	43,410	5,340	-	48,750	42,183
Licenses and fees	130	7,810	-	7,940	8,867
Meals and hospitality	-	687	428	1,115	2,519
Miscellaneous	-	7,312	-	7,312	52,719
Occupancy	49,504	11,278	16,677	77,459	84,159
Office supplies	5,071	1,643	2,918	9,632	13,907
Postage	1,191	1,192	4,006	6,389	4,827
Printing	1,464	1,464	1,465	4,393	3,785
Professional services	-	25,475	-	25,475	20,850
Recruitment - staff/personnel	-	847	-	847	19,793
Rental property expenses	2,473	-	-	2,473	4,270
Staff appreciation	211	2,376	109	2,696	2,683
Taxes - property	15,053	-	-	15,053	10,443
Telephone	10,379	1,258	3,933	15,570	15,166
Tithe to Habitat International	60,000	-	-	60,000	50,134
Travel	228	-	-	228	22,380
Vehicle expense	29,865	-	-	29,865	24,667
Volunteer appreciation	9,065	-	-	9,065	10,592
Other fundraising	-	-	94,174	94,174	71,232
New Markets Tax Credit expenses	34,865	-	-	34,865	45,011
	<u>\$ 4,128,480</u>	<u>\$ 276,230</u>	<u>\$ 580,295</u>	<u>\$ 4,985,005</u>	<u>\$ 6,454,635</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, 2021
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2020)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 3,864,959	\$ 953,096
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	19,202	16,531
Donated materials	(53,317)	(77,090)
Interest expense on current year non-interest and below market interest bearing notes payable	(218,998)	(598,351)
Interest income on mortgages receivable discount	(431,227)	(397,672)
Interest income on current year non-interest bearing mortgage receivable	727,739	1,333,487
Interest expense on notes payable discount	148,685	138,339
Transfers of non-interest bearing debt to homeowners	(609,388)	(890,129)
Portion of business interest expense	20,262	30,394
Changes in operating assets and liabilities:		
Investments	(10,975)	1,331
Land held for homesites	(947,228)	(704,732)
Deposits	(20,826)	-
Mortgages receivable	(534,136)	(1,530,519)
Accounts receivable	(71,328)	(185,324)
Unconditional promises to give	(5,710)	(186,165)
Capital campaign pledges receivable	(833,489)	-
Houses under construction	106,519	492,778
Homes held for sale	167,632	299,785
Prepaid assets	3,526	(292)
Accounts payable	(51,639)	11,822
Escrow accounts payable	10,572	4,951
Deferred revenue	(10,177)	(15,304)
Deferred grant revenue	(242,638)	242,638
Deferred rent	998	4,166
Accrued vacation	(2,156)	10,746
Accrued payroll	(32,015)	13,432
Net cash flows from operating activities	<u>994,847</u>	<u>(1,032,082)</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(19,849)</u>	<u>(21,175)</u>
Net cash flows from investing activities	<u>(19,849)</u>	<u>(21,175)</u>
Cash flows from financing activities:		
Proceeds received on new long-term notes payable	<u>1,041,016</u>	<u>1,185,149</u>
Net change in cash and cash equivalents	2,016,014	131,892
Cash and cash equivalents, beginning of year	<u>1,654,523</u>	<u>1,522,631</u>
Cash and cash equivalents, end of year	<u>\$ 3,670,537</u>	<u>\$ 1,654,523</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, 2021

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, 2020, 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, 2021

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, 2021, the Organization had \$2,048,275 which exceeds these insured amounts.

Certificates of Deposit – Certificates of deposit totaled \$80,229 as of June 30, 2021. The certificate of deposit is held through a credit union with an interest rate as of June 30, 2021 of 0.15%, with a maturity date occurring in the next fiscal year. As of June 30, 2021, 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 \$77,241 as of June 30, 2021. 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, 2021 is comprised of the following:

Cash and cash equivalents	\$ 3,527,020
Cash - escrow	63,288
Certificates of deposit	<u>80,229</u>
	<u>\$ 3,670,537</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 \$12,141 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 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.

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

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

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, 2021.

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, 2021, depreciation expense totaled \$19,202.

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 \$42,713 as of June 30, 2021.

Deferred Rent – The Organization leases its corporate office space through an operating lease ending March 2024. Deferred rent totaled \$14,433 as of June 30, 2021.

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.

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

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2021

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

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, 2021 totaled \$33,891.

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, 2021, the Organization recognized income of \$332,500 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 that 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, 2021

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

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 \$16,938 for the year ended June 30, 2021.

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, 2021, the Organization's contribution amounted to \$46,693.

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 that the standard will have on its financial statements and related disclosures.

In July 2020, FASB issued ASU 2020-07, *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 will increase transparency of contributions recognized. This standard will be effective for the Organization for the year ended June 30, 2022. Management is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

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

JUNE 30, 2021

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, 2021:

Financial assets:	
Cash and cash equivalents	\$ 3,527,020
Cash - escrow	63,288
Certificates of deposit	80,229
Investments	77,241
Accounts receivable, net	472,445
Unconditional promises to give	1,104,813
Current portion of noninterest bearing mortgages receivable	<u>340,143</u>
Total financial assets	5,665,179
Less those unavailable for general expenditures within one year:	
Cash - escrow	(63,288)
Contributions with donor restrictions	<u>(1,116,724)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 4,485,167</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:

2022	\$ 588,753
2023	428,446
2024	48,634
2025	<u>10,713</u>
	<u>\$ 1,076,546</u>

Note 4—Mortgages receivable

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

2022	\$ 340,143
2023	309,639
2024	300,207
2025	279,604
2026	270,022
Thereafter	<u>3,988,853</u>
	<u>\$ 5,488,468</u>

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

JUNE 30, 2021

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 that a loan is deemed to be uncollectible.

At June 30, 2021, 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
\$ 10,043	\$ 5,223	\$ 2,848	\$ 27,543	\$ 45,657	\$13,630,504	\$ (8,187,693)	\$ 5,488,468

There was no allowance in the current year due to the Organization expecting to collect all of the \$45,657 past due balance.

Note 5—Houses under construction

During the year ended June 30, 2021, the Organization had 10 houses under construction, which were still in progress at year-end. Houses under construction totaled \$565,333 as of June 30, 2021.

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, 2021 totaled \$1,459,602. 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, 2021 totaled \$62,379.

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

JUNE 30, 2021

Note 8—Long-term debt

Below market debt and non-interest bearing long-term debt consists of the following at June 30, 2021:

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.	\$ 122,855
Affordable housing development agreement with Orange County for assistance with the development of townhomes located in the Waterstone Residential Development. House included in current balance is expected to be completed, sold and closed on within the next year.	36,347
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.	81,230
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, 2021, there were 154 loans outstanding.	1,529,037
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.	620,237
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 24 months from the date of the promissory Note. All remaining principal and interest, 2.75% per annum, will be payable upon maturity in June 2052.	47,328
	<u>2,437,034</u>
Less debt issuance costs	<u>(129,222)</u>
	2,307,812
Less current maturities	<u>(277,975)</u>
Total long-term portion	<u>\$ 2,029,837</u>

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

JUNE 30, 2021

Note 8—Long-term debt (continued)

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

2022	\$ 277,975
2023	390,730
2024	146,183
2025	148,757
2026	151,427
Thereafter	<u>1,321,962</u>
	<u>\$ 2,437,034</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.

Note 9—Paycheck Protection Program Loan

On April 20, 2020, the Organization received a Paycheck Protection Program (“PPP”) loan for \$242,638 from the Small Business Administration (“SBA”) 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. Application for forgiveness of a PPP loan is considered a barrier for recognition. For the year ended June 30, 2020, the Organization elected to follow Accounting Standards Codification 658-605 and recognized \$242,638 as deferred grant revenue, representing funds received. During the year ended June 30, 2021, the Organization's PPP loan was fully forgiven by the SBA and recognized as government grant income.

Note 10—Net assets with donor restrictions

Net assets with donor restrictions are available for the following purposes as of June 30, 2021:

Partnership Program	\$ 111,158
Phoenix Place Playground	61,442
Home Preservation	41,378
Land/development	100,000
Campaign - Weavers Grove	<u>802,746</u>
	<u>\$ 1,116,724</u>

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.

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

JUNE 30, 2021

Note 12—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:

2022	\$	86,697
2023		89,048
2024		<u>68,983</u>
	<u>\$</u>	<u>244,728</u>

Rent expense under noncancelable operating lease agreements totaled \$77,556 for the year ended June 30, 2021.

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, 2021, the Organization contributed \$60,000 to Habitat for Humanity International, Inc. and is included as a program services expense in the accompanying statements of activities.

Note 14—COVID-19 pandemic

During the year ended June 30, 2020, the World Health Organization declared the coronavirus “COVID-19” outbreak a public health emergency and pandemic. Actions were taken around the world to help mitigate the spread of COVID-19 and are still ongoing as of June 30, 2021. While it is unknown how long these conditions will last and what the complete financial impact will be to the Organization, they continue to closely monitor the impact of the COVID-19 pandemic on all aspects of business in current and future periods. To date, there have been no major lasting impacts on the Organization as a result of COVID-19.

Note 15—Subsequent events

The Organization has evaluated subsequent events through September 23, 2021, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.