

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

**FINANCIAL REPORT**

**JUNE 30, 2023**



**MAULDIN & JENKINS**

**CPAs & ADVISORS**

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

**FINANCIAL REPORT**

**JUNE 30, 2023**

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

**FINANCIAL REPORT  
JUNE 30, 2023**

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## INDEPENDENT AUDITOR'S REPORT

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### Board of Directors

**Habitat for Humanity, Orange County, N.C., Inc.**  
**Chapel Hill, North Carolina**

### Opinion

We have audited the accompanying financial statements of **Habitat for Humanity, Orange County, N.C., Inc.** (a nonprofit organization) (the "Organization"), which comprise the statement of financial position as of June 30, 2023, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the 2023 financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity, Orange County, N.C., Inc. as of June 30, 2023, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

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

### Prior Period Financial Statements

The financial statements of Habitat for Humanity, Orange County, N.C., Inc. as of June 30, 2022 were audited by other auditors whose report dated March 6, 2023 expressed an unmodified opinion on those statements.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Habitat for Humanity, Orange County, N.C., Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

*Mauldin & Jenkins, LLC*

Atlanta, Georgia  
June 28, 2024

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

## STATEMENT OF FINANCIAL POSITION JUNE 30, 2023 AND 2022

<u>Assets</u>	2023	2022
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 6,167,215	\$ 9,201,799
Cash - escrow	32,043	38,329
Investments	56,786	72,125
Accounts receivable, net	343,230	236,033
Unconditional promises to give	30,625	49,324
Current portion of capital campaign pledge receivable, net of discount	505,361	552,431
Current portion of non-interest bearing mortgages receivable, net of discount	818,284	487,774
Homes under construction	934,665	1,267,629
Homes held for sale	625,000	467,105
Construction materials inventory	16,883	10,490
Prepaid assets	7,908	8,560
<b>Total current assets</b>	<b>9,538,000</b>	<b>12,391,599</b>
<b>Property and Equipment:</b>		
Vehicles	159,069	145,784
Office furniture and equipment	67,770	67,770
Software	11,020	11,020
Construction equipment	56,085	52,610
Rental house	100,700	15,000
Assets not yet placed into service	18,213	-
	412,857	292,184
Less accumulated depreciation	(260,867)	(239,361)
<b>Net property and equipment</b>	<b>151,990</b>	<b>52,823</b>
<b>Other Assets:</b>		
Land held for homesites	14,789,585	7,453,733
Investment in joint venture	-	1,205,504
Deposits	24,673	137,461
Right-of-use asset - operating lease	333,509	-
Noncurrent portion of capital campaign pledge receivable, net of discount	313,385	351,504
Non-interest bearing long-term mortgages receivable, net of discount	5,364,218	4,926,575
<b>Total other assets</b>	<b>20,825,370</b>	<b>14,074,777</b>
<b>Total assets</b>	<b>\$ 30,515,360</b>	<b>\$ 26,519,199</b>

**See Notes to the Financial Statements**

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

## STATEMENT OF FINANCIAL POSITION (CONTINUED)

JUNE 30, 2023 AND 2022

<u>Liabilities and Net Assets</u>	<u>2023</u>	<u>2022</u>
<b>Current Liabilities:</b>		
Current portion of below market and non-interest bearing long-term debt	\$ 262,475	\$ 470,930
Line of credit	1,246,394	-
Accounts payable	1,310,478	936,032
Escrow accounts payable	133,536	135,571
Deferred revenue	29,933	30,033
Deferred rent	-	12,222
Current portion of lease liability - operating	84,725	-
Accrued vacation	40,460	38,463
Accrued payroll	37,779	29,624
<b>Total current liabilities</b>	<b>3,145,780</b>	1,652,875
<b>Long-Term Debt:</b>		
Due to joint venture	-	2,133,922
Lease liability - operating	265,787	-
Below market and non-interest bearing notes	2,164,321	1,783,424
<b>Total long-term debt</b>	<b>2,430,108</b>	3,917,346
<b>Total liabilities</b>	<b>5,575,888</b>	5,570,221
<b>Net Assets:</b>		
Without donor restrictions		
Designated by the Board for support of working capital	3,271,550	5,000,000
Undesignated	21,545,728	15,833,547
	<b>24,817,278</b>	20,833,547
With donor restrictions	122,194	115,431
<b>Total net assets</b>	<b>24,939,472</b>	20,948,978
<b>Total liabilities and net assets</b>	<b>\$ 30,515,360</b>	\$ 26,519,199

**See Notes to Financial Statements**

**HABITAT FOR HUMANITY, ORANGE COUNTY, N.C., INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30, 2023 AND 2022**

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>PUBLIC SUPPORT AND REVENUE</b>						
<b>Public Support:</b>						
Contributions	\$ 1,460,165	\$ 2,907,769	\$ 4,367,934	\$ 6,355,374	\$ 2,196,638	\$ 8,552,012
Government grants	420,507	-	420,507	1,598,222	-	1,598,222
Donated property, materials, and services	104,514	-	104,514	53,266	-	53,266
<b>Total public support</b>	<b>1,985,186</b>	<b>2,907,769</b>	<b>4,892,955</b>	<b>8,006,862</b>	<b>2,196,638</b>	<b>10,203,500</b>
<b>Revenue:</b>						
Home sales	4,266,718	-	4,266,718	983,479	-	983,479
Expense reimbursement	22,191	-	22,191	-	-	-
Interest and dividend income	164,158	-	164,158	11,080	-	11,080
Rental income	12,579	-	12,579	10,450	-	10,450
Interest income on current year non-interest and below market interest bearing notes receivable	166,208	-	166,208	84,328	-	84,328
Interest income on non-interest bearing mortgage receivable	506,280	-	506,280	447,463	-	447,463
Store income	306,974	-	306,974	279,209	-	279,209
Other income	1,036,774	-	1,036,774	19,057	-	19,057
<b>Total revenue</b>	<b>6,481,882</b>	<b>-</b>	<b>6,481,882</b>	<b>1,835,066</b>	<b>-</b>	<b>1,835,066</b>
Net assets released from restrictions	2,901,006	(2,901,006)	-	3,197,931	(3,197,931)	-
<b>Total public support and revenue</b>	<b>11,368,074</b>	<b>6,763</b>	<b>11,374,837</b>	<b>13,039,859</b>	<b>(1,001,293)</b>	<b>12,038,566</b>
<b>EXPENSES</b>						
<b>Program services:</b>						
Home construction	5,487,480	-	5,487,480	2,944,966	-	2,944,966
Interest expense on current year non-interest bearing mortgage receivable	718,424	-	718,424	408,539	-	408,539
Interest expense on non-interest and below market interest bearing notes payable	114,710	-	114,710	224,991	-	224,991
<b>Total program services</b>	<b>6,320,614</b>	<b>-</b>	<b>6,320,614</b>	<b>3,578,496</b>	<b>-</b>	<b>3,578,496</b>
<b>Supporting services:</b>						
Management and general	361,247	-	361,247	338,152	-	338,152
Fundraising	702,482	-	702,482	624,465	-	624,465
<b>Total supporting services</b>	<b>1,063,729</b>	<b>-</b>	<b>1,063,729</b>	<b>962,617</b>	<b>-</b>	<b>962,617</b>
<b>Total expenses</b>	<b>7,384,343</b>	<b>-</b>	<b>7,384,343</b>	<b>4,541,113</b>	<b>-</b>	<b>4,541,113</b>
<b>Change in net assets</b>	<b>3,983,731</b>	<b>6,763</b>	<b>3,990,494</b>	<b>8,498,746</b>	<b>(1,001,293)</b>	<b>7,497,453</b>
<b>Net assets, beginning of year</b>	<b>20,833,547</b>	<b>115,431</b>	<b>20,948,978</b>	<b>12,334,801</b>	<b>1,116,724</b>	<b>13,451,525</b>
<b>Net assets, end of year</b>	<b>\$ 24,817,278</b>	<b>\$ 122,194</b>	<b>\$ 24,939,472</b>	<b>\$ 20,833,547</b>	<b>\$ 115,431</b>	<b>\$ 20,948,978</b>

**See Notes to Financial Statements**



**HABITAT FOR HUMANITY, ORANGE COUNTY, N.C., INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2023**

	Supporting Services				Total
	Program Services	Management and general	Fundraising	Total Supporting Services	
Salaries and wages	\$ 1,054,723	\$ 218,244	\$ 353,660	\$ 571,904	\$ 1,626,627
Payroll taxes and employee benefits	223,770	37,979	54,641	92,620	316,390
Pension contributions	37,206	7,699	12,475	20,174	57,380
Cost of construction	3,427,869	-	-	-	3,427,869
Advertising	50,500	7,537	9,799	17,336	67,836
Advocacy	1,708	-	-	-	1,708
Americorps	40,416	-	-	-	40,416
Interest expense on non-interest and below market bearing note payable	114,710	-	-	-	114,710
Bank charges	-	2,228	-	2,228	2,228
Board and staff development	12,862	1,920	2,496	4,416	17,278
Computer expenses	39,917	5,473	14,712	20,185	60,102
Depreciation	19,583	837	1,088	1,925	21,508
Discount amortization on pledges receivable	-	-	18,408	18,408	18,408
Interest expense on current year non-interest bearing mortgages receivable	718,424	-	-	-	718,424
Dues and subscriptions	14,674	1,171	1,469	2,640	17,314
Employee mileage reimbursement	4,169	768	1,577	2,345	6,514
Event costs	-	-	72,302	72,302	72,302
Homeowner support and family selection	53,434	-	-	-	53,434
Insurance	74,966	12,729	-	12,729	87,695
Interest expense	19,810	-	-	-	19,810
Legal and accounting	1,996	21,705	-	21,705	23,701
Licenses and fees	125	-	-	-	125
Meals and hospitality	1,132	150	2,485	2,635	3,767
Miscellaneous	-	10,416	-	10,416	10,416
Occupancy	63,428	14,546	16,724	31,270	94,698
Office supplies	7,476	2,199	2,858	5,057	12,533
Postage	1,809	1,809	643	2,452	4,261
Professional services	39,064	8,122	-	8,122	47,186
Recruitment - staff/personnel	-	3,391	-	3,391	3,391
Rental property expenses	1,305	-	-	-	1,305
Staff appreciation	7,520	771	1,650	2,421	9,941
Taxes - property	(492)	-	-	-	(492)
Telephone	8,576	1,280	1,664	2,944	11,520
Tithe to Habitat International	99,950	-	-	-	99,950
Travel	5,762	273	3,535	3,808	9,570
Vehicle expense	45,228	-	-	-	45,228
Volunteer appreciation	11,559	-	-	-	11,559
Other fundraising	-	-	130,296	130,296	130,296
New Markets Tax Credit expenses	117,435	-	-	-	117,435
<b>Total expenses</b>	<b>\$ 6,320,614</b>	<b>\$ 361,247</b>	<b>\$ 702,482</b>	<b>\$ 1,063,729</b>	<b>\$ 7,384,343</b>

**See Notes to Financial Statements**

**HABITAT FOR HUMANITY, ORANGE COUNTY, N.C., INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2022**

	Supporting Services				Total
	Program Services	Management and general	Fundraising	Total Supporting Services	
Salaries and wages	\$ 881,460	\$ 193,897	\$ 307,117	\$ 501,014	\$ 1,382,474
Payroll taxes and employee benefits	207,925	35,596	56,725	92,321	300,246
Pension contributions	18,846	4,146	6,566	10,712	29,558
Cost of construction	1,028,032	-	-	-	1,028,032
Advertising	51,439	7,678	12,284	19,962	71,401
Advocacy	4,369	-	-	-	4,369
Americorps	37,761	-	-	-	37,761
Interest expense on non-interest and below market bearing note payable	224,991	-	-	-	224,991
Bank charges	2,324	-	-	-	2,324
Board and staff development	11,647	1,738	2,781	4,519	16,166
Computer expenses	23,755	3,060	10,101	13,161	36,916
Depreciation	17,250	813	1,302	2,115	19,365
Discount amortization on pledges receivable	-	-	40,961	40,961	40,961
Interest expense on current year non-interest bearing mortgages receivable	408,539	-	-	-	408,539
Dues and subscriptions	10,032	2,437	1,848	4,285	14,317
Employee mileage reimbursement	480	534	4,002	4,536	5,016
Event costs	-	-	68,979	68,979	68,979
Homeowner support and family selection	35,883	-	-	-	35,883
Insurance	45,371	4,811	-	4,811	50,182
Interest expense	27,972	-	-	-	27,972
Legal and accounting	42,749	-	-	-	42,749
Licenses and fees	8,701	-	-	-	8,701
Meals and hospitality	2,924	437	1,796	2,233	5,157
Miscellaneous	-	35,497	-	35,497	35,497
Occupancy	52,587	13,572	18,088	31,660	84,247
Office supplies	8,903	2,619	6,057	8,676	17,579
Postage	1,019	1,019	1,885	2,904	3,923
Professional services	-	26,075	-	26,075	26,075
Recruitment - staff/personnel	-	930	-	930	930
Rental property expenses	1,171	-	-	-	1,171
Staff appreciation	6,094	1,732	1,811	3,543	9,637
Taxes - property	8,991	-	-	-	8,991
Telephone	11,782	1,304	2,560	3,864	15,646
Tithe to Habitat International	75,000	-	-	-	75,000
Travel	3,821	257	1,669	1,926	5,747
Vehicle expense	25,512	-	-	-	25,512
Volunteer appreciation	20,585	-	-	-	20,585
Other fundraising	-	-	77,933	77,933	77,933
New Markets Tax Credit expenses	270,581	-	-	-	270,581
<b>Total expenses</b>	<b>\$ 3,578,496</b>	<b>\$ 338,152</b>	<b>\$ 624,465</b>	<b>\$ 962,617</b>	<b>\$ 4,541,113</b>

**See Notes to Financial Statements**

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

## STATEMENTS OF CASH FLOW FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 3,990,494	\$ 7,497,453
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	21,508	19,365
Donated materials	(104,514)	(53,266)
Interest expense on current year non-interest and below market interest bearing notes	(166,208)	(84,328)
Interest income on mortgages receivable discount	(506,280)	(447,463)
Interest income on current year non-interest bearing mortgage receivable	718,424	408,539
Interest expense on notes payable discount	114,710	224,991
Transfers of non-interest bearing debt to homeowners	(75,000)	(205,924)
Portions of business interest expense	4,574	82,998
(Increase) decrease in assets:		
Investments	15,339	5,116
Land held for homesites	(7,335,852)	(2,357,047)
Deposits	112,788	(112,748)
Mortgages receivable	(980,297)	113,043
Accounts receivable	(107,197)	236,412
Unconditional promises to give	18,699	(21,057)
Capital campaign pledges receivable	85,189	172,611
Houses under construction	437,478	(649,030)
Homes held for sale	(157,895)	(257,105)
Prepaid assets	652	7,827
Construction materials inventory	(6,393)	(8,154)
Right-of-use asset - operating lease	(333,509)	-
(Decrease) increase in liabilities:		
Accounts payable	374,446	769,585
Escrow accounts payable	(2,035)	73,192
Deferred revenue	(100)	(12,680)
Deferred rent	(12,222)	(2,211)
Accrued vacation	1,997	4,572
Accrued payroll	8,155	6,093
Lease liability - operating lease	350,512	-
Investment in joint venture	(928,418)	254,098
Net cash (used in) provided by operating activities	<u>(4,460,955)</u>	<u>5,664,882</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	<u>(120,675)</u>	<u>(24,096)</u>
Net cash (used in) investing activities	<u>(120,675)</u>	<u>(24,096)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on long-term notes payable	(90,690)	(211,195)
Proceeds received on new long-term notes payable	385,056	140,000
Proceeds from line of credit drawdowns	<u>1,246,394</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>1,540,760</u>	<u>(71,195)</u>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(3,040,870)</b>	<b>5,569,591</b>
Cash and cash equivalents, beginning of year	<u>9,240,128</u>	<u>3,670,537</u>
Cash and cash equivalents, end of year	<u>\$ 6,199,258</u>	<u>\$ 9,240,128</u>

**See Notes to Financial Statements**

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

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. NATURE OF ORGANIZATION AND 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 Presentation

The financial statements are prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP). Accordingly, revenues are recognized when earned, rather than when received. Expenses are recognized when incurred, rather than when paid.

The Organization is required to report information regarding its financial position and activities according to two classes of net assets: with donor restrictions and without donor restrictions.

The Organization presents its financial statements in accordance with the Financial Accounting Standards Board (FASB)'s *Not-For-Profit* presentation and disclosure guidance. Under this guidance, the Organization is required to report information regarding its financial position and activities according to two categories of net assets: net assets without donor restrictions and net assets with donor restrictions.

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor-imposed restrictions which are used to account for resources available to carry out the purposes of the Organization in accordance with the limitations of its bylaws. Board-designated net assets are without donor restrictions but are designated by the Board to be spent for specific purposes.

*Net Assets With Donor Restrictions* – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. At June 30, 2023 and 2022, the Organization had \$122,194 and \$115,431 of net assets with donor-imposed restrictions that are temporary or perpetual in nature, respectively. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Income Taxes

The Internal Revenue Service has determined that the Organization is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3). Accordingly, no provision for income taxes has been made in these financial statements.

Management of the Organization considers the likelihood of changes by taxing authorities in its exempt organization returns and discloses potential significant changes that management believes are more likely than not to occur upon examination by tax authorities. Management has not identified any uncertain tax positions in filed returns that require disclosure in the accompanying financial statements.

#### 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, 2023 and 2022, the Organization had \$2,459,904 and \$7,977,331 which exceeds these insured amounts, respectively.

#### Investments

The Organization holds an investment through Triangle Community Foundation. This investment includes \$50,920 and \$61,442 of funds that are restricted and not readily convertible into known amounts of cash as of June 30, 2023 and 2022, respectively. As of June 30, 2023 and 2022, the Organization's investment totaled \$56,786 and \$72,125, respectively.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 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 recorded \$16,294 and \$17,899 as an allowance for uncollectible accounts as of June 30, 2023 and 2022, respectively.

#### 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 uncollectable unconditional promises receivable. The allowance is based on prior years experience and management's analysis of specific promises to give. Management of the Organization believes all pledge receivables will be collected. Therefore, no allowance for uncollectible accounts is considered necessary.

#### Mortgages Receivable

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

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 to the expected recoveries. No impairment charges were recorded during the years ended June 30, 2023 and 2022.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Deposits

Deposits are made up of security deposit on office lease and reserve deposit on loan from Habitat for Humanity International.

#### Homes Under Construction and Homes Held for Sale

Homes under construction consist of direct home construction costs only. Once a home is completed, the actual direct construction costs are transferred from homes under construction to homes held for sale along with transferring the actual cost of the land from land held for homesites. Homes completed pending closing are classified as homes held for sale until delivered. The Organization reviews the capitalized home costs in the month the home is completed and if the proposed sales price as determined by an appraisal is less than the capitalized home costs, an impairment loss is recorded in that same month. FASB's *Not-For-Profit* presentation and disclosure guidance require that if the undiscounted cash flows expected to be generated by an asset are less than its carrying amount, an impairment charge should be recorded to write down the carrying amount of such asset to its fair value.

#### Land Held for Homesites

Land held for homesites is recorded at cost when payment is made or at estimated fair value when donated. When homes are completed, all construction costs are capitalized and recorded as property inventory along with land and site development costs. At year end, construction costs for homes not yet completed are recorded as homes under construction.

#### 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 estimated useful lives of the related assets, ranging from three to twenty-seven and a half years.

For the years ended June 30, 2023 and 2022, depreciation expense totaled \$21,508 and \$19,365, respectively.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Deferred Revenue

Deferred revenue consists of grant monies from the Town of Chapel Hill for predevelopment costs for the Weavers Grove project received in advance of spending. Deferred revenue totaled \$29,933 and \$30,033 as of June 30, 2023 and 2022, respectively.

#### 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. In August 2022, the joint venture concluded and the corresponding assets and liabilities were removed.

#### Compensated Absences

The Organization is liable for accrued vacation pay up to the maximum approved by the chief executive. 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, 2023 and 2022 totaled \$40,460 and \$38,463, respectively.

#### 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. 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 signed promissory note, which is paid in accordance with the note terms.



## NOTES TO FINANCIAL STATEMENTS

### NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 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 years ended June 30, 2023 and 2022, the Organization recognized income of \$306,974 and \$279,209, respectively, 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.

#### Donated Property, Materials, and Services

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

Donated materials was comprised of the following for the years ended June 30:

	<u>2023</u>	<u>2022</u>
Home appliances	\$ 37,684	\$ 22,314
Electrical supplies	8,321	19,032
Land	43,000	-
Other	15,509	11,920
	<u>\$ 104,514</u>	<u>\$ 53,266</u>

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. NATURE OF ORGANIZATION AND 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 \$67,836 and \$71,401 for the years ended June 30, 2023 and 2022, respectively.

#### 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 years ended June 30, 2023 and 2022, the Organization's contributions amounted to \$57,380 and \$29,558, respectively.

#### Functional Allocation of Expenses

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 title 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 significantly vary year-to-year; however, the largest components do vary significantly based on the timing of 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 closings, the percent of total costs for M&G and FR will be higher than in a year with more house sale closings.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Recent accounting pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), which supersedes existing guidance for accounting for leases under Topic 840, *Leases*. Several updates to the ASU have subsequently been issued.

Effective July 1, 2022 the Organization adopted FASB ASC 842, *Leases*. The Organization determines if an arrangement contains a lease at inception based on whether the Organization has the right to control the asset during the contract period and other facts and circumstances. The Organization elected the package of practical expedients permitted under the transitional guidance with the new standard, which among other things, allowed it to carry forward the historical lease classification.

Adoption of the standard resulted in the recognition of right-of-use assets of \$416,460 and operating lease liabilities of \$429,306 as of July 1, 2022. Results for periods beginning prior to July 1, 2022 continue to be reported in accordance with previous ASC 840, *Leases*, accounting treatment. The adoption of FASB ASC 842 did not have a material impact on the Organization's results of operations or cash flows.

### NOTE 2. LIQUIDITY AND AVAILABILITY

The Organization manages its liquidity by developing and adopting annual operating budgets that provide sufficient funds for general expenditures in meeting its liabilities and other obligations as they become due. Cash needs of the Organization are expected to be met on a monthly basis from the program service revenues generated, as well as contributions and scheduled mortgage payments received.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 2. LIQUIDITY AND AVAILABILITY (Continued)

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position as of June 30, 2023 and 2022, comprise the following:

	2023	2022
Cash and cash equivalents	\$ 6,167,215	\$ 9,201,799
Cash - escrow	32,043	38,329
Investments	56,786	72,125
Accounts receivable, net	343,230	236,033
Unconditional promises to give	849,371	953,259
Current portion of noninterest bearing mortgages receivable	818,284	487,774
	<b>8,266,929</b>	10,989,319
Less those unavailable for general expenditures within one year:		
Cash - escrow	(32,043)	(38,329)
Noncurrent portion of capital campaigns pledges receivable, net of discount	(313,385)	(351,504)
Contributions with donor restrictions	(122,194)	(115,431)
	<b>\$ 7,799,307</b>	\$ 10,484,055

### NOTE 3. CAMPAIGN PLEDGES RECEIVABLE

Campaign pledge contribution receivables due in more than one year are expected to be received as follow:

2024	\$ 532,650
2025	228,651
2026	120,333
	881,634
Less: unamortized discount	(62,888)
	<b>\$ 818,746</b>

## NOTES TO FINANCIAL STATEMENTS

### NOTE 4. MORTGAGES RECEIVABLE

The following is a summary of mortgages receivable at June 30:

	2023	2022
Balance, beginning of year	\$ 5,414,349	\$ 5,488,468
New mortgages issued	1,223,777	1,324,656
	6,638,126	6,813,124
Current year payments received	(491,945)	(1,220,127)
Discounts on current year originations of non-interest bearing mortgage loans receivable	(469,959)	(547,923)
Amortization of discounts on non-interest bearing mortgage loans receivable	506,280	369,275
	\$ 6,182,502	\$ 5,414,349

Maturities of mortgages receivable are summarized as follows at June 30:

	2023	2022
Amounts due in:		
Less than one year	\$ 837,690	\$ 487,774
1 to 5 years	3,082,507	1,700,040
After 5 years	2,262,305	3,226,535
	\$ 6,182,502	\$ 5,414,349

### NOTE 5. HOMES UNDER CONSTRUCTION

During the years ended June 30, 2023 and 2022, the Organization had 15 and 14 houses under construction, respectively, which were still in progress at year-end. Houses under construction totaled \$934,665 and \$1,267,629 as of June 30, 2023 and 2022, respectively.

### 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 credit recapture is required if compliance requirements are not met over a seven-year period.

## NOTES TO FINANCIAL STATEMENTS

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### **NOTE 6. INVESTMENT IN HFHI NMTC INVESTMENT FUND 1, LLC (Continued)**

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 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.

In August 2022, the put option was exercised and the applicable assets and liabilities associated with the NMTC were extinguished.

### **NOTE 7. ESCROW ACCOUNTS PAYABLE**

The Organization maintains separate bank accounts for five homeowners associations for Habitat communities. The Organization also holds \$100,000 in escrow for homebuilder partners who are under contract to purchase lots from the Organization in the future. Escrow payable balances at June 30, 2023 and 2022 totaled \$133,536 and \$135,571, respectively.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 8. LONG-TERM DEBT

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

	2023	2022
Promissory note, deferred payment loan dated January 6, 2004, to Orange County for purchase of 17 acres on Sunrise Road property, payable in 40 years, with an interest rate of 0%, secured by deed of trust.	\$ 124,352	\$ 124,352
HOME Funds agreement with Orange County. These funds will be used for repurchased and foreclosed houses that are expected to be sold within 12 months of closing.	76,936	75,000
Various promissory notes payable to North Carolina Housing Finance Agency for homeowner assistance in purchasing houses from the Organization. These loans range from \$15,000 to \$80,500 with monthly payments between \$28 and \$135 over periods between 20 to 30 years, including interest at 0%. These funds were obtained through the Self-Help Housing Program and are paid as monthly mortgages receivable payments are received from the homeowner. At June 30, 2023 and 2022, there were 174 and 164 loans outstanding, respectively.	1,729,957	1,542,184
Habitat Mortgage Solutions loan for assistance with land acquisition of large parcel for future development. Monthly payments of \$6,941, amortized quarterly with interest of 3.70%, and a maturity date of December 31, 2029.	495,551	559,042
	2,426,796	2,300,578
Less debt issuance costs	-	(46,224)
Less current maturities	(262,475)	(470,930)
	\$ 2,164,321	\$ 1,783,424

The aggregate principal repayments required on long-term debt are as follows for the years ending June 30:

2024	\$ 262,475
2025	264,614
2026	263,179
2027	262,008
2028	261,931
Thereafter	1,112,589
	\$ 2,426,796

### NOTE 9. LINE OF CREDIT

On March 2023, the Organization entered into a revolving line of credit agreement with First Horizon Bank for amounts not to exceed \$7,000,000. The line is scheduled to mature on December 31, 2025, is secured by property, and incurs interest at 2.65%. At year end June 30, 2023 and 2022, outstanding draws on the line of credit totaled \$1,246,394 and \$-, respectively.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 10. LEASES

The Organization elected to adopt FASB ASC 842, *Leases*, using the optional transition method that allows the Organization to initially apply the new leases standard at the adoption date and recognize a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption. As a result, the Organization reporting for the comparative period presented in the financial statements is in accordance with FASB ASC 840. The Organization elected to adopt the package of practical expedients available under the transition guidance with the new standard. This package includes the following: relief from determination of lease contracts included in existing or expiring leases at the point of adoption, relief from having to reevaluate the classification of leases in effect at the point of adoption, and relief from reevaluation of existing leases that have initial direct costs associated with the execution of the lease contract. The Organization also elected to adopt the practical expedient to use hindsight to determine the lease term and assess the impairment of the right-of-use assets as well as the practical expedient to use the risk-free rate when determining the present value of lease payments over the lease terms.

The adoption of FASB ASC 842, *Leases*, resulted in the following impact at July 1, 2022:

Noncurrent operating ROU assets	<b>\$ 416,460</b>
Total assets	<b>\$ 416,460</b>
Current lease liability	<b>\$ 78,793</b>
Noncurrent lease liability	<b>350,513</b>
Total liabilities	<b>\$ 429,306</b>

The Organization has an operating lease for its office facilities with varying monthly payments ranging from \$6,298 to \$7,665 and expires on March 31, 2027. The Organization also leases office equipment under a month-to-month operating lease.

The Organization elected to use a risk-free rate as the discount rate for all leases. The discount rates related to the Organization's lease liabilities as of June 30, 2023 is 2.88%

The following is a schedule by years of minimum future rentals on the operating leases and the amortization of the net present value (NPV) of the lease liability as of June 30, 2023:

Year Ending June 30:	Minimum annual lease payments	Amortization of NPV of operating lease liabilities
2024	\$ 93,495	\$ 84,727
2025	97,200	90,963
2026	101,067	97,545
2027	78,021	77,277
	<b>\$ 369,783</b>	<b>\$ 350,512</b>

Rent expense under these leases was \$94,419 and \$87,711 for the years ended June 30, 2023 and 2022, respectively.



## NOTES TO FINANCIAL STATEMENTS

### NOTE 11. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restriction are restricted for the following purposes at June 30:

	2023	2022
New Home Construction	\$ 46,513	\$ 38,939
Phoenix Place Playground	50,920	61,442
HFHI Grants	8,788	15,000
UNC Grants	15,973	-
Global Impact Fund	-	50
	\$ 122,194	\$ 115,431

Net assets with donor restrictions are comprised of the following at June 30:

	2023	2022
Cash and cash equivalents	\$ 71,274	\$ 53,989
Investments	50,920	61,442
	\$ 122,194	\$ 115,431

### NOTE 12. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions during 2023 and 2022 by incurring expenses satisfying the restricted purposes specified by donors as follows:

	2023	2022
Net assets released from restrictions	\$ 2,901,006	\$ 3,197,931

### NOTE 13. BOARD-DESIGNATED NET ASSETS

The Organization's Board of Directors has the ability to designate net assets for certain funds. As of June 30, 2023 and 2022, the Board had designated net assets from the Mackenzie Scott grant funds received to support working capital of the Organization in the amount of \$3,271,550 and \$5,000,000, respectively.

### NOTE 14. 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.

## NOTES TO FINANCIAL STATEMENTS

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### **NOTE 15. 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 years ended June 30, 2023 and 2022, the Organization contributed \$99,950 and \$75,000, respectively, to Habitat for Humanity International, Inc. and is included as a program services expense in the accompanying statements of activities.

### **NOTE 16. SUBSEQUENT EVENTS**

The Organization has evaluated subsequent events occurring through June 28, 2024, the date on which the financial statements were available to be issued.