

**HABITAT FOR HUMANITY
OF DURHAM, INC.**

Financial Statements

June 30, 2022 and 2021

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Habitat for Humanity of Durham, Inc.
Durham, North Carolina

Opinion

We have audited the accompanying financial statements of Habitat for Humanity of Durham, Inc. (a non-profit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Durham, Inc. as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of 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 of Durham, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Habitat for Humanity of Durham, 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 of Durham, 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.

Thomas, Judy + Tucker, P.A.

Durham, North Carolina
November 7, 2022

HABITAT FOR HUMANITY OF DURHAM, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2022 and 2021

<u>ASSETS</u>	2022		
	Without Donor Restriction	With Donor Restriction	Total
Current Assets:			
Cash and Cash Equivalents	\$ 7,176,602	\$ 21,003	\$ 7,197,605
Grants and Other Receivables	656,823		656,823
Promises to Give, Net			
Non-Interest Bearing Mortgage Loans Receivable, Net	392,585		392,585
Land and Construction in Progress	1,958,970		1,958,970
Prepaid Expenses and Deposits	24,653		24,653
Total Current Assets	10,209,633	21,003	10,230,636
Property and Equipment, Net	109,156		109,156
Other Assets:			
Promises to Give, Net			
Prepaid Joint Venture Fees	42,062		42,062
Non-Interest Bearing Mortgage Loans Receivable, Net	7,821,749		7,821,749
Land Held for Development	1,567,673		1,567,673
Investment in Joint Ventures	1,153,714		1,153,714
Total Other Assets	10,585,198		10,585,198
Total Assets	\$ 20,903,987	\$ 21,003	\$ 20,924,990
<u>LIABILITIES AND NET ASSETS</u>			
Current Liabilities:			
Accounts Payable and Accrued Expenses	\$ 362,372	\$	\$ 362,372
Deferred Revenue	5,834		5,834
Note Payable			
Current Maturities of Long-Term Debt	227,706		227,706
Total Current Liabilities	595,912		595,912
Long-Term Debt	3,040,559		3,040,559
Guarantee Liability	249,941		249,941
Total Liabilities	3,886,412		3,886,412
Net Assets:			
Net Assets without Donor Restriction:			
Undesignated	16,661,575		16,661,575
Board Designated	356,000		356,000
Net Assets with Donor Restriction:			
Purpose Restrictions		21,003	21,003
Total Net Assets	17,017,575	21,003	17,038,578
Total Liabilities and Net Assets	\$ 20,903,987	\$ 21,003	\$ 20,924,990

2021		
Without Donor Restriction	With Donor Restriction	Total
\$ 3,241,028	\$ 29,030	\$ 3,270,058
418,362		418,362
	557,709	557,709
379,703		379,703
2,058,101		2,058,101
12,642		12,642
<u>6,109,836</u>	<u>586,739</u>	<u>6,696,575</u>
83,855		83,855
	21,645	21,645
58,887		58,887
6,825,873		6,825,873
1,691,332		1,691,332
1,165,788		1,165,788
<u>9,741,880</u>	<u>21,645</u>	<u>9,763,525</u>
<u>\$ 15,935,571</u>	<u>\$ 608,384</u>	<u>\$ 16,543,955</u>
\$ 250,900	\$	\$ 250,900
6,409		6,409
323,640		323,640
221,853		221,853
<u>802,802</u>		<u>802,802</u>
3,263,452		3,263,452
249,941		249,941
<u>4,316,195</u>		<u>4,316,195</u>
11,338,376		11,338,376
281,000		281,000
	608,384	608,384
<u>11,619,376</u>	<u>608,384</u>	<u>12,227,760</u>
<u>\$ 15,935,571</u>	<u>\$ 608,384</u>	<u>\$ 16,543,955</u>

See Accompanying Notes

HABITAT FOR HUMANITY OF DURHAM, INC.
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2022 and 2021

	2022		
	Without Donor Restriction	With Donor Restriction	Total
Support and Revenue:			
Transfers to Homeowners	\$ 3,583,600	\$	\$ 3,583,600
Contributions	6,291,433	334,227	6,625,660
City of Durham Grant			
NC Housing Finance Agency Grant	99,000		99,000
ReStore Distributions	319,994		319,994
Mortgage Loan Discount Amortization	831,179		831,179
In-Kind Contributions	26,550	45,225	71,775
Gain on Sale of Property and Equipment			
Repairs	241,274		241,274
PPP Loan Forgiveness	323,640		323,640
Miscellaneous Income	126,127		126,127
Total Support and Revenue	11,842,797	379,452	12,222,249
Net Assets Released from Restrictions	966,833	(966,833)	
Total Support and Revenue and Net Assets Released from Restrictions	12,809,630	(587,381)	12,222,249
Expenses:			
Program Services:			
Construction Services	5,418,360		5,418,360
Homeowner Services	337,229		337,229
Total Program Services	5,755,589		5,755,589
Support Services:			
Management and General	1,040,894		1,040,894
Fundraising	614,948		614,948
Total Support Services	1,655,842		1,655,842
Total Expenses	7,411,431		7,411,431
Change in Net Assets	5,398,199	(587,381)	4,810,818
Net Assets at Beginning of Year	11,619,376	608,384	12,227,760
Net Assets at End of Year	<u>\$ 17,017,575</u>	<u>\$ 21,003</u>	<u>\$ 17,038,578</u>

2021		
Without Donor Restriction	With Donor Restriction	Total
\$ 3,782,720	\$	\$ 3,782,720
1,188,098	1,029,401	2,217,499
395,026		395,026
121,500		121,500
279,356		279,356
801,697		801,697
32,790	8,291	41,081
106,765		106,765
107,519		107,519
355,060		355,060
68,073		68,073
<u>7,238,604</u>	<u>1,037,692</u>	<u>8,276,296</u>
<u>1,993,257</u>	<u>(1,993,257)</u>	
<u>9,231,861</u>	<u>(955,565)</u>	<u>8,276,296</u>
4,793,330		4,793,330
2,036,890		2,036,890
<u>6,830,220</u>		<u>6,830,220</u>
813,226		813,226
519,545		519,545
<u>1,332,771</u>		<u>1,332,771</u>
<u>8,162,991</u>		<u>8,162,991</u>
1,068,870	(955,565)	113,305
<u>10,550,506</u>	<u>1,563,949</u>	<u>12,114,455</u>
<u>\$ 11,619,376</u>	<u>\$ 608,384</u>	<u>\$ 12,227,760</u>

See Accompanying Notes

HABITAT FOR HUMANITY OF DURHAM, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Year Ended June 30, 2022

	Construction Services	Homeowner Services	Total Program Services	Management and General	Fundraising	Total
Cost of Homes Transferred	\$ 3,761,763	\$	\$ 3,761,763	\$	\$	\$ 3,761,763
Cost of Repair Program	404,540		404,540			404,540
Salaries and Benefits	368,846	217,934	586,780	402,107	410,259	1,399,146
Mortgage Discounts	783,871		783,871			783,871
Donation to Habitat for Humanity International	76,500		76,500			76,500
Rent and Utilities		2,773	2,773	42,107	10,432	55,312
Professional Services		69,945	69,945	94,154	73,179	237,278
Office Expenses	2,457	8,729	11,186	52,406	18,080	81,672
Computer Expenses	403	5,797	6,200	36,145	35,842	78,187
Interest Expense	775		775	48,589		49,364
Tools and Equipment	1,238		1,238			1,238
Depreciation	5,108	5,107	10,215	5,107	5,107	20,429
Travel Expense	2,459	2,409	4,868	4,119	2,784	11,771
Vehicle and Mileage Reimbursement	6,843		6,843	14	14	6,871
Bad Debt Expense				309,710		309,710
Maintenance and Repairs	255	255	510	863		1,373
Property Taxes and Insurance	2,298	12,350	14,648	12,349	12,349	39,346
Staff and Board Development	855	3,680	4,535	30,673	7,146	42,354
Fundraising and Special Events					15,716	15,716
Postage	149	665	814	447	6,979	8,240
Community Relations		7,585	7,585	2,104	17,061	26,750
Total Functional Expenses	\$ 5,418,360	\$ 337,229	\$ 5,755,589	\$ 1,040,894	\$ 614,948	\$ 7,411,431

See Accompanying Notes

HABITAT FOR HUMANITY OF DURHAM, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Year Ended June 30, 2021

	Construction Services	Homeowner Services	Total Program Services	Management and General	Fundraising	Total
Cost of Homes Transferred	\$ 3,994,929	\$	\$ 3,994,929	\$	\$	\$ 3,994,929
Cost of Repair Program	233,952		233,952			233,952
Salaries and Benefits	367,838	259,761	627,599	331,008	417,080	1,375,687
Mortgage Discounts		1,725,223	1,725,223			1,725,223
Donation to Habitat for Humanity International	94,501		94,501			94,501
Rent and Utilities	6,230	10,055	16,285	35,052	9,702	61,039
Professional Services	70,978		70,978	45,823	9,703	126,504
Office Expenses	993	11,035	12,028	18,398	29,817	60,243
Computer Expenses	1,617	4,894	6,511	15,668	14,573	36,752
Interest Expense	1,033		1,033	52,166		53,199
Tools and Equipment	20	320	340			340
Depreciation	7,802	7,802	15,604	7,801	7,801	31,206
Vehicle and Mileage Reimbursement	10,685	197	10,882	27	332	11,241
Bad Debt Expense				291,145		291,145
Property Taxes and Insurance		9,517	9,517	13,594	13,595	36,706
Staff and Board Development	1,528	475	2,003	643	2,123	4,769
Fundraising and Special Events					3,676	3,676
Postage	1,224	2,235	3,459	1,901	7,170	12,530
Community Relations		5,376	5,376		3,973	9,349
Total Functional Expenses	\$ 4,793,330	\$ 2,036,890	\$ 6,830,220	\$ 813,226	\$ 519,545	\$ 8,162,991

See Accompanying Notes

HABITAT FOR HUMANITY OF DURHAM, INC.
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 4,810,818	\$ 113,305
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Original Issue Discount on Mortgage Loans Receivable	465,168	1,725,223
Amortization of Mortgage Discounts	(293,769)	(553,110)
Forgivable Mortgages	(263,000)	(491,720)
Depreciation and Amortization	20,429	31,206
Amortization of Deferred Finance Costs	4,561	5,595
Gain on Sale of Property and Equipment		(106,765)
PPP Loan Forgiveness	(323,640)	(355,060)
Change in Current Assets and Liabilities:		
Grants and Other Receivables	(238,461)	(56,068)
Promises to Give, Net	579,354	57,535
Mortgage Loans Receivable, Net	(917,157)	(805,167)
Land and Construction in Progress and Land Held for Development	222,790	246,962
Prepaid Expenses and Deposits	(12,011)	4,306
Prepaid Joint Venture Expenses	16,825	16,825
Investment in Joint Ventures	12,074	12,074
Accounts Payable and Accrued Expenses	111,472	(4,353)
Deferred Revenue	(575)	(84,394)
Net Cash Provided (Used) by Operating Activities	<u>4,194,878</u>	<u>(243,606)</u>
Cash Flows from Investing Activities:		
Proceeds from Sale of Property and Equipment		316,000
Purchase of Property and Equipment	(45,730)	(50,596)
Net Cash Provided (Used) by Investing Activities	<u>(45,730)</u>	<u>265,404</u>
Cash Flows from Financing Activities:		
Proceeds from Note Payable		323,640
Principal Payments on Long-Term Debt	(221,601)	(204,002)
Net Cash Provided (Used) by Financing Activities	<u>(221,601)</u>	<u>119,638</u>
Net Increase in Cash and Cash Equivalents	3,927,547	141,436
Cash and Cash Equivalents, Beginning of Year	<u>3,270,058</u>	<u>3,128,622</u>
Cash and Cash Equivalents, End of Year	<u>\$ 7,197,605</u>	<u>\$ 3,270,058</u>
Supplemental Disclosure of Cash Flow Information:		
Cash Paid During the Year for Interest	<u>\$ 48,973</u>	<u>\$ 55,286</u>

See Accompanying Notes

HABITAT FOR HUMANITY OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

1. Organization and Summary of Significant Accounting Policies

Organization

Habitat for Humanity of Durham, Inc. (the "Organization") (a not-for-profit organization) was incorporated in December 1985. In October 2009, the Organization changed its name from Durham County Habitat for Humanity. The Organization is a nondenominational Christian organization whose mission is to transform lives and communities by making home ownership possible in partnership with people who care. The Organization is an affiliate of Habitat for Humanity International, Inc. ("HFHI"). Although HFHI assists with information resources, training, publications, prayer support and in other ways, the Organization is primarily and directly responsible for its own operations. The Organization fulfills its mission by focusing its efforts in these primary service areas:

Construction Services: The Organization builds and sells affordable homes for low income families using volunteer labor. Services offered include new home construction, gut rehabs of homes in historical areas and critical and urgent repairs which allow homeowners to avoid eviction and protect the investment in their home. The Organization helps revitalize inner city neighborhoods as they build, sell, and repair homes for low income buyers.

Since its inception in 1985, the Organization has built or rehabilitated 459 homes (of which 87 were in the past five years) which are sold, interest free, to qualified buyers.

In late 2010, the Organization joined the Neighborhood Revitalization Initiative ("NRI"), a HFHI initiative. NRI focuses on repairs and weatherization of homes, as well as beautification and landscaping for qualified, low-income homeowners. Funding for the NRI program has come from various sources. In the past three years, the Organization has completed 161 repairs, including landscaping projects. The Organization has been contributing to HFHI to provide funding to build homes and provide housing solutions internationally. Countries of focus include Honduras, Malawi, and Nepal.

Homeowner Services: The Organization recruits, selects, and stewards eligible applicants for homeownership through the approval and application process to mortgage closing and beyond. The approval process includes attendance at homeowner education classes and performance of sweat equity volunteer work. Each home is sold at near appraised value and an interest-free, affordable mortgage is offered to each homeowner.

In total, 1,277 families have been the recipients of the Organization's various housing solution programs since the Organization's inception in 1985.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting.

HABITAT FOR HUMANITY OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

1. Organization and Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Boards ("FASB") Accounting Standards Codification ("ASC") 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*. ASC 958-205 requires that not-for-profit Organizations provide a statement of financial position, a statement of activities, a statement of functional expenses, and a statement of cash flows. Also, ASC 958-205 requires classification of an Organization's net assets, revenues and expenses according to the following net asset classifications:

Net Assets without Donor Restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net Assets with Donor Restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Cash and Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and have an original maturity of ninety days or less. Cash equivalents totaled \$5,764,552 and \$1,264,187 at June 30, 2022 and 2021, respectively.

Concentration of Credit Risk

The Organization occasionally maintains deposits in excess of federally insured limits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000 for all accounts. The risk is managed by maintaining all deposits in high quality financial institutions. As of June 30, 2022, the Organization's cash balances were in excess of federally insured limits by \$6,781,564.

Promises to Give

All unconditional promises to give (contributions) are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. All unconditional promises to give are considered without donor restriction use unless specifically restricted by the donor. Amounts received that are designed for future periods or restricted by the donor for specific purposes are reported as support with donor restriction that increases that net asset class.

HABITAT FOR HUMANITY OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

1. Organization and Summary of Significant Accounting Policies (Continued)

Promises to Give (Continued)

Unconditional promises to give are recorded at the present value of estimated future cash flows and net of an allowance for uncollectible promises. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue.

Conditional promises to give are recognized only when the conditions on which they depend are substantially met. The Organization currently has no conditional promises to give.

Non-Interest Bearing Mortgage Loans Receivable

Mortgage loans receivable consist of non-interest bearing mortgages which are secured by real estate and payable in monthly installments over the life of the mortgage. Accounting principles generally accepted in the United States ("U.S. GAAP") require that receivables that are contractual rights to receive money in the future at a fixed or determinable date be recorded at the present value of the consideration given in the exchange. The Organization follows this method of accounting for its mortgages using effective interest rates supplied by HFHI. Interest rates were 7.49% and 7.23% at June 30, 2022 and 2021, respectively.

A mortgage loan receivable is considered impaired if it becomes probable that the Organization will be unable to collect all amounts according to the loan's contractual terms. The amount of any impairment is measured by comparing the recorded amount of the loan to the expected receivables. No allowance for loan losses was recorded as of June 30, 2022 and 2021.

Land, Construction in Progress and Land Held for Development

Land, construction in progress, and land held for development is stated at cost if purchased, or appraised value at date of donation, if donated. Land and construction costs are recognized as program service expense in the period that the property is transferred to the homeowner.

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 assets' estimated useful lives:

	<u>Years</u>
Leasehold Improvements	39
Furniture and Equipment	5
Computers and Software	5
Vehicles	5

Depreciation expense totaled \$20,429 and \$31,206 for the years ended June 30, 2022 and 2021, respectively.

HABITAT FOR HUMANITY OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

1. Organization and Summary of Significant Accounting Policies (Continued)

Investment in Joint Ventures

In December 2017, the Organization invested, along with six other Habitat affiliates, in a joint venture (Harbor Community Fund XIII, LLC) with approximately seventeen percent (16.67%) ownership to take advantage of New Market Tax Credit ("NMTC") financing. As a result, the Organization initially invested \$1,207,441 and was able to secure a loan in the amount of \$1,715,000 payable to a community development entity. The investment is accounted for under the equity method. The loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low income residents.

Forgivable Mortgages

To assist participants whose annual incomes do not meet certain levels in qualifying for the purchase of a home, some homes are sold to those participants at an amount below fair market value. In these cases, revenue for the transfer of the home is recorded at full fair market value and the difference between the fair market value and the sales price is recorded as a forgivable mortgage expense. Per written contracts, at the end of the first mortgage term the full amount is forgiven; however, should the homeowner dispose of the home prior to the end of the first mortgage term, the entire forgivable mortgage is due. The Organization approved a total of \$263,000 and \$491,720 in forgivable mortgages for the years ended June 30, 2022 and 2021, respectively, of which none were due or repaid in the years ended June 30, 2022 and 2021.

Contributions

Contributions of cash and other assets, as well as grants, are accounted for in accordance with FASB ASC 958-605, *Accounting for Contributions Received and Contributions Made*. In accordance with this standard, contributions received are recorded as increases in net assets with donor restriction or without donor restriction, depending on the existence or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

In-Kind Contributions

The Organization records in-kind contributions of professional services, materials, donated office space, utilities and property and equipment at fair market value at the date of the donation.

The Organization is also the recipient of services donated by volunteers consisting of individuals in the community as well as church and corporate groups. Volunteers also include homeowners who volunteer hours as part of their commitment to home ownership. No amounts have been reflected in the financial statements for volunteer hours since these services do not meet the requirements for recognition in the financial statements. The Organization was the recipient of approximately 18,618 and 7,487 volunteer hours for the years ended June 30, 2022 and 2021, respectively.

Transfer to Homeowners

Transfer to homeowners represent the sales price at the date of closing.

HABITAT FOR HUMANITY OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

1. Organization and Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The statement of functional expenses reports certain categories of expenses that are attributable to one or more programs or supporting functions of the Organization. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated on the basis of estimates of time and effort are salaries and benefits. All other expenses are allocated based on specific identification or are directly identified with either programs or in management and fundraising.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution donation under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

Accounting for Uncertainty in Income Taxes

The Organization has adopted the provisions of FASB ASC 740, *Income Taxes*. Using this guidance, tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the positions will be sustained upon examination by the tax authorities. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of June 30, 2022, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

Advertising

Advertising costs are expensed as incurred. Advertising costs totaled \$30,199 and \$21,989 for the years ended June 30, 2022 and 2021, respectively.

Revenue Recognition

The Organization accounts for revenue from contracts with customers in accordance with ASC 606. The unit of account in ASC 606 is a performance obligation. At the inception of each contract with a customer, the Organization determines the performance obligations under the contract and the contract's transaction price. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is defined as the unit of account. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when the performance obligation is satisfied.

HABITAT FOR HUMANITY OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

2. Availability and Liquidity

The following represents the Organization's financial assets at June 30, 2022:

Financial Assets at Year-End:	
Cash and Cash Equivalents	\$ 7,197,605
Grants and Other Receivables	656,823
Non-Interest Bearing Mortgage Loans Receivable, Net – Current	<u>392,585</u>
Total Financial Assets	8,247,013
Less Amounts Not Available to be Used for General Expenditures Within One Year:	
Net Assets with Donor Restrictions	(21,003)
Board Designated Net Assets	<u>(356,000)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 7,870,010</u>

The Organization's goal is generally to maintain cash reserves that cover 90 days of anticipated cash outlays. During the year ended June 30, 2020, the Organization established a Board designated operating reserve policy to accumulate cash surplus for future operating needs. While it is not the intent of the Board to utilize this fund, it may be accessed if needed. Additionally, the Organization has a line of credit that can be used for unexpected cash needs. See Note 9.

3. Promises to Give

Promises to give consisted of the following at June 30:

	2022	2021
Receivable in Less Than One Year	\$	\$ 557,709
Receivable in More Than One Year		<u>131,938</u>
Total Promises to Give		689,647
Less: Discount to Present Value		(8,901)
Less: Allowance for Uncollectible Promises		<u>(101,392)</u>
Total Promises to Give, Net	<u>\$</u>	<u>\$ 579,354</u>

HABITAT FOR HUMANITY OF DURHAM, INC.
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4. Mortgage Loans Receivable

Non-interest bearing mortgage loans receivable consisted of the following at June 30:

	2022	2021
Non-Interest Bearing Mortgage Loans Receivable	\$ 19,039,649	\$ 18,306,488
Less: Unamortized Discount	(10,825,315)	(11,100,912)
Net Present Value	8,214,334	7,205,576
Less: Amount Due within One Year	(392,585)	(379,703)
Amount Due after One Year	\$ 7,821,749	\$ 6,825,873

These mortgages do not earn interest and are secured by deeds of trust on homes. If homeowners default on their mortgages, the Organization retains all or a portion of the equity in the home. Future annual mortgage receipts for mortgage loans receivable, net of discount, are as follows for the years ending June 30:

2022	\$ 952,649
2023	951,498
2024	950,156
2025	950,053
2026	947,914
Thereafter	14,287,379
	19,039,649
Less: Discount	10,825,315
	\$ 8,214,334

5. Land, Construction in Progress and Land Held for Development

Land and construction in progress and land held for development consisted of the following at June 30:

	2022	2021
Land (Including Infrastructure)	\$ 1,724,569	\$ 1,895,010
Construction in Progress	1,802,074	1,854,423
	3,526,643	3,749,433
Less: Current Portion	(1,958,970)	(2,058,101)
	\$ 1,567,673	\$ 1,691,332

HABITAT FOR HUMANITY OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
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6. Property and Equipment

Property and equipment consisted of the following at June 30:

	2022	2021
Leasehold Improvements	\$ 44,469	\$ 44,469
Furniture and Equipment	72,882	56,335
Computers and Software	48,706	47,298
Vehicles	99,797	72,022
	265,854	220,124
Less: Accumulated Depreciation	(156,698)	(136,269)
Net Property and Equipment	\$ 109,156	\$ 83,855

7. Investment in Joint Ventures

The Organization participates in a New Market Tax Credit (“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.

In December 2017, the Organization recorded its 16.67% investment in Harbor Habitat Leverage II, LLC at an initial cost of \$1,207,441. The Organization records the investment under the equity method. The investment is recorded at \$1,153,714 and \$1,165,788 at June 30, 2022 and 2021, respectively.

In December 2024, Twain Investment Fund 296, LLC, (the “Twain Fund”), and the upstream effective owner of Harbor Habitat Leverage II, LLC (holder of the promissory note due from the Organization) expects the equity owners of the Twain Fund to exercise their put option. Under the terms of the put option agreement Harbor Habitat Leverage II, LLC is expected to purchase the ownership interest of the Twain Fund for \$1,000 plus certain other costs as defined by the put option agreement. Exercise of the option will effectively allow the Organization to extinguish its outstanding debt owed to the Twain Fund. (See Note 11 for details of promissory note.)

HABITAT FOR HUMANITY OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

8. Deferred Revenue

Deferred revenue was \$5,834 and \$6,409 at June 30, 2022 and 2021, respectively, and consisted of amounts received in advance for future home maintenance and repairs.

9. Line of Credit

The Organization had a revolving line of credit with a commercial bank that matured on December 15, 2021. In December 2021, the line of credit was renewed through December 2022 with a maximum availability of \$1,000,000 and in March 2022, the line of credit was renewed to increase the maximum availability to \$1,500,000. Interest accrues at the Prime Rate (4.75% at June 30, 2022) and all unpaid principal and interest is due upon maturity in March 2024. The line of credit is secured by all assets of the Organization with a carrying value of \$20,924,990 as of June 30, 2022. The line of credit had no outstanding balance as of June 30, 2022 and 2021.

10. Note Payable

In February 2021, the Organization entered into a note payable agreement of \$323,640 with a financial institution through the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act. The entire outstanding balance of the note payable was forgiven in accordance with the regulations of the Paycheck Protection Program during the year ended June 30, 2022.

In April 2020, the Organization entered into a note payable agreement of \$355,060 with a financial institution through the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act. The entire outstanding balance of the note payable was forgiven in accordance with the regulations of the Paycheck Protection Program during the year ended June 30, 2021.

HABITAT FOR HUMANITY OF DURHAM, INC.
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11. Long-Term Debt

Non-interest bearing long-term debt consisted of the following at June 30:

	2022	2021
Note payable, commercial bank, with a fixed interest rate of 1.00%, annual principal payments of \$150,000 beginning November 1, 2019 with the final payment due November 2028. Secured by non-interest-bearing mortgage loans receivable.	\$ 1,050,000	\$ 1,200,000
Note payable to Habitat for Humanity International, Inc., with an interest rate of 4.25%, quarterly payments of \$24,276 through December 2028. Secured by the Organization's mortgage receivables and all corresponding property titles and rights.	549,212	620,813
Note payable to Harbor Habitat Leverage II, LLC. (See paragraph on the next page for terms.)	1,715,000	1,715,000
Total Long-Term Debt	3,314,212	3,535,813
Less: Current Maturities	(227,706)	(221,853)
Less: Unamortized Deferred Finance Costs	(45,947)	(50,508)
Total Long-Term Portion	\$ 3,040,559	\$ 3,263,452

Future maturities of long-term debt are as follows for the years ending June 30:

2023	\$	227,706
2024		230,263
2025		232,903
2026		235,631
2027		238,448
Thereafter		2,149,261
		3,314,212
Less: Unamortized Deferred Finance Costs		(45,947)
		\$ 3,268,265

HABITAT FOR HUMANITY OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
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11. Long Term Debt (Continued)

In December 2017, the Organization entered into a \$1,715,000 note payable to Harbor Habitat Leverage II, LLC. The note payable requires interest only payments until June 10, 2025 at 1.00%. Commencing on June 10, 2025, the Organization will make semi-annual payments in an amount sufficient to fully amortize the remaining principal balance of the loan over thirteen years. The loan matures on the earlier of December 20, 2037 or the date on which the lender exercises its right to accelerate the debt upon occurrence of an event of default, as defined by the agreement. The loan is secured by substantially all assets acquired by the Organization from the project loan proceeds. The note payable has a put option feature that is expected to be exercised in December 2024. See Note 7. As part of the NMTC program, 99% of the interest payments will be refunded to the Organization on a monthly basis.

The real estate notes payable are secured by a letter of credit, which is secured by a deed of trust on the property.

12. Guarantee Liability

The Organization has entered into mortgage buy-back covenant agreements with the City of Durham and NCHFA for eligible homebuyers who receive second and third mortgages issued by the City and NCHFA. In the event the homeowners become delinquent with mortgage payments, the Organization may be required to assume the outstanding balance of the loan. The Organization executed a total of \$350,000 and \$270,000 of mortgages under the agreements during the years ended June 30, 2022 and 2021, respectively. Second and third mortgages issued under the agreements totaled \$11,910,088 and \$11,440,088 as of June 30, 2022 and 2021, respectively.

Under the provisions of FASB ASC 460, *Guarantees*, the Organization is required to record a liability at the fair value the Organization expects to assume upon inception of the agreement. The liability was estimated based upon historical performance under the agreements and estimated future obligations to perform under the guarantees. Amounts accrued totaled \$249,941 as of June 30, 2022 and 2021.

13. Designated Net Assets

Designated net assets are voluntary approved designations of net assets without donor restrictions by the Organization for specific purposes and projects. Designated net assets for operating reserves were \$356,000 and \$281,000 as of June 30, 2022 and 2021, respectively.

HABITAT FOR HUMANITY OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
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14. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at June 30:

	2022	2021
Subject to Expenditure for Specified Purpose:		
Land Purchases	\$ 4,030	\$ 4,030
Homeowner Services	14,423	25,000
Gift in Kind	2,550	
	21,003	29,030
Subject to Passage of Time:		
Promises to Give that May be Restricted by Donors, Which are Unavailable for Expenditure Until Due		579,354
	\$ 21,003	\$ 608,384

Net assets were released from donor restriction by incurring expenses to satisfy the restricted purpose or by the occurrence of the passage of time or other events specified by the donors as follows for the years ended June 30:

	2022	2021
Satisfaction of Purpose Restrictions:		
Construction Services	\$ 334,227	\$ 1,100,680
Repairs	42,675	356,208
Gift-in-Kind	10,577	8,834
Homeowner Services		100,000
Other		20,000
	387,479	1,585,722
Satisfaction of Time Restrictions: Promises to Give	579,354	407,535
	\$ 966,833	\$ 1,993,257

15. Retirement Plan

The Organization provides a 401(k) retirement plan covering all eligible employees meeting age and service requirements. The interest in any participant's account is at all times 100% vested and non-forfeitable. The Organization may make biweekly contributions up to 5% of employee annual salaries plus a matching contribution equal to the amount of the employee's biweekly contribution up to a maximum of 2%. The Organization contributed a total of \$103,022 and \$91,437 to the 401(k) plan for the years ended June 30, 2022 and 2021, respectively.

HABITAT FOR HUMANITY OF DURHAM, INC.
NOTES TO FINANCIAL STATEMENTS
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16. Related Party Transactions

Each year the Organization makes a contribution to Habitat for Humanity International, Inc. which uses these funds to construct homes in economically depressed areas around the world. Program service expense includes \$76,500 and \$94,501 contributed to Habitat for Humanity International, Inc. for the years ended June 30, 2022 and 2021, respectively.

17. Operating Leases

The Organization leases warehouse space and office equipment under various operating lease agreements with monthly payments ranging from \$276 to \$3,218. Lease terms expire on dates ranging from September 2021 to October 2025. Future minimum lease payments are as follows for the years ending June 30:

2023	\$	42,214
2024		42,790
2025		23,194
2026		<u>828</u>
	\$	<u>109,026</u>

The Organization also occupies donated office space. Donated office space and utilities valued at \$20,000 is recorded as an in-kind contribution and offsetting rent expense for the years ended June 30, 2022 and 2021.

Rent expense totaled \$58,334 and \$59,529 for the years ended June 30, 2022 and 2021, respectively.

18. Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through November 7, 2022, which is the date the financial statements were available to be issued.