

**HABITAT FOR HUMANITY OF  
WAKE COUNTY, INC.**

**FINANCIAL STATEMENTS**

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

*And Report of Independent Auditor*

**HABITAT FOR HUMANITY OF WAKE COUNTY, INC.**

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## Report of Independent Auditor

To the Board of Directors  
Habitat for Humanity of Wake County, Inc.  
Raleigh, North Carolina

We have audited the accompanying financial statements of Habitat for Humanity of Wake County, Inc. (a nonprofit organization), (the "Organization") which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

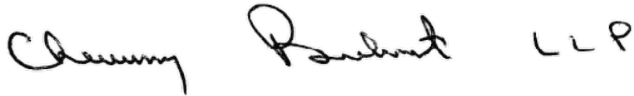
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2020, and the related statements of activities and changes in its net assets, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Report on Summarized Comparative Information

We previously audited the Organization's 2019 financial statements, and our report dated January 14, 2020, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Effect of Adopting New Accounting Standards**

As discussed in Note 2, the Organization adopted Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, ASU 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, and ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. These ASUs did not have any impact on prior year net assets. Our opinion is not modified with respect to these matters.

Handwritten signature of Cherry Rickett LLP in cursive script.

Raleigh, North Carolina  
October 14, 2020

**HABITAT FOR HUMANITY OF WAKE COUNTY, INC.**  
**STATEMENT OF FINANCIAL POSITION**

*JUNE 30, 2020*

*(WITH COMPARATIVE TOTALS FOR JUNE 30, 2019)*

	<b>2020</b>	<b>2019</b>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 3,202,319	\$ 4,476,487
Accounts receivable	224,721	1,082,155
Current portion of long-term receivable	1,203,058	1,500,000
Prepaid expenses	194,273	147,058
Materials inventory	740,094	1,228,491
Land and construction in progress	11,327,216	10,974,883
<b>Total Current Assets</b>	<b>16,891,681</b>	<b>19,409,074</b>
Noncurrent Assets:		
Property and equipment, net	7,213,657	4,071,514
Investment in joint ventures	1,177,862	2,770,067
Other assets	680,568	778,229
Long-term receivables, net of current portion	16,180,341	14,251,596
<b>Total Noncurrent Assets</b>	<b>25,252,428</b>	<b>21,871,406</b>
<b>Total Assets</b>	<b>\$ 42,144,109</b>	<b>\$ 41,280,480</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Accounts payable	\$ 304,827	\$ 937,104
Accrued expenses	367,770	350,605
Current portion of long-term debt	1,768,089	616,939
<b>Total Current Liabilities</b>	<b>2,440,686</b>	<b>1,904,648</b>
Noncurrent Liabilities:		
Deferred revenue	75,253	70,346
Due to joint venture	1,715,000	3,595,000
Long-term debt, net of current portion	11,767,304	9,671,290
<b>Total Noncurrent Liabilities</b>	<b>13,557,557</b>	<b>13,336,636</b>
<b>Total Liabilities</b>	<b>15,998,243</b>	<b>15,241,284</b>
Net Assets:		
Without donor restrictions	25,375,949	24,997,615
With donor restrictions	769,917	1,041,581
<b>Total Net Assets</b>	<b>26,145,866</b>	<b>26,039,196</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 42,144,109</b>	<b>\$ 41,280,480</b>

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

**HABITAT FOR HUMANITY OF WAKE COUNTY, INC.**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

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

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	
Support and Revenue:				
Public Support:				
Contributions	\$ 1,360,437	\$ 27,955	\$ 1,388,392	\$ 1,416,216
In-kind unrestricted	115,866	-	115,866	181,731
In-kind ReStore	5,607,181	-	5,607,181	5,734,145
House sponsorships	-	1,086,277	1,086,277	2,270,475
In-kind house sponsorship	-	292,295	292,295	314,998
In-kind land initiative	-	-	-	(68,869)
Federal, state, and local grants	78,434	-	78,434	233,532
Total Public Support	<u>7,161,918</u>	<u>1,406,527</u>	<u>8,568,445</u>	<u>10,082,228</u>
Revenue:				
ReStore revenue	7,583,566	-	7,583,566	6,907,726
House sales	8,681,393	-	8,681,393	7,923,564
Investment income	145,566	47,057	192,623	91,953
Mortgage discount income	487,707	-	487,707	491,560
Construction rent	-	-	-	710
Other income	449,817	-	449,817	632,051
Net assets released from restrictions	1,725,248	(1,725,248)	-	-
Total Revenue	<u>19,073,297</u>	<u>(1,678,191)</u>	<u>17,395,106</u>	<u>16,047,564</u>
Total Support and Revenue	<u>26,235,215</u>	<u>(271,664)</u>	<u>25,963,551</u>	<u>26,129,792</u>
Expenses:				
Program Services:				
Construction	9,502,200	-	9,502,200	9,758,555
Family services financing	969,020	-	969,020	2,314,748
Volunteer services	205,340	-	205,340	224,667
ReStore	13,265,158	-	13,265,158	11,452,700
Supporting Services:				
Management and general	998,023	-	998,023	921,001
Fundraising	917,140	-	917,140	954,547
Total Expenses	<u>25,856,881</u>	<u>-</u>	<u>25,856,881</u>	<u>25,626,218</u>
Net increase (decrease) in net assets	378,334	(271,664)	106,670	503,574
Net assets, beginning of year	24,997,615	1,041,581	26,039,196	25,535,622
Net assets, end of year	<u>\$ 25,375,949</u>	<u>\$ 769,917</u>	<u>\$ 26,145,866</u>	<u>\$ 26,039,196</u>

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

**HABITAT FOR HUMANITY OF WAKE COUNTY, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**

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

	Program Services					Supporting Services		2020 Total	2019 Total
	Construction	Family Services Financing	Volunteer Services	ReStore	Total	Management and General	Fundraising		
Salaries	\$ 834,058	\$ 461,852	\$ 134,438	\$ 2,683,939	\$ 4,114,287	\$ 237,779	\$ 551,543	\$ 4,903,609	\$ 4,410,367
Payroll taxes and benefits	245,957	82,378	22,380	705,922	1,056,637	131,407	99,092	1,287,136	1,118,127
Publicity and marketing	2,128	53,727	610	324,602	381,067	21,592	17,622	420,281	329,018
Postage and direct mail cost	258	820	1,487	27,304	29,869	5,355	19,092	54,316	10,575
Telephone	7,693	1,642	1,122	49,862	60,319	3,003	2,756	66,078	59,091
Cost of sales	7,602,204	-	-	-	7,602,204	-	-	7,602,204	7,519,333
Americorp	127,533	-	-	-	127,533	-	-	127,533	98,578
Warranty and lot maintenance	13,203	-	-	-	13,203	-	-	13,203	27,222
Rental and maintenance	95,416	5,613	865	1,009,367	1,111,261	10,755	6,342	1,128,358	1,040,101
Utilities	11,727	5,473	1,562	142,755	161,517	9,783	6,255	177,555	140,835
Professional services	10,110	8,816	7,953	20,980	47,859	9,765	8,988	66,612	65,669
Insurance	31,528	-	-	80,412	111,940	12,926	-	124,866	148,366
Taxes and licenses	10,666	-	-	-	10,666	1,783	-	12,449	4,982
Travel	2,176	-	240	5,056	7,472	11,736	3,133	22,341	29,541
Tools and supplies	35,543	2,720	221	106,590	145,074	15,086	3,284	163,444	83,112
Office and stationary expenses	-	-	-	-	-	-	-	-	16,505
Computer tech support and training	13,899	6,637	1,896	84,053	106,485	11,852	10,600	128,937	132,535
Contract labor	11,922	134,706	9,699	259,273	415,600	316,714	45,073	777,387	475,626
Vehicle expense	47,027	1,584	825	217,426	266,862	2,550	3,456	272,868	204,040
Miscellaneous	45,809	7,524	-	191,725	245,058	435	80,074	325,567	222,740
Dues	180	1,122	-	8,470	9,772	30,898	1,190	41,860	44,452
Family services applications	27,500	3,049	-	-	30,549	74,965	-	105,514	128,945
Board and staff development	518	413	-	12,770	13,701	14,846	3,317	31,864	26,442
Depreciation	8,030	15,956	4,559	167,464	196,009	28,493	18,236	242,738	183,260
Meetings and conferences	2,547	2,128	3,422	4,166	12,263	14,575	17,916	44,754	85,501
Interest expense	200,507	148,262	1,900	127,441	478,110	10,449	5,699	494,258	1,732,393
In-kind expense	1,118	-	-	5,995,020	5,996,138	-	-	5,996,138	5,804,889
Contributions	112,843	-	-	-	112,843	-	-	112,843	700,954
Promotional items	100	1,143	5,181	14,076	20,500	21,276	13,472	55,248	26,069
Volunteer services	-	23,455	6,980	-	30,435	-	-	30,435	29,014
Cost of inventory	-	-	-	1,026,485	1,026,485	-	-	1,026,485	727,936
	<u>\$ 9,502,200</u>	<u>\$ 969,020</u>	<u>\$ 205,340</u>	<u>\$ 13,265,158</u>	<u>\$ 23,941,718</u>	<u>\$ 998,023</u>	<u>\$ 917,140</u>	<u>\$ 25,856,881</u>	<u>\$ 25,626,218</u>

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

**HABITAT FOR HUMANITY OF WAKE COUNTY, INC.**  
**STATEMENT OF CASH FLOWS**

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

	<u>2020</u>	<u>2019</u>
<b>Net cash flows from operating activities:</b>		
Net increase in net assets	\$ 106,670	\$ 503,574
Adjustments to reconcile net increase in net assets to net cash flows from operating activities:		
(Gain) loss on interest in charitable remainder unitrust	(47,089)	3,437
Depreciation	242,738	183,260
Interest income on mortgages receivable discount	(487,707)	(491,560)
Interest income on current year non-interest bearing mortgage receivable	148,262	1,448,509
Donated inventory adjustment	488,397	(239,803)
Dissolution of investment in joint venture	(299,870)	-
Changes in operating assets and liabilities:		
(Increase) decrease in operating assets:		
Accounts receivable	857,434	(275,616)
Long-term receivable	(1,292,358)	(2,869,393)
Grants and pledges receivable	-	31,848
Prepaid expenses	(47,215)	12,539
Land and construction in progress	(352,333)	(840,737)
Other assets	144,750	(71,926)
Increase (decrease) in operating liabilities:		
Accounts payable	(632,277)	362,590
Accrued expenses	17,165	14,292
Deferred revenue	4,907	(39,550)
Net cash flows from operating activities	<u>(1,148,526)</u>	<u>(2,268,536)</u>
<b>Net cash flows from investing activities:</b>		
Cash investment in joint venture	12,075	(12,739)
Acquisition of property and equipment	<u>(3,384,881)</u>	<u>(24,670)</u>
Net cash flows from investing activities	<u>(3,372,806)</u>	<u>(37,409)</u>
<b>Net cash flows from financing activities:</b>		
Proceeds from long-term debt	3,921,205	3,950,252
Payment on long-term debt	<u>(674,041)</u>	<u>(519,881)</u>
Net cash from financing activities	<u>3,247,164</u>	<u>3,430,371</u>
Net changes in cash and cash equivalents	(1,274,168)	1,124,426
Cash and cash equivalents, beginning of year	4,476,487	3,352,061
Cash and cash equivalents, end of year	<u>\$ 3,202,319</u>	<u>\$ 4,476,487</u>
<b>Supplemental disclosure:</b>		
Interest paid - expenses	<u>\$ 494,258</u>	<u>\$ 1,732,393</u>
Issuance of non-interest bearing mortgage loans	<u>\$ 6,817,141</u>	<u>\$ 7,683,600</u>

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



# HABITAT FOR HUMANITY OF WAKE COUNTY, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

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### Note 1—Organization and description of services

Habitat for Humanity of Wake County, Inc. (the "Organization") was incorporated as a non-profit organization on November 19, 1985. The Organization develops partnerships that build healthy, affordable homes with and for God's people in need. The Organization also promotes self-reliance through home ownership, providing affordable mortgages, and preparing its applicant families for home ownership through the provision of family support services, credit counseling, and resource management training.

Program services provided by the Organization are as follows:

*Construction* – This program constructs or rehabilitates modest housing for sale to low-income residents.

*Family Services Financing* – This program recruits and selects eligible homeowners, and recruits and trains volunteers who provide family support and services. Additionally, it provides access to affordable mortgage financing for low-income residents.

*Volunteer* – This program recruits and trains volunteers to assist in the construction of homes.

*ReStore* – This program sells donated and salvaged building materials to the general public at below market prices, with the net proceeds going towards the support of the Organization's mission.

### Note 2—Summary of significant accounting policies

*Basis of Presentation* – As required by generally accepted accounting principles in the United States of America ("U.S. GAAP"), the Organization is required to report information regarding its financial position and activities according to two classes of net assets:

*Without Donor Restrictions* – Net assets without donor restrictions include resources which are available for the support of the Organization's operating activities and are both undesignated and designated in nature. In addition, they include the Organization's net investment in property and equipment and other resources designated by the board for specific purposes.

*With Donor Restrictions* – Net assets with donor restrictions include resources that have been donated to the Organization subject to restrictions as defined by the donor and net assets subject to stipulations imposed by a third party that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

*Basis of Accounting* – The financial statements of the Organization are prepared on the accrual basis of accounting, whereby, revenues are recognized when earned and expenditures are recognized when incurred. This basis of accounting conforms to U.S. GAAP.

*Cash and Cash Equivalents* – The Organization maintains its cash in several North Carolina financial institutions. The Federal Deposit Insurance Corporation covers \$250,000 for substantially all depository accounts. The Organization from time to time may have amounts on deposit in excess of the insured limits. The Organization considers all highly liquid investments to be cash equivalents.

*Materials Inventory* – All inventory is donated and valued at fair value which, due to the quick turnover of inventory, is typically subsequent sales.

# HABITAT FOR HUMANITY OF WAKE COUNTY, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

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### Note 2—Summary of significant accounting policies (continued)

*Property and Equipment* – Property and equipment is recorded at cost or, if donated, at the approximate fair value at the date of donation. Property and equipment is capitalized on the books if each individual item is \$2,000 or more in value. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. The following are the estimated useful lives of the respective assets:

<u>Description</u>	<u>Estimated Useful Lives</u>
Buildings	30 years
Leasehold improvements	15 years
Computer and equipment	3 to 7 years
Furniture and fixtures	5 to 7 years
Vehicles	5 years

Expenditures for repairs and maintenance to property and equipment is charged to expense as incurred. The cost of major renewals and betterments to property and equipment is capitalized and depreciated or amortized over their estimated useful lives. Upon disposition of property and equipment, the respective assets, and accumulated depreciation and amortization accounts are relieved and any related gain or loss is reflected in current activities.

*Split Interest Agreements* – The Organization accepts gifts subject to split interest agreements. These gifts may be in the form of annuities or charitable remainder trusts and they provide for the payment of distributions to the grantor or other designated beneficiaries over the designated beneficiary's lifetime. At the end of the trust's term, the remaining assets are available for the Organization's use. At the time of receipt, a gift is recorded based upon the fair value of assets donated less any applicable liabilities. Liabilities include the present value of projected future distributions to the annuity or trust beneficiary and are determined using appropriate discount rates (2.8% at June 30, 2020). On an annual basis, the Organization revalues the liability for future payments to beneficiaries based on actuarial assumptions.

*Investment in Joint Venture* – On August 30, 2012, the Organization invested, along with five other Habitat affiliates, in a joint venture ("CCML Leverage II, LLC") with 16.67% ownership to take advantage of New Market Tax Credit ("NMTC") financing. NMTC financing allows an entity to receive a loan or investment capital from outside investors, who will receive new markets tax credits to be applied against their federal tax liability. As a result, Habitat had invested \$1,587,278 and was able to secure a 15-year loan in the amount of \$1,880,000 payable to a community development entity as of June 30, 2019. During the year ended June 30, 2020, all remaining entities involved with the transaction were dissolved. As a result, the agreement was terminated, which is further discussed in Note 9.

On December 20, 2017, the Organization invested, along with five other Habitat for Humanity affiliates, in a partnership (Harbor Habitat Leverage II, LLC) with 16.67% ownership to take advantage of NMTC financing. As a result, the Organization has invested \$1,177,862 and was able to secure a 20-year loan in the amount of \$1,715,000 payable to a community development entity. The loan proceeds are to be used solely for the purpose of acquiring, rehabbing, and/or constructing single-family homes in qualified census tracts and selling 100% of such homes to low-income persons. The loan accrues interest annually at a rate of 0.7041%.

*Deferred Revenue* – Deferred revenue represents mortgage forgiveness that is amortized over the term of the mortgage and NMTC affiliate guaranty fee which is amortized over the term of the loan.

# HABITAT FOR HUMANITY OF WAKE COUNTY, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

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### Note 2—Summary of significant accounting policies (continued)

*Revenues and Support Without and With Donor Restrictions* – Donor support, contributions and government grants received are recognized as revenue when received or unconditionally promised. The Organization receives government grants from Wake County and local townships in the area. Public support revenue streams are recorded as without or with donor restrictions, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statement of activities and changes in net assets as net assets released from restrictions.

The Organization receives a significant amount of donated services from unpaid volunteers who assist in the construction of Habitat homes. Only donated services that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair market values in the period received. Non-professional construction-related volunteer services do not meet these criteria and are not recorded in the financial statements.

*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 cash down payment and a signed promissory note, which is paid in accordance with the note terms.

*ReStore Revenues* – A portion of the Organization’s revenue is derived from ReStore sales during the year. Such revenue is conditioned upon meeting one performance obligation, the sale transaction is completed at a ReStore location, and amounts received are recognized as revenue once the sale has been made. Once the sale is made, customers take possession of the goods purchased. These transactions are considered to be contracts with customers as they have commercial substance through the transaction of cash payment in return for the goods purchased. Due to the nature of these transactions, there is no variable consideration and only one performance obligation. During the year, ReStore revenue by store location was comprised of the following:

Apex	\$	549,484
Cary		887,874
Clayton		435,228
Durham		1,254,600
Fuquay Varina		582,014
Glenwood		647,405
Hillsborough		13,720
Morrisville		451,940
Raleigh		2,140,880
Wake Forest		620,421
	\$	<u>7,583,566</u>

# HABITAT FOR HUMANITY OF WAKE COUNTY, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

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### Note 2—Summary of significant accounting policies (continued)

*In-Kind Donated Materials, Services, and Facilities* – Donated materials, specialized services, and facilities received by the Organization are reflected as both contributions and expenses in the accompanying financial statements at their estimated fair market value at the time of receipt.

*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 management determines the receivable will not be collected.

*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 net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

The Organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises to give.

*Expense Allocation* – The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets and statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. While a majority of these costs are specifically identifiable to a functional expense category (e.g. cost of construction, interest expense on notes payable and on mortgages receivable, event costs, and tithe to Habitat International), other costs are allocated. Allocation bases primarily include: estimates of time and effort (e.g. for salaries and wages, payroll taxes, pension contributions); square footage (e.g. for occupancy); headcount (e.g. for supplies, telephone); and employee-specific (e.g. telephone, staff development, employee mileage reimbursement).

*Income Tax Status* – The Organization is exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code ("IRC") and the applicable state tax statutes. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(a) and has been qualified as an organization that is not a private foundation under Section 509(a)(2) of the IRC. Management has evaluated the effect of the guidance provided by U.S. GAAP on Accounting for Uncertainty in Income Taxes. Management believes that the Organization continues to satisfy the requirements of a tax-exempt organization at June 30, 2020. Management has evaluated all other tax positions that could have a significant effect on the financial statements and determined the Organization had no significant uncertain income tax positions at June 30, 2020.

*Use of Estimates* – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates and assumptions are used for, but not limited to the allowance for uncollectible contributions, discounts to net present value for pledges receivable, depreciable lives of equipment, cost allocations among functional expenses, and value for in-kind donated materials and services.

*Retirement Plan* – Effective January 1, 2004, the Organization adopted a 401(k) profit-sharing plan for the benefit of its employees. An employee must be 21 years or older to obtain the 401(k) employer match. Employees may contribute from 1% to 97% of their compensation. The Organization will match 100% of each employee's contributions up to a maximum of 4% of compensation. For the year ended June 30, 2020, the Organization contributed \$104,202 to the plan.

# HABITAT FOR HUMANITY OF WAKE COUNTY, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

### Note 2—Summary of significant accounting policies (continued)

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

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

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

*Future Pronouncements* – In February 2016, the Federal Accounting Standards Board issued a new accounting standard, ASU 2016-02, *Leases (Topic 842)*, which says lessees will be required to recognize a lease liability and a right-of-use asset for all leases, operating and capital, at the commencement date. The new standard will be effective for the Organization on July 1, 2021. Early adoption is permitted. The Organization is currently evaluating the effect that the standard will have on its financial statements and related disclosures.

### Note 3—Liquidity and availability

Financial assets available for general expenditures consisting of expenses for program, fundraising, and management and general expenses that are without donor or other restrictions, limiting their use within one year of the statement of financial position date, are comprised of the following as of June 30, 2020:

Financial assets:

Cash and cash equivalents	\$ 3,202,319
Accounts receivable	224,721
Current portion of long-term receivable	<u>1,203,058</u>
Total financial assets	4,630,098

Less those unavailable for general expenditures within one year:

Contributions with donor restrictions	<u>(769,917)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 3,860,181</u></u>

**HABITAT FOR HUMANITY OF WAKE COUNTY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2020

**Note 4—Mortgages receivable**

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

2021	\$ 1,203,058
2022	1,208,754
2023	1,174,462
2024	1,109,868
2025	1,073,461
Thereafter	<u>11,613,796</u>
	<u><u>\$ 17,383,399</u></u>

Homebuyers enter into equity agreements with the Organization at the time the mortgage is signed. Prior to the fiscal year ended June 30, 2001, homebuyers purchased houses from the Organization at less than fair value with the equity amount determined as the difference between the purchase price and the fair value. Beginning with the fiscal year ended June 30, 2001, homebuyers purchased houses at fair value and the Organization discounted the mortgages receivable at a rate of 7.5%. During the year, the interest rate ranged from 0% to 2%. Under both methods, homebuyers earn the equity over the life of their mortgages, typically 30 years or as the mortgages are repaid. As of July 1, 2016, the deferred equity on mortgage receivable is due at the time of sale. If the homebuyers default on their mortgages, the Organization retains all or a portion of the equity in the house. If homebuyers wish to dispose of their property, the Organization retains the right of first refusal. Homebuyers' equity agreements are included in the deeds of trust on their property as restrictive covenants.

At June 30, 2020, the delinquencies in our mortgages receivable consisted of the following:

0-29 Days Past Due	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Current	Mortgage Discount	Total Mortgages Receivable
\$ -	\$ 4,304	\$ 611	\$ 341,302	\$ 346,217	\$ 25,817,717	\$ (8,780,535)	\$ 17,383,399

At June 30, 2020, an allowance for bad debt related to mortgages receivable has not been established due to the terms and conditions of the equity agreements.

A loan is defined as impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due under the contractual terms of the loan agreement. The Organization considers one-to-four family mortgage loans and consumer installment loans to be homogeneous and, therefore, does not generally evaluate them for impairment unless they are considered troubled debt restructurings. All other loans are evaluated for impairment on an individual basis.

**HABITAT FOR HUMANITY OF WAKE COUNTY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2020

**Note 5—Fair value of financial instruments, carried at fair value**

U.S. GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction value hierarchy which requires an entity to maximize the use of observable inputs when measuring fair value.

The standard describes three levels of inputs that may be used to measure fair value:

*Level 1* – Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date;

*Level 2* – Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies; and

*Level 3* – Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodologies used for instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

*Interest in Charitable Remainder Trust* – These Level 3 investments are valued on factors not easily observable in similar instruments in an active market.

Financial instruments carried at fair value by level as of June 30, 2020 are as follows:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>
Interest in charitable remainder trusts	\$ -	\$ -	\$ 470,855	\$ 470,855

Changes in Level 3 inputs are as follows:

Beginning balance	\$ 423,766
Current year gain	47,089
Ending balance	\$ 470,855

**HABITAT FOR HUMANITY OF WAKE COUNTY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2020

**Note 6—Promises to give**

Promises to give are written or oral agreements to contribute cash or other assets. Promises to give may be either conditional or unconditional. Unconditional promises to give are recognized as revenues, assets, or decreases in liabilities in the period the promises are made. Conditional promises to give are recognized as revenues, assets, or decreases in liabilities in the period when a condition no longer exists.

Unconditional promises to give, included in accounts receivable at June 30, 2020 are as follows:

Receivable in less than one year	\$	117,983
Receivable in one to five years		-
Total unconditional promises to give	<u>\$</u>	<u>117,983</u>

**Note 7—Land and construction in progress**

At June 30, 2020, the Organization had construction in progress and property available for resale totaling \$11,327,216.

	<u>Land</u>	<u>Land Gift in-Kind</u>	<u>Land Development</u>	<u>Construction in Progress</u>	<u>Finished Houses</u>	<u>Total</u>
Beginning balance	\$ 3,699,130	\$ 904,523	\$ 1,442,211	\$ 4,025,728	\$ 903,291	\$ 10,974,883
Additions	1,713,695	-	1,287,448	6,370,916	415,439	9,787,498
Closed jobs	(1,196,429)	(97,500)	(1,068,501)	(6,556,008)	(516,727)	(9,435,165)
Ending balance	<u>\$ 4,216,396</u>	<u>\$ 807,023</u>	<u>\$ 1,661,158</u>	<u>\$ 3,840,636</u>	<u>\$ 802,003</u>	<u>\$ 11,327,216</u>

**Note 8—Property and equipment**

Net property and equipment consisted of the following at June 30, 2020:

Land	\$	2,841,993
Building		4,591,961
Leasehold improvements		1,151,185
Computer and equipment		348,829
Furniture and fixtures		62,997
Vehicles		<u>132,136</u>
		9,129,101
Less accumulated depreciation		<u>(1,915,444)</u>
Net property and equipment	<u>\$</u>	<u>7,213,657</u>



# HABITAT FOR HUMANITY OF WAKE COUNTY, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

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### **Note 9—Interests in charitable remainder trusts**

During the year ended June 30, 2003, the Organization was named the single vested beneficiary of a charitable remainder unitrust. Upon the death of the last surviving income beneficiary, the remaining assets of the trust will transfer to the Organization. The trust's value is classified as a net asset with donor restriction on the Organization's financial statements until the trust terminates, and the remaining assets are transferred to the Organization. The fair market value of the Organization's interest in the trust was \$446,514 at June 30, 2020. The fair market value approximates the present value of the future cash flows anticipated from the trust.

During the year ended June 30, 2007, the Organization was named the single beneficiary of a charitable remainder annuity trust. Upon the death of the surviving income beneficiary, the remaining assets of the trust will transfer to the Organization. The trust's value is classified as a net asset with donor restriction on the Organization's financial statements until the trust terminates, and the remaining assets are transferred to the Organization. The estimated present value of the Organization's interest in the trust was \$24,341 at June 30, 2020. The fair market value approximates the present value of the future cash flows anticipated from the trust.

### **Note 10—Investments in CCML Leverage II, LLC and Harbor Habitat Leverage II, LLC**

In August 2012 and December 2017, the Organization participated in NMTC programs. These programs provide 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. Tax credit recapture is required if compliance requirements are not met over a seven-year period.

In August 2012, the Organization recorded its 16.67% investment in CCML Leverage II, LLC at the cost of \$1,430,133. In August 2019, CCM CD 27 Investment Fund, LLC, (the "Fund"), and the effective owner of CCM Community Development XXVII, LLC (holder of the promissory note due from the Organization) expects the equity owners of the Fund to exercise their put option. Under the terms of the put option agreement CCML Leverage II, LLC was expected to purchase the ownership interest of the Fund, effectively allowing the Organization to extinguish its outstanding debt owed to the Fund. During the year ended June 30, 2020, all entities involved with the transaction, other than the Organization, were dissolved. As a result, the agreement was terminated and the remaining investment balance was netted against the loan balance to result in \$299,870 of income from extinguished debt, which was included in other income.

In December 2017, the Organization recorded its 16.667% investment in Harbor Habitat Leverage II, LLC at the cost of \$1,207,410. In December 2024, Twain Investment Fund 296, LLC (the "Twain Fund"), and the upstream effective owner of Harbor Community Fund XIII, LLC (holder of the promissory note due from the Organization) is expected to exercise its 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. Exercise of the option will effectively allow the Organization to extinguish its outstanding debt owed to the Twain Fund. As of June 30, 2020, the investment in Harbor Habitat Leverage II, LLC balance was \$1,177,862.

### **Note 11—Escrow funds payable**

At June 30, 2020, a total of \$109,216 had been collected from homebuyers by the Organization for payment of property and insurance. This amount was held in escrow by the Organization.

# HABITAT FOR HUMANITY OF WAKE COUNTY, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

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### Note 12—Long-term debt

The Organization's obligations under notes payable at June 30, 2020, consisted of the following:

Board of Commissioners of the Wake County Industrial Facilities and Pollution Control Financing Authority bond payable for \$4,400,000, secured by the facility, with annual interest based on the Bond Market Association ("BMA") rate (0.13% as of June 30, 2020) and principal and interest payments payable over 161 months. The loan will mature on November 1, 2032, when any unpaid principal balance and accrued interest will become due.	\$ 2,956,612
Pacific Western Bank note for borrowing up to \$2,466,222, with 2% interest rate, secured by the individual family mortgage loan. The debt is due in monthly installments with a final payment due based on individual family mortgage loan.	1,608,678
Pacific Western Bank note for borrowing up to \$1,244,135, interest free, due in monthly installments of \$3,466 payable through July 2047.	845,740
Truist note payable with interest at the 30-day LIBOR rate (0.18% as of June 30, 2020) plus 2%. The loan will mature on March 24, 2021, when any unpaid principal balance and accrued interest will become due.	647,863
Truist note payable for borrowing up to \$740,000, secured by 31 mortgages, with variable rate interest not to exceed 7.5%. Loan is payable in 59 consecutive monthly installments of \$5,763, including interest and principal. The loan will mature on December 1, 2020, when any unpaid principal balance and accrued interest will become due.	42,093
Habitat for Humanity International note payable, interest free, due in 48 monthly installments of \$781, payable through July 2021.	12,663
Habitat for Humanity International note payable, interest free, due in 48 monthly installments of \$937, payable through December 2020.	4,707
Habitat for Humanity International note payable, interest free, due in 46 monthly installments of \$468 payable through December 2020.	4,248
Habitat for Humanity International note payable, interest free, due in 48 monthly installments of \$234, payable through December 2020.	2,124

**HABITAT FOR HUMANITY OF WAKE COUNTY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2020

**Note 12—Long-term debt (continued)**

Habitat for Humanity International note payable, interest free, due in 48 monthly installments of \$80, payable through July 2021.	\$ 1,235
Home Trust Bank note payable, secured by 8 mortgages, with interest at 2%. The loan will mature January 2049, when any unpaid principal balance and accrued interest will become due.	967,674
North State Bank note payable, secured by 10 mortgages, with interest at 2%. The loan will mature April 2048, when any unpaid principal balance and accrued interest will become due.	944,872
Towne Bank note payable, secured by eight mortgages, with interest at 3.49%. The loan will mature May 2049, when any unpaid principal balance and accrued interest will become due.	1,845,267
Towne Bank note payable, with interest at 3.49% and monthly payments due of \$16,291. The loan will mature November 2029, when any unpaid principal balance and accrued interest will become due.	2,742,160
Paycheck Protection Program loan granted by the Small Business Administration and serviced through Dogwood Bank. The loan will accrue interest at 1% per year with the no payments of principal or interest due until November 2019, at which time monthly payments are due until maturity in April 2021.	<u>1,072,200</u>
	13,698,136
Less debt issuance costs	<u>(162,743)</u>
	13,535,393
Less current portion of long-term debt	<u>(1,768,089)</u>
	<u>\$ 11,767,304</u>

Scheduled maturities of long-term debt are as follows:

**Years Ending June 30,**

2021	\$ 1,768,089
2022	642,778
2023	646,189
2024	653,109
2025	660,664
Thereafter	<u>9,327,307</u>
	<u>\$ 13,698,136</u>

Due to joint venture consists of a promissory note to Harbor Community Fund XIII, LLC in the amount of \$1,715,000. The note requires interest only payments until December 2024 at 0.7041%. The note then requires principal payments in an amount sufficient to fully amortize the note over 13 years. The loan matures in December 2037. The loan is secured by substantially all the assets acquired by the Organization from the project loan proceeds. Debt has a put option feature that is exercisable December 2024.

# HABITAT FOR HUMANITY OF WAKE COUNTY, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

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### Note 13—Net assets with donor restrictions

At June 30, 2020, net assets with donor restrictions of \$769,917 represent unexpended amounts of cash and pledge receivables from house sponsors and grantors, the value of donated land, and contributions receivable from charitable remainder trusts in which the Organization is the single beneficiary.

The components of net assets with donor restrictions are as follows:

General pledges	\$	71,793
Endowment		3,250
Designated pledges		848
Sponsorships		46,190
Donations		176,981
Contribution receivables from charitable remainder trusts		470,855
	\$	<u>769,917</u>

Net assets with donor restrictions are subject to donor stipulations that expire by the passage of time or can be fulfilled or removed by actions pursuant to the stipulations. During 2020, the Organization fulfilled such stipulations which resulted in \$1,725,248 of net assets with donor restrictions being reclassified as net assets without donor restrictions.

### 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.

### Note 15—Operating leases and maintenance contracts

The Organization leases certain facilities and other property under the terms of operating lease agreements. Total rental expense for the year ended June 30, 2020, was \$1,128,358. Future minimum lease payments under operating leases that have remaining terms in excess of one year as of June 30, 2020 are as follows:

#### Years Ending June 30,

2021	\$	1,366,133
2022		1,036,751
2023		576,217
2024		375,434
2023		246,078
Thereafter		243,180
	\$	<u>3,843,793</u>

### Note 16—Contribution to Habitat for Humanity International, Inc.

The Organization contributes to Habitat for Humanity International for their housing programs. The Organization's contributions served an additional 35 families globally. For the year ended June 30, 2020, contributions to Habitat for Humanity International were \$157,782.

# HABITAT FOR HUMANITY OF WAKE COUNTY, INC.

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

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### Note 17—Memorandum of understanding

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 Orange County, Inc. ("Habitat Orange") regarding the operation of real estate and Habitat Restore (the "Store") at the property known as 5501 Durham-Chapel Hill Boulevard, Durham, NC 27707, serving Durham, Orange and Wake Counties. An executed Management Agreement allows the Organization to operate the business on behalf of Habitat Durham and Habitat Orange. As a result of the new MOU agreement, the Organization purchased the land and building at 5501 Durham-Chapel Hill Boulevard for approximately \$2,800,000.

The amount of Store earnings from all Stores in the Organization, Habitat Orange 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. Per the MOU, the Organization shall pay all ReStore debt and related expenses out of the ReStore revenue prior to any distributions made to Habitat Durham or Habitat Orange. If this revenue is not sufficient to cover the necessary expenses, the Organization may make payments out of their own funds and credit future distributions to Habitat Durham and Habitat Orange.

### Note 18—COVID-19 pandemic

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

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

On April 18, 2020, the Organization received a Paycheck Protection Program ("PPP") loan for \$1,072,200 from the Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). This loan was funded by Dogwood State Bank. PPP loans are considered conditional contributions, with right of return in the form of an obligation to be repaid if a barrier to entitlement is not met. The barrier is that PPP loan funds must be used to maintain compensation costs and employee headcount, and other qualifying expenses (mortgage interest, rent, and utilities) incurred following the receipt of the loan funds. The Organization selected Accounting Standards Codification 470, *Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)*, as the applicable standard for not-for-profits and as such the funds are included in debt at year-end. See further detail of year-end balance in Note 12.

### Note 19—Subsequent events

The Organization has evaluated subsequent events through October 14, 2020, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.