

Chatham Habitat for Humanity, Inc.

FINANCIAL STATEMENTS

June 30, 2021 and 2020

PT CPAs, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
RALEIGH, NORTH CAROLINA

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James J. Pappalardo, CPA
Joseph V. Turchetti, CPA

Independent Auditor's Report

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

We have audited the accompanying financial statements of Chatham Habitat for Humanity, Inc. (CHFH), which comprise the statements of financial position as of June 30, 2021 and 2020 and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CHFH as of June 30, 2021 and 2020, and the changes in its net assets, functional expenses and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Raleigh, North Carolina
October 31, 2020

FINANCIAL STATEMENTS

CHATHAM HABITAT FOR HUMANITY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 600,381	\$ 471,962
Restricted cash	50,752	56,414
Investments	42,760	29,555
Current portion of long-term receivable	436,836	435,378
State sales tax refund	10,935	2,416
Resale inventory	115,743	84,606
Land and construction in progress	<u>1,027,849</u>	<u>918,824</u>
Total current assets	<u>2,285,256</u>	<u>1,999,155</u>
Non-current assets:		
Fixed assets, net of depreciation	1,263,922	1,255,042
Other assets	54,675	78,699
Long-term receivables, net of current portion	<u>1,867,299</u>	<u>2,015,241</u>
Total non-current assets	<u>3,185,896</u>	<u>3,348,982</u>
Total assets	<u>\$ 5,471,152</u>	<u>\$ 5,348,137</u>
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	\$ 52,113	\$ 23,625
Accrued payroll and liabilities	4,275	11,878
HOA dues and escrow funds	57,164	49,265
PPP loan payable	137,700	163,900
Current portion of long-term debt	<u>128,794</u>	<u>120,160</u>
Total current liabilities	<u>380,046</u>	<u>368,828</u>
Long-term liabilities:		
Long-term debt, net of current portion	<u>1,213,004</u>	<u>1,279,840</u>
Total non-current liabilities	<u>1,213,004</u>	<u>1,279,840</u>
Total liabilities	<u>1,593,050</u>	<u>1,648,668</u>
NET ASSETS		
Without donor restrictions	3,571,287	3,480,274
With donor restrictions	<u>306,815</u>	<u>219,195</u>
Total net assets	<u>3,878,102</u>	<u>3,699,469</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,471,152</u>	<u>\$ 5,348,137</u>

The accompanying notes are an integral part of these financial statements

CHATHAM HABITAT FOR HUMANITY, INC
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenues, Gains and Other Support		
Public support:		
Contributions	\$ 205,908	\$ 183,080
Grants and allocations	194,344	109,387
In-kind unrestricted	<u>15,101</u>	<u>51,781</u>
Total public support	<u>415,353</u>	<u>344,248</u>
Revenue:		
Home sales	484,000	559,500
Mortgage discount amortization	80,013	200,779
ReStore revenue	691,849	511,527
Fundraising events	1,245	19,435
Interest income	865	4,038
Tenant rent	-	3,000
Asset dispositions	900	95,026
Other income	<u>47,107</u>	<u>53,869</u>
Total revenue	<u>1,305,979</u>	<u>1,447,174</u>
Total revenue, gains and other support before net assets released from restrictions	<u>1,721,332</u>	<u>1,791,422</u>
Net assets released from donor restrictions		
Satisfaction of donor's restrictions	<u>20,468</u>	<u>56,907</u>
Total revenue, gains and other support without donor restrictions	<u>1,741,800</u>	<u>1,848,329</u>
Expenses and losses		
Construction	791,607	1,142,877
ReStore	460,529	430,858
Family financing services	113,461	137,449
Fundraising	151,967	193,219
General and administrative	<u>297,123</u>	<u>225,362</u>
Total expenses	<u>1,814,687</u>	<u>2,129,765</u>
Change in net assets without donor restrictions	<u>\$ (72,887)</u>	<u>\$ (281,436)</u>

The accompanying notes are an integral part of these financial statements

CHATHAM HABITAT FOR HUMANITY, INC
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Net assets without donor restrictions:		
Total revenues and gains	1,721,332	1,791,422
Net assets released from restrictions	20,468	56,907
Total expenses and losses	<u>1,814,687</u>	<u>2,129,765</u>
Change in net assets without donor restrictions	(72,887)	(281,436)
Net assets with donor restrictions:		
Donated revenue	956	7,885
Grants and allocations	106,480	72,010
Investment income, net of investment fees	652	-
Net assets released from restrictions	<u>(20,468)</u>	<u>(56,907)</u>
Change in net assets with donor restrictions	<u>87,620</u>	<u>22,988</u>
Other Income		
CARES Act PPP loan forgiveness	<u>163,900</u>	-
Total other income	<u>163,900</u>	-
CHANGE IN NET ASSETS	178,633	(258,448)
NET ASSETS - BEGINNING OF YEAR	<u>3,699,469</u>	<u>3,957,917</u>
NET ASSETS - END OF YEAR	<u>\$ 3,878,102</u>	<u>\$ 3,699,469</u>

The accompanying notes are an integral part of these financial statements

CHATHAM HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2021

	<u>Home Sales</u>	<u>ReStore</u>	<u>Family Support</u>	<u>Total Program</u>	<u>Fundraising</u>	<u>Management General</u>	<u>Total</u>
Payroll	\$ 145,355	\$ 239,329	\$ 54,806	\$ 439,490	\$ 96,397	153,107	\$ 688,994
Payroll taxes	11,600	18,363	4,204	34,167	7,375	11,564	53,106
Employee benefits	26,625	36,371	6,852	69,848	13,162	20,139	103,149
Costs of construction	538,193	-	6,407	544,600	23	-	544,623
Cost of goods sold - ReStore	-	43,408	-	43,408	-	-	43,408
Printing and production	566	3,074	49	3,689	3,671	546	7,906
Debt forgiveness	-	-	4,149	4,149	-	-	4,149
Information technology	16	1,553	293	1,862	12,017	14,974	28,853
Advertising	200	-	97	297	7,511	-	7,808
Bank charges	132	161	-	293	-	104	397
Cash over and short	-	(773)	-	(773)	-	253	(520)
Board expenses	-	-	-	-	24	-	24
Telephone	2,790	4,723	321	7,834	-	5,269	13,103
Office expenses	-	395	1,896	2,291	1,775	1,635	5,701
Volunteers and community	535	662	178	1,375	3,155	627	5,157
Conferences and seminars	-	1,219	-	1,219	312	225	1,756
Merchant fees	-	15,395	254	15,649	1,722	-	17,371
Employee training	700	-	147	847	-	-	847
Insurance	32,687	17,548	2,244	52,479	1,543	8,975	62,997
Interest expense	13,439	23,807	-	37,246	-	6,420	43,666
Janitorial	-	-	-	-	-	2,640	2,640
Equipment rent	350	-	-	350	-	7,088	7,438
Scholarships	-	-	-	-	-	500	500
Professional fees	-	250	1,000	1,250	-	12,750	14,000
Meals and entertainment	39	106	-	145	160	1,387	1,692
Licenses, taxes and fees	847	1,348	-	2,195	-	245	2,440
Travel	596	-	559	1,155	315	2,818	4,288
Security	-	625	-	625	-	1,050	1,675
Staff and recruiting expenses	6	328	130	464	-	2,937	3,401
Dues and subscriptions	-	-	-	-	880	8,677	9,557
Occupancy	-	10,834	3,025	13,859	1,100	5,045	20,004
Waste removal	-	3,150	-	3,150	-	-	3,150
Supplies	718	4,180	85	4,983	228	4,015	9,226
Tools and small equipment	3,741	-	-	3,741	-	-	3,741
Repairs and maintenance:							
Equipment	39	-	-	39	597	8,228	8,864
Buildings and grounds	354	1,955	-	2,309	-	3,320	5,629
Vehicle expenses	2,355	10,147	-	12,502	-	-	12,502
Contributions	-	-	-	-	-	8,000	8,000
Mortgage servicing	-	-	18,016	18,016	-	-	18,016
Miscellaneous expense	5	15	-	20	-	(3,191)	(3,171)
Depreciation	9,719	22,356	8,749	40,824	-	7,776	48,600
Total expenses	\$ 791,607	\$ 460,529	\$ 113,461	\$ 1,365,597	\$ 151,967	\$ 297,123	\$ 1,814,687

The accompanying notes are an integral part of these financial statements

CHATHAM HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2020

	Home Sales	ReStore	Family Support	Total Program	Fundraising	Management General	Total
Payroll	\$ 176,486	\$ 173,320	\$ 75,631	\$ 425,437	\$ 115,273	\$ 136,480	\$ 677,190
Payroll taxes	12,942	19,533	5,819	38,294	8,859	5,244	52,397
Employee benefits	28,854	37,957	9,543	76,354	16,765	9,226	102,345
Costs of construction	596,214	179	2,800	599,193	85	-	599,278
Cost of goods sold - ReStore	-	57,257	-	57,257	-	-	57,257
Printing and production	32	428	156	616	2,920	32	3,568
Direct benefit to donors	-	-	-	-	3,025	-	3,025
Information technology	1,792	6,381	2,071	10,244	9,698	1,029	20,971
Advertising	-	-	-	-	11,561	25	11,586
Bank charges	12	466	195	673	-	15,930	16,603
Telephone	2,468	5,241	443	8,152	-	4,862	13,014
Office expenses	597	-	886	1,483	1,957	718	4,158
Community development	1,326	954	1,277	3,557	3,543	758	7,858
Conferences and seminars	155	-	484	639	425	610	1,674
Merchant fees	-	10,722	-	10,722	1,746	-	12,468
Employee training	1,071	209	577	1,857	507	161	2,525
Insurance	33,321	19,300	2,757	55,378	1,892	3,730	61,000
Interest expense	5,454	35,892	-	41,346	-	8,773	50,119
Janitorial	762	-	550	1,312	535	493	2,340
Equipment rent	1,897	-	1,370	3,267	1,332	1,827	6,426
Professional fees	19,956	4,940	1,631	26,527	1,725	2,722	30,974
Meals and entertainment	682	1,686	462	2,830	3,728	527	7,085
Licenses and fees	484	-	-	484	-	-	484
Travel	1,168	-	1,507	2,675	839	2,934	6,448
Scholarships	-	-	-	-	-	1,300	1,300
Recruiting	-	59	-	59	-	-	59
Dues and subscriptions	615	415	293	1,323	1,284	6,417	9,024
Occupancy	1,706	16,012	1,156	18,874	1,277	1,437	21,588
Supplies	3,967	4,320	1,113	9,400	2,045	1,418	12,863
Tools and small equipment	1,427	-	-	1,427	-	-	1,427
Repairs and maintenance:							
Equipment	3,616	1,261	1,795	6,672	1,745	2,393	10,810
Buildings and grounds	1,155	4,526	312	5,993	303	585	6,881
Vehicles	2,664	8,176	-	10,840	-	-	10,840
Contributions	250	-	-	250	-	10,000	10,250
Mortgage servicing	-	-	17,773	17,773	-	-	17,773
Discount on mortgages	233,180	-	-	233,180	-	-	233,180
Miscellaneous expense	1,253	4,670	213	6,136	150	(166)	6,120
Depreciation	7,371	16,954	6,635	30,960	-	5,897	36,857
Total expenses	\$ 1,142,877	\$ 430,858	\$ 137,449	\$ 1,711,184	\$ 193,219	\$ 225,362	\$ 2,129,765

The accompanying notes are an integral part of these financial statements

CHATHAM HABITAT FOR HUMANITY, INC
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 178,633	\$ (258,448)
Adjustments to reconcile change in net assets		
from operating activities:		
Depreciation	48,600	36,857
Gain on disposal of assets	(900)	(95,026)
Unrealized gain on investment	(3,362)	-
Effects of changes in operating assets and liabilities:		
Accounts receivable	-	20,000
State sales tax receivable	(8,519)	5,778
Resale inventory	(31,137)	22,697
Land and construction in progress	(109,025)	26,498
Other assets	24,024	(37,464)
Mortgages receivable	146,484	158,890
Accounts payable	28,488	(69,715)
Accrued payroll and liabilities	(7,603)	2,365
HOA dues and escrow funds	7,899	3,211
Net cash provided (used) by operating activities	<u>273,582</u>	<u>(184,357)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposition of assets	-	276,250
Purchase of investment	(9,843)	-
Purchase of fixed assets	<u>(56,580)</u>	<u>(1,430)</u>
Net cash provided (used) by investing activities	<u>(66,423)</u>	<u>274,820</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
PPP loan proceeds	(26,200)	163,900
Payments on long-term debt	<u>(58,202)</u>	<u>(34,687)</u>
Net cash provided (used) by investing activities	<u>(84,402)</u>	<u>129,213</u>
Increase in cash, cash equivalents and restricted cash	122,757	219,676
Cash, cash equivalents and restricted cash - beginning	<u>528,376</u>	<u>308,700</u>
Cash, cash equivalents and restricted cash - ending	<u>\$ 651,133</u>	<u>\$ 528,376</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 43,666</u>	<u>\$ 50,119</u>
Cash and cash equivalents	\$ 600,381	\$ 471,962
Restricted cash	<u>50,752</u>	<u>56,414</u>
Total cash, cash equivalents and restricted cash	<u>\$ 651,133</u>	<u>\$ 528,376</u>

The accompanying notes are an integral part of these financial statements

CHATHAM HABITAT FOR HUMANITY, INC
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 1 – ORGANIZATION AND ACTIVITIES

Chatham Habitat for Humanity, Inc. (CHFH) is a nonprofit corporation organized under the laws of the State of North Carolina. CHFH'S purpose is to create self-help opportunities for families to own affordable homes, improve their lives, and strengthen their communities. Families selected for a Habitat-constructed home must provide 350 hours of "sweat-equity" on their home or on another Habitat project, to compete their eligibility. Upon moving into the home, the family begins paying for the home under the terms of a 20 or 30 year, interest-free, financing arrangement. The sale price of each home is at the appraised value.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of CHFH 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 generally accepted accounting principles (GAAP).

Classification of Net Assets

The net assets of CHFH and changes therein, are classified as follows:

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.

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 by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Revenue Recognition

Contributions are recognized as revenue when they are unconditionally received or pledged. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

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 and changes in net assets. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without donor restrictions upon acquisition of the assets and the assets are placed in service.

CHATHAM HABITAT FOR HUMANITY, INC
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (CONTINUED)

In-kind contributions other than merchandise inventory are recorded based on their estimated value on the date of receipt. CHFH's program is furthered through the contribution of time by a significant number of unpaid volunteers. In accordance with generally accepted accounting principles, the value of these volunteer services is not reflected in the accompanying financial statements.

Sales to homeowners of acquired properties are recorded at the contract sales price. Sales to homeowners of constructed properties which are financed through CHFH are recorded at the gross amount of payments to be received over the lives of the mortgages. Non-interest bearing mortgages have been discounted at various rates based upon prevailing market rates at the inception of the mortgages to account for the time value of money. A discount is an expense in the first year of a mortgage and is recaptured as income as the discounts are amortized. Discounts are amortized using the straight-line method over the lives of the mortgages.

Allocation of Expenses

The costs of providing the program services and other activities have been summarized on a functional basis in the Statements of Activities. Accordingly, estimates have been made by management in allocating certain costs such as compensation, utilities, office expenses, etc., which have been distributed among the program and support services benefited.

Concentrations of Credit Risk

CHFH maintains cash in several commercial banks located in Pittsboro, North Carolina. Balances on deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to specific limits. Balances in excess of FDIC limits are uninsured. At times throughout its operations, CHFH carries cash balances in excess of FDIC limits.

Income Taxes

CHFH is exempt from federal income taxes under Sections 501(c)(3) of the Internal Revenue Code. The State of North Carolina has granted a similar exemption. Therefore, no income taxes are reflected in these financial statements. The informational returns are still open to examination by the Internal Revenue Service for the fiscal years 2019, 2018 and 2017.

Statement of Cash Flows

For the purposes of reporting cash flows, cash includes cash-on-hand, money market accounts, short-term investments with maturities less than 90 days, and amounts on deposit with banks.

CHATHAM HABITAT FOR HUMANITY, INC
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in Preparing Financial Statements

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

Property and Equipment

Property and equipment is carried at cost and adjusted for impairments of value. CHFH capitalizes all expenditures in excess of \$500 for property and equipment at cost, and donated assets are recorded at fair market value at the date of the donation. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, which vary between 3 and 39 years. Depreciation expense for the years ended June 30, 2021 and 2020 was \$46,800 and \$36,857, respectively.

Expenditures for repairs and maintenance are charged to expense as incurred. The costs of major renewals and betterments are capitalized and depreciated over their estimated useful lives, ranging between 3 and 39 years. Upon disposition, the cost and related accumulated depreciation accounts are relieved and any related gain or loss is included in operations.

Advertising Costs

CHFH charges the costs of advertising to expense, as incurred. Advertising expenses for the years ended June 30, 2021 and 2020 were \$7,808 and \$11,586, respectively.

Fair Value of Financing Instruments

The carrying amount of cash, resale inventory, prepaid expenses and accounts payable and accrued liabilities approximate fair value due to the short duration of these instruments. Investments are described in Note 3. Their fair value is defined as the amount at which the instrument would be exchanged in a current transaction between willing parties.

CHATHAM HABITAT FOR HUMANITY, INC
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Cash

Restricted cash includes escrow funds collected from homeowners for payment of their property taxes and homeowner's insurance, funds collected for homeowner association dues, and any other restricted donations requiring segregation of funds. The funds received from the escrow payments are shown as both an asset and liability, on the financial statements. The homeowner's escrow deposits are each required to be held in separate bank accounts.

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. CHFH approved a total of \$17,700 and \$0 in forgivable mortgages for the years ended June 30, 2021 and 2020. For the years ended June 30, 2021 and 2020, CHFH did not receive any repayments.

Non-Interest Bearing Mortgage Loans Receivable

Mortgage loans receivable consists 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 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 Habitat for Humanity International (HFHI).

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. All direct material, labor and equipment costs, and indirect costs related to home construction, such as indirect labor, supplies and tools, are recorded on the statement of financial position as Construction in Progress.

CHATHAM HABITAT FOR HUMANITY, INC
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent accounting pronouncements

Leases:

In February 2016, the FASB issued ASU 2016-02 “Leases (Topic 842)” (“ASU 2016-02”). The FASB issued ASU 2016-02 to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under ASU 2016-02, a lessee will recognize in the balance sheet a liability to make lease payments (the lease liability) and a right-to-use asset representing its right to use the underlying asset for the lease term. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from current GAAP. ASU 2016-02 retains a distinction between finance leases (i.e. capital leases under current GAAP) and operating leases. The classification criteria for distinguishing between finance leases and operating leases will be substantially similar to the classification criteria for distinguishing between capital leases and operating leases under current GAAP. The amendments of this ASU are effective for reporting periods beginning after January 1, 2021, with early adoption permitted. An entity will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Management is currently assessing the impact the adoption of ASU 2016-02 will have on its Financial Statements.

Inventory

Inventory consists primarily of donations. Donated items are valued at fair market value, which, due to the quick turnover of inventory, is typically based on the subsequent 60 days of sales.

Mortgage Loans Receivable

Mortgage loans receivable consists of non-interest bearing mortgages which are secured by real estate and payable in monthly installments over the life of the mortgage, ranging between 20 and 30 years. Accounting principles generally accepted in the United States 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. CHFH follows this method of accounting for its mortgages using effective interest rates supplied by Habitat for Humanity International. The rate used for the years ending June 30, 2021 and 2020 was 7.23% and 7.38%, respectively.

Retirement Plan

CHFH maintains a 401(k) plan for the benefit of its employees. For the years ended June 30, 2021 and 2020, CHFH made contributions of \$18,188 and \$18,918, respectively.

CHATHAM HABITAT FOR HUMANITY, INC
NOTES TO FINANCIAL STATEMENTS
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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Beneficial Interest in Pooled Funds

CHFH has established a non-endowed pooled investment fund for the purpose of distributing scholarships. The fund is administered by the Triangle Community Foundation Philanthropic Services (the "Fund"). The fund consists of cash, money market, fixed income, and debt securities. The interest is reported at fair value based on available market prices and data. For the years ended June 30, 2021 and 2020, CHFH held investments in the Fund of \$42,760 and \$29,555, respectively.

NOTE 3 – MORTGAGE LOANS RECEIVABLE

Homebuyers enter into a non-interest bearing equity agreement, with CHFH, at the time the mortgage is signed. Homebuyers purchase houses at fair value and as required under GAAP, CHFH discounts the mortgage receivable. Homebuyers earn the equity over the life of their mortgages, typically 20-30 years or as the mortgages are repaid. If the homebuyers default on their mortgages, CHFH retains all or a portion of the equity in the house. If homebuyers wish to dispose of their property, CHFH retains the right of first refusal. Homebuyers' equity agreements are included in the deeds of trust on their property as restrictive covenants.

CHFH participates in the North Carolina Housing Finance Agency program. The program provides interest free loans to CHFH for each home sale. The homeowner remits payments each month as part of their monthly mortgage obligation.

Some mortgages contain a second equity lien representing the difference in equity at the time of sale. The second lien is only due upon the homeowner's sale of the home. The balances owed to CHFH at June 30, 2021 and 2020 were \$1,033,869 and \$990,379, respectively.

	<u>2021</u>	<u>2020</u>
Non-interest bearing mortgage loans receivable	\$ 4,960,614	\$ 5,187,111
Less - unamortized discount	<u>(2,656,479)</u>	<u>(2,736,492)</u>
Net present value	2,304,135	2,450,619
Less - amount due within one year	<u>(436,836)</u>	<u>(435,378)</u>
Long-term receivables	<u>\$ 1,867,299</u>	<u>\$ 2,015,241</u>

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. Loans are evaluated for impairment on an individual basis. At June 30, 2021 and 2020, an allowance for bad debt related to mortgages receivable has not been established due to the terms and conditions of the equity agreements. At June 30, 2021 and 2020, CHFH had 4 and 10, mortgages, totaling \$68,609 and \$97,735, respectively, in excess of 90 days in arrears.

CHATHAM HABITAT FOR HUMANITY, INC
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 4 – FIXED ASSETS

Fixed assets consisted of the following at June 30:

	<u>2021</u>	<u>2020</u>
Land	\$ 267,648	\$ 267,648
Buildings	1,382,747	1,382,747
Office furniture and equipment	30,639	30,639
Software	9,987	9,987
Machinery and equipment	105,309	99,329
Vehicles	<u>123,133</u>	<u>71,633</u>
Total	\$ 1,919,463	\$ 1,861,983
Less: Accumulated Depreciation	<u>(655,541)</u>	<u>(606,941)</u>
 Property and equipment, net	 <u>\$ 1,263,922</u>	 <u>\$ 1,255,042</u>

NOTE 5 – LONG-TERM DEBT

Long-term debt consisted of the following at June 30:

	<u>2021</u>	<u>2020</u>
Vehicle financing, monthly payments of \$594 including interest at 5.14% maturing 2026, collateralized by vehicle	\$ 31,546	\$ -
Habitat for Humanity International, quarterly payments of \$41,255, including interest at 3.31%, maturing 2030, collateralized by real estate	<u>1,310,252</u>	<u>1,400,000</u>
	<u>\$1,341,798</u>	<u>\$1,400,000</u>
 Future maturities of long term debt are:		
2021	\$ 128,794	
2022	133,218	
2023	137,795	
2024	142,353	
2025	148,027	
Thereafter	<u>651,611</u>	
 Total	 <u>\$1,341,798</u>	

CHATHAM HABITAT FOR HUMANITY, INC
NOTES TO FINANCIAL STATEMENTS
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NOTE 6 – Fair Value of Financial Instruments

In accordance with guidance on fair value measurements for financial instruments, fair value is defined as the price that CHFH would receive to sell an investment or pay to transfer a liability in a timely transaction with an independent buyer in the principal market, or in the absence of a principal market, the most advantageous market for the investment or liability. The fair value guidance establishes a three-tier hierarchy to distinguish between 1) inputs that reflect the assumptions that market participants would use in pricing an asset or liability developed based on market data obtained from sources independent of the reporting entity (observable inputs), and 2) inputs that reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability developed based on the best information available in the circumstances (unobservable inputs) and to establish classification of fair value measurements for disclosure purposes. Various inputs are used in determining the fair value of CHFH's financial instruments.

Fair value is defined 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 three levels of inputs that may be used to measure fair value are:

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 the 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 beneficial interest in pooled funds, described above in Note 2, consisted entirely of a Level 3 investment. This investment is comprised of a Funds-of-Funds and its pricing is determined by obtaining the fair market value of the portfolios of the various fund managers, converting these amounts to a unit price, and then assigning the unit pricing to all investors.

For the years ended June 30, 2021 and 2020, there were not any transfers in or out of the Level 3 investments.

CHATHAM HABITAT FOR HUMANITY, INC
NOTES TO FINANCIAL STATEMENTS
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NOTE 7 – RESTRICTIONS ON ASSETS

Net assets with donor restrictions consisted of the following unexpended amounts of cash received from donors and grantors:

	<u>2021</u>	<u>2020</u>
Construction	\$ 175,970	\$ 108,928
ReStore	12,777	15,500
Covid mortgage relief	17,600	17,600
Electric vehicle charging	2,750	1,000
Scholarships	52,678	31,127
HOA escrows	<u>45,040</u>	<u>45,040</u>
Total temporarily restricted	<u>\$ 306,815</u>	<u>\$ 219,195</u>

Net assets with donor restrictions, were released from restrictions by CHFH incurring expenses satisfying the restricted purpose of the donation or grant. For the years ended June 30, 2021 and 2020 net assets released from restrictions were \$20,468 and \$56,907, respectively.

NOTE 8 – CONTRIBUTION TO HABITAT FOR HUMANITY INTERATIONAL, INC.

For the years ended June 30, 2021 and 2020, CHFH contributed \$8,000, to HFHI.

NOTE 9 - CONTINGENCY

During April 2020, the Center applied for a Payroll Protection Program (PPP) loan under the CARES Act, in response to the COVID-19 crisis. The Company received a promissory note, from their lender, in the amount of \$163,900. All terms and conditions of the loan, as stated by the United States Department of the Treasury, we met and the Center received full forgiveness of this loan.

During February 2021, the Center received a second Payroll Protection Program (PPP) loan under the CARES Act, in response to the COVID-19 crisis. The Company received a promissory note, from their lender, in the amount of \$137,700. All terms and conditions of the loan, as stated by the United States Department of the Treasury, have been met and the Center believes it will receive full forgiveness of this loan.

CHATHAM HABITAT FOR HUMANITY, INC
NOTES TO FINANCIAL STATEMENTS
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NOTE 10 - LEASE COMMITMENTS

CHFH has entered into an operating lease for its copier. The terms of the lease call for monthly payments of \$439, expiring August 2022.

NOTE 11 – LIQUIDITY

CHFH's financial assets available within one year of the balance sheet date, for general expenditure are as follows:

Cash and cash equivalents	\$ 600,381
Investments	42,760
Sales tax refund	2,416
Current portion of long-term receivable	436,836
Resale inventory	115,743
Accounts payable and accrued expenses	(56,388)
Current portion of long-term debt	(128,794)
PPP loan payable	<u>(137,700)</u>
	<u>\$ 875,254</u>

None of the financial assets are subject to donor or other contractual restrictions, that make them unavailable for general expenditures within one year of the consolidated statements of financial position. CHFH has a goal to maintain financial assets to meet its normal operating expenses and it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

NOTE 12 – SUBSEQUENT EVENTS

Management evaluated subsequent events through October 31, 2021, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2021, but prior to October 31, 2021 that provided additional evidence about conditions that existed at June 30, 2021, have been recognized in the financial statements for the year ended June 30, 2021.