

# **Chatham Habitat for Humanity, Inc.**

## **FINANCIAL STATEMENTS**

June 30, 2020 and 2019

**PT CPAs, PLLC**  
CERTIFIED PUBLIC ACCOUNTANTS  
RALEIGH, NORTH CAROLINA

## TABLE OF CONTENTS

	PAGE
<b>INDEPENDENT AUDITOR'S REPORT .....</b>	<b>2-3</b>
<b>FINANCIAL STATEMENTS .....</b>	<b>4</b>
Statements of Financial Position .....	5
Statements of Activities and Changes in Net Assets.....	6-7
Statements of Functional Expenses .....	8-9
Statements of Cash Flows.....	10
Notes to Financial Statements.....	11



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, 2020 and 2019 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.

PT CPAs PLLC

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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, 2020 and 2019, 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 15, 2020

## **FINANCIAL STATEMENTS**

**CHATHAM HABITAT FOR HUMANITY, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b>ASSETS:</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$471,962	\$158,200
Restricted cash	56,414	150,500
Investments	29,555	29,647
Accounts receivable	-	20,000
Current portion of long-term receivable	435,378	426,435
State sales tax refund	2,416	8,194
Resale inventory	84,606	107,303
Land and construction in progress	<u>918,824</u>	<u>1,087,290</u>
Total current assets	<u>1,999,155</u>	<u>1,987,569</u>
 <b>Non-current assets:</b>		
Fixed assets, net of depreciation	1,255,042	1,329,633
Other assets	78,699	41,235
Long-term receivables, net of current portion	<u>2,015,241</u>	<u>2,183,074</u>
Total non-current assets	<u>3,348,982</u>	<u>3,553,942</u>
<b>Total assets</b>	<u><b>\$5,348,137</b></u>	<u><b>\$5,541,511</b></u>
 <b>LIABILITIES AND NET ASSETS:</b>		
<b>Current liabilities:</b>		
Accounts payable	\$23,625	\$93,340
Accrued payroll and liabilities	11,878	9,513
HOA dues and escrow funds	49,265	46,054
PPP loan payable	163,900	-
Current portion of long-term debt	<u>120,160</u>	<u>153,745</u>
Total current liabilities	<u>368,828</u>	<u>302,652</u>
 <b>Long-term liabilities:</b>		
Long-term debt, net of current portion	<u>1,279,840</u>	<u>1,280,942</u>
Total non-current liabilities	<u>1,279,840</u>	<u>1,280,942</u>
<b>Total liabilities</b>	<u>1,648,668</u>	<u>1,583,594</u>
 <b>NET ASSETS</b>		
Without donor restrictions	3,480,274	3,782,239
With donor restrictions	<u>219,195</u>	<u>175,678</u>
Total net assets	<u>3,699,469</u>	<u>3,957,917</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>\$5,348,137</b></u>	<u><b>\$5,541,511</b></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, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b>Revenues, Gains and Other Support</b>		
<b>Public support:</b>		
Contributions	\$183,080	\$201,166
Grants and allocations	109,387	47,119
In-kind unrestricted	<u>51,781</u>	<u>65,732</u>
Total public support	<u>344,248</u>	<u>314,017</u>
<b>Revenue:</b>		
Home sales	559,500	613,480
Mortgage discount amortization	200,779	285,434
ReStore revenue	511,527	622,439
Fundraising events	19,435	78,470
Interest income	4,038	2,277
Tenant rent	3,000	12,020
Asset dispositions	95,026	-
Other income	<u>53,869</u>	<u>352,020</u>
Total revenue	<u>1,447,174</u>	<u>1,966,140</u>
Total revenue, gains and other support before net assets released from restrictions	<u>1,791,422</u>	<u>2,280,157</u>
<b>Net assets released from donor restrictions</b>		
Satisfaction of donor's restrictions	<u>56,907</u>	<u>91,620</u>
Total revenue, gains and other support without donor restrictions	<u>1,848,329</u>	<u>2,371,777</u>
<b>Expenses and losses</b>		
Construction	1,142,877	1,097,473
ReStore	430,858	449,586
Family financing services	137,449	127,448
Fundraising	193,219	170,261
General and administrative	<u>225,362</u>	<u>158,128</u>
Total expenses	<u>2,129,765</u>	<u>2,002,896</u>
Change in net assets without donor restrictions	<u>\$(281,436)</u>	<u>\$368,881</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, 2020 and 2019**

	<u>2019</u>	<u>2018</u>
<b>Net assets without donor restrictions:</b>		
Total revenues and gains	1,791,422	2,280,157
Net assets released from restrictions	56,907	91,620
Total expenses and losses	<u>2,129,765</u>	<u>2,002,896</u>
Change in net assets without donor restrictions	(281,436)	368,881
<b>Net assets with donor restrictions:</b>		
Donated revenue	7,885	31,324
Grants and allocations	72,010	35,000
Investment income, net of investment fees	-	443
Net assets released from restrictions	<u>(56,907)</u>	<u>(91,620)</u>
Change in net assets with donor restrictions	<u>22,988</u>	<u>(24,853)</u>
<b>CHANGE IN NET ASSETS</b>	(258,448)	344,028
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>3,957,917</u>	<u>3,613,889</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$3,699,469</u>	<u>\$3,957,917</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, 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
<b>Total expenses</b>	<b>\$ 1,142,877</b>	<b>\$ 430,858</b>	<b>\$ 137,449</b>	<b>\$ 1,711,184</b>	<b>\$ 193,219</b>	<b>\$ 225,362</b>	<b>\$ 2,129,765</b>

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, 2019

	<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	\$ 155,609	\$ 254,531	\$ 66,721	\$ 476,861	\$ 101,479	\$ 87,900	\$ 666,240
Payroll taxes	12,087	19,902	5,185	37,174	7,921	8,242	53,337
Employee benefits	24,060	30,410	5,005	59,475	11,913	11,673	83,061
Costs of construction	457,145	-	-	457,145	-	-	457,145
Cost of goods sold - ReStore	-	2,192	-	2,192	-	-	2,192
Printing and production	35	-	148	183	3,910	307	4,400
Information technology	1,423	5,643	2,690	9,756	8,826	976	19,558
Advertising	-	-	309	309	6,448	-	6,757
Bank charges	-	250	-	250	-	572	822
Cash over and short	-	(1,275)	-	(1,275)	-	-	(1,275)
Board expenses	-	-	-	-	-	1,000	1,000
Telephone	2,131	6,789	1,390	10,310	654	915	11,879
Office expenses	469	44	1,088	1,601	1,084	585	3,270
Community development	-	-	7,472	7,472	-	-	7,472
Conferences and seminars	-	164	443	607	1,150	1,627	3,384
Merchant fees	-	13,876	-	13,876	1,628	50	15,554
Employee training	972	-	84	1,056	-	-	1,056
Insurance	27,867	18,887	2,617	49,371	1,869	3,575	54,815
Interest expense	32,773	34,874	2,411	70,058	2,344	9,223	81,625
Janitorial	780	-	563	1,343	547	990	2,880
Equipment rent	1,260	-	1,260	2,520	1,259	1,259	5,038
Professional fees	3,575	-	1,842	5,417	2,285	16,692	24,394
Meals and entertainment	728	1,800	364	2,892	2,224	2,060	7,176
Licenses and fees	525	-	(1,764)	(1,239)	250	-	(989)
Travel	1,923	-	2,532	4,455	1,351	1,606	7,412
Scholarships	-	-	-	-	-	1,000	1,000
Staff and recruiting expenses	1,698	934	146	2,778	3,216	451	6,445
Dues and subscriptions	-	210	-	210	1,139	5,980	7,329
Occupancy	1,717	21,416	1,300	24,433	4,887	2,360	31,680
Publications	-	4,215	-	4,215	-	(10,882)	(6,667)
Supplies	2,103	6,774	2,271	11,148	2,378	1,937	15,463
Tools and small equipment	4,158	-	-	4,158	-	-	4,158
Repairs and maintenance:							
Equipment	1,563	4,257	1,484	7,304	1,130	1,086	9,520
Buildings and grounds	678	4,123	379	5,180	369	784	6,333
Vehicle expenses	1,753	11,273	-	13,026	-	-	13,026
Contributions	6,000	-	-	6,000	-	2,000	8,000
Mortgage servicing	-	-	18,205	18,205	-	-	18,205
Discount on mortgages	350,786	-	-	350,786	-	-	350,786
Miscellaneous expense	48	-	57	105	-	1,274	1,379
Depreciation	3,607	8,297	3,246	15,150	-	2,886	18,036
<b>Total expenses</b>	<b>\$ 1,097,473</b>	<b>\$ 449,586</b>	<b>\$ 127,448</b>	<b>\$ 1,674,507</b>	<b>\$ 170,261</b>	<b>\$ 158,128</b>	<b>\$ 2,002,896</b>

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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$(258,448)	\$344,028
Adjustments to reconcile change in net assets provided by operating activities:		
Depreciation	36,857	18,036
Gain on disposal of assets	(95,026)	-
Disposal of interest in joint venture	-	(367,622)
Effects of changes in operating assets and liabilities:		
Accounts receivable	20,000	(13,927)
State sales tax receivable	5,778	(1,048)
Resale inventory	22,697	2,193
Land and construction in progress	26,498	(77,737)
Other assets	(37,464)	31,675
Mortgages receivable	158,890	135,203
Accounts payable	(69,715)	54,298
Accrued payroll and liabilities	2,365	(11,475)
HOA dues and escrow funds	<u>3,211</u>	<u>2,851</u>
Net cash provided (used) by operating activities	(184,357)	116,475
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposition of assets	276,250	-
Purchase of fixed assets	<u>(1,430)</u>	<u>(16,959)</u>
Net cash provided (used) by investing activities	<u>274,820</u>	<u>(16,959)</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
PPP loan proceeds	163,900	-
Payments on long-term debt	<u>(34,687)</u>	<u>(146,958)</u>
Net cash provided (used) by investing activities	<u>129,213</u>	<u>(146,958)</u>
 <b>Increase in cash, cash equivalents and restricted cash</b>	219,676	(47,442)
<b>Cash, cash equivalents and restricted cash - beginning</b>	<u>308,700</u>	<u>356,142</u>
<b>Cash, cash equivalents and restricted cash - ending</b>	<u>\$528,376</u>	<u>\$308,700</u>
 <b>Supplemental disclosure of cash flow information:</b>		
Interest paid	<u>\$50,119</u>	<u>\$81,625</u>
 Cash and cash equivalents	\$471,962	\$158,200
Restricted cash	56,414	150,500
Total cash, cash equivalents and restricted cash	<u>\$528,376</u>	<u>\$308,700</u>

The accompanying notes are an integral part of these financial statements

**CHATHAM HABITAT FOR HUMANITY, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020 and 2019**

**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 complete 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, or less than, CHFH's cost of construction.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

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).

**Basis of Financial Reporting**

The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 958, dated August 2016, and the provision of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide").. (ASC) 958-205 was effective January 1, 2018

Under the provisions of the Guide, net assets and revenues, and gains and losses, are classified based on the existence or absence of donor-imposed restrictions. Accordingly, 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.

**CHATHAM HABITAT FOR HUMANITY, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020 and 2019**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**Support and Revenue**

**Grants and other contributions.** Unconditional contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a restriction expires, that is, when a stipulated time restriction ends or a 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. 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.

**Contributions of non-cash assets or services.** Contributions of donated non-cash assets are recorded as support at their fair values in the period received. Contributions of donated services are recorded at their fair market values in the period received. Donated services are those that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. A substantial number of unpaid volunteers have made significant contributions of their time to develop the Organization's various programs. The value of this contributed time is not included in these statements since it is not susceptible to objective measurement or valuation.

**Concentrations of Credit Risk**

CHFHM 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 June 30, 2020 CHFHM did not have any cash in excess of FDIC limits.

**CHATHAM HABITAT FOR HUMANITY, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020 and 2019**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 2018, 2017 and 2016.

**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.

**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.

**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, 2020 and 2019 was \$36,857 and \$18,036, 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, 2020 and 2019 were \$11,586 and \$6,757, respectively.

**Fair Value of Financing Instruments**

The carrying amount of cash, accounts receivable, 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, 2020 and 2019**

**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 \$0 in forgivable mortgages for the years ended June 30, 2020 and 2019. For the years ended June 30, 2020 and 2010, CHFH received \$0 and \$16,000, respectively in 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, 2020 and 2019**

**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 December 15, 2019, 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, 2020 and 2019 was 7.38% and 7.47%, respectively.

**Retirement Plan**

CHFH maintains a 401(k) plan for the benefit of its employees. For the years ended June 30, 2020 and 2019, CHFH made contributions of \$18,918 and \$17,298, respectively.



**CHATHAM HABITAT FOR HUMANITY, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020 and 2019**

**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, 2020 and 2019, CHFH held investments in the Fund of \$29,555 and \$29,647, 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, 2020 and 2019 were \$990,379 and \$961,263, respectively.

	<u>2020</u>	<u>2019</u>
Non-interest bearing mortgage loans receivable	\$5,187,111	\$5,313,600
Less - unamortized discount	<u>(2,736,492)</u>	<u>(2,704,091)</u>
Net present value	2,450,619	2,609,509
Less - amount due within one year	<u>(435,378)</u>	<u>(426,435)</u>
Long-term receivables	<u>\$2,015,241</u>	<u>\$2,183,074</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, 2020 and 2019, 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, 2019 and 2018, CHFH had 10 and 9, mortgagors, totaling \$97,735 and \$187,488, respectively, in excess of 90 days in arrears.

**CHATHAM HABITAT FOR HUMANITY, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020 and 2019**

**NOTE 4 – FIXED ASSETS**

Fixed assets consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Land	\$267,648	\$267,648
Buildings	1,382,747	1,437,420
Office furniture and equipment	30,639	30,639
Software	9,987	9,987
Machinery and equipment	99,329	97,899
Vehicles	<u>71,633</u>	<u>71,633</u>
Total	\$1,861,983	\$1,915,226
Less: Accumulated Depreciation	<u>(606,941)</u>	<u>(585,593)</u>
 Property and equipment, net	 <u>\$1,255,042</u>	 <u>\$1,329,633</u>

**NOTE 5 – LONG-TERM DEBT**

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

	<u>2020</u>	<u>2019</u>
Bank financing, monthly payments of \$8,809 including interest at 4.99% maturing 2022, collateralized by real estate	\$ -	\$875,107
Habitat for Humanity International, quarterly payments of \$41,255, including interest at 3.31%, maturing 2030, collateralized by real estate	<u>1,400,000</u>	<u>559,580</u>
	<u>\$1,400,000</u>	<u>\$1,434,687</u>

Future maturities of long term debt are:

2020	\$120,160
2021	124,188
2022	128,349
2023	132,651
2024	137,096
Thereafter	<u>757,556</u>
 Total	 <u>\$1,400,000</u>

**CHATHAM HABITAT FOR HUMANITY, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020 and 2019**

**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, 2020 and 2019, there were not any transfers in or out of the Level 3 investments.

**CHATHAM HABITAT FOR HUMANITY, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020 and 2019**

**NOTE 7 – RESTRICTIONS ON ASSETS**

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

	<u>2020</u>	<u>2019</u>
Construction	\$108,928	\$71,990
ReStore	15,500	17,325
Covid mortgage relief	17,600	-
Electric vehicle charging	1,000	-
Scholarships	31,127	27,227
HOA escrows	45,040	30,084
Guarantee fees	-	<u>29,052</u>
Total temporarily restricted	<u>\$219,195</u>	<u>\$175,678</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, 2020 and 2019 net assets released from restrictions were \$56,907 and \$91,620, respectively.

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

For the years ended June 30, 2020 and 2019, CHFH contributed \$10,250 and \$8,000, respectively, to HFHI.

**NOTE 9 - CONTINGENCY**

On March 27, 2020, in response to the COVID-19 pandemic, the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) was enacted. The CARES Act is an approximately \$2 trillion emergency economic stimulus package, which among other things contains numerous income tax provisions applicable to U.S. income tax. Some of these tax provisions are expected to be effective retroactively for years ending before the date of enactment. CHFH is currently evaluating the implications of the Act and its impact on the financial statements. These implications have not yet been determined, however, the implications are not expected to be material.

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

**CHATHAM HABITAT FOR HUMANITY, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020 and 2019**

**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	\$471,962
Investments	29,555
Sales tax refund	2,416
Current portion of long-term receivable	435,378
Resale inventory	84,606
Accounts payable and accrued expenses	(35,503)
PPP loan payable	<u>(163,900)</u>
	<u>\$824,514</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 15, 2020, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2020, but prior to October 15, 2020 that provided additional evidence about conditions that existed at June 30, 2020, have been recognized in the financial statements for the year ended June 30, 2020.