

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

## **FINANCIAL STATEMENTS**

June 30, 2022 and 2021

**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

### Report on the Audit of the Financial Statements

#### Opinion

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

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

#### Basis for Opinion

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

#### Responsibilities of Management for the Financial Statements

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

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

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

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

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

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

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

Raleigh, North Carolina  
November 30, 2022

## **FINANCIAL STATEMENTS**

**CHATHAM HABITAT FOR HUMANITY, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
<b>ASSETS:</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,097,890	\$ 600,381
Restricted cash	50,872	50,752
Investments	42,619	42,760
Current portion of long-term receivable	420,018	436,836
State sales tax refund	10,125	10,935
Resale inventory	117,121	115,743
Land and construction in progress	<u>848,390</u>	<u>1,027,849</u>
Total current assets	<u>2,587,035</u>	<u>2,285,256</u>
<b>Non-current assets:</b>		
Fixed assets, net of depreciation	1,218,569	1,263,922
Other assets	55,538	54,675
Long-term receivables, net of current portion	<u>1,818,282</u>	<u>1,867,299</u>
Total non-current assets	<u>3,092,389</u>	<u>3,185,896</u>
<b>Total assets</b>	<u>\$ 5,679,424</u>	<u>\$ 5,471,152</u>
<b>LIABILITIES AND NET ASSETS:</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 32,237	\$ 52,113
Accrued payroll and liabilities	32,739	4,275
HOA dues and escrow funds	61,586	57,164
PPP loan payable	-	137,700
Current portion of long-term debt	<u>127,926</u>	<u>128,794</u>
Total current liabilities	<u>254,488</u>	<u>380,046</u>
<b>Long-term liabilities:</b>		
Long-term debt, net of current portion	<u>1,081,583</u>	<u>1,213,004</u>
Total non-current liabilities	<u>1,081,583</u>	<u>1,213,004</u>
<b>Total liabilities</b>	<u>1,336,071</u>	<u>1,593,050</u>
<b>NET ASSETS</b>		
Without donor restrictions	3,935,534	3,571,287
With donor restrictions	<u>407,819</u>	<u>306,815</u>
Total net assets	<u>4,343,353</u>	<u>3,878,102</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 5,679,424</u>	<u>\$ 5,471,152</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, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
<b>Revenues, Gains and Other Support</b>		
<b>Public support:</b>		
Contributions	\$ 237,999	\$ 205,908
Grants and allocations	288,536	194,344
In-kind unrestricted	<u>2,116</u>	<u>15,101</u>
Total public support	<u>528,651</u>	<u>415,353</u>
<b>Revenue:</b>		
Home sales	896,500	484,000
Mortgage discount amortization	32,941	80,013
ReStore revenue	715,910	691,849
Fundraising events	-	1,245
Interest income	23	865
Asset dispositions	-	900
Other income	<u>47,589</u>	<u>47,107</u>
Total revenue	<u>1,692,963</u>	<u>1,305,979</u>
Total revenue, gains and other support before net assets released from restrictions	<u>2,221,614</u>	<u>1,721,332</u>
<b>Net assets released from donor restrictions</b>		
Satisfaction of donor's restrictions	<u>26,158</u>	<u>20,468</u>
Total revenue, gains and other support without donor restrictions	<u>2,247,772</u>	<u>1,741,800</u>
<b>Expenses and losses</b>		
Construction	988,490	791,607
ReStore	478,749	460,529
Family financing services	111,680	113,461
Fundraising	158,108	151,967
General and administrative	<u>284,198</u>	<u>297,123</u>
Total expenses	<u>2,021,225</u>	<u>1,814,687</u>
Change in net assets without donor restrictions	<u>\$ 226,547</u>	<u>\$ (72,887)</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, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
<b>Net assets without donor restrictions:</b>		
Total revenues and gains	2,221,614	1,721,332
Net assets released from restrictions	26,158	20,468
Total expenses and losses	<u>2,021,225</u>	<u>1,814,687</u>
Change in net assets without donor restrictions	226,547	(72,887)
<b>Net assets with donor restrictions:</b>		
Donated revenue	-	956
Grants and allocations	125,600	106,480
Investment income, net of investment fees	1,562	652
Net assets released from restrictions	<u>(26,158)</u>	<u>(20,468)</u>
Change in net assets with donor restrictions	<u>101,004</u>	<u>87,620</u>
<b>Other Income</b>		
CARES Act PPP loan forgiveness	<u>137,700</u>	<u>163,900</u>
Total other income	<u>137,700</u>	<u>163,900</u>
 <b>CHANGE IN NET ASSETS</b>	 465,251	 178,633
 <b>NET ASSETS - BEGINNING OF YEAR</b>	 <u>3,878,102</u>	 <u>3,699,469</u>
 <b>NET ASSETS - END OF YEAR</b>	 <u>\$ 4,343,353</u>	 <u>\$ 3,878,102</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, 2022

	Home Sales	ReStore	Family Support	Total Program	Fundraising	Management General	Total
Payroll	\$ 179,399	\$ 242,158	\$ 54,522	\$ 476,079	\$ 98,191	\$ 129,018	\$ 703,288
Payroll taxes	11,613	19,071	4,341	35,025	7,663	10,125	52,813
Employee benefits	27,259	38,178	9,535	74,972	13,474	18,697	107,143
Costs of construction	686,519	-	3,777	690,296	-	-	690,296
Cost of goods sold - ReStore	-	22,297	-	22,297	-	-	22,297
Printing and production	-	34	198	232	3,872	155	4,259
Information technology	1,222	3,742	30	4,994	15,572	20,671	41,237
Advertising	75	-	-	75	7,240	-	7,315
Bank charges	-	293	-	293	-	144	437
Telephone	2,252	4,643	325	7,220	100	4,010	11,330
Office expenses	-	61	503	564	823	4,058	5,445
Volunteers and community	557	1,691	2,241	4,489	4,847	367	9,703
Conferences and seminars	-	-	1,663	1,663	25	2,504	4,192
Merchant fees	-	17,551	-	17,551	1,515	-	19,066
Employee training	2,500	-	755	3,255	290	475	4,020
Insurance	30,754	17,676	2,349	50,779	1,614	5,341	57,734
Interest expense	11,347	20,112	-	31,459	-	12,282	43,741
Janitorial	-	-	-	-	-	3,360	3,360
Rental expenses	-	-	3,300	3,300	-	6,320	9,620
Outside services	12,163	-	650	12,813	-	13,000	25,813
Meals and entertainment	-	-	66	66	1,534	2,919	4,519
Licenses, taxes and fees	690	818	-	1,508	253	802	2,563
Travel and vehicle expenses	4,700	13,444	1,092	19,236	62	3,634	22,932
Staff appreciation	7	558	88	653	389	1,796	2,838
Dues and subscriptions	159	-	-	159	331	7,551	8,041
Occupancy	142	17,293	-	17,435	-	5,531	22,966
Supplies	5,057	2,939	214	8,210	313	1,253	9,776
Tools and small equipment	2,470	-	-	2,470	-	-	2,470
Repairs and maintenance:							
Equipment	335	(479)	40	(104)	-	5,451	5,347
Buildings and grounds	43	37,553	-	37,596	-	1,873	39,469
Vehicles	156	-	-	156	-	1,744	1,900
Contributions	-	-	-	-	-	5,000	5,000
Mortgage servicing	-	-	17,579	17,579	-	-	17,579
Miscellaneous expense	-	(1,747)	248	(1,499)	-	8,861	7,362
Depreciation	9,071	20,863	8,164	38,098	-	7,256	45,354
<b>Total expenses</b>	<b>\$ 988,490</b>	<b>\$ 478,749</b>	<b>\$ 111,680</b>	<b>\$ 1,578,919</b>	<b>\$ 158,108</b>	<b>\$ 284,198</b>	<b>\$ 2,021,225</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, 2021

	Home Sales	ReStore	Family Support	Total Program	Fundraising	Management General	Total
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
Outside services	-	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
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
Travel and vehicle expenses	2,951	10,147	559	13,657	315	2,818	16,790
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
<b>Total expenses</b>	<b>\$ 791,607</b>	<b>\$ 460,529</b>	<b>\$ 113,461</b>	<b>\$ 1,365,597</b>	<b>\$ 151,967</b>	<b>\$ 297,123</b>	<b>\$ 1,814,687</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 458,899	\$ 178,633
Adjustments to reconcile change in net assets		
from operating activities:		
Depreciation	45,354	48,600
Gain on disposal of assets	-	(900)
Unrealized (gain) loss on investment	5,703	(3,362)
Effects of changes in operating assets and liabilities:		
State sales tax receivable	823	(8,519)
Resale inventory	(1,378)	(31,137)
Land and construction in progress	179,459	(109,025)
Other assets	40,637	24,024
Mortgages receivable	(49,382)	146,484
Accounts payable	(20,474)	28,488
Accrued payroll and liabilities	28,464	(7,603)
HOA dues and escrow funds	4,422	7,899
Net cash provided by operating activities	<u>692,527</u>	<u>273,582</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investment	(5,562)	(9,843)
Purchase of fixed assets	-	(56,580)
Net cash used by investing activities	<u>(5,562)</u>	<u>(66,423)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
PPP loan forgiveness, net of proceeds	(137,700)	(26,200)
Payments on long-term debt	(132,289)	(58,202)
Net cash used by investing activities	<u>(269,989)</u>	<u>(84,402)</u>
<b>Increase in cash, cash equivalents and restricted cash</b>	416,976	122,757
<b>Cash, cash equivalents and restricted cash - beginning</b>	<u>651,133</u>	<u>528,376</u>
<b>Cash, cash equivalents and restricted cash - ending</b>	<u>\$ 1,068,109</u>	<u>\$ 651,133</u>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	<u>\$ 43,741</u>	<u>\$ 43,666</u>
Cash and cash equivalents	\$ 1,017,237	\$ 600,381
Restricted cash	50,872	50,752
Total cash, cash equivalents and restricted cash	<u>\$ 1,068,109</u>	<u>\$ 651,133</u>

The accompanying notes are an integral part of these financial statements

**CHATHAM HABITAT FOR HUMANITY, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2022 and 2021

**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 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, 2022 and 2021**

**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 2020, 2019 and 2018.

**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, 2022 and 2021**

**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, 2022 and 2021 was \$45,354 and \$46,800.

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, 2022 and 2021 were 7,315 and \$7,808.

**Fair Value of Financial 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.

**Investments**

Net appreciation (depreciation) in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) on those investments, is presented in the statement of activities in accordance with donor restrictions as investment return. Investment return is presented net of investment fees. The average cost method is primarily used to determine the basis for computing realized gains or losses.

**CHATHAM HABITAT FOR HUMANITY, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2022 and 2021**

**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 an equity lien. Per written contracts, at the end of the first mortgage term the full amount will be indefinitely deferred. Should the homeowner, at any point, dispose of the home through sale or title transfer, the entire forgivable mortgage is due. CHFH approved a total of \$135,665 and \$17,700 in equity liens for the years ended June 30, 2022 and 2021. For the years ended June 30, 2022 and 2021, 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, 2022 and 2021**

**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, 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, 2022 and 2021 was 7.49% and 7.23%.

**Retirement Plan**

CHFH maintains a 401(k) plan for the benefit of its employees. For the years ended June 30, 2022 and 2021, CHFH made contributions of \$18,191 and \$18,188.



**CHATHAM HABITAT FOR HUMANITY, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2022 and 2021**

**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, 2022 and 2021, CHFH held investments in the Fund of \$42,619 and \$42,760.

**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, 2022 and 2021 were \$1,169,534 and \$1,033,869.

	<u>2022</u>	<u>2021</u>
Non-interest bearing mortgage loans receivable	\$ 4,861,838	\$ 4,960,614
Less - unamortized discount	<u>(2,623,538)</u>	<u>(2,656,479)</u>
Net present value	2,238,300	2,304,135
Less - amount due within one year	<u>(420,018)</u>	<u>(436,836)</u>
Long-term receivables	<u>\$ 1,818,282</u>	<u>\$ 1,867,299</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, 2022 and 2021, 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, 2022 and 2021, CHFH had 1 and 4, mortgagors, totaling \$5,308 and \$68,609, respectively, in excess of 90 days in arrears.

**CHATHAM HABITAT FOR HUMANITY, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2022 and 2021**

**NOTE 4 – FIXED ASSETS**

Fixed assets consisted of the following at June 30:

	<u>2022</u>	<u>2021</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	105,309
Vehicles	<u>123,133</u>	<u>123,133</u>
Total	\$ 1,919,463	\$ 1,919,463
Less: Accumulated Depreciation	<u>(700,894)</u>	<u>(655,541)</u>
 Property and equipment, net	 <u>\$ 1,218,569</u>	 <u>\$ 1,263,922</u>

**NOTE 5 – LONG-TERM DEBT**

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

	<u>2022</u>	<u>2021</u>
Vehicle financing, monthly payments of \$594 including interest at 5.14% maturing 2026, collateralized by vehicle	\$ 26,215	\$ 31,546
Habitat for Humanity International, quarterly payments of \$41,255, including interest at 3.31%, maturing 2030, collateralized by real estate	<u>1,183,294</u>	<u>1,310,252</u>
	<u>\$1,209,509</u>	<u>\$1,341,798</u>

Future maturities of long term debt are:

2021	\$ 127,296
2022	131,562
2023	135,971
2024	140,528
2025	145,237
Thereafter	<u>528,915</u>
Total	<u>\$1,209,509</u>

**CHATHAM HABITAT FOR HUMANITY, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2022 and 2021**

**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, 2022 and 2021, there were not any transfers in or out of the Level 3 investments.

**CHATHAM HABITAT FOR HUMANITY, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2022 and 2021

**NOTE 7 – RESTRICTIONS ON ASSETS**

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

	<u>2022</u>	<u>2021</u>
Construction	\$ 336,264	\$ 175,970
ReStore	1,953	12,777
Covid mortgage relief	4,725	17,600
Electric vehicle charging	-	2,750
Scholarships	49,093	52,678
HOA escrows	<u>15,784</u>	<u>45,040</u>
Total temporarily restricted	<u>\$ 407,819</u>	<u>\$ 306,815</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, 2022 and 2021 net assets released from restrictions were \$26,158 and \$20,468.

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

For the years ended June 30, 2022 and 2021, CHFH contributed \$5,000 and \$8,000, to HFHI.

**NOTE 9 - CARES ACT PAYROLL PROTECTION PROGRAM LOAN**

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 in 2021.

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 received full forgiveness of this loan in 2022.

**CHATHAM HABITAT FOR HUMANITY, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2022 and 2021**

**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	\$1,097,890
Investments	42,619
Sales tax refund	10,125
Current portion of long-term receivable	420,018
Resale inventory	117,121
Accounts payable and accrued expenses	(64,976)
Current portion of long-term debt	<u>(127,926)</u>
	<u>\$1,494,871</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 November 30, 2022, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2022, but prior to November 30, 2022 that provided additional evidence about conditions that existed at June 30, 2022, have been recognized in the financial statements for the year ended June 30, 2022.

In August 2022 CHFH entered into a new operating lease for a replacement copier. Terms of the lease require 63 monthly payments of \$497.