

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

Financial Statements

June 30, 2019

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Thomas, Judy & Tucker, P.A.  
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Habitat for Humanity of Durham, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Durham, Inc. as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Thomas, Judy + Tucker, P.A.*

October 28, 2019  
Raleigh, North Carolina

**HABITAT FOR HUMANITY OF DURHAM, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
June 30, 2019

<u>ASSETS</u>	Without Donor Restriction	With Donor Restriction	Total
<b>Current Assets:</b>			
Cash and Cash Equivalents	\$ 1,213,621	\$ 1,661,531	\$ 2,875,152
Grants and Other Receivables	334,713		334,713
Promises to Give, Net		453,589	453,589
Non-Interest Bearing Mortgage Loans Receivable (Net of Unamortized Discount of \$518,410)	417,516		417,516
Land and Construction in Progress	1,540,123		1,540,123
Prepaid Expenses and Deposits	15,881		15,881
<b>Total Current Assets</b>	<b>3,521,854</b>	<b>2,115,120</b>	<b>5,636,974</b>
Property and Equipment, Net	2,317,423		2,317,423
<b>Other Assets:</b>			
Promises to Give, Net		523,023	523,023
Prepaid Joint Venture Fees	92,537		92,537
Non-Interest Bearing Mortgage Loans Receivable (Net of Unamortized Discount of \$9,599,673)	7,007,760		7,007,760
Land Held for Development	1,592,008		1,592,008
Investment in Joint Ventures	1,189,936		1,189,936
<b>Total Other Assets</b>	<b>9,882,241</b>	<b>523,023</b>	<b>10,405,264</b>
<b>Total Assets</b>	<b>\$ 15,721,518</b>	<b>\$ 2,638,143</b>	<b>\$ 18,359,661</b>
<b><u>LIABILITIES AND NET ASSETS</u></b>			
<b>Current Liabilities:</b>			
Accounts Payable and Accrued Expenses	\$ 435,300	\$	\$ 435,300
Deferred Revenue	16,474		16,474
Current Maturities of Long-Term Debt	284,888		284,888
<b>Total Current Liabilities</b>	<b>736,662</b>		<b>736,662</b>
Long-Term Debt	5,163,651		5,163,651
Guarantee Liability	249,941		249,941
<b>Total Liabilities</b>	<b>6,150,254</b>		<b>6,150,254</b>
<b>Net Assets:</b>			
Net Assets without Donor Restriction:			
Undesignated	9,571,264		9,571,264
Net Assets with Donor Restriction:			
Purpose Restrictions		2,638,143	2,638,143
<b>Total Net Assets</b>	<b>9,571,264</b>	<b>2,638,143</b>	<b>12,209,407</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 15,721,518</b>	<b>\$ 2,638,143</b>	<b>\$ 18,359,661</b>

See Accompanying Notes

**HABITAT FOR HUMANITY OF DURHAM, INC.**  
**STATEMENT OF ACTIVITIES**  
Year Ended June 30, 2019

	Without Donor Unrestricted	With Donor Unrestricted	Total
Support and Revenue:			
Transfers to Homeowners	\$ 2,855,000	\$	\$ 2,855,000
Contributions	441,584	2,773,342	3,214,926
NC Housing Finance Agency Grant	88,600		88,600
ReStore Sales	1,666,841		1,666,841
Mortgage Loan Discount Amortization	611,262		611,262
In-Kind Contributions	95,989	190,758	286,747
Interest Income	1,493		1,493
Repairs	172,592		172,592
Deconstruction			
Cancellation of Debt	781,171		781,171
Miscellaneous Income	195,287		195,287
	6,909,819	2,964,100	9,873,919
Net Assets Released from Restrictions	2,684,768	(2,684,768)	
Total Support and Revenue and Net Assets Released from Restrictions	9,594,587	279,332	9,873,919
Expenses:			
Program Services:			
Construction Services	4,747,433		4,747,433
Family Services	1,588,107		1,588,107
ReStore	1,419,014		1,419,014
Total Program Services	7,754,554		7,754,554
Support Services:			
Management and General	223,559		223,559
Fundraising	486,358		486,358
Total Support Services	709,917		709,917
Total Expenses	8,464,471		8,464,471
Change in Net Assets	1,130,116	279,332	1,409,448
Net Assets at Beginning of Year	8,441,148	2,358,811	10,799,959
Net Assets at End of Year	\$ 9,571,264	\$ 2,638,143	\$ 12,209,407

See Accompanying Notes

**HABITAT FOR HUMANITY OF DURHAM, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year Ended June 30, 2019

	Construction Services	Family Services	ReStore	Total Program Services	Management and General	Fundraising	Total
Cost of Homes Transferred	\$ 3,305,760	\$	\$	\$ 3,305,760	\$	\$	\$ 3,305,760
Cost of Repair Program	655,402			655,402			655,402
Salaries and Benefits	391,709	159,620	546,072	1,097,401	136,135	344,967	1,578,503
Mortgage Discounts		1,386,758		1,386,758			1,386,758
Donation to Habitat for Humanity International	83,700			83,700			83,700
Donation to Habitat for Humanity Orange County			307,754	307,754			307,754
Rent and Utilities	6,500	6,500	58,618	71,618	6,500	6,500	84,618
Professional Services	108,010	7,714	42,937	158,661	7,714	7,714	174,089
Office Expenses		1,135	16,895	18,030	26,701	14,253	58,984
Contract Labor			616	616			616
Interest Expense	75,346		90,588	165,934			165,934
Tools and Equipment	22,208	2,212	4,264	28,684	29	8,081	36,794
Depreciation and Amortization	4,026	4,026	46,862	54,914	4,026	4,026	62,966
Vehicle and Mileage Reimbursement	27,486	3,576	49,381	80,443	7,608	3,883	91,934
Bad Debt Expense					17,737		17,737
Marketing	290	360	1,114	1,764	1,153	40,501	43,418
Maintenance and Repairs			45,204	45,204			45,204
Insurance	8,001	8,001	16,171	32,173	8,001	8,001	48,175
Staff and Board Development	2,000	3,088	3,592	8,680	2,860	3,510	15,050
Telephone	5,079	3,501	9,248	17,828	4,152	4,616	26,596
Fundraising and Special Events						46,302	46,302
Postage	1,464		5,539	7,003	943	2,119	10,065
Family Selection Expenses		1,616		1,616			1,616
Volunteer Expense	50,452			50,452			50,452
Purchases for Resale			174,159	174,159			174,159
Discount on Pledges Receivable						(8,115)	(8,115)
<b>Total Functional Expenses</b>	<b>\$ 4,747,433</b>	<b>\$ 1,588,107</b>	<b>\$ 1,419,014</b>	<b>\$ 7,754,554</b>	<b>\$ 223,559</b>	<b>\$ 486,358</b>	<b>\$ 8,464,471</b>

See Accompanying Notes

**HABITAT FOR HUMANITY OF DURHAM, INC.**  
**STATEMENT OF CASH FLOWS**  
Year Ended June 30, 2019

Cash Flows from Operating Activities:	
Change in Net Assets	\$ 1,409,448
Adjustments to Reconcile Change in Net Assets to	
Net Cash Provided by Operating Activities:	
Original Issue Discount on Mortgage Loans Receivable	1,386,758
Amortization of Mortgage Discounts	(611,262)
Forgivable Mortgages	(249,750)
Depreciation and Amortization	62,966
Amortization of Deferred Finance Costs	33,536
Cancellation of Debt	(781,171)
Change in Current Assets and Liabilities:	
Grants and Other Receivables	37,526
Promises to Give, Net	195,168
Mortgage Loans Receivable	(959,046)
Land and Construction in Progress	
and Land Held for Development	(229,021)
Prepaid Expenses and Deposits	(3,029)
Prepaid Joint Venture Expenses	16,825
Investment in Joint Ventures	22,845
Accounts Payable and Accrued Expenses	(142,641)
Deferred Revenue	(32,733)
	<hr/>
Net Cash Provided by Operating Activities	156,419
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Cash Flows from Investing Activities:	
Purchase of Property and Equipment	(60,362)
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Net Cash Used by Investing Activities	(60,362)
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Cash Flows from Financing Activities:	
Net Payments on Line of Credit	(500,900)
Proceeds from Long-Term Debt	1,500,000
Principal Payments on Long-Term Debt	(131,184)
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Net Cash Provided by Financing Activities	867,916
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Net Increase in Cash and Cash Equivalents	963,973
Cash and Cash Equivalents, Beginning of Year	1,911,179
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Cash and Cash Equivalents, End of Year	<u>\$ 2,875,152</u>

See Accompanying Notes



**HABITAT FOR HUMANITY OF DURHAM, INC.**  
**STATEMENTS OF CASH FLOWS**  
Year Ended June 30, 2019

Supplemental Disclosure of Cash Flow Information:

Cash Paid During the Year for Interest	\$ <u>116,528</u>
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Supplemental Schedule of Noncash Investing and Financing Activities:

Increase in Construction in Progress and Land Held for Development	\$ 121,384
Less: Transfer to Property and Equipment	<u>(350,405)</u>

Decrease in Construction in Progress and Land Held for Development	<u>\$ (229,021)</u>
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Decrease in Long-Term Debt	\$ (2,764,301)
Less: Forgiveness of Debt	<u>(2,633,117)</u>

Cash Principal Payments on Long-Term Debt	<u>\$ (131,184)</u>
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See Accompanying Notes

**HABITAT FOR HUMANITY OF DURHAM, INC.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2019

1. Organization and Summary of Significant Accounting Policies

Organization

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

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

Since its inception in 1985, the Organization has built or rehabilitated 413 homes (of which 102 were in the past five years) which are sold, interest free, to qualified buyers.

In late 2010, the Organization joined the Neighborhood Revitalization Initiative ("NRI"), a HFHI initiative. NRI focuses on repairs and weatherization of homes, as well as beautification and landscaping for qualified, low-income homeowners. Funding for the NRI program has come from various sources. In the past three years, the Organization has completed 248 repairs, including landscaping projects. Additionally, the Organization has been contributing to HFHI to provide funding to build homes internationally. Over \$1,208,150 has been contributed since the Organization began and those contributions, according to HFHI, have built 333 homes. Countries of focus include Honduras, Malawi, Nepal, and Orphans and Vulnerable Group.

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

In total, 1,160 families have been the recipients of the Organization's various housing solution programs since the Organization's inception in 1985.

ReStore: The ReStore sells donated and salvaged building materials to the general public at below-market prices with the net proceeds supporting the organization's mission to build affordable homes. In addition to making home maintenance more affordable, the restore operations keep usable materials out of the landfill.

**HABITAT FOR HUMANITY OF DURHAM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2019

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

Basis of Accounting

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

Financial Statement Presentation and New Accounting Pronouncements

On August 18, 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about these expenses and investment return. The Organization has adjusted the presentation of these statements accordingly.

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

Net Assets without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and the board of directors.

Net Assets with Donor Restrictions

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

Cash and Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and have an original maturity of ninety days or less. Cash equivalents totaled \$1,581,691 at June 30, 2019.

**HABITAT FOR HUMANITY OF DURHAM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2019

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

Concentration of Credit Risk

The Organization occasionally maintains deposits in excess of federally insured limits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000 for all accounts. The risk is managed by maintaining all deposits in high quality financial institutions. As of June 30, 2019, the Organization's cash balances were in excess of federally insured limits by \$2,226,194.

Promises to Give

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

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

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

Non-Interest Bearing Mortgage Loans Receivable

Mortgage loans receivable consist of non-interest bearing mortgages which are secured by real estate and payable in monthly installments over the life of the mortgage. Accounting principles generally accepted in the United States require that receivables that are contractual rights to receive money in the future at a fixed or determinable date be recorded at the present value of the consideration given in the exchange. The Organization follows this method of accounting for its mortgages using effective interest rates supplied by HFHI.

Land, Construction in Progress and Land Held for Development

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

Property and Equipment

All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost, or, if donated, at the approximate fair value at the date of donation.

**HABITAT FOR HUMANITY OF DURHAM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2019

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

Property and Equipment (Continued)

Depreciation is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	39
Rental Properties	27.5
Office Furniture	5
Computer Equipment and Software	5
Machinery and Equipment	5
Leasehold Improvements	39
Vehicles	5

For the year ended June 30, 2019, depreciation expense totaled \$62,966.

Investment in Joint Ventures

In July 2011, the Organization invested, along with four other Habitat affiliates, in a joint venture (HFHI-SA Leverage IX, LLC) with approximately twenty-three percent (22.45%) ownership to take advantage of New Market Tax Credit ("NMTC") financing. NMTC financing allows an entity to receive a loan or investment capital from outside investors, who will receive new market tax credits to be applied against their federal income tax liability. As a result, the Organization initially invested \$1,982,054 and was able to secure a loan in the amount of \$2,633,117 payable to a community development entity. The investment was dissolved during the year ended June 30, 2019. The investment was accounted for under the equity method. The loan proceeds were to be used solely for the purpose of constructing and selling qualified housing properties to low income residents.

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

Forgivable Mortgages

To assist participants whose annual incomes do not meet certain levels in qualifying for the purchase of a home, some homes are sold to those participants at an amount below fair market value. In these cases, revenue for the transfer of the home is recorded at full fair market value and the difference between the fair market value and the sales price is recorded as a forgivable mortgage expense. Per written contracts, at the end of the first mortgage term the full amount is forgiven; however, should the homeowner dispose of the home prior to the end of the first mortgage term, the entire forgivable mortgage is due. The Organization approved a total of \$183,500 in forgivable mortgages for the year ended June 30, 2019, of which none was due or repaid in the year ended June 30, 2019.

**HABITAT FOR HUMANITY OF DURHAM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2019

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

Contributions

Contributions of cash and other assets, as well as grants, are accounted for in accordance with FASB ASC 958-605, *Accounting for Contributions Received and Contributions Made*. In accordance with this standard, contributions received are recorded as increases in net assets with donor restriction or without donor restriction, depending on the existence or nature of any donor restrictions.

When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

In-Kind Contributions

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

The Organization is also the recipient of services donated by volunteers consisting of individuals in the community as well as church and corporate groups. Volunteers also include homeowners who volunteer hours as part of their commitment to home ownership. No amounts have been reflected in the financial statements for volunteer hours since these services do not meet the requirements for recognition in the financial statements. The Organization was the recipient of approximately 50,665 volunteer hours for 2019.

Transfer to Homeowners

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

Functional Allocation of Expenses

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

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and Benefits	Time and effort
Rent and Utilities	Square Footage
Depreciation and Amortization	Square Footage
Insurance	Square Footage

**HABITAT FOR HUMANITY OF DURHAM, INC.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2019

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

Income Taxes

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

Accounting for Uncertainty in Income Taxes

The Organization has adopted the provisions of FASB ASC 740, *Income Taxes*. Using this guidance, tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the positions will be sustained upon examination by the tax authorities. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of June 30, 2019, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Use of Estimates and Assumptions

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

Advertising

The Organization uses advertising primarily to promote its Restore operations within the community. The costs of advertising are expensed as incurred, and totaled \$43,418 for the year ended June 30, 2019.

**HABITAT FOR HUMANITY OF DURHAM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2019

2. Availability and Liquidity

The following represents the Organization's financial assets at June 30, 2019:

Financial Assets at Year-End:	
Cash	\$ 2,875,152
Grants and Other Receivables	334,713
Promises to Give, Net - Current	453,589
Non-interest Bearing Mortgage Loans Receivable, Net – Current	<u>417,516</u>
 Total Financial Assets	 4,080,970
 Less Amounts Not Available to be Used for General Expenditures Within One Year:	
Net Assets with Donor Restrictions	<u>(2,115,119)</u>
 Financial Assets Available to Meet General Expenditures Within One Year	 <u>\$ 1,965,851</u>

The Organization's goal is generally to maintain cash reserves that cover 90 days of anticipated cash outlays. The Organization does not have a formal liquidity plan, however, the Organization does have a line of credit (see Note 9) that can be used for unexpected cash needs.

3. Promises to Give

Promises to give at June 30, 2019 include the following:

Unconditional Promises to Give	\$ 1,196,195
Less: Unamortized Discount	<u>(128,198)</u>
Net Present Value	1,067,997
Less: Allowance for Uncollectible Promises	<u>(91,385)</u>
Unconditional Promises to Give-Net	976,612
Less: Amount Due within One Year	<u>(453,589)</u>
 Amount Due after One Year	 <u>\$ 523,023</u>

Unconditional promises to give at June 30, 2019 are due according to the following schedule:

Less Than One Year	\$ 453,589
One to Five Years	<u>523,023</u>
 Total Unconditional Promises to Give	 <u>\$ 976,612</u>

Amounts receivable in future periods were discounted using a rate of 5.50%.



**HABITAT FOR HUMANITY OF DURHAM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2019

4. Mortgage Loans Receivable

Non-interest bearing mortgage loans receivable consisted of the following at June 30, 2019:

Non-Interest Bearing Mortgage Loans Receivable	\$ 17,543,359
Less: Unamortized Discount	<u>(10,118,083)</u>
Net Present Value	7,425,276
Less: Amount Due within One Year	<u>(417,516)</u>
Amount Due after One Year	<u>\$ 7,007,760</u>

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

2020	\$ 935,926
2021	881,657
2022	861,167
2023	857,764
2024	857,764
Thereafter	<u>13,149,081</u>
	17,543,359
Less: Discount	<u>(10,118,083)</u>
	<u>\$ 7,425,276</u>

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

Land and construction in progress and land held for development consisted of the following at June 30, 2019:

Land (including infrastructure)	\$ 1,639,866
Construction in Progress	<u>1,492,265</u>
	3,132,131
Less: Current Portion	<u>(1,540,123)</u>
	<u>\$ 1,592,008</u>

**HABITAT FOR HUMANITY OF DURHAM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2019

6. Property and Equipment

Property and equipment consisted of the following at June 30, 2019:

Buildings	\$ 2,077,833
Rental Properties	350,405
Office Furniture, Computer Equipment and Software	90,856
Machinery and Equipment	18,294
Leasehold Improvements	306,360
Vehicles	<u>83,557</u>
	2,927,305
 Less: Accumulated Depreciation	 <u>(609,882)</u>
 Net Property and Equipment	 <u>\$ 2,317,423</u>

7. Investment in Joint Ventures

In July 2011, the Organization participated in a NMTC program. The program provides tax credits to eligible organizations for investment in “qualified low-income community investments”. Program compliance requirements included creation of a promissory note and investment in a qualified community development entity (“CDE”). Tax credit recapture is required if compliance requirements are not met over a seven-year period.

In July 2011, the Organization recorded its 22.45% investment in HFHI-SA Leverage IX, LLC at an initial cost of \$1,982,054. The Organization continues to record the investment under the equity method. The investment had no carrying value at June 30, 2019.

In November 2018, HFHI-SA Investment Fund VI, LLC, (the “Fund”), and the upstream effective owner of HFHI-SA NMTC VI, LLC (holder of the promissory note due from the Organization) exercised their put option. Under the terms of the put option agreement, HFHI-SA Leverage IX, LLC purchased the ownership interest of the Fund for \$1,000 plus certain other costs as defined by the put option agreement. Exercise of the option allowed the Organization to extinguish its outstanding debt owed to the Fund. (See Note 10 for details of promissory note.)

**HABITAT FOR HUMANITY OF DURHAM, INC.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2019

7. Investment in Joint Ventures (Continued)

In December 2017, the Organization participated in another NMTC program. The Organization recorded its 16.67% investment in Harbor Habitat Leverage II, LLC at an initial cost of \$1,207,441. The Organization records the investment under the equity method. The investment is recorded at \$1,189,936 at June 30, 2019.

In December 2024, Twain Investment Fund 296, LLC, (the "Twain Fund"), and the upstream effective owner of Harbor Habitat Leverage II, LLC (holder of the promissory note due from the Organization) expects the equity owners of the Twain Fund to exercise their put option. Under the terms of the put option agreement Harbor Habitat Leverage II, LLC is expected to purchase the ownership interest of the Twain Fund for \$1,000 plus certain other costs as defined by the put option agreement. Exercise of the option will effectively allow the Organization to extinguish its outstanding debt owed to the Twain Fund. (See Note 10 for details of promissory note.)

8. Deferred Revenue

The balance in deferred revenue at June 30, 2019 totaled \$16,474, and consisted of amounts received in advance for future home maintenance and repairs.

9. Line of Credit

The Organization has a revolving line of credit with Branch Banking & Trust Company that has an interest rate based on prime (5.25% at June 30, 2019) and matured October 15, 2019. The line of credit required monthly interest only payments until maturity. The maximum available on the line of credit was \$1,000,000 and was secured by twenty five mortgage loans receivable totaling \$1,422,489 as of June 30, 2019. The outstanding balance on the line of credit as of June 30, 2019 was \$0. Subsequent to year end the line of credit was renewed through December 2020.

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

Non-interest bearing long-term debt consisted of the following at June 30, 2019:

Note payable, commercial bank, with a fixed interest rate of 3.250%, monthly payments of \$9,170 beginning October 2013 with final payment and accrued interest due September 2023, secured by building, leases and rents.	\$ 1,563,574
Note payable, commercial bank, with a fixed interest rate of 1.00%, annual principal payments of \$150,000 beginning November 1, 2019 with the final payment due November 2028. Secured by non-interest bearing mortgage loans receivable.	1,500,000
Note payable, Habitat for Humanity International, Inc., monthly payments of \$312 from January 2016 through December 2019, with a final payment of \$336 due January 2020, non-interest bearing, unsecured (discount is based on imputed interest rate of 3.25%).	1,896
Note payable, Habitat for Humanity International, Inc., monthly payments of \$78 from January 2016 through December 2019, with a final payment of \$84 due January 2020, non-interest bearing, unsecured (discount is based on imputed interest rate of 3.25%).	474
Note payable, Habitat for Humanity International, Inc., monthly payments of \$225 from January 2016 through June 2020, non-interest bearing, unsecured (discount is based on imputed interest rate of 3.25%).	2,680
Note payable, Habitat for Humanity International, Inc., monthly payments of \$156 from July 2016 through July 2020, non-interest bearing, unsecured (discount is based on imputed interest rate of 3.25%).	2,820

**HABITAT FOR HUMANITY OF DURHAM, INC.**  
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10. Long-Term Debt (Continued)

Note payable Habitat for Humanity International, Inc. (See paragraph below for terms.)	723,148
Note payable to Harbor Habitat Leverage II, LLC (See paragraph below for terms.)	<u>1,715,000</u>
	5,509,592
Less: Discount	<u>(1,421)</u>
	5,508,171
Less: Current Maturities	(284,888)
Less: Unamortized Deferred Finance Costs	<u>(59,632)</u>
Total Long-Term Portion	<u>\$ 5,163,651</u>

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

		\$ 284,888
2020		283,837
2021		288,003
2022		1,603,584
2023		230,207
2024		<u>2,819,073</u>
Thereafter		5,509,592
Less: Discount		(1,421)
Less: Unamortized Deferred Finance Costs		<u>(59,632)</u>
		<u>\$ 5,448,539</u>

**HABITAT FOR HUMANITY OF DURHAM, INC.**  
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10. Long-Term Debt (Continued)

In July 2011, the Organization entered into a \$2,633,117 note payable to HFHI-SA NMTC, LLC. The note payable required interest only payments until November 15, 2019 at 0.76%. The note payable's put option was exercised in November 2018 (see Note 7) and the Organization recognized revenue from the cancellation of debt of \$781,171 during the year ended June 30, 2019.

In June 2018, the Organization entered into a \$787,700 note payable to Habitat for Humanity International, Inc. The note payable accrues interest at 4.25% and requires quarterly principal and interest payments through maturity on June 25, 2028. The note is secured by the Organization's mortgage receivables and all corresponding property titles and rights.

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

The real estate notes payable are secured by a letter of credit, which is secured by a deed of trust on the property. In addition, the notes payable provide for certain restrictive covenants.

The net book value of assets securing debt totaled \$1,940,295 as of June 30, 2019.

11. Retirement Plan

The Organization provides a 401(k) retirement plan covering all eligible employees meeting age and service requirements. The interest in any participant's account is at all times 100% vested and non-forfeitable. During 2013, the Organization switched from a 403(b) plan to a 401(k) plan. The Organization may make an annual contribution up to 5% of employee annual salaries plus a matching contribution equal to the amount of the employee annual contribution up to a maximum of 2%. The Organization made a contribution of 5% and a matching contribution of 2% for the year ended June 30, 2019. The Organization contributed a total of \$69,707 to the 401(k) plan for the year ended June 30, 2019.

**HABITAT FOR HUMANITY OF DURHAM, INC.**  
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12. Habitat ReStore

The Organization entered into a memorandum of understanding agreement with Habitat for Humanity, Orange County, N.C., Inc. (“HHOC”) on July 2, 2009, regarding the acquisition and operation of real estate and Habitat Restore (the “Store”) serving Durham and Orange Counties. The memorandum of understanding acknowledges that the Organization has been involved in the successful operation of the Store, which is a resale store benefiting Habitat for Humanity in Orange and Durham Counties.

The real estate upon which the Store exists is owned by the Organization. The debt instrument used to finance the purchase of the real estate and building for the Store is also in the Organization’s name. As part of the agreement, the value of the real estate shall be shared equally with HHOC.

The value of the real estate was approximately \$2.3 million as of the date of purchase and the outstanding debt balance totaled approximately \$1.56 million as of June 30, 2019. (See Note 9 for details of promissory note.)

The Store sells good quality, donated household goods and select building supplies to the public. The profits and equity from the Store’s operations are to be shared by the Organization and HHOC. All of the assets are owned by the Organization. In September 2016, the Organization entered into a new memorandum of understanding with HHOC regarding the joint ownership and operation of real estate and the store serving Durham and Orange Counties. The new memorandum granted sole ownership of the Store to the Organization and altered the allocation of excess cash resulting from Store operations between the Organization and HHOC. HHOC receives distributions equal to or greater than the average distribution for the proceeding three years, but not to exceed 125% of the average. Once HHOC has received its distribution, any remaining excess cash is distributed equally between the Organization and HHOC. The Agreement between the Organization and HHOC provides that were the Store to dispose of the building, each organization would split the net proceeds equally.

The Organization guarantees the payment of debt service used to finance the Store. The agreement provides a provision for payments to be made by the Organization to the Store in the event there are shortfalls in payment of debt service or other costs as further described in the agreement. In the event of shortfalls, the Organization and HHOC are each responsible for 50% of any unpaid balance.

In July 2019, the Organization entered into a collaboration agreement with Habitat for Humanity of Wake County, Inc. (“HHWC”) in which the Organization and HHOC appointed HHWC the managing affiliate and exclusive agent to supervise, direct and control the Store, and any future stores in Durham or Orange County, for an annual fee of \$36,000. This agreement amended and replaced the HHOC memorandum of understanding and the HHWC 2018 management agreement.

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12. Habitat ReStore (Continued)

In addition, the Organization and HHOC shall pay for agreed upon improvements to the Store. As of June 30, 2019 there was \$152,634 due to HHWC for management fees, reimbursed expenses and improvements, and is included within accounts payable and accrued expenses on the accompanying statement of financial position.

As part of the collaboration agreement the Organization and HHOC gave HHWC the opportunity to purchase the Store, with any proceeds split evenly between the Organization and HHOC. Subsequent to year-end HHWC agreed to purchase the Store for \$2,800,000.

13. Related Party Transactions

The Organization made a distribution of excess cash to HHOC of \$307,754 in 2019, in connection with the Store's operations.

Each year the Organization makes a contribution to Habitat for Humanity International, Inc. which uses these funds to construct homes in economically depressed areas around the world. Program service expense includes \$83,700 contributed to Habitat for Humanity International, Inc. for the year ended June 30, 2019.

14. Operating Leases

The Organization leases office equipment and vehicles under operating lease agreements that provide for monthly payments ranging from \$48 to \$1,366 through September 2021. Rent expense totaled \$84,618 for the year ended June 30, 2019. Future minimum lease payments are as follows for the years ending June 30:

2020	\$ 44,033
2021	<u>7,339</u>
	<u>\$ 51,372</u>

The Organization also leases warehouse space and other equipment on a month-to-month basis. Equipment and warehouse space rental expense totaled \$19,140 for the year ended June 30, 2019.

The Organization also occupies donated office space. Donated office space and utilities valued at \$20,000 is recorded as an in-kind contribution and offsetting rent expense in 2019.



**HABITAT FOR HUMANITY OF DURHAM, INC.**  
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15. Net Assets Without Donor Restrictions

Net assets with donor restrictions are available for the following purposes at June 30, 2019:

Subject to Expenditure for Specified Purpose:	
Construction Services	\$ 1,524,045
Gift-in-Kind	<u>137,486</u>
	1,661,531
Subject to Passage of Time:	
Promises to Give that May be Restricted by Donors, Which are Unavailable for Expenditure Until Due	<u>976,612</u>
	<u>\$ 2,638,143</u>

Net assets were released from donor restriction by incurring expenses to satisfy the restricted purpose or by the occurrence of the passage of time or other events specified by the donors as follows for the year ended June 30, 2019:

Satisfaction of Purpose Restrictions:	
Construction Services	\$ 1,437,860
Land Purchases	348,643
Repairs	457,290
Gift-in-Kind	<u>241,739</u>
	2,485,532
Satisfaction of Time Restrictions:	
Promises to Give	<u>199,236</u>
	<u>\$ 2,684,768</u>

16. Guarantee Liability

The Organization has entered into mortgage buy-back covenant agreements with the City of Durham and NCHFA for eligible homebuyers who receive second and third mortgages issued by the City and NCHFA. In the event the homeowners become delinquent with mortgage payments, the Organization may be required to assume the outstanding balance of the loan. The Organization executed a total of \$175,000 of mortgages under the agreements during the 2019 fiscal year. Second and third mortgages issued under the agreements totaled \$10,870,088 as of June 30, 2019.

**HABITAT FOR HUMANITY OF DURHAM, INC.**  
NOTES TO FINANCIAL STATEMENTS  
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16. Guarantee Liability (Continued)

Under the provisions of FASB ASC 460, *Guarantees*, the Organization is required to record a liability at the fair value the Organization expects to assume upon inception of the agreement. The liability was estimated based upon historical performance under the agreements and estimated future obligations to perform under the guarantees. Amounts accrued totaled \$249,941 as of June 30, 2019.

17. Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through October 28, 2019, which is the date the financial statements were available to be issued.

In October 2019, the Organization renewed the line of credit through December 2020.

In October 2019, the Organization signed a contract with HHWC to purchase the Store from the Organization and HHOC for \$2,800,000. The Organization expects the transaction to close in November 2019.