

**HABITAT FOR HUMANITY OF
GREATER GREENSBORO, INC.**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

***As of and for the Year Ended June 30, 2019
(With Comparative Totals for June 30, 2018)***

And Report of Independent Auditor

HABITAT FOR HUMANITY OF GREATER GREENSBORO, INC.

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Report of Independent Auditor

To the Board of Directors
Habitat for Humanity of Greater Greensboro, Inc.
Raleigh, North Carolina

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

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Habitat’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 Habitat’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 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.

Report on Summarized Comparative Information

We previously audited Habitat’s 2018 financial statements, and our report dated November 30, 2018, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived, except for terms and classifications related to the implementation of Accounting Standards Updated (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*.

Emphasis of Matter

As discussed in Note 2, Habitat adopted Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The ASU has been applied prospectively for the year ended June 30, 2019, except as discussed in the previous paragraph regarding the prior year summarized financial information. Our opinion is not modified with respect to this matter.

Additionally, as discussed in Note 18, Habitat reclassified various funds between net asset classifications as of July 1, 2017. There was no impact to the net assets balance as a whole. Our opinion is not modified with respect to this matter.

Other Matter – Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in related to the financial statements as a whole.

Handwritten signature of Cherry Roubert LLP in cursive script.

Raleigh, North Carolina
February 20, 2020

HABITAT FOR HUMANITY OF GREATER GREENSBORO, INC.
STATEMENT OF FINANCIAL POSITION

JUNE 30, 2019

(WITH COMPARATIVE TOTALS FOR JUNE 30, 2018)

	2019	2018
ASSETS		
Current Assets:		
Cash	\$ 129,716	\$ 77,145
Cash - escrow for homeowners' taxes, insurance, and maintenance	24,211	405,364
Net pledges receivable	152,909	86,347
Construction in process	1,000,775	1,069,367
Current portion of mortgage receivables	795,240	810,821
ReStore inventory	302,742	226,297
Other receivables	232,053	76,113
Prepaid expenses	19,609	55,494
Total Current Assets	<u>2,657,255</u>	<u>2,806,948</u>
Net property, plant, and equipment	<u>1,928,031</u>	<u>1,939,707</u>
Noncurrent Assets:		
Real estate held for development or resale, at cost	718,264	1,433,682
Long-term mortgages receivable	4,985,015	5,020,329
Endowment funds	173,068	165,058
Total Noncurrent Assets	<u>5,876,347</u>	<u>6,619,069</u>
Total Assets	<u><u>\$ 10,461,633</u></u>	<u><u>\$ 11,365,724</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Current portion of notes payable	\$ 205,393	\$ 82,248
Accounts payable and other liabilities	238,827	244,744
Escrow liability for homeowners' taxes, insurance, and maintenance	23,423	408,914
Total Current Liabilities	<u>467,643</u>	<u>735,906</u>
Noncurrent portion of notes payable	<u>1,075,428</u>	<u>1,474,039</u>
Total Liabilities	<u>1,543,071</u>	<u>2,209,945</u>
Net Assets:		
Without donor restriction	8,069,191	8,181,700
With donor restriction	849,371	974,079
Total Net Assets	<u>8,918,562</u>	<u>9,155,779</u>
Total Liabilities and Net Assets	<u><u>\$ 10,461,633</u></u>	<u><u>\$ 11,365,724</u></u>

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

HABITAT FOR HUMANITY OF GREATER GREENSBORO, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2018)

	Without Donor Restriction	With Donor Restriction	2019 Total	2018 Total
Support and Revenue:				
Public Support:				
Contributions	\$ 441,131	\$ 928,396	\$ 1,369,527	\$ 715,231
In-kind	83,715	9,163	92,878	227,447
Governmental and housing finance agency revenue	65,800	-	65,800	94,942
Mission trip donations	-	11,965	11,965	16,843
Total Public Support	<u>590,646</u>	<u>949,524</u>	<u>1,540,170</u>	<u>1,054,463</u>
Revenue:				
ReStore revenue	1,824,442	-	1,824,442	1,365,286
Home sales	861,685	-	861,685	870,886
Mortgage interest income	525,656	-	525,656	490,791
Other revenue	95,493	-	95,493	314,346
Net assets released from restriction	1,068,717	(1,068,717)	-	-
Total Revenue	<u>4,375,993</u>	<u>(1,068,717)</u>	<u>3,307,276</u>	<u>3,041,309</u>
Total Support and Revenue	<u>4,966,639</u>	<u>(119,193)</u>	<u>4,847,446</u>	<u>4,095,772</u>
Expenses:				
Program services	4,234,301	-	4,234,301	3,698,050
Supporting Services:				
General and administrative expenses	411,331	-	411,331	563,127
Fundraising	335,176	-	335,176	326,422
Total Expenses	<u>4,980,808</u>	<u>-</u>	<u>4,980,808</u>	<u>4,587,599</u>
Other Events:				
Pledges write-off	-	(13,525)	(13,525)	(31,243)
Loss on disposal of property	(98,340)	-	(98,340)	-
Investment return on endowment funds	-	8,010	8,010	575
Total Other Events	<u>(98,340)</u>	<u>(5,515)</u>	<u>(103,855)</u>	<u>(30,668)</u>
Changes in net assets	(112,509)	(124,708)	(237,217)	(522,495)
Net assets, beginning restated (Note 18)	<u>8,181,700</u>	<u>974,079</u>	<u>9,155,779</u>	<u>9,678,274</u>
Net assets, ending	<u>\$ 8,069,191</u>	<u>\$ 849,371</u>	<u>\$ 8,918,562</u>	<u>\$ 9,155,779</u>

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

HABITAT FOR HUMANITY OF GREATER GREENSBORO, INC.
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2018)

	Program Services				Support Services			2019 Total	2018 Total
	Construction	Homeowner Services	Volunteer Services	ReStore	Total Program Services	Management and General	Fundraising		
Salaries	\$ 316,453	\$ 199,216	\$ -	\$ 608,801	\$ 1,124,470	\$ 133,776	\$ 234,767	\$ 1,493,013	\$ 1,511,675
Payroll taxes and employee benefits	93,298	49,013	-	201,071	343,382	22,682	57,927	423,991	300,915
Professional development	4,709	4,133	472	3,177	12,491	9,571	3,561	25,623	8,465
Meetings and conferences	791	663	252	500	2,206	8,791	2,778	13,775	5,188
Travel	247	1,465	318	592	2,622	1,617	2,198	6,437	1,332
AmeriCorps	9,875	-	692	-	10,567	-	-	10,567	66,314
Contract labor	75	-	-	55,424	55,499	3,097	-	58,596	17,919
Marketing	312	1,728	-	32,870	34,910	2,467	4,841	42,218	70,576
Events	-	-	-	-	-	-	3,017	3,017	-
Rental and maintenance	22,082	-	-	196,003	218,085	42,129	-	260,214	111,231
Office expenses	4,088	3,181	732	40,141	48,142	13,729	-	61,871	38,252
Utilities	23,699	-	-	71,704	95,403	-	1,480	96,883	39,342
Information Technology	10,323	-	3,264	18,266	31,853	6,437	11,137	49,427	17,687
Insurance	13,533	-	3,753	3,139	20,425	28,167	-	48,592	2,887
Interest expense	-	-	-	31,473	31,473	18,644	-	50,117	53,244
Professional services	-	58,531	68	42,260	100,859	91,946	13,470	206,275	51,387
Vehicle expense	20,582	-	-	54,851	75,433	2,137	-	77,570	24,035
Depreciation	11,961	-	-	84,659	96,620	21,038	-	117,658	57,381
Miscellaneous	4,513	-	-	12,578	17,091	3,067	-	20,158	49,093
Cost of sales	1,667,184	2,799	-	-	1,669,983	-	-	1,669,983	1,776,946
Warranty and lot acquisition and maintenance	16,004	-	-	-	16,004	-	-	16,004	-
Habitat for Humanity International Tithe/ Stewardship & Organizational Sustainability Initiative & NC Stat Support Organization	46,982	-	-	-	46,982	2,036	-	49,018	48,000
Mission trips and outreach	6,960	10,392	-	-	17,352	-	-	17,352	28,420
Education and training	-	2,985	-	-	2,985	-	-	2,985	66,247
Volunteer appreciation	-	-	13,179	-	13,179	-	-	13,179	138
Cost of inventory	-	-	-	146,285	146,285	-	-	146,285	129,044
ReStore Start Up	-	-	-	-	-	-	-	-	111,881
	<u>\$ 2,273,671</u>	<u>\$ 334,106</u>	<u>\$ 22,730</u>	<u>\$ 1,603,794</u>	<u>\$ 4,234,301</u>	<u>\$ 411,331</u>	<u>\$ 335,176</u>	<u>\$ 4,980,808</u>	<u>\$ 4,587,599</u>

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

HABITAT FOR HUMANITY OF GREATER GREENSBORO, INC.
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2018)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Changes in net assets	\$ (237,217)	\$ (522,495)
Adjustments to reconcile changes in net assets to cash provided by operating activities:		
Depreciation	117,658	62,832
(Increase) decrease in related assets:		
Net pledges receivable	(66,562)	163,568
Construction in process	68,592	(331,008)
Mortgages receivable	50,895	135,758
ReStore inventory	(76,445)	(7,507)
Prepaid expenses	35,885	(27,989)
Other receivables	(155,940)	87,863
Real estate held for development or resale	715,418	(306,221)
Contributions and gains to endowment funds	(8,010)	(5,694)
Increase (decrease) in related liabilities:		
Escrow liability for homeowners' taxes, insurance, and maintenance	(385,491)	7,581
Accounts payable and other liabilities	(5,917)	145,947
Net cash from operating activities	<u>52,866</u>	<u>(597,365)</u>
Cash flows from investing activities:		
Purchase of property, plant, and equipment	<u>(105,982)</u>	<u>(599,100)</u>
Net cash from investing activities	<u>(105,982)</u>	<u>(599,100)</u>
Cash flows from financing activities:		
Proceeds from notes payable	3,246,233	2,856,314
Payments on notes payable	<u>(3,521,699)</u>	<u>(2,140,365)</u>
Net cash from financing activities	<u>(275,466)</u>	<u>715,949</u>
Net change in cash	(328,582)	(480,516)
Cash, cash in escrow, and cash equivalents, beginning of year	482,509	963,025
Cash, cash in escrow, and cash equivalents, end of year	<u>\$ 153,927</u>	<u>\$ 482,509</u>
Reconciliation to statement of financial position:		
Cash	\$ 129,716	\$ 77,145
Cash - escrow for homeowners' taxes, insurance, and maintenance	24,211	405,364
	<u>\$ 153,927</u>	<u>\$ 482,509</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 27,470</u>	<u>\$ 11,947</u>

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

HABITAT FOR HUMANITY OF GREATER GREENSBORO, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

Note 1—Nature of operations

Habitat for Humanity of Greater Greensboro, Inc. (“Habitat”) was incorporated as a nonprofit Habitat which works with donors, volunteers, contractors, and homeowners to create affordable housing for those in need in Greensboro, North Carolina on October 12, 1987. Habitat also promotes self-reliance through home ownership, providing affordable mortgages and preparing its applicant families for home ownership through the provision of family support services, credit counseling, and resource management training.

Program services provided by Habitat are as follows:

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

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

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

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

Note 2—Summary of significant accounting policies

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

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 Habitat. These net assets may be used at the discretion of Habitat’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 by passage of time. Other donor restrictions may be perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

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

Financial Statement Presentation – As required by U.S. GAAP, Habitat reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Certain prior period amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the net reported results of operations.

Summarized Financial Information – The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with Habitat’s financial statements for the year ended June 30, 2018, from which the summarized information was derived.

HABITAT FOR HUMANITY OF GREATER GREENSBORO, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

Note 2—Summary of significant accounting policies (continued)

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

Restricted and Unrestricted Revenues and Support – Grants and contributions of cash and other assets are reported as without donor restriction and with donor restriction. When a donor restriction expires, that is, when a stipulated time or purpose restriction is accomplished, with donor restriction net assets are reclassified to without donor restriction and reported in the statement of activities and changes in net assets as net assets released from restrictions. Contributions received with donor restrictions that are satisfied in the same year as received are classified as without donor restriction in the statement of activities and changes in net assets.

Cost-reimbursement type grant revenues are recorded when the costs are incurred.

In-Kind Donated Materials, Services, and Facilities – A substantial number of volunteers have made significant contributions of their time to Habitat, principally in the areas of house construction, administration, and fundraising. The value of non-professional contributed time is not reflected in the accompanying financial statements. However, donated materials, specialized services, and facilities received by Habitat are reflected as both contributions and expenses in the accompanying statements at their estimated fair market value at the time of receipt.

Net Pledges Receivable – Net pledges receivable represent valid pledges and are reported at their estimated net realizable value. Pledges receivable due in more than one year are recorded at the present value of estimated future cash flows using current prime interest rates. If amounts are deemed uncollectible after periodic review by management, they will be charged to activities when the determination is made. Long-term pledges receivable due in more than one year are recorded at the present value of estimated future cash flows. Habitat uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises to give. An allowance for uncollectible pledges of \$19,373 has been provided based on management's evaluation of potential uncollectible pledges receivable as of June 30, 2019.

Real Estate Held for Development or Resale – Real estate, including acquisition and building materials, are recorded at cost when the assets are acquired. Foreclosed homes purchased by Habitat are recorded at fair market value when the homes are acquired.

Mortgages Receivable – Mortgages receivable are reported at their outstanding principal balances discounted to their present value. Habitat has established an allowance for uncollectible accounts of \$79,165 as of June 30, 2019 to cover principal balance for delinquent accounts. Mortgages receivable are generally considered delinquent when payment is thirty days past due; however, delinquency status may be mitigated by other qualitative factors.

Accounts Receivable – Accounts receivable are stated at unpaid balances less an allowance for doubtful accounts. Habitat provides for losses on receivables using the allowance method. The allowance method is based on experience, third-party contracts, and other circumstances which may affect the ability of debtors to meet their obligations. Receivables are considered impaired if full principal payments are not received in accordance with contractual terms. It is Habitat's policy to charge off uncollectible receivables when management determines the receivable will not be collected.

Property, Plant, and Equipment – Property, plant, and equipment are recorded at cost, and if donated, are recorded at the approximate fair market value at the date of donation. The resale store ("ReStore") building is depreciated using the straight-line basis over an estimated useful life of 50 years and equipment, vehicles, leasehold improvements, building improvements, and rental property are depreciated over estimated useful lives of 5 to 25 years for the respective assets using the straight-line basis. Maintenance, repair costs, and minor replacements are charged to expense as incurred.

HABITAT FOR HUMANITY OF GREATER GREENSBORO, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

Note 2—Summary of significant accounting policies (continued)

ReStore Inventory – ReStore inventory is purchased or donated and valued at fair value which due to the quick turnover of inventory, is typically subsequent sales.

ReStore Services – Habitat operates ReStore to raise additional funds for programs. Donations of building materials, supplies, equipment, household, and other items by businesses and individuals are maintained in inventory. Due to the nature of the donated items, the value of the inventory is not recognized until sold.

Advertising – Advertising costs for the year ended June 30, 2019 were \$32,497.

Expense Allocation – The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets and the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes – Habitat is generally exempt from income taxes under Section 501(c)(3) of the Internal Revenue Service Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by Habitat and recognize a tax liability or asset if Habitat has taken an uncertain position that more likely than not would not be sustained upon examination by taxing authorities. Management has analyzed the tax positions taken and has concluded that as of June 30, 2019, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or asset or disclosure in the financial statements. Habitat is not currently under examination for any tax periods. Habitat, by expiration of the statute of limitations, is generally no longer subject to examination by taxing authorities for the fiscal year ended June 30, 2016 or earlier.

Use of Estimates – The preparation of financial statements in conformity with U.S. GAAP 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.

Endowment Funds – The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this standard are as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Habitat has the ability to access.

Level 2 – Inputs to the valuation methodology include which include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the methodologies used at June 30, 2019. There were no transfers in or out of Levels 1, 2, or 3 investments for the year ended June 30, 2019. Endowment funds are invested in mutual funds which were considered a Level 1 investment.

HABITAT FOR HUMANITY OF GREATER GREENSBORO, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

Note 2—Summary of significant accounting policies (continued)

Retirement Plan – Habitat has a 403(b) tax deferred annuity plan (the “Plan”) available to qualified employees. Habitat offers their employees the opportunity to make a voluntary contribution and Habitat contributes 2% of compensation after completion of one thousand hours and a year of service. Habitat contributed \$23,009 for the year ended June 30, 2019 to the Plan.

Current Pronouncements - On August 2016, the FASB issued a new accounting standard, ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*, which change presentation and disclosure requirements to provide more relevant information about their resources to donors, grantors, creditors, and other users. These changes include qualitative and quantitative requirements within net assets classes, investment returns, expenses, liquidity and availability of resources and presentation of operating cash flows. The new standard is effective for the Habitat beginning July 1, 2018. The ASU has been applied prospectively to all periods presented.

Future Pronouncements – On February 2016, the Financial Accounting Standards Board (“FASB”) issued a new accounting standard, Accounting Standard Update (“ASU”) 2016-02, *Leases (Topic 842)*, which says Lessees will be required to recognize a lease liability and a right-of-use asset for all leases, operating and capital, at the commencement date. The new standard will be effective for the Habitat on July 1, 2020. Early adoption is permitted. The Habitat is currently evaluating the effect that the standard will have on its financial statements and related disclosures.

On November 2016, the FASB issued a new accounting standard, ASU 2016-18, *Statement of Cash Flows: Restricted Cash (Topic 230)*, requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new standard became effective for the Habitat on July 1, 2019.

In June 2018, the FASB issued a new accounting standard, ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*, which is intended to clarify issues that have been faced when characterizing grants and similar contracts with government agencies and others as reciprocal transactions or nonreciprocal transactions. The new standard is also intended to help with difficulties in distinguishing between conditional and unconditional contributions for reporting purposes. The new standard became effective for Habitat on July 1, 2019.

Note 3—Liquidity and availability

Financial assets available for general expenditures consisting of expenses for program, fundraising, and management and general expenses that are without donor or other restrictions, limiting their use within one year of the statement of financial position date, are comprised of the following as of June 30, 2019:

Financial assets:

Cash and cash equivalents	\$ 129,716
Accounts receivable	232,053
Pledges receivable	152,909
Current portion of long-term receivable	<u>795,240</u>
Total financial assets	1,309,918

Less those unavailable for general expenditures within one year:

Contributions with donor restrictions	<u>(849,371)</u>
Financial assets available to meet cash needs to general expenditures within one year	<u>\$ 460,547</u>

HABITAT FOR HUMANITY OF GREATER GREENSBORO, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

Note 4—Valuation of investments

Fair Value Hierarchy—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 between market participants on the measurement date. U.S. GAAP establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. U.S. GAAP describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques as well as instruments for which the determination of fair value requires significant management judgment or estimation.

In accordance with FASB Accounting Standards Codification Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient are not classified within a fair value hierarchy. All of Habitat's investments at June 30, 2019 consist of a beneficial interest in an endowment fund of \$173,068, and are Level 1 investments.

Note 5—Pledges receivable

The following is a reconciliation of the activity in net pledges receivable:

Net pledges receivable, beginning of year	\$ 86,347
Current year pledges and donations (not including in-kind)	556,396
Less cash received for pledges and donations	(476,309)
Less write-offs of uncollectible pledges	(13,525)
Total net pledges receivable, end of year	<u>\$ 152,909</u>

Note 6—Mortgages receivable

It is Habitat's policy to sell homes to selected families through the issuance of noninterest bearing mortgages. Mortgages receivable consists of amounts due from home sales to first time homeowners who complete Habitat's program for home ownership. Mortgages are discounted to their present value and adjusted annually, based on the interest rate applicable in the year of issuance of each mortgage, ranging from 7.39% to 9.00%. Mortgages receivable of \$13,607,529 was outstanding as of June 30, 2019. The mortgages receivable are secured by their respective homes.

Habitat participates in a program sponsored by the North Carolina Housing Finance Agency ("NCHFA"), whereby NCHFA provides a co-first to Habitat's homeowners. Habitat also receives grants from the city of Greensboro that provide a second mortgage to homeowners. These programs allow Habitat to recover those funds immediately and Habitat is paid a nominal servicing fee by NCHFA. Habitat has the contingency to continue payments, if a homeowner is not paying co-first or second mortgage.

HABITAT FOR HUMANITY OF GREATER GREENSBORO, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

Note 6—Mortgages receivable (continued)

At June 30, 2019, mortgages receivable consisted of the following:

Gross mortgage receivables	\$ 13,607,529
Mortgage discount	(4,246,736)
Mortgage allowance	(79,165)
NCHFA mortgage liability	(3,247,340)
City of Greensboro mortgage liability	<u>(254,033)</u>
Net mortgage receivables	5,780,255
Less current portion	<u>(795,240)</u>
Noncurrent portion of mortgages receivable	<u>\$ 4,985,015</u>

These mortgages do not earn interest and are secured by deeds of trust on the houses. As of June 30, 2019, the total discount was \$4,246,736.

U.S. GAAP requires 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.

Prior to the fiscal year ended June 30, 2001, homebuyers purchased houses from Habitat at less than fair value with the equity amount determined as the difference between the purchase price and the fair value. Beginning with the fiscal year ended June 30, 2001, homebuyers purchased houses at fair value and Habitat discounts the mortgages receivable. Under both methods, homebuyers pay the equity over the life of their mortgages, typically between 20 and 30 years (not to exceed 40 years) or as the mortgages are repaid. If the homebuyers default on their mortgages, Habitat retains all or a portion of the equity in the house. If homebuyers wish to dispose of their property, Habitat retains the right of first refusal.

At June 30, 2019, the delinquencies in Habitat's mortgages receivables consisted of the following:

	0-29 Days Past Due	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Current	Total Mortgages Receivable
Mortgages receivable	<u>\$ 24,078</u>	<u>\$ 13,177</u>	<u>\$ 8,625</u>	<u>\$ 64,769</u>	<u>\$ 110,649</u>	<u>\$ 5,669,606</u>	<u>\$ 5,780,255</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. Habitat considers single family mortgage loans and consumer installment loans to be homogeneous and, therefore, does not generally evaluate them for impairment, unless they are considered troubled debt restructurings. All other loans are evaluated for impairment on an individual basis. AmeriNat services all of these mortgages.

Current changes in the mortgages receivable accounts are summarized as follows:

Beginning balance, June 30, 2018	\$ 5,831,150
New loans	605,928
Write-offs	(48,459)
Change in reserve	(64,584)
Payments received	<u>(543,780)</u>
Ending balance, June 30, 2019	<u>\$ 5,780,255</u>

HABITAT FOR HUMANITY OF GREATER GREENSBORO, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

Note 7—Property, plant, and equipment

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

ReStore:	
Land	\$ 750,000
Building	480,436
Building roof	275,706
Leasehold improvements	323,239
Office equipment	68,238
Vehicles	154,511
Equipment	86,791
Total ReStore	<u>2,138,921</u>
Office equipment	70,898
Vehicles	42,635
Leasehold improvements	264,227
Construction equipment	86,284
Total property, plant, and equipment	<u>464,044</u>
Less accumulated depreciation	<u>(674,934)</u>
Net property, plant, and equipment	<u>\$ 1,928,031</u>

Note 8—Notes payable and line of credit

Notes payable consisted of the following:

Line of credit with a bank up to \$800,000 secured by specific real estate; interest at Wall Street Journal Prime Rate (5.5% at June 30, 2019) plus 0.25%. Accrued interest on the line of credit is payable in monthly payments beginning February 2018. Any outstanding principal is to be paid in full along with any unpaid interest in January 2021.	\$ 242,752
Note payable to a bank secured by specific real estate; interest is variable between 5.00 to 5.75%. Accrued interest on the note is payable in monthly payments beginning May 2018. Principal is to be paid in full along with any unpaid interest on April 13, 2021.	335,000
Note payable to a bank secured by specific real estate; interest at Wall Street Journal Prime Rate (5% at June 30, 2019) plus 0.50%. Note is payable in 119 equal and consecutive monthly payments of principal and interest.	654,414
Various unsecured noninterest bearing notes payable to Habitat for Humanity International; monthly principal payments of approximately \$2,184 through June 2019, \$2,400 through June 2020, \$1,630 through June 2020, \$888 through June 2121, and \$216 through June 2023.	<u>48,655</u>
Total long-term notes payable	1,280,821
Less current portion	<u>(205,393)</u>
Long-term portion of notes payable	<u>\$ 1,075,428</u>

HABITAT FOR HUMANITY OF GREATER GREENSBORO, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

Note 8—Notes payable and line of credit (continued)

Estimated future maturities of notes payable are as follows:

Years Ending June 30:

2020	\$	205,393
2021		542,112
2022		77,482
2023		76,880
2024		79,243
Thereafter		299,711
	\$	<u>1,280,821</u>

The terms of the notes payable to Habitat for Humanity International contain financial reporting requirements. At June 30, 2019, Habitat was in compliance with these requirements.

Note 9—In-kind donations

For the year ended June 30, 2019, Habitat received in-kind donations totaling \$92,878. The donations are valued using estimated current market values for the items donated and have been included in both revenues and expenses.

Note 10—Lease

Habitat entered into a new lease for its administrative offices effective August 2017, with monthly payments due beginning December 2018 through November 2028, ranging from \$5,109 to \$6,074 over that period.

Habitat leases a warehouse in Greensboro with a lease term through April 2019, consisting of monthly payments from \$1,800 to \$2,000 over that term.

Habitat entered into a new lease for its second ReStore location effective January 2018, with monthly payments of \$14,500 due through April 2023.

Future minimum lease payments under operating leases that have remaining terms in excess of one year as of June 30, 2019 are as follows:

Fiscal Years Ending June 30:

2020	\$	256,213
2021		256,213
2022		259,214
2023		276,753
2024		276,753
Thereafter		949,337
	\$	<u>2,274,483</u>

Total rent expense for the year ended June 30, 2019 was \$252,269.

HABITAT FOR HUMANITY OF GREATER GREENSBORO, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

Note 11—Net assets with donor restrictions

Net assets with donor restrictions at June 30, 2019 consisted of the following:

Net Assets With Donor Restrictions:

Home sponsorship	\$ 441,357
Net donations for specific sponsored homes	28,454
Endowment funds	173,068
Scholarships	2,331
Pledges receivable, net	152,909
Mission trips	51,252
	<u>\$ 849,371</u>

Note 12—Related party transactions

Habitat, as an affiliate of Habitat for Humanity International (“International”), made contributions to International of \$46,982 for the year ended June 30, 2019. These contributions represent a portion of unrestricted donations received, plus additional amounts approved by Habitat’s Board of Directors and are used to support Habitat International’s programs in Honduras and Kenya.

Note 13—Endowment funds

Habitat follows the Uniform Prudent Management of Institutional Funds Act of 2006 as enacted by the state of North Carolina on March 19, 2009 (“SPMIFA”) and its own governing documents.

The Board of Directors of Habitat has interpreted the enacted versions of SPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, Habitat classifies as permanently or temporarily restricted net assets as (a) the original value of gifts donated to the permanent endowments, (b) the original value of subsequent gifts to the permanent endowments, or (c) accumulations to the permanent endowments made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Changes in the endowment funds for the year ended June 30, 2019 were as follows:

	With Donor Restrictions
Endowment funds, June 30, 2018	<u>\$ 165,058</u>
Investment returns:	
Interest and dividends	4,872
Net realized and unrealized gains	3,138
Total investment returns	<u>8,010</u>
Endowment funds, June 30, 2019	<u>\$ 173,068</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires Habitat to retain as a fund of perpetual duration. These deficiencies result primarily from unfavorable market fluctuations that occur during the year.

HABITAT FOR HUMANITY OF GREATER GREENSBORO, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

Note 13—Endowment funds (continued)

The value, liquidity, and related income of the securities held by the endowment funds is sensitive to changes in economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

Note 14—Escrow funds

Habitat held \$24,211, which had been collected from homebuyers by Habitat for payment of deposits towards closing costs as of June 30, 2019. This amount was held in a separate escrow account by Habitat.

Note 15—Grant audits

Habitat receives grant funds at times from various federal, state, and local governments. Such costs are subject to final approval by the grantor agencies and deficiencies, if any, are the responsibility of Habitat.

Note 16—Construction in process

During the year ended June 30, 2019, Habitat had 11 houses under construction which were still in progress at year-end. Houses under construction totaled \$1,000,775 as of June 30, 2019.

Note 17—Home sales

During the current year, Habitat sold 11 homes at a net income of the following:

Home sales	\$ 861,685
Contributions and in-kind related to home sales	988,060
Cost of construction	<u>(1,669,983)</u>
Net home sales	<u>\$ 179,762</u>

Note 18—Restatement of net asset classifications

During the year ended June 30, 2019, Habitat implemented ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. As part of the implementation of this standard, management reviewed all of their with and without donor restrictions net asset classifications. As a result, management identified \$496,768 of net assets previously classified as designated for specific home builds with donor restrictions as of July 1, 2017 that should have been classified as without donor restrictions. The effect of this adjustment as of July 1, 2017 was to increase net assets without donor restrictions by \$496,768 and decrease net assets with donor restrictions by the same amount.

Note 19—Subsequent events

Habitat has evaluated subsequent events through February 20, 2020, in connection with the preparation of these financial statements which is the date the financial statements were available to be issued.

Subsequent to June 30, 2019, Habitat entered into an agreement to accept a transfer of assets from the Rockingham Habitat for Humanity. The approximate value of assets in the form of mortgage receivables, buildable lots, and cash balances is \$200,000.

SUPPLEMENTARY INFORMATION

HABITAT FOR HUMANITY OF GREATER GREENSBORO, INC.
RESTORE SERVICES SCHEDULE OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

Revenues and Support:

Revenues	\$ 1,820,270
Cash donations	<u>4,172</u>
Total Revenues and Support	<u>1,824,442</u>

Operating Expenses:

Cost of inventory	146,285
Salaries and wages	608,801
Insurance	3,139
Interest expense	31,473
Utilities	71,704
Professional services	42,260
Depreciation and amortization	84,659
Marketing	32,870
Vehicle expense	54,851
Payroll taxes and benefits	201,071
Office expenses	40,141
Professional development	3,177
Information technology	18,266
Miscellaneous	13,670
Contract labor	55,424
Rent and maintenance	<u>196,003</u>
Total Operating Expenses	<u>1,603,794</u>
Revenues in Excess of Expenses	<u>\$ 220,648</u>