Habitat for Humanity of the Charlotte Region, Inc. and Subsidiaries

Consolidated Financial Statements and Other Financial Information

Years Ended June 30, 2020 and 2019

DIXON HUGHES GOODMAN LLP

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Independent Auditors' Report

Board of Directors of
Habitat for Humanity of the Charlotte Region, Inc. and Subsidiaries

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Habitat for Humanity of the Charlotte Region, Inc. and Subsidiaries (a North Carolina not-for-profit organization) (the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

DIXON HUGHES GOODMAN LLP

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2020 and 2019, 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.

Other Matters - Other Financial Information
Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2020, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Charlotte, North Carolina
October 26, 2020

	2020	2019
ASSETS		
Current assets:		
Cash	**$ 6,418,544**	$ 5,288,986
Restricted cash for Living Legacy fund	**36,507**	69,615
Restricted cash for escrow funds	**478,392**	569,818
Restricted cash for joint venture reserves	**250,402**	156,617
Funds held for others	**69,492**	46,567
Sales tax and other receivables	**477,818**	136,289
Inventory	**217,631**	219,961
Prepaid expenses	**207,836**	73,894
Current portion of non-interest-bearing mortgage loans receivable	**3,359,869**	2,699,029
Current portion of unconditional promises to give, net	**230,745**	362,109
Current portion of repair ministry receivables	**70,941**	61,568
Grants and other assistance receivable	**265,621**	242,885
Total current assets	**12,083,798**	9,927,338
Investments held at the Foundation for the Carolinas	**178,007**	51,377
Non-interest-bearing mortgage loans receivable, less discount	**29,405,496**	22,736,155
Unconditional promises to give, less discount	**156,071**	49,664
Repair ministry receivables, less discount and allowance	**23,245**	3,598
Investment in joint ventures	**5,367,257**	2,999,654
Real estate owned	**8,430,009**	6,816,724
New houses under construction	**3,664,456**	3,721,792
Property and equipment, net	**10,112,625**	6,521,776
Total assets	**$ 69,420,964**	$ 52,828,078

	2020	2019
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 1,235,326**	$ 895,218
Funds held for others	**69,492**	46,567
Escrow funds for taxes and insurance - mortgage escrow accounts	**478,392**	569,818
Deferred revenue	**71,169**	182,788
Refundable advance, paycheck protection program	**1,628,952**	-
Current portion of non-interest-bearing notes payable, less discount	**505,047**	521,083
Current portion of long-term debt	**1,286,119**	489,870
Total current liabilities	**5,274,497**	2,705,344
Non-interest-bearing notes payable, less discount	**5,419,820**	3,072,793
Long-term debt, less current portion, net of unamortized debt issuance costs, less discount	**16,576,765**	13,800,409
Total liabilities	**27,271,082**	19,578,546
Net assets:		
Without donor restrictions	**38,092,767**	30,816,997
With donor restrictions	**4,057,115**	2,432,535
Total net assets	**42,149,882**	33,249,532
Total liabilities and net assets	**$ 69,420,964**	$ 52,828,078

Habitat For Humanity of the Charlotte Region, Inc. and Subsidiaries
Consolidated Statements of Activities
Years Ended June 30, 2020 and 2019

	2020	2019
Revenues and other support without donor restrictions:		
Contributions	$ 3,181,285	$ 3,854,043
Donated property, materials and services	821,716	1,546,886
Total contributions	4,003,001	5,400,929
Home sale and repair income	6,724,151	6,755,076
Imputed interest income on non-interest-bearing mortgage loans receivable and repair ministry receivables	1,951,771	1,737,125
ReStore retail and coffee shop operations	4,671,241	5,489,072
Housing grants and other revenues	2,468,978	1,675,506
	19,819,142	21,057,708
Net assets released from restrictions	1,816,814	652,559
Revenues and other support without donor restrictions	21,635,956	21,710,267
Expenses:		
Program:		
Construction, supervision, and support	8,961,776	7,711,561
Cost of mortgage sales and securitization	-	301,485
ReStore retail and coffee shop operations	4,546,303	4,385,975
Family support	1,354,520	1,302,543
Repair ministry expenses	2,921,764	2,549,339
Interest expense, net	464,283	1,014,085
Support to Habitat International	296,197	416,601
Discount on current year below-market-interest mortgage loans, and repair ministry receivables	1,020,142	1,968,439
Advocacy expenses	158,645	161,529
	19,723,630	19,811,557
Management and general	1,042,487	798,670
Fundraising and public relations	1,512,316	1,345,519
Total expenses	22,278,433	21,955,746
Decrease in net assets without donor restrictions, before inherent contribution received	(642,477)	(245,479)
Inherent contribution of net assets without donor restrictions from Our Towns (Note 2)	7,918,247	-
Increase (decrease) in net assets without donor restrictions	$ 7,275,770	$ (245,479)

See accompanying notes.

Habitat For Humanity of the Charlotte Region, Inc. and Subsidiaries
Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2020 and 2019

	2020	2019
Net assets without donor restrictions:		
Increase (decrease) in net assets without donor restrictions	**$ 7,275,770**	$ (245,479)
Net assets with donor restrictions:		
Inherent contribution of restricted net assets from Our Towns (Note 2)	**443,894**	-
Restricted contributions	**2,997,812**	1,435,673
Investment return, net	**(312)**	1,527
Net assets released from restrictions	**(1,816,814)**	(652,559)
Increase in net assets with donor restrictions	**1,624,580**	784,641
Increase in net assets	**8,900,350**	539,162
Net assets, beginning of year	**33,249,532**	32,710,370
Net assets, end of year	**$ 42,149,882**	$ 33,249,532

Habitat For Humanity of the Charlotte Region, Inc. and Subsidiaries
Consolidated Statement of Functional Expenses
Years Ended June 30, 2020 and 2019 **(2 pages)**

	2020				
	Construction and Homeownership	Retail	Fundraising	Management and General	Total
Advertising and communications	$ 74,915	$ 287,935	$ 174,577	$ 35,289	$ 572,716
Bank fees	9,385	133,695	7,483	17,856	168,419
Cost of homes/goods sold	8,680,352	411,777	-	-	9,092,129
Depreciation and amortization	108,049	160,968	21,037	25,287	315,341
Facilities	88,518	927,233	12,803	15,837	1,044,391
Insurance	63,836	36,792	6,031	15,099	121,758
Interest expense	464,283	-	-	75	464,358
Miscellaneous	18,070	21,088	2,418	8,720	50,296
Mortgage discounts	1,020,142	-	-	-	1,020,142
Office operations	75,205	23,097	39,753	30,959	169,014
Professional fees/contract labor	200,638	68,033	169,325	232,499	670,495
Program expenses	62,988	-	-	-	62,988
Salaries and benefits	3,653,879	2,259,239	874,859	544,244	7,332,221
Special events	20,082	2,057	135,107	6,393	163,639
Technology	119,731	112,884	52,180	75,667	360,462
Habitat International Tithe & Support	296,198	-	-	-	296,198
Tools	61,080	4,110	-	-	65,190
Training, travel and dues	58,966	5,095	12,368	25,741	102,170
Vehicles	93,517	81,965	1,599	460	177,541
Volunteer and staff appreciation	7,493	10,335	2,776	8,361	28,965
	$ 15,177,327	$ 4,546,303	$ 1,512,316	$ 1,042,487	$ 22,278,433

See accompanying notes.

Habitat For Humanity of the Charlotte Region, Inc. and Subsidiaries
Consolidated Statement of Functional Expenses
Years Ended June 30, 2020 and 2019 **(2 pages)**

	2019				
	Construction and Homeownership	Retail	Fundraising	Management and General	Total
Advertising and communications	$ 53,725	$ 198,891	$ 109,026	$ 25,200	$ 386,842
Bank fees	8,109	144,592	13,129	13,570	179,400
Cost of homes/goods sold	7,821,298	547,543	-	-	8,368,841
Depreciation and amortization	67,830	128,909	14,039	22,360	233,138
Facilities	31,542	793,175	3,871	14,360	842,948
Insurance	83,904	32,240	-	28,364	144,508
Interest expense	1,014,085	-	-	-	1,014,085
Miscellaneous	58,372	13,228	-	12,086	83,686
Mortgage discounts	1,968,439	-	-	-	1,968,439
Office operations	31,278	30,038	94,029	18,820	174,165
Professional fees/contract labor	451,943	93,766	10,900	157,066	713,675
Program expenses	168,754	-	-	-	168,754
Salaries and benefits	2,906,909	2,214,963	790,730	417,475	6,330,077
Special events	28,878	2,036	236,324	4,743	271,981
Technology	101,541	75,139	35,227	46,192	258,099
Habitat International Tithe & Support	416,601	-	-	-	416,601
Tools	53,756	940	-	-	54,696
Training, travel and dues	74,491	9,211	29,699	19,013	132,414
Vehicles	64,555	88,601	2,696	1,046	156,898
Volunteer and staff appreciation	19,572	12,703	5,849	18,375	56,499
	$ 15,425,582	$ 4,385,975	$ 1,345,519	$ 798,670	$ 21,955,746

See accompanying notes.

	2020	2019 (As Adjusted)
Cash flows from operating activities:		
Increase in net assets	**$ 8,900,350**	$ 539,162
Adjustments to reconcile increase in net assets to net cash used by operating activities:		
Inherent contribution of net assets from Our Towns (Note 2)	**(8,362,141)**	-
Imputed interest income on non-interest-bearing mortgage loans and repair ministry receivables	**(1,951,771)**	(1,737,125)
Imputed interest expense on non-interest-bearing notes payable	**184,545**	801,836
Discount on current year non-interest-bearing mortgage loans, mortgages held for sale, and repair ministry receivables	**1,020,142**	1,968,439
Discount on current year below-market-interest notes payable	**(110,982)**	(228,682)
Provision for uncollectible repair ministry receivables	**6,749**	8,330
Provision for uncollectible promises to give	**11,081**	-
Depreciation	**315,341**	233,138
Amortization of debt issuance costs	**10,592**	7,947
Gain on sale of property and equipment	**(6,918)**	(4,842)
Net changes in operating assets and liabilities (exclusive of assets acquired and liabilities assumed from Our Towns):		
Mortgage loans receivable	**822,776**	(1,199,644)
Unconditional promises to give	**22,076**	540,957
Repair ministry receivables	**(15,657)**	5,134
Grant and other assistance receivable	**33,514**	(12,549)
Other receivables, prepaid expenses and other assets	**(302,270)**	26,002
Inventory	**2,330**	25,743
Houses under construction	**57,336**	(425,038)
Real estate owned	**(905,900)**	(3,729,117)
Accounts payable and accrued liabilities	**12,610**	(19,655)
Mortgage escrow accounts	**(91,426)**	(124,596)
Funds held for others	**12,252**	(7,918)
Deferred revenue	**(126,786)**	120,438
Refundable advance, paycheck protection program	**1,628,952**	-
Net cash provided (used) by operating activities	**1,166,795**	(3,212,040)

	2020	2019 (As Adjusted)
Cash flows from investing activities:		
Cash and restricted cash received from Our Towns (Note 2)	**777,663**	-
Acquisition of and improvements to property and equipment	**(1,104,628)**	(2,576,438)
Proceeds from sale of property and equipment	**6,918**	4,842
Net change in investments held at Foundation for the Carolinas	**2,640**	771
Investment in joint venture	**(2,367,603)**	-
Net cash used by investing activities	**(2,685,010)**	(2,570,825)
Cash flows from financing activities:		
Payments on long-term debt and non-interest-bearing notes payable	**$ (1,301,251)**	$ (994,510)
Proceeds from issuance of long-term debt and non-interest-bearing notes payable	**4,068,194**	4,053,900
Payment of debt issuance costs	**(126,994)**	(5,654)
Net cash provided by financing activities	**2,639,949**	3,053,736
Net increase (decrease) in cash and restricted cash	**1,121,734**	(2,729,129)
Cash and restricted cash, at beginning of year	**6,131,603**	8,860,732
Cash and restricted cash, at end of year	**$ 7,253,337**	$ 6,131,603
Reconciliation of cash and restricted cash to the consolidated statements of financial position:		
Cash	**$ 6,418,544**	$ 5,288,986
Restricted cash for Living Legacy fund	**36,507**	69,615
Restricted cash for escrow funds	**478,392**	569,818
Restricted cash for joint venture reserves	**250,402**	156,617
Funds held for others	**69,492**	46,567
	$ 7,253,337	$ 6,131,603
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	**$ 269,146**	$ 204,302
Supplemental disclosures of noncash investing and financing activities:		
Net assets contributed from Our Towns (Note 2)	**$ 8,362,141**	$ -

Notes to Consolidated Financial Statements

1. Description of Organization and Summary of Significant Accounting Policies

Habitat for Humanity of Charlotte, Inc. was incorporated on February 21, 1983, as an interdenominational not-for-profit organization whose purpose is to encourage, promote and assist in the building, redevelopment and repair of low-income housing in the Charlotte, North Carolina region. Habitat for Humanity of Charlotte, Inc. entered into an agreement and plan of merger with Our Towns of North Mecklenburg-Iredell Habitat for Humanity, Inc. effective February 29, 2020, to combine resources and serve more families in the Charlotte region. In connection, Habitat for Humanity of Charlotte, Inc. (as the surviving entity) changed its name to Habitat for Humanity of the Charlotte Region, Inc. ("Habitat" or the "Organization"). See Note 2 for additional information related to the merger.

Habitat sells housing to low-income persons at approximate cost utilizing non-interest-bearing mortgage loans. Habitat's repair ministry provides affordable repair services to homeowners utilizing non-interest-bearing loans. Habitat finances its operations through continuing contributions, mortgage and note payment receipts, retail net income, low interest loans, and local, state and federal grants. In 2015, Habitat formed three wholly owned subsidiaries, Habitat Charlotte Homes, LLC, Habitat Charlotte Properties, LLC, and HFHC Holdings, LLC for purposes of purchasing land and building the houses. In 2016, Habitat formed another wholly owned subsidiary, HFHC Funding, LLC, for the purposes of holding mortgages securitizing debt with financial institutions.

Habitat operates seven Habitat for Humanity ReStores (the "ReStores"), retail operations, where home furnishings, appliances, and other miscellaneous items are donated and then sold to the community at a greatly reduced price. Revenue is recognized by Habitat at the time the goods are sold. Due to the nature of the donated items, the value of the inventory is not recognized until sold. As part of operations at one of the ReStores, a coffee shop ("Julia's Coffee") is operated by employees and volunteers of the Organization. Both the ReStores and Julia's Coffee are operated with the sole purpose of generating funds to assist in the Organization's main purpose of building houses.

Basis of consolidation

The consolidated financial statements include the accounts of Habitat, Habitat Charlotte Homes, LLC, Habitat Charlotte Properties, LLC, HFHC Holdings, LLC, and HFHC Funding, LLC. All intercompany balances and transactions have been eliminated upon consolidation.

Basis of accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP") and accordingly reflect all significant assets, liabilities, revenues and expenses required by GAAP.

Classification of net assets

Net assets of the Organization are classified as net assets without donor restrictions or net assets with donor restrictions.

> ***Net assets without donor restrictions*** consist of 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*** consist of 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, where by 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 consolidated statements of activities.

GAAP provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutions Funds Act of 2006 ("UPMIFA"). UPMIFA is a model act approved by the Uniform Law Commission that serves as a guideline for states to use in enacting legislation. The state of North Carolina enacted a version of UPMIFA on March 16, 2009.

Contributions and support

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. The Organization recognizes as unrestricted revenue any donor-restricted contributions whose restrictions are met in the same reporting period the contribution was received and any related conditions were met.

Contributed services

A substantial number of volunteers have made significant contributions of their time to Habitat, principally in the areas of house construction, retail, administration and fundraising. The value of non-professional contributed time is not reflected in the accompanying consolidated financial statements. However, Habitat values donated professional services based on the market value of the service being provided. The market value of contributed professional services for the years ended June 30, 2020 and 2019 was approximately $60,000 and $63,000, respectively.

Houses under construction and real estate owned

Real estate, including pre-acquisition, acquisition, and development costs, building materials, and labor are recorded at cost when assets are acquired, or services are provided, as applicable, or at estimated fair market value when donated. Foreclosed homes purchased by the Organization are recorded at cost when the homes are acquired. A portion of overhead expenses is allocated to the cost of houses. No interest is capitalized as a cost of houses.

Reclaimed houses are recorded as a component of real estate owned at the outstanding mortgage balance at the date of reclamation if foreclosed or at the fair market value if repurchased. During the years ended June 30, 2020 and 2019, Habitat reclaimed ten and twenty houses, respectively, with aggregate recorded values of approximately $1,462,000 and $2,454,000 respectively.

One requirement of homeownership is to have demonstrated one year of independent living prior to closing. As some potential homebuyers have not had previous independent living experience, they are able to satisfy this requirement by renting the home. The Organization has recognized rental income of approximately $11,000 and $39,000 in the years ended June 30, 2020 and 2019, respectively.

Inventory

Inventory consists of building materials used during the home building process and is stated at the lower of cost (determined by the first-in, first-out method) or market. Also included in inventory are the supplies for the coffee shop, Julia's Coffee, as well as products purchased by the Organization for future sales at the ReStore locations.

Property and equipment

Property and equipment is carried at cost or, if donated, at the approximate fair value at the date of donation. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long such long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Depreciation of property and equipment is computed over useful lives using the straight-line method. Maintenance, repair costs and minor replacements are charged to expense as incurred.

The Organization primarily uses the straight-line method of depreciation over the estimated useful lives of the assets, as follows:

Land improvements	4 to 15 years
Buildings and improvements	10 to 40 years
Machinery and equipment	3 to 10 years

Income taxes

Habitat is exempt from federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code; accordingly, the accompanying consolidated financial statements do not reflect a provision or liability for federal and state income taxes. The Organization has determined that it does not have any material unrecognized tax benefits or obligations as of June 30, 2020 and 2019.

Cash

The Company considers deposits on account and investments with maturity dates less than three months at the time of purchase to be cash. As of June 30, 2020 and 2019, there were no investments included in the cash balance. At various times throughout the year, the Company has deposits in excess of amounts covered by federal depository insurance. Cash accounts at a financial institution are insured by the Federal Deposit Insurance Corporation up to $250,000. The uninsured portion of these accounts as of June 30, 2020 and 2019, totaled $6,881,629 and $5,454,516, respectively.

Restricted cash

Restricted cash consists of amounts held in deposit accounts that have been restricted by donors for investment in the Living Legacy Fund, for amounts held on behalf of mortgagors for payment of taxes and insurance, and for amounts reserved for compliance and servicing fees related to a joint venture.

Unconditional promises to give

Unconditional promises to give are recognized as revenues in the period received and as increases of assets or decreases of liabilities or expenses depending on the form of benefits received. Promises to give are recorded at their present value less an allowance for uncollectible promises to give. Pledges receivable are due at various dates through 2024. The gross long-term pledges receivable are discounted at a rate commensurate with the risks involved. This rate is 4.78% for the years ended June 30, 2020 and 2019. For the years ended June 30, 2020 and 2019, there was no allowance for uncollectible promises deemed necessary. The allowance for uncollectible promises to give is based upon a review of outstanding pledge receivables and historical collection information.

At June 30, 2020, the Organization had three contributors that accounted for approximately 32% of the outstanding unconditional promises to give. At June 30, 2019, the Organization had three contributors that accounted for approximately 55% of the outstanding unconditional promises to give.

Repair ministry receivables

Repair ministry receivables are recognized as revenues in the period the receivable is established and as increases of assets or decreases of liabilities or expenses depending on the form of benefits received. Repair ministry receivables are recorded at their present value less an allowance for uncollectible repair ministry receivables. Repair ministry receivables are due at various dates through 2025. The gross long-term repair ministry receivables are discounted at a rate commensurate with the risks involved. This rate is 7.38% and 7.66% for the years ended June 30, 2020 and 2019, respectively. For the years ended June 30, 2020 and 2019, the Organization had an allowance for repair ministry receivables of approximately $128,000 and $121,000, respectively. The allowance for repair ministry receivables is based upon a review of outstanding repair ministry receivables and historical collection information.

Mortgage loans receivable

The Organization records and accounts for mortgage loans receivable based on the present value of the loan at the time of closing. For purposes of calculating loan present values, interest rates are determined based on the market rates for a similar type of loan on the date of closing and range from 5.22% to 8.14% for all loans outstanding. This method of accounting properly reflects the value of the mortgage loans receivable in the consolidated financial statements and recognizes interest income over the life of the loans. An expense is recorded upon the sale of houses for the difference between the face value of the mortgage loans receivable and the present value of the loans. The Organization has not established an allowance for doubtful accounts as it can reclaim houses through foreclosure in the event that a loan is deemed to be uncollectible, and management believes any reclaimed house can be resold at or above the amount of unpaid, discounted loan principal plus costs to sell the home. Mortgage loans receivable are generally considered delinquent when payment is thirty days past due; however, delinquency status may be mitigated by other qualitative factors.

Grants and other assistance receivable

The Organization is a beneficiary of grants from various federal, state, and local government entities. The Organization recognizes grant revenue as eligible expenditures are made. A portion of grants receivable represents that portion of grant revenue recognized, but not yet collected.

During the years ended June 30, 2020 and 2019, the Organization received restricted grants totaling $3,651,500 and $375,000, respectively, that contained donor conditions. Since these grants represent conditional promises to give, they are not recorded as contribution revenue until donor conditions are met. The grant funds are received from the donors under reimbursement arrangements, and accordingly, no funds are received in advance of the conditions being met. During the years ended June 30, 2020 and 2019, contribution revenues recorded under such grants amounted to $1,662,443 and $966,388, respectively.

Investments in joint ventures

The Organization's investments in the New Markets Tax Credit joint ventures (see Note 16) are accounted for under the cost method or the equity method, depending upon the Organization's respective ownership interest in the joint venture, and the ability to exercise significant influence over the activities of the joint ventures. Whether or not the Organization exercises significant influence with respect to a specified investment depends on an evaluation of several factors including, among others, representation on the joint venture partnership's board of directors and ownership level, which is generally a 20% to 50% interest in the voting securities of the respective joint venture. Investments for which the Organization does not have the ability to exercise significant influence over the activities of the joint venture are recorded under the cost method, with the investment recorded at transaction cost, and distributions received from the investment reported as revenue on the consolidated statement of activities. Investments for which the Organization does have the ability to exercise significant influence over the activities of the joint venture are recorded under the equity method, with the investment recorded at transaction cost, with distributions received from the investment reported as direct reductions in the investment. Under the equity method, the Organization's equity in the net income or loss of the investment is also recorded as investment gain or loss.

Functional expenses

The costs of providing program and supporting services have been summarized on a functional basis in the consolidated statement of functional expenses. Accordingly, certain costs have been allocated between the program and supporting services benefited. Directly identifiable expenses are charged to the appropriate programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of estimates made by management.

Estimates

The preparation of the consolidated financial statements in accordance with 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent accounting pronouncements

Effective July 1, 2019, the Organization has adopted Accounting Standards Update ("ASU") 2016-18, *Statement of Cash Flows (Topic 230)*, which amends current presentation guidance by requiring the statement of cash flows to explain the change during the year in the total of cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. This guidance is intended to improve the classification and presentation of changes in restricted cash on the statements of cash flows and will provide more consistent application of GAAP by reducing diversity in practice. The ASU also requires an entity to disclose information about the nature of restricted cash. The consolidated statement of cash flows as of June 30, 2019 has been adjusted to reflect retrospective application of the new accounting guidance. Previously, the Organization reflected changes in the restricted cash for funds held for others, and mortgage escrow accounts in operating activities. The Organization has retrospectively removed these items from their respective sections in the statement of cash flows, resulting in an increase in cash used by operating activities for the year ended June 30, 2019 from $3,079,526 as previously reported to $3,212,040. In addition, total ending cash presented on the statement of cash flows as of June 30, 2019 increased from $5,515,218 (exclusive of restricted cash for escrow funds and funds held for others) as previously reported to $6,131,603 (inclusive of restricted cash for escrow funds and funds held for others).

Effective July 1, 2019, the Organization adopted ASU No. 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, using the modified prospective approach. The new standard clarifies the accounting for conditional and unconditional contributions and related nonexchange transactions under Topic 958. The implementation of this standard did not have a material effect on the financial statements.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of this standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The FASB issued four additional standards that amended and/or clarified certain guidance and provisions in ASU 2014-09, all of which were originally effective for the Organization on July 1, 2019. Management analyzed the effect of the adoption and concluded that the adoption of this ASU will not have a material impact on the Organization's financial statements. The majority of the Organization's revenue arrangements generally consist of a single performance obligation to transfer promised goods or services. Based on the Organization's evaluation process and review of its contracts with customers, the timing and amount of revenue recognized under current standards is consistent with how revenue is recognized under the new standard. In June 2020, FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842),* which, among other things, provided entities with the option to defer the required effective date of ASU 2014-09 to fiscal years beginning after December 15, 2019. Accordingly, the Organization has elected to defer the implementation of ASU 2014-09 to fiscal year 2021.

Subsequent events

The Organization evaluated the effect subsequent events would have on the consolidated financial statements through October 26, 2020, which is the date the consolidated financial statements were available to be issued.

2. Acquisition of Habitat Affiliate

In accordance with an agreement and plan of merger, effective February 29, 2020, the Organization filed Articles of Merger of Our Towns of North Mecklenburg-Iredell Habitat for Humanity, Inc. ("Our Towns") into the Organization, which simultaneously changed its name to Habitat for Humanity of the Charlotte Region, Inc. No consideration was transferred by Habitat for Humanity of Charlotte, Inc. related to the transaction. Effective February 29, 2020, all assets and liabilities of Our Towns were assumed by Habitat for Humanity of the Charlotte Region, Inc. Strategically aligning allows the new entity to further invest in land opportunities, leverage increased purchasing power, and reduce administrative costs.

In accordance with GAAP, the Organization accounted for the transaction as an acquisition by a not-for-profit entity, with Our Towns' identifiable assets and liabilities measured at estimated fair value as of the transaction date.

The following table summarizes the amounts of the assets acquired and liabilities assumed recognized at the acquisition date:

Assets acquired:	
Cash and investments	$ 906,933
Mortgages receivable	7,216,838
Other receivables	120,874
Prepaid expenses	141,379
Property, plant & equipment	2,801,562
Real estate owned	707,385
Total assets acquired	11,894,971
Liabilities assumed:	
Accounts payable and accrued liabilities	327,498
Deferred revenue	15,167
Funds held for others	10,673
Long-term debt	3,179,492
Total liabilities assumed	3,532,830
Inherent contribution received	$ 8,362,141

On the consolidated statements of activities and changes in net assets, the inherent contribution received is recorded as an increase in net assets without donor restrictions of $7,918,247, and an increase in net assets with donor restriction of $443,894.

The fair value of mortgages receivable acquired is $7,216,838. The gross amount due under the mortgages receivable at the acquisition date amounted to $12,460,275, all of which is considered collectible.

3. Liquidity and Availability

As part of its liquidity management, the Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The following schedule explains the Organization's financial assets to meet cash needs for general expenditures within one year. The financial assets were derived from the total assets on the statements of financial position by excluding the assets that are unavailable for general expenditures for the 12 months following June 30, 2020 and 2019.

	2020	2019
Financial assets at year-end:		
Cash	**$ 6,418,544**	$ 5,288,986
Current portion of mortgages receivable, net	**3,359,869**	2,699,029
Current portion of unconditional promises to give, net	**230,745**	362,109
Other current receivables	**743,439**	379,174
Total financial assets	**10,752,597**	8,729,298
Less amounts not available to be used within one year:		
Current portion of mortgages receivable, net, included in net assets with donor restrictions	**(80,604)**	(63,252)
Financial assets available to meet general expenditures over the next twelve months	**$ 10,671,993**	$ 8,666,046

In addition, the Organization has a $600,000 line of credit available to be drawn on through March 1, 2021 (see Note 11).

4. Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2020 and 2019 are available for the following purposes:

	2020	2019
Purpose or time restricted:		
Unconditional promises to give for future construction	**$ 148,042**	$ 301,215
Adopt a Home	**100,000**	206,000
Critical Home Repair	**860,667**	182,897
New home construction	**657,825**	-
Apprentices	**240,000**	-
URP grant funds	**7,327**	-
Knight Foundation grant	**15,655**	15,655
Hurricane relief	**7,635**	7,535
Contributions for international partners	**31,369**	23,051
Mortgage relief funds	**85,000**	-
Morris field development	**35,000**	-
ReStore capital improvements	**34,074**	-
Workforce development	**11,845**	-
Miscellaneous	**10,500**	60,000
	$ 2,244,939	$ 796,353

Permanently restricted:		
Endowments held at The Foundation for the Carolinas	**$ 178,007**	$ 51,377
Living Legacy	**1,634,169**	1,584,805
	$ 1,812,176	$ 1,636,182

5. Housing Activities

During the year ended June 30, 2020, Habitat started 51 new houses, and received no houses through donation. During the year ended June 30, 2019, Habitat started 43 new houses, and received no houses through donation. Completed houses were either sold at appraised value or held in inventory at cost, as real estate owned, pending sale.

At June 30, 2020 and 2019, respectively, Habitat had 33 and 32 houses under construction on land owned by Habitat. At June 30, 2020 and 2019, there were 0 and 2 vacant foreclosed houses held in inventory with a book value of approximately $0 and $148,000, respectively. Sales of houses were approximately $6,630,000 and $6,654,000 during the years ended June 30, 2020 and 2019, respectively.

As of June 30, 2020, scheduled annual mortgage receipts are approximately:

2021	$ 3,359,869
2022	3,163,421
2023	3,067,437
2024	2,972,853
2025	2,871,182
Thereafter	37,288,335
	52,723,097
Less discount	(19,957,732)
	$ 32,765,365

Effective March 23, 2018 the Organization entered into a Loan Origination Agreement with Charlotte Metro Federal Credit Union. In accordance with the agreement, Charlotte Metro Federal Credit Union (“CMFCU”) committed to originating mortgage loans for homes sold by the Organization to qualified low-income individuals and families, in the aggregate amount of $3,000,000 plus or minus 5%, at a rate of $1,000,000 per year beginning on March 1, 2018. The Organization is responsible for servicing the loans. The Organization, if requested by CMFCU, must either purchase or provide a substitute mortgage loan, for any mortgage loans delinquent more than 60 days under the agreement. As of June 30, 2020, 23 mortgage loans have been originated under the agreement with CMFCU.

Effective September 28, 2018 the Organization entered into a Loan Origination Agreement with First Bank. In accordance with the agreement, First Bank committed to originating mortgage loans for homes sold by the Organization to qualified low-income individuals and families, in the aggregate amount of $3,000,000 plus or minus 5%, at a rate of $1,000,000 per year beginning on January 1, 2019. The Organization is responsible for servicing the loans. The Organization, if requested by First Bank, must either purchase or provide a substitute mortgage loan, for any mortgage loans delinquent more than 60 days under the agreement. As of June 30, 2020, 10 mortgage loans have been originated under the agreement with First Bank.

Effective June 25, 2019 the Organization entered into a Loan Origination Agreement with South State Bank. In accordance with the agreement, South State Bank committed to originating mortgage loans for homes sold by the Organization to qualified low-income individuals and families, in the aggregate amount of $4,500,000 plus or minus 5%, at a rate of $1,500,000 per year beginning on January 1, 2020. The Organization, if requested by South State Bank, must either purchase or provide a substitute mortgage loan, for any mortgage loans delinquent more than 60 days under the agreement. As of June 30, 2020, 4 mortgage loans have been originated under the agreement with South State Bank.

6. Leasing Activities

The Organization purchased eight condos during the year ended June 30, 2019 as a part of a plan for future development. All eight condos were being rented at the time of the purchase. As of June 30, 2020 and 2019, one condo and four condos, respectively, are under yearly lease contracts while seven condos and four condos, respectively, are currently leased on a month-to-month basis. As the remaining leases expire, the agreements will not be renewed but the leasing will continue on a month-to-month basis. The condos are recorded as real estate owned in the amount of $440,000 on the consolidated statement of financial position, as improvements are being made to the condos, which will eventually be sold to homeowners. Minimum future rentals on noncancelable operating leases with original terms of one year or longer (excluding contingent rentals) total $3,360 at June 30, 2020, all of which is receivable during the year ending June 30, 2021.

7. Unconditional Promises to Give

As of June 30, 2020, unconditional promises to give are expected to be collected as follows:

2021	$ 230,745
2022	63,430
2023	51,570
2024	45,948
2025	10,390
	402,083
Less discount	(15,267)
Total	$ 386,816

8. Repair Ministry Receivables

As of June 30, 2020, repair ministry receivables are expected to be collected as follows:

2021	$ 83,561
2022	50,867
2023	44,569
2024	36,540
2025	20,245
	235,782
Less discount	(13,516)
Less allowance for uncollectible repair ministry receivables	(128,080)
Total	$ 94,186

9. Property and Equipment

A summary of property and equipment at June 30, 2020 and 2019 is as follows:

	2020	2019
Land	**$ 3,838,017**	$ 2,773,626
Office building renovation in process	**-**	1,751,785
Automobiles	**494,171**	359,291
Tools	**131,514**	100,078
Equipment	**132,201**	130,429
Computer equipment	**429,709**	423,054
Leasehold improvements	**442,931**	336,776
Real property	**6,399,402**	2,093,481
	11,867,945	7,968,520
Less accumulated depreciation	**(1,755,320)**	(1,446,744)
Property and equipment, net	**$ 10,112,625**	$ 6,521,776

10. Notes Payable and Long-Term Debt

Notes payable and long-term debt at June 30, 2020 and 2019 consist of the following:

	2020	2019
North Carolina Housing Financing Agency ("NCHFA"), non-interest-bearing notes, payable in monthly installments ranging from $56 to $222, maturing through March 2050	**$ 7,409,832**	$ 4,422,804
Self-Help Homeownership Opportunity Program ("SHOP"), non-interest-bearing notes, payable in monthly installments ranging from $21 to $1,586, maturing through November 2026	**374,423**	242,330
Bank of North Carolina loan, payable in monthly installments of $9,264, including interest at 2.00%, secured by mortgages receivable on homes, maturing through August 2045	**1,396,102**	1,588,791
First Bank loan, payable in monthly installments of $2,952, including interest at 2.50%, secured by mortgages receivable on homes, maturing through September 2044	**424,294**	448,778
Bank of America Community Development loan, payable in quarterly installments of $41,667, including interest at 3.00%, unsecured, maturing through September 2028	**1,374,998**	1,541,665
First Bank loan, payable in monthly installments of $2,664, including interest at 2.50%, secured by mortgages receivable on homes, maturing through August 2047	**550,529**	568,489
People's Bank loan, payable in monthly installments of $14,679, including interest at 2.00%, secured by mortgages receivable on homes, maturing through June 2046	**2,336,934**	2,464,952

	2020	2019
People's Bank loan, payable in monthly installments of $6,620, including interest at 3.55%, secured by mortgages receivable on homes, maturing through December 2020	**$ 695,583**	$ -
Loan payable to HFHI HMTC Sub-CDE II, LLC, interest only payments due semi-annually beginning in October 2017 and principal and interest payments beginning in October 2024, interest at 0.68%, maturing through July 2047 (see Note 16)	**4,435,278**	4,435,278
Loan payable to USBCDE Sub-CDE 200, LLC, interest only payments due semi-annually beginning in June 2020 and principal and interest payments beginning in December 2027, interest at 1.02%, maturing through January 2040 (see Note 16)	**3,300,000**	-
South State Bank loan in the maximum amount of $2,100,000, secured by land and building of the Wendover ReStore and 3816 Latrobe Drive; interest only payments for 36 consecutive months beginning December 1, 2018 at a fixed interest rate of 4.00%; beginning January 1, 2022, the loan will be payable in equal monthly payments of principal and interest in the amount required to repay the loan in full amortized over a seven year term, maturing ten years following the closing date on November 1, 2028	**1,798,988**	1,498,988
HomeTrust Bank loan, payable in monthly installments of $9,625, including interest at 2.00%, secured by mortgages receivable on homes, maturing through August 2046	**1,895,407**	1,972,165
	25,992,368	19,184,240
Less discount	**(1,859,388)**	(1,071,258)
Less unamortized debt issuance costs	**(345,229)**	(228,827)
	23,787,751	17,884,155
Less current portion	**(1,791,166)**	(1,010,953)
	$ 21,996,585	$ 16,873,202

Amortization of the discount is reported in the Statement of Activities as interest expense. Total interest cost incurred was $466,814 and $1,014,085, respectively, for the years ended June 30, 2020 and 2019, net of amounts capitalized of $30,646 and $40,306, respectively.

Interest rates used to discount the notes were determined based on the market rates for similar types of notes on the origination dates. Management determined the following interest rates to be reasonable:

	2020	2019
NCHFA	**2.85% - 3.73%**	4.37% - 4.71%
SHOP	**2.27% - 4.21%**	4.45%

The terms of the South State Bank mortgage payable, which is secured by the land and building of the Wendover ReStore and 3816 Latrobe Drive, requires the Organization to maintain a ratio of funded debt to unrestricted net assets (net assets without donor restrictions) not to exceed 1.0. In addition, the Organization is subject to certain financial-related covenants related to the Bank of America Community Development loan, including maintaining total net assets of at least 40% of total assets. At June 30, 2020 and 2019, the Organization is in compliance with these requirements.

Scheduled maturities for debt outstanding at June 30, 2020, for each of the next five years are as follows:

2021	$ 1,791,166
2022	958,127
2023	947,247
2024	941,035
2025	1,081,785
Thereafter	20,273,008
	$ 25,992,368

11. Line of Credit

The Organization has a $600,000 line of credit from Bank of America N.A. The line of credit bears interest at the British Bankers' Association LIBOR 30-day rate (approximately 0.16% at June 30, 2020) plus 2.2%. The line of credit expires on March 1, 2021. At June 30, 2020 and 2019, no amounts had been drawn on this line of credit.

12. Operating Leases

The Organization leases the space for 5 ReStores, with various lease terms expiring from July 2020 through January 2025. The monthly base lease payments range from $8,337 to $14,628, plus taxes, insurance, and common area maintenance charges where applicable in accordance with the leases. As of June 30, 2020 and 2019, the deferred rent liability related to these leases amounted to $110,972 and $105,980, respectively. Other equipment is leased under various operating leases through October 2024. Rent expense was approximately $693,000 and $541,000 for the years ended June 30, 2020 and 2019, respectively.

Future minimum lease payments are as follows:

2021	$ 971,331
2022	699,822
2023	528,912
2024	279,383
2025	96,145
Thereafter	-
	$ 2,575,593

13. Paycheck Protection Program Loan

On May 1, 2020, the Organization was granted a loan of $1,628,952 from South State Bank under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after twenty-four weeks (the "covered period") as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the Organization terminates employees or reduces salaries during the twenty-four-week period. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The Organization intends to use the proceeds for purposes consistent with the terms of the PPP, and management believes the conditions of the loan forgiveness will be substantially met during the year ending June 30, 2021.

The Organization has accounted for the PPP loan as a conditional contribution. As of June 30, 2020, the Organization is still in the covered period, and has not yet applied for forgiveness of the loan. Accordingly, as of June 30, 2020, the entire $1,628,952 balance of the loan has been recorded as a refundable advance on the consolidated statements of financial position, as the conditions of the contribution have not yet been met.

14. Endowment Funds

According to the governing agreement, the endowment funds held by Foundation for the Carolinas (the "FFTC") are the property of FFTC. However, as Habitat may collect its donor advised account balances on request and is considered to be the beneficiary of the endowment funds, these amounts are shown as investments on the accompanying statements of financial position. The funds held by FFTC include mutual funds, hedge funds and alternative investments. Investment gains and losses flow through net assets with donor restrictions.

The Board of Directors of the FFTC has absolute authority and discretion as to the investment and reinvestment of the assets of the fund. The Organization utilizes earnings from the fund to assist with operations. The entirety of the endowment funds are permanently restricted and held by the FFTC.

Changes in endowment net assets for the years ended June 30, 2020 and 2019 are as follows:

	2020	2019
Endowment net assets, beginning of year	**$ 51,377**	$ 52,148
Investment return:		
Realized gains (losses)	**1,227**	2,027
Total investment return	**1,227**	2,027
Fees	**(1,539)**	(500)
Grants approved	**(2,328)**	(2,298)
Acquisition of Our Towns endowment net assets	**129,270**	-
Net increase (decrease)	**126,630**	(771)
Endowment net assets, end of year	**$ 178,007**	$ 51,377

15. Fair Value Measurements

Fair value as defined under GAAP is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Organization utilizes market data or assumptions that market participants would use in pricing the asset or liability. GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The Organization has investments in endowment funds which are measured at fair value on a recurring basis. The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

The Organization recognizes transfers between levels in the fair value hierarchy at the end of the reporting period. For the year ended June 30, 2020, there were no transfers between fair value levels. There were no changes in the valuation methodologies used in the fair value hierarchy for the years ended June 30, 2020 and 2019, respectively.

Endowment funds

Fair values for the endowment funds are based on the values of the underlying investments held by the funds at any given time. The underlying investments within the funds are made up of items including mutual funds, marketable securities, hedge funds, common collective trusts, and alternative investments. The investments in the endowment funds fall into the Level 3 category based on the lowest level of any input in the endowment investments that is significant to the fair value measurements. The investment accounts are held at the Foundation for the Carolinas on behalf of the Organization. Prices or valuations require using significant unobservable inputs in determining fair value. The inputs into the determination of fair value require significant judgment or estimation by the investment manager. The investment manager uses either the market approach, which generally consists of using comparable market transactions, or the income approach which generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors. The inputs used by the investment manager in estimating the value of Level 3 investments include the Net Asset Value ("NAV") and capital account values provided by the managers for investment fund positions, original transaction price, recent transaction in the same or similar instruments for private equity positions, original transaction price for the common stock position and a single broker quote for the corporate bond position.

The following table sets forth by level within the fair value hierarchy the Organization's financial assets and liabilities accounted for at fair value on a recurring basis as of June 30, 2020 and 2019. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

	As of June 30, 2020			
	Level 1	Level 2	Level 3	Fair Value
Endowment fund	$ -	$ -	$ 178,007	$ 178,007

	As of June 30, 2019			
	Level 1	Level 2	Level 3	Fair Value
Endowment fund	$ -	$ -	$ 51,377	$ 51,377

The table below sets forth a summary of changes in the fair value of the Organization's Level 3 assets that use significant unobservable inputs (Level 3 measurements) for the years ended June 30, 2020 and 2019:

	Endowment Fund	
	2020	2019
Balance, beginning of year	**$ 51,377**	$ 52,148
Additions	**129,270**	-
Realized gains	**1,227**	2,027
Expenditures	**(3,867)**	(2,798)
Balance, end of year	**$ 178,077**	$ 51,377

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

16. New Market Tax Credits and Associated Joint Ventures

On July 19, 2017, and January 17, 2020 the Organization closed on separate New Market Tax Credit ("NMTC") transactions involving U.S. Bancorp Community Development Corporation (USBCDC), its related entities and agents. The NMTC program was established as part of the Community Renewal Tax Relief Act of 2000. The goal of the NMTC program is to spur revitalization efforts of low-income and impoverished communities across the United States and its Territories by providing tax credit incentives to investors in a certified community development entity. The tax credit for investors equals 39% of the investment, which is credited over a seven-year period. A community development entity is required to participate and has a primary mission of providing financing for revitalization projects in low-income communities.

NMTC financing allows organizations such as affiliates of Habitat for Humanity International to receive low-interest loans or investment capital from community development entities, primarily financial institutions, which allow their investors to receive tax credits to be applied against their federal tax liability.

The following is a summary of the NMTC transaction entered into during the year ended June 30, 2018:

HFHI NMTC Leverage Lender 2016-1, LLC

In July 2017 the Organization acquired a 24.40% membership interest in HFHI NMTC Leverage Lender, LLC (the "LLC") in exchange for a cash investment of $2,999,654. The LLC was formed to provide financing for the borrower's equity investment in a community development entity - HFHI NMTC Sub-CDE II, LLC ("CDE"), and is solely managed by a third party. Accordingly, the LLC entered into a Loan Agreement to lend $12,292,681 to Twain Investment Fund 250, LLC. ("Borrower"). The Borrower used the loan proceeds as its equity investment in the CDE which, in turn, used the proceeds of the Borrower's equity investment to fund the loans to the members of the LLC, including Habitat for Humanity of the Charlotte Region, Inc. Effective November 2, 2017, the operating agreement of the LLC was amended to admit additional members, reducing Habitat for Humanity of the Charlotte Region, Inc.'s membership interest to 13.88%.

The LLC's loan receivable bears interest at a rate of 1% per annum. The loan receivable matures on July 19, 2040 and requires semi-annual accrued interest payments until November 10, 2024 and semi-annual principal and interest payments commencing on November 10, 2024 sufficient to fully amortize the loan. Simultaneous with these transactions, the LLC entered into an Option Agreement with USBCDC to put the ownership interest in the Borrower for $1,000 commencing 15 calendar days after the end of the seven-year credit period applicable to each qualified equity investment made by the Borrower in the CDE, beginning on the first credit allowance date and ending on the last day prior to the seventh anniversary of the last credit allowance date and continuing for six months, or call the ownership interest for a 12-month period following the expiration of the Put Option at fair market value.

Loan payable - HFHI NMTC Sub-CDE II, LLC

As a component of the NMTC transaction, the Organization received a loan of $4,435,278 from the CDE and entered into a Loan and Security Agreement ("Agreement") dated July 19, 2017. The Organization is obligated under the Agreement and related Promissory Note to pay interest on the borrowings at a rate of 0.68% per annum with a maturity date of July 19, 2047. Commencing on November 5, 2017 and semi-annually until May 5, 2024, the Organization is required to make payments of accrued interest. Commencing on November 5, 2024 and semi-annually thereafter, the Organization is required to make equal principal and interest payments in an amount to fully amortize the loan by its maturity date. Pursuant to the Agreement, the Organization is required to comply with the NMTC requirements as generally set forth in the Internal Revenue Code ("IRC") Section 45D, including that the Organization maintain a Separate Business such that the Separate Business will qualify as a qualified active low-income community business as defined in IRC Section 45D. Only the Separate Business assets of the Organization were pledged as security under the Agreement to the CDE.

In accordance with the Agreement, the Organization is required to maintain a separate Affiliate Expense Reserve, which is used to pay compliance and servicing fees to Habitat for Humanity International in semi-annual installments. The initial required funding under the Agreement as it relates to the Organization was $221,663. As of June 30, 2020 and 2019, the balance of the Affiliate Expense Reserve was $127,013 and $156,617, respectively, and is included in restricted cash for joint venture reserves on the consolidated statements of financial position.

Upon exercise of the put/call option, the promissory notes will become the property of the LLC. The exercise will effectively allow the Organization to extinguish the outstanding debt and realize its joint venture investment and note receivable without further cash flow activity.

The following is a summary of the NMTC transaction entered into during the year ended June 30, 2020:

Charlotte-Paterson Leverage I, LLC

In January 2020 the Organization acquired a 38.82% membership interest in Charlotte-Paterson Leverage I, LLC (the "LLC") in exchange for an investment of $2,367,603. The LLC was formed to provide financing for the borrower's equity investment in a community development entity - USBCDE Sub-CDE 200, LLC ("CDE"), and is solely managed by a third party. Accordingly, the LLC entered into a Loan Agreement to lend $6,098,373 to Twain Investment Fund 452, LLC. ("Borrower"). The Borrower used the loan proceeds as its equity investment in the CDE which, in turn, used the proceeds of the Borrower's equity investment to fund the loans to the members of the LLC, including Habitat for Humanity of the Charlotte Region, Inc.

The LLC's loan receivable bears interest at a rate of 1% per annum. The loan receivable matures on January 17, 2040 and requires semi-annual accrued interest payments until June 17, 2027 and semi-annual principal and interest payments commencing on December 17, 2027 sufficient to fully amortize the loan. Simultaneous with these transactions, the LLC entered into an Option Agreement with USBCDC to put the ownership interest in the Borrower for $1,000, plus any income taxes, state or local transfer taxes, or other closing costs attributable to the exercise of the put, plus any amounts due and owing to USBCDC or the Borrower from the LLC or is affiliates, commencing the first day following the end of the tax credit investment period, and/or upon the occurrence of a tax credit recapture, or call the ownership interest for a 6-month period following the expiration of the Put Option at fair market value.

Loan payable – USBCDE Sub-CDE 200, LLC

As a component of the NMTC transaction, the Organization received a loan of $3,300,000 from the CDE and entered into a Loan and Security Agreement ("Agreement") dated January 17, 2020. The Organization is obligated under the Agreement and related Promissory Note to pay interest on the borrowings at a rate of 1.0234% per annum with a maturity date of January 17, 2040. Commencing on June 5, 2020 and semi-annually until June 5, 2027, the Organization is required to make payments of accrued interest. Commencing on December 5, 2027 and semi-annually thereafter, the Organization is required to make equal principal and interest payments in an amount to fully amortize the loan by its maturity date. Pursuant to the Agreement, the Organization is required to comply with the NMTC requirements as generally set forth in the Internal Revenue Code ("IRC") Section 45D, including that the Organization maintain a Separate Business such that the Separate Business will qualify as a qualified active low-income community business as defined in IRC Section 45D. Only the Separate Business assets of the Organization were pledged as security under the Agreement to the CDE.

In accordance with the Agreement, the Organization is required to maintain a separate Expense Reserve account, which is used to pay advisory, servicing fees, and administrative costs to Smith NMTC Associates, LLC in annual installments. The initial required funding under the Agreement as it relates to the Organization was $129,750. As of June 30, 2020, the balance of the Expense Reserve was $123,389, and is included in restricted cash for joint venture reserves on the consolidated statements of financial position.

Upon exercise of the put/call option, the promissory notes will become the property of the LLC. The exercise will effectively allow the Organization to extinguish the outstanding debt and realize its joint venture investment and note receivable without further cash flow activity.

17. Living Legacy Fund

The Living Legacy Fund is a permanently restricted fund that finances mortgages for Habitat homeowners and invests mortgage payments back into the future mortgage financing. Unlike an endowment fund, the Organization invests the principal immediately in mortgages for new housing. Contributions to the Living Legacy Fund of $49,363 were made during the year ended June 30, 2020. The balance of this fund includes $36,507 of cash on hand and $1,597,662 of mortgages receivable as of June 30, 2020. Contributions to the Living Legacy Fund of $182,450 were made during the year ended June 30, 2019. The balance of this fund includes $69,615 of cash on hand and $1,515,190 of mortgages receivable as of June 30, 2019.

18. Retirement Plan

The Organization maintains a retirement savings plan (the "Plan") under the terms of Section 403(b) of the Internal Revenue Code. All salaried employees over the age of 18 are eligible to participate upon hire date. In accordance with the Plan document, the Organization, at the discretion of management, may provide matching contributions equal to 100% of the employee's pre-tax contributions, up to 3% of eligible compensation. During the years ended June 30, 2020 and 2019, the Organization contributed approximately $150,000 and $127,000 respectively.

19. Related-Party Transactions

The Organization pays quarterly tithes and management service fees to Habitat for Humanity International (“HFHI”), an affiliate of the Organization. The Organization paid approximately $280,000 and $393,000 to HFHI to support HFHI’s international work for the years ended June 30, 2020 and 2019, respectively. In addition, the Organization paid approximately $188,800 and $181,100 to HFHI for AmeriCorps volunteers serving at the Organization for the years ended June 30, 2020 and June 30, 2019, respectively.

As of June 30, 2020, and June 30, 2019, the Organization had a payable balance due to HFHI of approximately $45,000 and $61,000, respectively.

20. Summary Disclosure of Significant Contingencies

COVID-19

In March 2020, the World Health Organization declared the outbreak of a novel strain of the coronavirus (“COVID-19”) to be a pandemic. The COVID-19 pandemic is having widespread, rapidly evolving, and unpredictable impacts on global society, economies, and business practices. Federal and state governments have implemented measures in an effort to contain the virus, including social distancing, travel restrictions, border closures, limitations on public gatherings, work from home, supply chain logistical changes, and closure of non-essential businesses. The COVID-19 pandemic has impacted and may continue to impact the Organization, including employees, partners, and communities, and there is substantial uncertainty in the nature and degree of its continued effects over time. In March 2020, the Organization temporarily closed all ReStores, stopped critical home repairs, and were forced to complete construction of new homes without the help of volunteers, all of which had a negative financial impact on the Organization for the year ended June 30, 2020. The Organization has since resumed critical home repairs and began reopening the ReStores in June 2020. Volunteer engagement continues to be impacted by the pandemic. The financial statements do not reflect any adjustments as a result of the subsequent increase in economic uncertainty.

Other Financial Information

DIXON HUGHES GOODMAN LLP

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors of
Habitat for Humanity of the Charlotte Region, Inc. and Subsidiaries

We have audited, in accordance with the auditing standards generally accepted in the United States Of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Habitat for Humanity of the Charlotte Region, Inc. and Subsidiaries (a North Carolina not-for-profit organization) (the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 26, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

DIXON HUGHES GOODMAN LLP

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dixon Hughes Goodman LLP

Charlotte, North Carolina
October 26, 2020

DIXON HUGHES GOODMAN LLP

Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the OMB Uniform Guidance

Board of Directors of
Habitat for Humanity of the Charlotte Region, Inc. and Subsidiaries

Report on Compliance for Each Major Federal Program

We have audited Habitat for Humanity of the Charlotte Region, Inc. and Subsidiaries' (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended June 30, 2020. The Organization's major federal program is identified in the summary of audit results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Organization's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

DIXON HUGHES GOODMAN LLP

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Dixon Hughes Goodman LLP

Charlotte, North Carolina
October 26, 2020

Schedule of Findings and Questioned Costs

1. Summary of Audit Results

1. The independent auditors' report expresses an unmodified opinion on the fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America.

2. No significant deficiencies or material weaknesses in internal control over financial reporting were disclosed by the audit.

3. No instance of noncompliance material to the consolidated financial statements were disclosed by the audit.

4. No significant deficiencies or material weaknesses in internal control over compliance were disclosed by the audit.

5. The independent auditors' report on compliance for each major federal program expresses an unmodified opinion.

6. No findings required to be reported in accordance with 2 CFR 200.516(a) were disclosed by the audit.

7. The program tested as a major program was the U.S. Department of Housing and Urban Development Entitlement Grants Cluster: Community Development Block Grants (CFDA 14.218).

8. The threshold for distinguishing between Type A and Type B programs was $750,000.

9. The auditee qualified as a low-risk auditee.

2. Financial Statement Findings

There were no findings related to the financial statements required to be reported in accordance with *Government Auditing Standards* for the year ended June 30, 2020.

3. Federal Award Findings and Questioned Costs

There were no findings related to federal awards required to be reported in accordance with 2 CFR 200.516(a) for the year ended June 30, 2020.

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Grant Number	Federal CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development:			
Pass-through programs from:			
Town of Mooresville, North Carolina:			
Home Investments Partnership Program	20-309	14.239	$ 20,000
Home Investments Partnership Program	20-310	14.239	20,000
Total Home Investments Partnership Program			40,000
Pass-through programs from:			
Habitat for Humanity International, Inc.:			
Self-Help Homeownership Opportunity Program (2015)	SH15-008	14.247	24,907
Self-Help Homeownership Opportunity Program (2016)	SH16-020	14.247	25,570
Self-Help Homeownership Opportunity Program (2017)	SH17-020	14.247	242,850
Self-Help Homeownership Opportunity Program (2018)	SH18-032	14.247	165,000
Total Self-Help Homeownership Opportunity Program			458,327
Pass-through programs from:			
City of Charlotte, North Carolina:			
Entitlement Grants Cluster:			
Community Development Block Grants (Wait list 2)	2018001154	14.218	28,520
Community Development Block Grants (Wait list 3)	2019000263	14.218	30,177
Community Development Block Grants (2018)	2018000517	14.218	4,497
Community Development Block Grants (2019)	2019000547	14.218	103,080
Community Development Block Grants (2020)	2020000347	14.218	246,420
			412,694
Mecklenburg County, North Carolina:			
Entitlement Grants Cluster:			
Community Development Block Grants (Lakewood Dr)	36047595	14.218	75,416
Total Entitlement Grants Cluster			488,110
Total expenditures			$ 986,437

Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Habitat for Humanity of the Charlotte Region, Inc. and Subsidiaries under the programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Habitat for Humanity of the Charlotte Region, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Habitat for Humanity of the Charlotte Region, Inc. Habitat for Humanity of the Charlotte Region, Inc. has not elected to use the 10% de minimus cost rate.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenses are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenses are not allowable or are limited as to reimbursement.

3. Program Income

In accordance with terms of the grants, program income totaling $54,784 was used to reduce the amount of federal funds used in completing the projects.