Habitat for Humanity of the Charlotte Region Inc. and Subsidiaries

Independent Auditor's Report, Consolidated Financial Statements, and Supplementary Information

June 30, 2023 and 2022

Table of Contents

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Independent Auditor's Report

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

Report on the Audit of the Consolidated Financial Statements

Opinion

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, 2023 and 2022 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, which collectively comprise the Organization's consolidated financial statements as listed in the table of contents.

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Adoption of New Accounting Standard

As discussed in Note 1 to the consolidated financial statements, in 2023, the Organization changed its method of accounting for leases, due to the adoption of Accounting Standards Codification Topic 842, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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.

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

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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

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

Supplementary 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 audits 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.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2023, 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.

FORVIS, LLP

High Point, North Carolina
October 25, 2023

Habitat for Humanity of the Charlotte Region, Inc. and Subsidiaries
Consolidated Statements of Financial Position
June 30, 2023 and 2022 **(2 pages)**

	2023	2022
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 7,751,414**	$ 22,208,903
Restricted cash	**2,223,246**	1,917,823
Investments in available-for-sale securities, current	**2,373,977**	-
Inventory	**750,646**	395,111
Prepaid expenses	**462,659**	319,012
Current portion of notes and loans receivables	**2,959,189**	3,096,569
Current portion of unconditional promises to give, net	**1,777,184**	1,119,482
Grants and other receivables	**928,785**	971,040
Property and equipment held for sale	**-**	1,057,540
Total current assets	**19,227,100**	31,085,480
Notes and loans receivables, less discount and allowance	**26,083,401**	26,874,665
Unconditional promises to give, less discount	**941,417**	2,152,369
Investments held at the Foundation for the Carolinas	**209,521**	197,218
Investment in NMTC joint ventures	**7,476,162**	7,485,041
Investment in HCR-FC Marlborough Woods, LLC	**1,308,154**	1,250,000
Investments in available-for-sale securities, noncurrent	**6,215,941**	-
Real estate owned	**12,627,717**	8,064,909
New houses under construction	**7,180,759**	5,425,179
Deferred rent receivable	**84,812**	101,329
Property and equipment, net	**9,670,439**	8,794,545
Right-of-use operating lease assets	**8,037,457**	-
Total assets	**$ 99,062,880**	$ 91,430,735

Habitat for Humanity of the Charlotte Region, Inc. and Subsidiaries
Consolidated Statements of Financial Position
June 30, 2023 and 2022 **(2 pages)**

	2023	2022
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 1,459,208**	$ 1,758,257
Escrow funds for taxes and insurance - mortgage escrow accounts	**1,309,286**	1,357,226
Current portion of long-term debt, less discount	**973,520**	980,396
Current portion of operating lease liabilities	**775,026**	-
Total current liabilities	**4,517,040**	4,095,879
Long-term debt, less current portion, net of unamortized debt issuance costs and discounts	**23,641,425**	23,329,488
Operating lease liablities, less current portion	**7,419,625**	-
Total liabilities	**35,578,090**	27,425,367
Net assets:		
Without donor restrictions	**56,094,941**	56,071,051
With donor restrictions	**7,389,849**	7,934,317
Total net assets	**63,484,790**	64,005,368
Total liabilities and net assets	**$ 99,062,880**	$ 91,430,735

Habitat for Humanity of the Charlotte Region, Inc. and Subsidiaries
Consolidated Statements of Activities
Years Ended June 30, 2023 and 2022

	2023	2022
Revenues and other support without donor restrictions:		
Contributions	$ 6,766,598	$ 18,580,023
Donated property, materials and services	1,282,970	674,559
Total contributions	8,049,568	19,254,582
Home sale and repair income	13,897,757	12,414,855
Imputed interest income on mortgage loans receivable and repair ministry receivables	1,945,239	2,073,312
ReStore retail and coffee shop operations	9,412,759	8,772,244
Housing grants and other revenues	6,927,399	5,029,685
	40,232,722	47,544,678
Net assets released from restrictions	3,452,349	1,659,359
Revenues and other support without donor restrictions	43,685,071	49,204,037
Expenses:		
Program:		
Construction, supervision, and support	19,268,141	15,002,201
ReStore retail and coffee shop operations	7,883,291	6,495,653
Family support	2,701,178	1,885,619
Repair ministry expenses	7,734,689	5,087,961
Interest expense, net	446,032	469,044
Support to Habitat International	484,572	512,103
Discount on current year below-market-interest mortgage loans, and repair ministry receivables, net of payoffs	492,614	114,564
Advocacy expenses	301,077	217,558
	39,311,594	29,784,703
Management and general	1,791,909	1,435,298
Fundraising and public relations	2,557,678	1,895,754
Total expenses	43,661,181	33,115,755
Increase in net assets without donor restrictions	$ 23,890	$ 16,088,282

Habitat for Humanity of the Charlotte Region, Inc. and Subsidiaries
Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2023 and 2022

	2023	2022
Net assets without donor restrictions:		
Increase in net assets without donor restrictions	**$ 23,890**	$ 16,088,282
Net assets with donor restrictions:		
Restricted contributions	**2,895,578**	5,638,942
Investment return, net	**12,303**	(30,569)
Net assets released from restrictions	**(3,452,349)**	(1,659,359)
Increase (decrease) in net assets with donor restrictions	**(544,468)**	3,949,014
Increase (decrease) in net assets	**(520,578)**	20,037,296
Net assets, beginning of year	**64,005,368**	43,968,072
Net assets, end of year	**$ 63,484,790**	$ 64,005,368

Habitat for Humanity of the Charlotte Region, Inc. and Subsidiaries
Consolidated Statements of Functional Expenses
Years Ended June 30, 2023 and 2022 **(2 pages)**

	2023				
	Construction and Homeownership	Retail	Fundraising	Management and General	Total
Advertising and communications	$ 66,040	$ 192,854	$ 153,790	$ 6,559	$ 419,243
Bank and credit card processing fees	21,067	287,898	26,257	37,571	372,793
Cost of homes/goods sold	13,161,612	888,660	140	-	14,050,412
Cost of repairs ministry	7,665,400	-	-	-	7,665,400
Depreciation and amortization	170,638	194,216	9,967	50,380	425,201
Facilities	398,827	1,361,862	20,218	8,698	1,789,605
Insurance	152,289	67,340	4,699	5,367	229,695
Interest expense	431,869	14,163	-	-	446,032
Miscellaneous	33,759	-	-	9,810	43,569
Mortgage discounts (net of payoffs)	492,614	-	-	-	492,614
Office operations	87,492	61,214	47,928	13,537	210,171
Professional fees/contract labor	831,519	134,046	264,703	369,914	1,600,182
Program expenses	92,792	2,417	55	102	95,366
Salaries and benefits	6,517,189	4,231,171	1,601,974	1,119,663	13,469,997
Special events	53,782	1,517	299,053	1,206	355,558
Technology	363,731	243,610	76,369	107,669	791,379
Habitat International tithe and support	484,572	-	-	-	484,572
Training, travel and dues	240,485	36,542	39,081	27,217	343,325
Vehicles	121,443	162,347	2,875	45	286,710
Volunteer and staff appreciation	27,020	17,597	10,569	34,171	89,357
	$ 31,414,140	$ 7,897,454	$ 2,557,678	$ 1,791,909	$ 43,661,181

See accompanying notes.

Habitat for Humanity of the Charlotte Region, Inc. and Subsidiaries
Consolidated Statements of Functional Expenses
Years Ended June 30, 2023 and 2022 **(2 pages)**

	2022				
	Construction and Homeownership	Retail	Fundraising	Management and General	Total
Advertising and communications	$ 21,776	$ 149,378	$ 6,997	$ 955	$ 179,106
Bank and credit card processing fees	10,566	278,742	15,008	26,065	330,381
Cost of homes/goods sold	10,893,101	676,466	-	-	11,569,567
Cost of repairs ministry	5,008,850	-	-	-	5,008,850
Depreciation and amortization	169,111	171,943	12,487	57,813	411,354
Facilities	106,199	1,179,042	16,901	14,607	1,316,749
Insurance	81,937	107,505	8,985	12,057	210,484
Interest expense	461,250	7,794	1,827	2,604	473,475
Miscellaneous	-	1,442	383	7,561	9,386
Mortgage discounts (net of payoffs)	114,564	-	-	-	114,564
Office operations	50,336	34,987	75,796	27,328	188,447
Professional fees/contract labor	379,655	144,610	172,557	238,619	935,441
Program expenses	181,914	2,966	-	-	184,880
Salaries and benefits	4,814,086	3,435,561	1,214,497	870,856	10,335,000
Special events	32,011	1,511	274,511	1,468	309,501
Technology	193,246	174,895	55,586	100,442	524,169
Habitat International tithe and support	512,103	-	-	-	512,103
Training, travel and dues	138,737	15,841	36,672	42,254	233,504
Vehicles	82,440	108,407	226	-	191,073
Volunteer and staff appreciation	29,374	12,357	3,321	32,669	77,721
	$ 23,281,256	$ 6,503,447	$ 1,895,754	$ 1,435,298	$ 33,115,755

See accompanying notes.

Habitat for Humanity of the Charlotte Region, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2023 and 2022 **(2 pages)**

	2023	2022
Cash flows from operating activities:		
Increase (decrease) in net assets	**$ (520,578)**	$ 20,037,296
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Imputed interest income on mortgage loans and repair ministry receivables	**(1,945,239)**	(2,073,312)
Imputed interest expense on non-interest-bearing notes payable	**182,496**	161,510
Discount on current year mortgage loans and repair ministry receivables	**492,614**	114,564
Discount on current year below-market-interest notes payable	**(22,753)**	(77)
Provision for uncollectible repair ministry receivables	**6,987**	6,987
Provision for uncollectible promises to give	**(92,745)**	112,182
Depreciation	**411,794**	374,344
Amortization of debt issuance costs	**26,422**	19,283
Noncash operating lease expense	**728,600**	-
Gain on sale of property and equipment	**(41,151)**	(748)
Loss on sale of investments	**10,663**	-
Net changes in operating assets and liabilities:		
Mortgage loans receivable	**2,375,795**	3,267,892
Unconditional promises to give	**645,995**	(2,355,937)
Repair ministry receivables	**(1,513)**	(37,896)
Grants and other receivables	**42,255**	(220,712)
Prepaid expenses	**(143,647)**	(46,063)
Inventory	**(355,535)**	(157,599)
Houses under construction	**(1,755,580)**	(901,356)
Deferred lease assets	**16,517**	14,667
Real estate owned	**(4,562,808)**	1,599,176
Accounts payable and accrued liabilities	**(232,103)**	(934,018)
Mortgage escrow accounts	**(47,940)**	451,447
Operating lease liabilities	**(638,352)**	-
Refundable advance, paycheck protection program loan #2	**-**	(1,628,952)
Net cash provided (used) by operating activities	**(5,419,806)**	17,802,678
Cash flows from investing activities:		
Acquisition of and improvements to property and equipment	**(1,283,802)**	(352,621)
Proceeds from sale of property and equipment	**1,094,805**	7,151
Purchase of investments	**(21,175,873)**	-
Proceeds from investments	**12,575,292**	-
Net change in investments held at Foundation for the Carolinas	**(12,303)**	30,318
Investment in joint venture	**8,879**	(2,117,784)
Investment in HCR Marlborough LLC	**(58,154)**	(1,250,000)
Net cash used by investing activities	**(8,851,156)**	(3,682,936)

See accompanying notes.

Habitat for Humanity of the Charlotte Region, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2023 and 2022 **(2 pages)**

	2023	2022
Cash flows from financing activities:		
Payments on long-term debt and non-interest-bearing notes payable	**$ (1,241,890)**	$ (3,077,803)
Proceeds from issuance of long-term debt and non-interest-bearing notes payable	**1,360,786**	4,615,476
Payment of debt issuance costs	**-**	(180,981)
Net cash provided by financing activities	**118,896**	1,356,692
Net increase (decrease) in cash and restricted cash	**(14,152,066)**	15,476,434
Cash, cash equivalents, and restricted cash, beginning of year	**24,126,726**	8,650,292
Cash, cash equivalents, and restricted cash, end of year	**$ 9,974,660**	$ 24,126,726
Reconciliation of cash, cash equivalents, and restricted cash to consolidated statements of financial position:		
Cash and cash equivalents	**$ 7,751,414**	$ 22,208,903
Restricted cash for Living Legacy fund	**482,863**	86,482
Restricted cash for escrow funds	**1,309,286**	1,357,226
Restricted cash for joint venture reserves	**225,195**	302,559
Funds held for others	**205,902**	171,556
	$ 9,974,660	$ 24,126,726
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	**$ 226,425**	$ 311,966
Supplemental disclosures of noncash activities:		
Right-of-use assets obtained in exchange for new operating lease liabilities	**$ 1,934,673**	$ -
Increase in right-of-use assets and operating lease liabilities from lease modifications and remeasurements	**$ 5,150,405**	$ -

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 with the merger, Habitat for Humanity of Charlotte, Inc. (as the surviving entity) changed its name to Habitat for Humanity of the Charlotte Region, Inc. (collectively, with its consolidated affiliates, "Habitat" or the "Organization").

Habitat sells housing to low-income persons utilizing affordable 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 six 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 for Humanity of the Charlotte Region, Inc., 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, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the 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.

Revenue recognition

The Organization’s revenue from contracts with customers consists of home sales and repairs, and Habitat ReStore sales. The Organization’s contracts have a single performance obligation. The transaction price is the amount of consideration to which the Organization expects to be entitled in exchange for transferring goods to the customer. Revenue is recorded based on transaction price, which is a fixed consideration. The Organization recognizes Habitat ReStore sales at a point in time when control of the goods is passed to the customer, which typically occurs at point of sale and is also when customer payment is collected. Sales from the Habitat ReStores are reported net of sales tax collected.

The Organization recognizes revenue from home sales at a point in time, when a closing occurs. A closing for homes sales is considered to occur when title, possession and other attributes of ownership have been transferred to the buyer; and the Organization is not obligated to perform significant activities after the sale. For critical home repairs, revenue is recognized at the completion of the repair work. Revenue from the sale of homes and critical home repairs is recorded in the consolidated statements of activities as home sale and repair income.

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.

During the year ended June 30, 2022, the Organization received $13,500,000 of contribution revenue from The Northern Trust Charitable Giving Program, a program of The Chicago Community Foundation, making up 72% of the total contribution revenue. This contribution was a one-time gift and is unrestricted in nature.

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, 2023 and 2022 was approximately $243,000 and $64,000, respectively.

Houses under construction and real estate owned

Houses under construction and real estate owned, 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. The fair value of property and materials contributed for the years ended June 30, 2023 and 2022 was approximately $1,035,000 and $609,000, respectively.

Reclaimed homes are recorded as a component of real estate owned. Reclaimed homes are recorded at the cost to repurchase, which represents their fair market value on the date of repurchase from home owners. In the event of foreclosure, reclaimed homes are recorded at the outstanding mortgage balance at the date of reclamation. During the years ended June 30, 2023 and 2022, Habitat repurchased nineteen and ten houses, respectively, at their fair market value. There were no homes obtained through foreclosure during the years ended June 30, 2023 and 2022. The aggregate recorded values of reclaimed homes for the years ended June 30, 2023 and 2022 were approximately $4,695,000 and $2,250,000 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 resale 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 estimated 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

Right-of-use operating lease assets

Lease assets are initially recorded at the initial measurement of the lease liability, plus lease payments made at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease, plus initial direct costs that are ancillary to place the asset into service.

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, 2023 and 2022.

Cash and cash equivalents

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, 2023 and 2022, there was $3,262,995 and $0 of investments included in the cash balance, respectively. 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, 2023 and 2022, totaled $9,684,709 and $23,102,741, 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, for amounts reserved for compliance and servicing fees related to a joint venture, and for funds held for others.

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 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 2028. 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, 2023 and 2022. For the years ended June 30, 2023 and 2022, 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, 2023, the Organization had three contributors that accounted for approximately 66% of the outstanding unconditional promises to give. At June 30, 2022, the Organization had three contributors that accounted for approximately 84% of the outstanding unconditional promises to give.

Repair ministry receivables

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 2028. The gross long-term repair ministry receivables are discounted at a rate commensurate with the risks involved. This rate is 7.91% and 7.41% for the years ended June 30, 2023 and 2022, respectively. For the years ended June 30, 2023 and 2022, the Organization had an allowance for repair ministry receivables of approximately $135,000 and $137,000, 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 5.00% 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 receivables

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, 2023 and 2022, the Organization was awarded restricted grants totaling $5,650,249 and $4,936,000, respectively, that contained donor conditions. Since these grants represent conditional promises to give, they are not recorded as housing grant revenue until donor conditions are met. The grant funds are typically received from the donors under reimbursement arrangements, and accordingly, funds are not received in advance of the conditions being met. During the years ended June 30, 2023 and 2022, housing grant revenues recorded under conditional grants amounted to $5,803,961 and $2,450,891, respectively.

Investments in joint ventures and HCR-FC Marlborough Woods, LLC

The Organization's investments in the New Markets Tax Credit joint ventures (see Note 17) and HCR-FC Marlborough Woods, LLC (see Note 18) are accounted for under the cost method or the equity method, depending upon the Organization's respective ownership interest in the entities, and the ability to exercise significant influence over the activities of those entities. 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 entities do not have a readily determinable fair value and therefore are recorded at cost, as adjusted for impairment or observable price changes, if any, with 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 entities 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 statements 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.

Reclassifications

Certain accounts in the prior year consolidated financial statements have been reclassified for comparative purposes to conform to the presentation in the current year consolidated financial statements. Reclassifications had no effect on net assets.

Recent accounting pronouncements

In August 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*. The pronouncement seeks to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date by replacing the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 206-13 is effective for fiscal years beginning July 1, 2023. The Organization is currently evaluating the impact of adopting this new accounting guidance on its consolidated financial statements.

Change in accounting principle

On July 1, 2022, the Organization adopted the requirements of Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842).* The objective of this ASU, along with several related ASUs issued subsequently, is to increase transparency and comparability between organizations that enter into lease agreements. For lessees, the key difference of the new standard from the previous guidance (Topic 840) is the recognition of a right-of-use ("ROU") asset and lease liability on the consolidated statement of financial position. The most significant change is the requirement to recognize ROU assets and lease liabilities for leases classified as operating leases. The standard requires disclosures to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

As part of the transition to the new standard, the Organization was required to measure and recognize leases that existed at July 1, 2022. The Organization adopted the standard using the comparatives under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. For leases existing at the effective date, the Organization elected the package of three transition practical expedients available under the standard, which permits entities to not reassess 1) lease classification, 2) lease identification, or 3) initial direct costs for existing or expired leases prior to the effective date. Topic 842 also provides for other practical expedients in addition to the package of three transition practical expedients. The Organization did not elect the practical expedient to account for non-lease components and the lease components to which they relate as a single lease component for all leases. The Organization did not elect the hindsight practical expedient in determining lease term for existing leases as of July 1, 2022. The Organization has made a policy election to use a risk-free rate for the initial and subsequent measurement of all lease liabilities. Also, the Organization elected to keep short-term leases with an initial term of 12 months or less off the consolidated statement of financial position.

The adoption of Topic 842 resulted in the recording of a cumulative effect adjustment at July 1, 2022 consisting of the recognition of an ROU asset of $1,680,980 and a lease liability of $1,737,179, and a reduction in the deferred rent liability totaling $56,199.

Subsequent events

The Organization evaluated the effect subsequent events would have on the consolidated financial statements through October 25, 2023, which is the date the consolidated financial statements were available to be issued.

2. 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 consolidated statements of financial position by excluding the assets that are unavailable for general expenditures, including debt service, for the 12 months following June 30, 2023 and 2022.

	2023	2022
Financial assets at year end:		
Cash and cash equivalents	**$ 7,751,414**	$ 22,208,903
Investments in available-for-sale securities, current	**2,373,977**	-
Current portion of mortgages receivable, net	**2,901,148**	3,011,530
Current portion of unconditional promises to give, net	**1,777,184**	1,119,482
Other current receivables	**928,785**	971,040
Total financial assets	**15,732,508**	27,310,955
Less amounts not available to be used within one year:		
Current portion of mortgages receivable, net, included in net assets with donor restrictions	**(87,187)**	(87,187)
Financial assets available to meet general expenditures over the next 12 months	**$ 15,645,321**	$ 27,223,768

In addition, the Organization has a $876,500 line of credit available to be drawn on through May 31, 2024, and a $1,500,000 line of credit available to be drawn on through August 1, 2025 (see Note 10).

3. Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2023 and 2022 are available for the following purposes:

	2023	2022
Purpose or time restricted:		
Critical Home Repair	**$ 770,000**	$ 1,525,000
Apprentices	**180,000**	375,000
Knight Foundation grant	**-**	15,655
Hurricane relief	**-**	7,635
International partner pledges	**-**	800
Contributions for international partners	**51**	41,250
Carter Work Project	**1,500,000**	-
Mortgage relief funds	**264**	264
Morris field (Plato Price) development	**1,525,385**	2,927,187
Workforce development	**-**	11,845
East Lane	**959,567**	915,792
Other	**12,073**	-
	$ 4,947,340	$ 5,820,428

	2023	2022
Permanently restricted:		
Endowments held at The Foundation for the Carolinas	**$ 209,521**	$ 197,218
Living Legacy	**2,232,988**	1,916,671
	$ 2,442,509	$ 2,113,889

4. Housing Activities

During the year ended June 30, 2023, Habitat started construction on 45 new houses, received 2 parcels through donation, commenced repair activities on 21 recycled houses, commenced repair activities on 5 homes through the acquisition, rehab and resale program (ARR), and commenced repair activities on 135 houses through the critical home repairs program. During the year ended June 30, 2022, Habitat started construction on 42 new houses, received 4 parcels through donation, commenced repair activities on 22 recycled houses, and commenced repair activities on 141 houses through the critical home repairs program. Completed houses were either sold at appraised value or held in inventory at cost, as real estate owned, pending sale.

At June 30, 2023 and 2022, respectively, Habitat had 31 and 55 houses under construction on land owned by Habitat. At June 30, 2023 and 2022, there were no vacant foreclosed houses held in real estate owned. Sales of houses were approximately $14,140,000 and $12,275,000 during the years ended June 30, 2023 and 2022, respectively.

As of June 30, 2023, scheduled annual mortgage receipts are approximately:

2024	$ 2,901,148
2025	2,805,891
2026	2,715,868
2027	2,610,670
2028	2,508,210
Thereafter	29,780,904
	43,322,691
Less discount	(14,357,267)
	$ 28,965,424

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 30 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. On October 20, 2021, the agreement was amended to extend the agreement through December 31, 2024 initially, then to extend it automatically on an annual basis for three years unless terminated by either party pursuant to the agreement. In addition, the amendment calls for mortgages to be originated in the amount of $1,500,000 plus or minus 10%, annually. As of June 30, 2023 and 2022, 39 mortgage loans and 36 mortgage loans, respectively, 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 and expiring on December 31, 2021. In June 2021, the agreement was amended to extend the agreement through December 31, 2022 initially, then to extend it automatically on an annual basis unless terminated by either party pursuant to the agreement. In addition, the amendment calls for mortgages to be originated in the amount of $1,000,000 plus or minus 5%, annually. 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, 2023 and 2022, 75 mortgage loans and 51 mortgage loans, respectively, 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, 2023 and 2022, 23 mortgage loans, have been originated under the agreement with South State Bank.

Effective June 25, 2021 the Organization entered into a Loan Origination Agreement with HomeTrust Bank. In accordance with the agreement, HomeTrust Bank committed to originating mortgage loans for homes sold by the Organization to qualified low-income individuals and families, in the aggregate amount of $5,000,000 beginning on December 1, 2021. The Organization, if requested by HomeTrust Bank, must either purchase or provide a substitute mortgage loan, for any mortgage loans delinquent more than 90 days under the agreement. As of June 30, 2023 and 2022, 29 mortgage loans and 9 mortgage loans, respectively, have been originated under the agreement with HomeTrust Bank.

Repair ministry receivables

As of June 30, 2023, repair ministry receivables are expected to be collected as follows:

2024	$ 67,661
2025	57,539
2026	49,864
2027	35,378
2028	17,762
	228,204
Less discount	(15,297)
Less allowance for uncollectible repair ministry receivables	(134,689)
Total	$ 78,218

5. Operating Lease Receivables

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. During 2023 and 2022, one and three condos were sold, respectively. As of June 30, 2023 and 2022, one condo and four condos, respectively, are currently leased on a month-to-month basis, and three condos and one condo, respectively, are vacant. As the remaining leases expired, the agreements were not renewed, but the leasing will continue on a month-to-month basis. The condos are recorded as real estate owned on the consolidated statements of financial position, as improvements are being made to the condos, all of which will eventually be sold to homeowners.

The Organization leases space in an office building to an unrelated party under an operating lease agreement with an initial term of 84 months. The agreement has a one-time early termination option, which allows the tenant to terminate the lease at the end of the 48th month following the commencement of the lease. As a condition precedent to exercising the right of termination, the tenant must pay the Organization an early termination fee equal to the sum of (i) all of the Organization's unamortized transaction costs including brokerage fees, tenant improvement allowance payments and legal fees, with interest at a rate of 9% per annum from the time incurred, and (ii) an amount equal to three months of base rent at the rate applicable to the month in which the early termination becomes effective, as defined in the lease agreement. Real property under operating leases at June 30, 2023 and 2022 was $524,279 and $538,635, respectively, and is included in property and equipment on the consolidated statements of financial position. Accumulated depreciation on real property under operating leases was $49,900 and $35,544 at June 30, 2023 and 2022, respectively.

Future minimum lease payments to be received are as follows:

2024	$ 65,763
2025	67,737
2026	68,764
2027	71,873
	$ 274,137

6. Unconditional Promises to Give

As of June 30, 2023, unconditional promises to give are expected to be collected as follows:

2024	$ 1,777,184
2025	616,465
2026	347,759
2027	32,200
2028	10,040
	2,783,648
Less discount	(65,047)
Total	$ 2,718,601

7. Investments

Available-for-sale debt securities

Available-for-sale debt securities are held by Bank of America and consist of the following as of June 30, 2023:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury bills	$ 1,213,515	$ 9,698	$ -	$ 1,223,213
U.S. Treasury notes/bonds	2,806,118	-	(12,758)	2,793,360
Fixed income	4,584,309	-	(10,964)	4,573,345
	$ 8,603,942	$ 9,698	$ (23,722)	$ 8,589,918

8. Property and Equipment

A summary of property and equipment at June 30, 2023 and 2022 is as follows:

	2023	**2022**
Land	**$ 3,401,330**	$ 3,401,331
Automobiles	**833,162**	638,728
Tools	**131,514**	131,514
Equipment	**167,604**	155,687
Computer equipment	**654,131**	492,276
Leasehold improvements	**485,201**	349,651
Real property	**6,828,080**	6,047,282
	12,501,022	11,216,469
Less accumulated depreciation	**(2,830,583)**	(2,421,924)
Property and equipment, net	**$ 9,670,439**	$ 8,794,545

Property and equipment held for sale

Property and equipment held for sale on June 30, 2022 consisted of land of $436,686, real property of $659,314, and accumulated depreciation of $38,460. During the year ended June 30, 2022, following an analysis of the Organization's physical locations, management decided to sell the Cornelius office space, and pursue another office space in Davidson via a leasing arrangement. Accordingly, on August 4, 2022, the Organization sold the Cornelius office building and related land to an unrelated third party, for a purchase price of approximately $1,100,000. The Organization recorded a gain on sale in the amount of approximately $41,000.

9. Notes Payable and Long-Term Debt

Notes payable and long-term debt at June 30, 2023 and 2022 consist of the following:

	2023	2022
North Carolina Housing Financing Agency ("NCHFA"), non-interest-bearing notes, payable in monthly installments ranging from $56 to $222, maturing through April 2051	**$ 6,035,538**	$ 6,521,924
Self-Help Homeownership Opportunity Program ("SHOP"), non-interest-bearing notes, payable in monthly installments ranging from $5 to $1,406, maturing through June 2029	**293,318**	253,541
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	**999,764**	1,132,104
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	**294,285**	316,364
Bank of America Community Development loan, payable in quarterly installments of $41,667, including interest at 3.00%, unsecured, maturing through September 2028	**874,998**	1,041,664
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	**493,875**	513,233
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	**1,683,752**	1,880,433
Loan payable to HFHI NMTC Sub-CDE II, LLC, interest only payments due semi-annually beginning in November 2017 and principal and interest payments beginning in November 2024, interest at 0.68%, maturing through July 2047 (see Note 17)	**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 17)	**3,300,000**	3,300,000
Loan payable to HFHI NMTC Sub-CDE IV and V, LLC, interest only payments due semi-annually beginning in November 2021 and principal and interest payments beginning in May 2029, interest at 0.74%, maturing through July 2051 (see Note 17)	**2,864,763**	2,864,763
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	**1,586,641**	1,664,227

	2023	2022
Bank of America loan in the maximum amount of $750,000, with interest at 2.25%, secured by land and building of the Cornelius ReStore; payable in equal monthly payments of principal and interest in the amount of $6,997 through maturity of January 29, 2031	**$ 589,738**	$ 659,535
Bank of America Community Development loan, interest only payments due quarterly beginning in March 2022 and principal payments of $280,000 due annually beginning January 2027, including interest at 1.00%, unsecured, maturing through January 2032.	**3,000,000**	1,750,000
	26,451,950	26,333,066
Less discount	**(1,372,271)**	(1,532,014)
Less unamortized debt issuance costs	**(464,734)**	(491,168)
	24,614,945	24,309,884
Less current portion	**(973,520)**	(980,396)
	$ 23,641,425	$ 23,329,488

Amortization of the discount is reported in the consolidated statements of activities as interest expense. Total interest cost incurred was $446,032 and $473,475, respectively, for the years ended June 30, 2023 and 2022.

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 as of June 30:

	2023	2022
NCHFA	2.90%	n/a
SHOP	5.20%	2.28%

The terms of the Bank of America mortgage payable, which is secured by the Cornelius ReStore, require 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, 2023 and 2022, the Organization is in compliance with these requirements.

Scheduled maturities for notes payable and long-term debt outstanding at June 30, 2023, for each of the next five years are as follows:

2024	$ 973,520
2025	1,131,455
2026	1,141,776
2027	1,600,071
2028	1,801,761
Thereafter	19,803,367
	$ 26,451,950

10. Line of Credit

The Organization has a $1,100,000 line of credit from Bank of America N.A. The line of credit bears interest at the Bloomberg Short-Term Bank Daily Floating Rate plus 2.15%. The line of credit expires on May 31, 2024. No amount had been drawn on the line of credit at June 30, 2023 and 2022. The Organization also has a $1,500,000 fixed rate (1.0%) revolving line of credit from Pinnacle Bank. The line of credit expires on August 1, 2025. At June 30, 2023, no amount had been drawn on the line of credit.

11. Letters of Credit

The Organization has, as a sub-facility under the Bank of America N.A. line of credit, a letter of credit arrangement totaling $1,100,000. Outstanding letters of credit under this arrangement effectively reduce the borrowing available under the related line of credit. Performance standby letters of credit are available under this agreement for completion of certain construction projects. As of June 30, 2023 and 2022, 5 letters of credit and 0 letters of credit, respectively, were outstanding, in the aggregate amounts of $223,500 and $0, respectively.

The Organization also had two letters of credit totaling $310,100 from People's Bank, which named Mecklenburg County Land Use & Environmental Services Agency as the beneficiary. The letters of credit were required by Mecklenburg County as a guarantee for completion of sewer repairs to be paid by the Organization in a subdivision previously developed. The letters of credit were secured by cash held in an account with People's Bank. At June 30, 2023 and 2022, funds in that account totaled $0 and $6,312,952, respectively. The letters of credit were closed in December 2022.

12. Operating Leases under ASC 842

The Organization leases certain equipment and buildings under the terms of non-cancellable operating leases. For leases with terms greater than 12 months, the related right-of-use assets and right-of-use obligations are recorded at the present value of lease payments over the term. Many of the leases include rental escalation clauses and renewal options that are factored into the determination of lease payments when appropriate.

The components of lease expense (and related classification in the accompanying consolidated statements of functional expenses) were as follows during the year ended June 30, 2023:

Operating lease cost (facilities)	$ 884,604
Variable lease cost (facilities)	170,188
	$ 1,054,792

Other information:

Weighted-average remaining lease term - operating leases	13.45 years
Weighted-average discount rate - operating leases	3.37%

The following schedule summarizes the Organization's future minimum payments under contractual obligations for operating liabilities under Topic 842:

2024	$ 1,034,498
2025	939,542
2026	838,235
2027	860,264
2028	734,399
Thereafter	6,042,050
Total	10,448,988
Less: present value discount	(2,254,337)
Total lease liability	$ 8,194,651

13. Operating Leases (ASC 840) for the year ended June 30, 2022

The Organization leases the space for four ReStores, with various lease terms expiring from April 2023 through December 2032. The monthly base lease payments range from $13,368 to $22,222, plus taxes, insurance, and common area maintenance charges where applicable in accordance with the leases. As of June 30, 2022, the deferred rent liability related to these leases amounted to $56,199. Other office space and equipment is leased under various operating leases through March 2025. Rent expense was approximately $915,000 for the year ended June 30, 2022.

Future minimum lease payments are as follows:

2023	$ 822,507
2024	724,054
2025	565,083
2026	452,724
2027	462,337
Thereafter	1,431,782
	$ 4,458,487

14. 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. On February 3, 2021, the Organization was granted a second PPP loan of $1,628,952 from South State Bank, as part of second draw PPP loans established by the Consolidated Appropriations Act in December 2020. Second draw PPP loans have the same general loan terms as the first draw PPP loans, but have a maturity date of five years (February 3, 2026), and a payment deferral period of 10 months.

The covered period for the first PPP loan expired during the year ended June 30, 2021, and the Organization applied for forgiveness of the loan in June 2021. The Organization received formal forgiveness of the loan on July 14, 2021. Accordingly, as of June 30, 2021, the conditions of loan forgiveness were substantially met, and the Organization recognized the entire $1,628,952 balance of the loan as grant revenue. The Organization applied for forgiveness of the second PPP loan in April 2022 and received formal forgiveness of the loan on April 20, 2022. Accordingly, as of June 30, 2022, the conditions of loan forgiveness were substantially met, and the Organization recognized the entire $1,628,952 balance of the loan as grant revenue in the year ended June 30, 2022.

15. 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 consolidated 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, 2023 and 2022 are as follows:

	2023	2022
Endowment net assets, beginning of year	**$ 197,218**	$ 227,536
Investment return:		
Unrealized gains (losses)	**16,841**	(26,018)
Total investment return	**16,841**	(26,018)
Contributions	**-**	250
Fees	**(2,226)**	(2,325)
Grants approved	**(2,312)**	(2,225)
Net increase (decrease)	**12,303**	(30,318)
Endowment net assets, end of year	**$ 209,521**	$ 197,218

16. 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 and debt securities 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:

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.

Available-for-sale debt securities

Level 2 investment securities include U.S. Treasury securities and corporate bonds for which quoted prices are not available in active markets for identical instruments. The Organization utilizes a third-party pricing service to determine the fair value of each of these investment securities. Because quoted prices in active markets for identical assets are not available, these prices are determined using observable market information, such as quotes from less active markets and/or quoted prices of securities with similar characteristics.

The Organization recognizes transfers between levels in the fair value hierarchy at the end of the reporting period. For the years ended June 30, 2023 and 2022, 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, 2023 and 2022, respectively.

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, 2023 and 2022. 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, 2023			
	Level 1	**Level 2**	**Level 3**	**Fair Value**
Endowment fund	**$ -**	**$ -**	**$ 209,521**	**$ 209,521**
Available-for-sale debt securities				
U.S. Treasury bills	**$ -**	**$ 1,223,213**	**$ -**	**$ 1,223,213**
U.S. Treasury notes/bonds	**-**	**2,793,360**	**-**	**2,793,360**
Fixed income	**-**	**4,573,345**	**-**	**4,573,345**
	$ -	**$ 8,589,918**	**$ -**	**$ 8,589,918**

	As of June 30, 2022			
	Level 1	**Level 2**	**Level 3**	**Fair Value**
Endowment fund	$ -	$ -	$ 197,218	$ 197,218

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, 2023 and 2022:

	Endowment Fund	
	2023	**2022**
Balance, beginning of year	**$ 197,218**	$ 227,536
Additions	**-**	250
Unrealized gains (losses)	**16,841**	(26,018)
Expenditures	**(4,538)**	(4,550)
Balance, end of year	**$ 209,521**	$ 197,218

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.

17. New Market Tax Credits and Associated Joint Ventures

On July 19, 2017, January 17, 2020, and July 30, 2021, 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 transactions 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, 2023 and 2022, the balance of the Affiliate Expense Reserve was $34,531 and $66,405, 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 transactions 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 six-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, 2023 and 2022, the balance of the Expense Reserve was $87,725 and $100,617, 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 transactions entered into during the year ended June 30, 2022:

HFHI NMTC Leverage Lender 2021, LLC

In July 2021 the Organization acquired a 14.44% membership interest in HFHI NMTC Leverage Lender, LLC (the "LLC") in exchange for a cash investment of $2,117,784. The LLC was formed to provide financing for the borrower's equity investment in two community development entities - HFHI NMTC Sub-CDE IV, LLC and HFHI NMTC Sub-CDE V, LLC (the "CDE's"), and is solely managed by a third party. Accordingly, the LLC entered into a Loan Agreement to lend $7,609,629 to USBCDC Investment Fund 369, LLC and $845,514 to USBCDC Investment Fund 544, LLC (collectively, the "Borrowers"), using additional capital proceeds provided by the Organization and 3 other Habitat for Humanity affiliates which were admitted to the LLC in July 2021, of which the Organization's contribution represented 25% of the additional capital contributions made. The Borrowers used the loan proceeds as equity investments in the CDE's 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 receivables bear interest at a rate of 1% per annum. The loan receivables mature on May 10, 2047 and require semi-annual accrued interest payments until May 10, 2029 and semi-annual principal and interest payments commencing on May 10, 2029 sufficient to fully amortize the loans. Simultaneous with these transactions, the LLC entered into an Option Agreement with each of U.S Bancorp Community Development Corporation ("USBCDC") and USBCDC NMTC Fund 2020-6, LLC to put the ownership interest in Twain Investment Fund 544, LLC and USBCDC Investment Fund 369, LLC, for $1,000 each, 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 CDEs, 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 IV and V, LLC

As a component of the NMTC transaction, the Organization received a loan of $2,578,287 from HFHI NMTC SUB-CDE IV, LLC and a loan of $286,476 from HFHI NMTC SUB-CDE V, LLC and entered into a Loan and Security Agreement (“Agreement”) dated July 30, 2021 for both. The Organization is obligated under the Agreements and related Promissory Notes to pay interest on the borrowings at a rate of 0.74% per annum with a maturity date of July 30, 2051. Commencing on November 5, 2021 and semi-annually until November 5, 2028, the Organization is required to make payments of accrued interest. Commencing on May 5, 2029 and semi-annually thereafter, the Organization is required to make equal principal and interest payments in an amount to fully amortize the loans by their maturity dates. 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 $144,115. As of June 30, 2023 and 2022, the balance of the Affiliate Expense Reserve was $102,939 and $135,537, 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.

18. Investment in HCR-FC Marlborough Woods, LLC

The Organization created and is the sole member of HCR Marlborough, LLC. HCR Marlborough, LLC has joined with Freedom Communities (a local nonprofit organization) to create HCR-FC Marlborough Woods, LLC. Each entity is a 50/50 member of HCR-FC Marlborough Woods, LLC. The two nonprofits teamed up to acquire 23 housing units in the Camp Greene neighborhood in West Charlotte and transition the units from rentals to owner occupied over the course of the next 10 years. During the year ended June 30, 2023, an additional unit was acquired for the program. The program will be open to current residents and other qualified buyers. As of June 30, 2023 and 2022, the Organization’s investment approximates its underlying equity in the net assets of HCR-FC Marlborough Woods, LLC. As of June 30, 2023, HCR-FC Marlborough Woods, LLC’s assets and liabilities totaled $2,644,543 and $15,519, respectively. HCR-FC Marlborough Woods, LLC’s revenues and net income for the year ended June 30, 2023 were $224,965 and $21,818, respectively. As of June 30, 2022, HCR-FC Marlborough Woods, LLC’s assets and liabilities totaled $2,505,089 and $0, respectively. HCR-FC Marlborough Woods, LLC’s revenues and net income for the year ended June 30, 2022 were $38,159 and $5,089, respectively.

19. 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 $316,317 were made during the year ended June 30, 2023. The balance of this fund includes $482,863 of cash on hand and $1,750,126 of mortgages receivable as of June 30, 2023. Contributions to the Living Legacy Fund of $160,000 were made during the year ended June 30, 2022. The balance of this fund included $86,482 of cash on hand and $1,830,189 of mortgages receivable as of June 30, 2022.

20. 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, 2023 and 2022, the Organization contributed approximately $273,000 and $214,000, respectively.

21. 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 $485,000 and $512,000 to HFHI to support HFHI’s international work for the years ended June 30, 2023 and 2022, respectively. In addition, the Organization paid approximately $159,000 and $156,300 to HFHI for AmeriCorps volunteers serving at the Organization for the years ended June 30, 2023 and June 30, 2022, respectively.

As of June 30, 2023, and June 30, 2022, the Organization had a payable balance due to HFHI of approximately $69,300 and $195,900, respectively.

22. Subsequent Events

On September 29, 2023, the Organization invested in a Leverage Lender for the purpose of taking advantage of the New Markets Tax Credit (NMTC) program. The NMTC program provides tax credit incentives to investors who invest in low-income communities and is administered by the U.S. Treasury Department. The Organization’s investment in the Leverage Lender totaled $2,827,200 and represents a 25% ownership stake. As part of the arrangement, the Organization secured two 20-year loans from a community development entity which received tax credit allocation. The first loan is in the amount of $2,695,000. The second loan is in the amount of $1,237,500. The loan proceeds are to be used solely for the purpose of acquiring, rehabbing and/or constructing single-family homes in low-income communities and selling at least 20% of such homes to low-income person. The loan will bear interest at a rate of 0.719004% per year. Semi-annual payments of interest only are due in years 1 through 7 with fully amortizing quarterly payments of principal and interest due in years 8 through 20.

At the end of the compliance period, in connection with this arrangement, the members of the Leverage Lender have the option to purchase USBCDC's ownership interest in the Investment Fund. Exercise of this option will effectively allow the Organization to extinguish its debt owed to the community development entity.

Supplementary Information

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*

Independent Auditor's Report

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

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, 2023 and 2022, 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 25, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audits 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 or significant deficiencies may exist that are not identified.

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Report on 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 audits, 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.

FORVIS, LLP

High Point, North Carolina
October 25, 2023

FORVIS

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

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

Opinion on 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 each of the Organization's major federal programs for the year ended June 30, 2023. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program
We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("GAAS"); 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"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance
Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditor's Responsibilities for the Audit of Compliance
Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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.

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Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

FORVIS, LLP

High Point, North Carolina
October 25, 2023

Schedule of Findings and Questioned Costs

1. Summary of Audit Results

1. The independent auditor's 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 auditor's 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 programs tested as major programs were the U.S. Department of Housing and Urban Development Entitlement Grants Cluster: Community Development Block Grants (Assistance Listing Number 14.218) and the Coronavirus State and Local Fiscal Recovery Funds Grant (Assistance Listing Number 21.027).
8. The threshold for distinguishing between Type A and Type B programs was $750,000.
9. The auditee did not qualify 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, 2023.

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, 2023.

Habitat for Humanity of the Charlotte Region, Inc. and Subsidiaries
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Grant Number	Federal Assistance Listing Number	Federal Expenditures
U.S. Department of Housing and Urban Development:			
Pass-through programs from:			
City of Charlotte, North Carolina:			
Home Investments Partnership Program	2022000879	14.239	$ 388,085
Total Home Investments Partnership Program			388,085
Pass-through programs from:			
Habitat for Humanity International, Inc.:			
Self-Help Homeownership Opportunity Program (2019)	SH19-020	14.247	156,500
Self-Help Homeownership Opportunity Program (2020)	S-H2-00-54-0000	14.247	161,000
Self-Help Homeownership Opportunity Program (2021)	S-H2-10-68-0000	14.247	139,946
Total Self-Help Homeownership Opportunity Program			457,446
Pass-through programs from:			
City of Charlotte, North Carolina:			
Entitlement Grants Cluster:			
Community Development Block Grants (Plato Price)	2020001179	14.218	1,074,990
Community Development Block Grants (2022)	2200000063	14.218	16,685
Community Development Block Grants (Rehabilitation 2022)	2022000895	14.218	1,382,185
Community Development Block Grants (2023)	2023000209	14.218	377,388
			2,851,248
Mecklenburg County, North Carolina:			
Entitlement Grants Cluster:			
Community Development Block Grants (CCOG)	42600293	14.218	77,697
Total Entitlement Grants Cluster			2,928,945
Total U.S. Department of Housing and Urban Development			3,774,476
U.S. Department of the Treasury:			
Pass-through programs from:			
Mecklenburg County, North Carolina:			
Coronavirus State and Local Fiscal Recovery Funds (Land Aquisition)	42041285	21.027	720,115
Coronavirus State and Local Fiscal Recovery Funds (Smithville Critical Home Repair)	42437348	21.027	102,094
Total Coronavirus State and Local Fiscal Recovery Funds			822,209
Total U.S. Department of the Treasury			822,209
Total federal expenditures			$ 4,596,685

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, 2023. The information in this Schedule is presented in accordance with the 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"). Because the Schedule presents only a selected portion of the operations of Habitat for Humanity of the Charlotte Region, Inc. and Subsidiaries, 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.

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. Habitat for Humanity of the Charlotte Region, Inc. and Subsidiaries has not elected to use the 10% de minimis cost rate.

3. Program Income

In accordance with terms of the grants, program income totaling $67,643 was used to reduce the amount of federal funds used in completing the projects.