



CAPE FEAR HABITAT FOR HUMANITY, INC.

Audited Financial Statements

for the fiscal year ended

June 30, 2016

(with comparative totals for 2015)



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Cape Fear Habitat for Humanity, Inc.
Wilmington, North Carolina

We have audited the accompanying financial statements of Cape Fear Habitat for Humanity, Inc. (Habitat), a nonprofit organization, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows, for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Summarized Comparative Information

We have previously audited Habitat's 2015 financial statements and our report dated November 12, 2015 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Bearman CPA PC

Wilmington, North Carolina
November 8, 2016



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Cape Fear Habitat for Humanity, Inc.
Statement of Financial Position
as of June 30, 2016
(with comparative totals for 2015)

	6/30/16	6/30/15
Assets		
Cash and Cash Equivalents (Note 3c and 4)	\$ 641,481	\$ 946,471
Restricted Cash for Buyer Closings	14,650	6,150
Certificate of Deposit (Note 5)	252,646	250,014
Accounts Receivable, net (Note 6)	68,141	124,919
Prepaid Expenses	64,210	47,340
Homes under Construction (Note 3h and 7)	1,003,244	170,412
Property Held for Future Use (Note 3h)	462,833	836,882
Loans to Homeowners, net (Note 8)	3,922,985	3,683,410
Property & Equipment, net (see Note 9)	499,312	516,397
Total Assets	\$ 6,929,502	\$ 6,581,995
Liabilities & Net Assets		
Accounts Payable & Accrued Liabilities (Note 10)	\$ 195,779	\$ 129,221
Notes Payable (Note 11)	5,640	9,384
NCHFA Notes Payable, net (Note 12)	859,764	765,353
Total Liabilities	1,061,183	903,958
Net Assets		
Unrestricted	5,679,681	5,560,265
Temporarily Restricted (Note 13)	188,638	117,772
Permanently Restricted (Note 3b)	-	-
Total Net Assets	5,868,319	5,678,037
Total Liabilities & Net Assets	\$ 6,929,502	\$ 6,581,995

The accompanying notes are an integral part of these financial statements.

Cape Fear Habitat for Humanity, Inc.
Statement of Activities
as of June 30, 2016
(with comparative totals for 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total FY 2015/16</u>	<u>Total FY 2014/15</u>
OPERATING				
Revenue				
Private Grants & Contributions (Note 3d)	\$ 421,753	\$ 320,959	\$ 742,712	\$ 920,572
Government Grants & Contracts	12,950	-	12,950	21,355
NCHFA Contribution (Note 12)	177,356	-	177,356	210,711
Home Sales (Note 8)	1,138,463	-	1,138,463	1,239,740
Imputed Interest on Mortgage Loans (Note 8)	416,061	-	416,061	314,835
ReStore, net (see Note 15)	460,122	-	460,122	588,115
Special Events, net (see Note 3e)	77,836	-	77,836	69,271
Interest & Other Income	13,207	-	13,207	27,342
Net Assets Released from Restriction (Note 13)	250,093	(250,093)	-	-
Total Revenue	<u>2,967,841</u>	<u>70,866</u>	<u>3,038,707</u>	<u>3,391,941</u>
Expense				
Program	2,373,520		2,373,520	2,455,641
Management & General	293,620		293,620	237,374
Fundraising	181,285	-	181,285	162,101
Total Expense	<u>2,848,425</u>	<u>-</u>	<u>2,848,425</u>	<u>2,855,116</u>
Change in Net Assets	<u>119,416</u>	<u>70,866</u>	<u>190,282</u>	<u>536,825</u>
Net Assets Beginning of Year	5,560,265	117,772	5,678,037	5,141,212
Net Assets End of Year	<u>\$ 5,679,681</u>	<u>\$ 188,638</u>	<u>\$ 5,868,319</u>	<u>\$ 5,678,037</u>

The accompanying notes are an integral part of these financial statements.

Cape Fear Habitat for Humanity, Inc.
Statement of Functional Expenses
as of June 30, 2016
(with comparative totals for 2015)

Expense Type	Program	Management & General	Fundraising	Total FY 2015/16	Total FY 2014/15
Wages, Taxes & Benefits	\$ 520,691	\$ 209,849	\$ 132,812	\$ 863,352	\$ 742,922
Home Construction	918,084	-	-	918,084	1,083,579
Discount on New Mortgages (Note 8)	632,112	-	-	632,112	666,335
Contracted Services	36,446	15,442	1,416	53,304	50,773
General Operations	126,164	41,423	39,722	207,309	167,787
Occupancy (Note 17)	44,971	17,130	7,335	69,436	64,778
Imputed Interest (Note 12)	87,010	-	-	87,010	64,390
Depreciation (Note 9)	8,042	9,776	-	17,818	14,552
Total Expense	\$ 2,373,520	\$ 293,620	\$ 181,285	\$ 2,848,425	\$ 2,855,116

The accompanying notes are an integral part of these financial statements.

Cape Fear Habitat for Humanity, Inc.

Statement of Cash Flows

as of June 30, 2016

(with comparative totals for 2015)

	<u>FY 2015/16</u>	<u>FY 2014/15</u>
Cash Flows from Operating Activity		
Change in Net Assets	\$ 190,282	\$ 536,825
Adjustments to reconcile the change in net assets to net cash used in operating activities:		
Changes in certain assets and liabilities:		
Restricted Funds for Buyer Closings	(8,500)	8,650
Cash Designated for Land Acquisition	-	117,000
Homes Under Construction	(832,832)	177,192
Assets Held for Future Use	374,049	(687,383)
Receivables & Prepaids	39,908	(1,433)
Accounts payable & accrued expenses	66,558	(20,608)
Depreciation (including ReStore)	60,922	49,457
Home Sales, net of discounts (Note 19)	(506,351)	(573,405)
Mortgage Payments Received	682,838	570,898
NCHFA Contribution (Note 12)	(177,356)	(210,711)
Imputed Interest Income (Note 8)	(416,061)	(314,835)
Imputed Interest Expense (Note 12)	87,010	64,390
	<u>(439,533)</u>	<u>(283,963)</u>
Net Cash Used in Operating Activities		
Cash Flows from Investing Activities		
Sale (Purchase) of Certificates of Deposit, net	(2,632)	(14)
Purchases of Property & Equipment	(43,837)	(18,226)
	<u>(46,469)</u>	<u>(18,240)</u>
Net Cash Provided by Investing Activities		
Cash Flows from Financing Activities		
Proceeds from Debt Financing	300,000	360,000
Payments on Long-term Debt	(118,988)	(83,634)
	<u>181,012</u>	<u>276,366</u>
Net Cash Provided by Financing Activities		
Net Increase (Decrease) in Cash	(304,990)	(25,837)
Cash and Cash Equivalents, beginning of year	<u>946,471</u>	<u>972,308</u>
Cash and Cash Equivalents, end of year	\$ 641,481	\$ 946,471

The accompanying notes are an integral part of these financial statements.

Cape Fear Habitat for Humanity, Inc.
Notes to the Audited Financial Statements
June 30, 2016

1. Organization

Cape Fear Habitat for Humanity, Inc. (“Habitat”) is a North Carolina nonprofit corporation organized in February 1987 with operations in Wilmington, NC. It is an affiliate of Habitat for Humanity International, Inc. (“Habitat International”), a nondenominational Christian nonprofit organization whose purpose is to create decent, affordable housing for those in need and to make decent shelter a matter of conscience for people everywhere.

Habitat is directly responsible for its own operations. It receives assistance from Habitat International in a variety of ways including support with information technology, training, publications and prayer support (see Note 14).

The organization is exempt from income taxes under the Internal Revenue Service Code Section 501(c)(3) under a group exemption letter granted to Habitat International. As such, contributions to the organization are generally tax deductible.

2. Mission and Activities

Habitat is a Christian housing ministry serving the Cape Fear area of North Carolina, partnering with God and the local community to assist families who are working toward the purchase of a Habitat house. Habitat has completed 183 houses since its inception. It seeks to build or rehabilitate 12 to 14 homes each year. It sells the homes to pre-qualified, low-income families who have actively participated in the construction process. The new homeowners receive an affordable loan to finance the purchase and pay it off in the same way as a traditional mortgage.

3. Summary of Significant Accounting Policies

The organization prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for not-for-profit organizations using the accrual basis of accounting. As such, revenues are recorded when earned and expenses are recorded when incurred. The significant accounting and reporting policies used by the organization are described below to enhance the usefulness and understandability of the financial statements.

3a. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the organization’s management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The organization’s management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

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Cape Fear Habitat for Humanity, Inc.
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3b. Net Asset Classes

The Financial Accounting Standards Board *Accounting Standards Codification* (FASB ASC) topic 958, "Not-for-Profit Entities," requires the reporting of an organization's activities by net asset class. The financial statements report net assets and changes in net assets in three classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Unrestricted net assets are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Temporarily restricted net assets are resources that are restricted by a donor for use for a particular purpose or in a particular future period. The organization's unspent contributions are classified in this class if the donor limited their use. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from temporarily restricted to unrestricted net assets (*also see Note 13, Restrictions on Net Assets*).

Permanently restricted net assets result from contributions to the organization that must be maintained permanently. Typically, the future investment returns on such assets may be used in full or in part for the operations of the organization. *As of June 30, 2016, Habitat held no permanently restricted net assets.*

3c. Cash and Cash Equivalents

The organization considers short-term, interest bearing, highly liquid investments with original maturities of three months or less to be cash equivalents for purposes of financial statement presentation. Also see *Note 4, Cash Balances* and *Note 5, Certificate of Deposit*.

3d. Contributions, Grant and Contracts

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in unrestricted net assets unless the use of the contributed assets is specifically restricted by the donor (see *Note 3b*, previously). Also, see *Note 13, Restrictions on Net Assets*.

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Contributed services are only recorded if they meet the requirements for recognition discussed in *Note 14, Contributed Services, Donated Lots & Materials*.

Grant revenue is recognized when the qualifying costs are incurred for cost-reimbursement grants or contracts or when a unit of service is provided for performance grants.

3e. Expense Allocations

The Statement of Activities presents expenses by functional classification (program, management and general, and fundraising). Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using an objective basis (such as staff members' time). The Statement of Functional Expenses presents these same expenses by natural classification (e.g. wages, contracted services).

Management and General activities include the functions necessary to provide support for the organization's program. These include those that provide governance (Board of Directors), oversight, business management, financial recordkeeping, budgeting, legal services, human resource management, and similar activities that ensure an adequate working environment and an equitable employment program.

Fundraising activities include publicizing and conducting fundraising campaigns; maintaining donor lists; conducting special fundraising events; and other activities involved with soliciting contributions from corporations, foundations, individuals, and others.

Habitat sponsors occasional events to raise awareness of its mission and to raise funds for the organization. Habitat earned \$127,175 of revenue and incurred \$49,339 of expenses in connection with these events. The disbursements are considered primarily fundraising costs and are therefore netted against revenue. The net revenue amount of \$77,836 appears on the Statement of Activities as "Special Events" revenue.

3f. Property & Equipment

Habitat capitalizes property and equipment costing more than \$1,000 with a useful life of more than one year. Lesser amounts are expensed. Purchased property and equipment is capitalized at acquisition cost, including costs necessary to prepare the asset for its intended use. Donations of property and equipment are recorded as contributions at fair value on the date of donation. Such donations are reported as unrestricted contributions unless the donor specifically restricts the asset's use. Also, see *Note 9, Property & Equipment and Note 14, Contributed Services, Donated Lots and Materials*.

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3g. Escrow

Habitat makes loans to homeowners as described in Note 8. The organization has outsourced the servicing of those loans to AmeriNat Nationwide Loan Servicing including management of the homeowner escrow accounts. Habitat retains no ownership of the escrow funds and, accordingly, the escrow accounts are not shown on the Statement of Financial Position.

3h. Real Estate Owned and Homes under Construction

Real estate, including pre-acquisition, acquisition, and development costs, building materials and skilled labor, are recorded at cost when assets are acquired or services are provided, or at estimated fair market value when donated. A portion of overhead expenses is allocated to the cost of homes. Foreclosed homes purchased by the organization are recorded at cost when the homes are acquired. No interest is capitalized as a cost of houses. Reclaimed houses are recorded as a component of real estate owned at the outstanding balance of the interest-free mortgage at the date of reclamation plus any related legal fees.

The costs of homes under construction are capitalized until the transfer to the homeowner is made. They appear as an asset on the Statement of Financial Position in the line item "Homes under Construction." Once the home is occupied and title has passed to the homeowner, the construction costs are expensed and appear on the Statement of Functional Expenses as the line item "Construction." Also see *Note 7, Housing Activities*.

3i. Home Sales

Habitat transfers ownership of its properties to homeowners when the homes are occupied and title is transferred. The transfers are recorded as revenue on the Statement of Activities at the gross amount of payments to be received over the lives of the associated mortgages plus any cash payments received at closing. The non-interest bearing mortgages are discounted at a rate provided by Habitat International based upon market rates for similar types of loans. Currently the rate used is 7.48%. Discounts are amortized using the effective interest method over the lives of the mortgages. Also see *Note 8, Home Sales / Loans to Homeowners*.

3j. Prior Year Information

The financial statements display prior-year, summarized information for comparative purposes. The prior year information is presented in total but not by net asset class (unrestricted, temporarily restricted and permanently restricted). Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year then ended, from which the summarized information is derived. Certain reclassifications of prior year amounts were made to conform to the current year presentation.

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Cape Fear Habitat for Humanity, Inc.
Notes to the Audited Financial Statements
June 30, 2016

4. Cash Balances

At various times during the year, Habitat's cash balance in financial institutions has exceeded the Federal Deposit Insurance Corporation (FDIC) insurance limit of \$250,000 per depositor. These financial institutions have strong credit ratings and management believes that the credit risks related to these deposits are minimal.

5. Certificate of Deposit

As of June 30, 2016, Habitat held a certificate of deposit at a local bank totaling \$252,646. The certificate has a 12-month term and matures in June 2017. It is subject to the same FDIC insurance limits noted previously.

6. Accounts Receivable

The accounts receivable balance of \$68,141 was fully collected during the first quarter of fiscal year (FY) 2016/17. Accordingly, no provision is made for uncollectible amounts.

7. Housing Activities

The following table summarizes home building activity for the fiscal year:

	<u>#</u>	<u>Cost</u>
Homes under Construction, beginning	4	\$ 170,412
Additional costs incurred on beginning inventory		175,768
New Homes started	16	1,022,490
Returned to Inventory	7	536,023
Homes Sold	<u>(11)</u>	<u>(901,449)</u>
Homes under Construction, ending	<u>16</u>	<u>\$ 1,003,244</u>

Of the 27 homes under construction during the year, seven were returned to the construction-in-process inventory after being reclaimed from homeowners in FY 2014/15 and FY 2015/16 through either foreclosure proceedings or repurchase agreements in lieu of foreclosure. These recycled properties were given a new cost basis comprised of the outstanding mortgage principal owed by the predecessor homeowner plus related legal fees and rehabilitation expenses with the expectation that the properties will be sold to new homeowners in the near future.

8. Homes Sales / Loans to Homeowners

Habitat sells homes to program participants in exchange for interest-free mortgage notes plus any cash down-payments received. These notes are payable to Habitat over 20 to 30 years and appear on the Statement of Financial Position discounted to their present value (see *Note 3i*). This method

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Cape Fear Habitat for Humanity, Inc.
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of accounting reflects the present value of the interest-free loans at inception and recognizes imputed interest income over the life of the loans.

As each house is sold, an expense is calculated for the difference between the face value of the mortgage loan receivable and the present value of the loan. The face value of the new loan appears on the Statement of Activities as “Home Sales” revenue. The discount expense appears on the Statement of Functional Expenses as “Discount on New Mortgages.” As imputed interest income is earned over the life of the loan, it appears on the Statement of Activities as the revenue line item “Imputed Interest on Mortgage Loans.”

At June 30, 2016, Habitat had 140 loans outstanding with a gross value of \$8,446,012 and a discounted value of \$3,922,985. Management has established no provision for loan losses because Habitat is the secured creditor and it can reclaim the homes through foreclosure (see *Note 7*, above).

In addition to the interest-free mortgage, most homeowners are obligated to a second mortgage which is forgiven based on compliance with various requirements including timely mortgage payments and occupancy over 20 to 30 years. These second mortgages are a contingent asset of Habitat and are therefore not recorded on the financial statements unless they are realized due to a home foreclosure, re-purchase, or refinancing with a new lender.

Scheduled annual mortgage receipts are as follows:

FY 2016/17	\$ 418,523
FY 2017/18	411,721
FY 2018/19	400,713
FY 2019/20	395,920
FY 2020/21	391,348
Thereafter	<u>6,427,787</u>
	<u>\$ 8,446,012</u>
Less present value discount	<u>(4,523,027)</u>
Loans to Homeowners, net	<u>\$ 3,922,985</u>

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Cape Fear Habitat for Humanity, Inc.
Notes to the Audited Financial Statements
June 30, 2016

9. Property and Equipment

The property and equipment balance is stated at cost and consists of the following:

	<u>6/30/16</u>
Land	\$ 75,000
Buildings & Improvements	600,379
Machinery & Equipment	<u>314,179</u>
	989,558
Less accumulated depreciation	<u>(490,246)</u>
Property & Equipment, Net	<u>\$ 499,312</u>

Depreciation is computed using the straight-line method over the estimated useful lives of the assets (up to 40 years for buildings and improvements, 3 - 7 years for machinery and equipment).

Depreciation expense totaled \$60,922 for FY 2014/15. Depreciation expense related to the *ReStore* (see *Note 15*) totaled \$43,104 and appears within the line item "ReStore, net" on the Statement of Activities. The remainder of the depreciation expense, \$17,818, appears on the Statement of Functional Expenses.

10. Accounts Payable & Accrued Liabilities

The accounts payable and accrued liabilities balance of \$195,779 consists of operational accounts payable of \$138,561 and payroll and related liabilities of \$57,218.

11. Notes Payable

Habitat owes Habitat International \$5,640 of remaining loan principal from the federal Self-Help Homeownership Opportunity Program (SHOP) fund. Under the terms of the program, Habitat may receive up to \$15,000 per homeowner to acquire land and develop infrastructure for affordable housing. Twenty-five percent of the initial award is repayable as an interest-free loan and the remainder is considered a grant. The loan repayment is over a four-year period. Four homeowner loans totaling \$15,000 were received in 2012. Loan repayments began in 2014 and the loans mature in July 2017.

12. NCHFA Notes Payable

Habitat participates in the "Self-Help Loan Pool," a program of the North Carolina Housing Finance Agency (NCHFA), a public agency of the State of North Carolina. The program provides Habitat up to \$40,000 per homeowner loan per year, to be repaid over the life of the loan (typically 30 years).

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Cape Fear Habitat for Humanity, Inc.
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Because the NCHFA loans are interest-free, Habitat has discounted the liability on the Statement of Financial Position to reflect the time value of money. The imputed interest rate for FY 2015/16 loans is 7.48% and corresponds to the associated homeowner loans (see *Note 8*).

During FY 2015/16, Habitat received \$300,000 in financing from NCHFA. The difference between the cash proceeds received and the discounted value of the notes is considered contribution revenue.

For FY 2015/16, the NCHFA contribution was calculated at \$177,356 and appears as a revenue line item on the Statement of Activities. Imputed interest expense is calculated over the life of the loan and appears as a line item on the Statement of Functional Expenses.

The amount of imputed expense for FY 2015/16 was \$87,010. Annual repayments and the discounted value of the loan pool are:

FY 2016/17	\$ 77,600
FY 2017/18	77,600
FY 2018/19	77,600
FY 2019/20	77,600
FY 2020/21	77,600
Thereafter	<u>1,594,564</u>
	<u>\$ 1,982,564</u>
Less present value discount	<u>(1,122,800)</u>
NCHFA Note Payable, Net	<u>\$ 859,764</u>

13. Restrictions on Net Assets

The restrictions on net assets at the end of FY 2015/16 of \$188,637 are temporary and consist of contributions restricted to funding the cost of homes under construction as of June 30.

Once Habitat has completed a property and transferred ownership, it releases the restrictions on any associated gifts. Funds released from restriction in this way appear on the Statement of Activities within the line item “Net Assets Released from Restriction.”

14. Contributed Services, Donated Lots and Materials

The requirements for the recognition of contributed services in the financial statements are set forth in FASB ASC 958-605-25-16, “Contributed Services.” They should be recorded when (1) they create or enhance non-financial assets; or (2) they require specialized skills provided by individuals possessing those skills and are services that would typically be purchased if not provided by donation.

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Cape Fear Habitat for Humanity, Inc.
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Volunteers provide substantial in-kind support to Habitat in the form of construction services and also administrative and fundraising support. Only the services of skilled construction personnel meet the criteria for recognition in the financial statements. Additionally, Habitat International provides the affiliate with advisory support and periodic assistance with information technology and training needs. However, it does not perform regular services for and under the direction of Habitat and therefore these services are not recognized in the financial statements.

Habitat receives donated lots and construction materials in the course of its construction activities. These in-kind donations are valued using an estimate of fair value for the service or material provided.

The estimate of in-kind contributions totaled \$279,274 and is included on the Statement of Activities within the revenue line item "Private Grants and Contributions." The contribution is offset by \$279,274 within the expense line item "Home Construction" on the Statement of Functional Expenses.

15. ReStore Donations

Habitat receives a significant amount of its support in the form of in-kind donations of building materials and household items. It operates two ReStores in Wilmington, NC in order to liquidate these items. These contributions are valued at the amount of cash received for the items less all costs associated with their sale. The in-kind contributions are recorded as revenue once their values can be determined (i.e. when the items are sold). Accordingly, no inventory of these items is recorded at year-end.

A summary of ReStore activity for FY 2015/16 follows:

	<u>6/30/16</u>
Sales	\$ 1,513,092
Less expenses:	
Wages, Taxes & Benefits	657,671
Occupancy	214,619
Depreciation	43,104
All Other	<u>137,576</u>
Total Expenses	<u>1,052,970</u>
Net Revenue	<u>\$ 460,122</u>

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Cape Fear Habitat for Humanity, Inc.
Notes to the Audited Financial Statements
June 30, 2016

16. Payment to Habitat International

Habitat remits a portion of its unrestricted contributions (excluding in-kind contributions) and a portion of its net ReStore revenue (see *Note 15*) to Habitat International. These funds are used to construct homes in economically depressed areas around the world. Habitat contributed \$51,893 to Habitat International during FY 2015/16. This amount appears within the line item “General Operations” on the Statement of Functional Expenses.

17. Leases

Habitat subleases administrative and program space from the Jo Ann Carter Harrelson Center, Inc. at 20 North 4th Street in Wilmington, North Carolina. Total rent expense for the year ended June 30, 2016 totaled \$45,024 and appears within the line item “Occupancy” on the Statement of Functional Expenses. The agreed-upon annual rent increases by 1% per annum for the remainder of the lease term which expires in June 2017.

Habitat rents retail and warehouse space for its ReStore located on Market Street in Wilmington, North Carolina. Total rent expense for the year ended June 30, 2016 totaled \$122,700 and appears within the line item “Restore, net” on the Statement of Activities. The agreed-upon annual rent increases by 1% per annum for the remainder of the lease term which expires in August 2017.

18. Retirement Plan

Beginning October 1, 2016, Habitat provides its employees with a retirement plan under the terms of Section 401(k) of the Internal Revenue Code. The plan is available to employees with more than 6 months of service. Habitat matches employee contributions to the plan up to 3% of each participant’s qualified wages for the fiscal year.

19. Non-Cash Investing Transactions

As described in *Note 8*, the “Home Sales” revenue line item on the Statement of Activities includes non-cash investing transactions for the difference between the home sales price and any cash payments received at closing. Habitat issues non-interest bearing mortgage loans for these amounts. Similarly, the “Discount on New Mortgages” line item on the Statement of Functional Expenses is an associated non-cash activity. These items appear on the Statement of Cash Flows as the reconciling item “Homes Sales, net of discounts” as follows:

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Cape Fear Habitat for Humanity, Inc.
Notes to the Audited Financial Statements
June 30, 2016

Non-Cash Investing Activities:

	<u>6/30/16</u>
Issuance of non-interest bearing mortgages	\$ 1,089,463
Discount of non-interest bearing mortgages	<u>(632,112)</u>
Total Non-Cash Items	\$ 457,351
plus cash received at closing	<u>49,000</u>
Home Sales, net of discounts	<u>\$ 506,351</u>

20. Income Taxes

The organization is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code. Additionally, it does not generate business income unrelated to its exempt purpose and therefore has made no provision for income taxes or uncertain tax positions in the financial statements. There are no federal or state tax audits of the organization in progress and Habitat believes it is not subject to tax examinations for fiscal years prior to FY 2012/13.

21. Subsequent Events

In October 2016, Habitat entered into agreements with two local property owners to purchase several tracts of land in the Daniel Boone Trail neighborhood of Wilmington, North Carolina. The combined purchase price totals \$342,500. Habitat has up to 105 days from the date of the contracts to examine the properties and may terminate the contracts at any point during the due diligence period.

Habitat has evaluated events that have occurred subsequent to the statement of financial position date (June 30, 2016) and through the date that the Independent Auditor's Report was available to be issued (November 8, 2016). No events have occurred during that period that would require adjustments to the audited financial statements or additional disclosure in these notes.

See the Independent Auditor's Report