



CAPE FEAR  
HABITAT FOR HUMANITY, INC.

Audited Financial Statements

for the fiscal year ended

June 30, 2018

(with comparative totals for 2017)

Table of Contents

Independent Auditor’s Report..... 3

Financial Statements

    Statement of Financial Position ..... 4

    Statement of Activities..... 5

    Statement of Functional Expenses..... 6

    Statement of Cash Flows..... 7

Notes to the Financial Statements ..... 8-18

REVISED DRAFT



bearmancpa

## 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, 2018, 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, 2018, 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 2017 financial statements and our report dated November 8, 2017 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, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Bearman CPA PC*

Wilmington, North Carolina  
December 17, 2018

Cape Fear Habitat for Humanity, Inc.  
**Statement of Financial Position**  
as of June 30, 2018  
(with comparative totals for 2017)

	<b>6/30/18</b>	<b>6/30/17</b>
<b>Assets</b>		
Cash and Cash Equivalents (Note 3c)	\$ 634,174	\$ 647,017
Restricted Cash for Buyer Closings	5,064	21,330
Accounts Receivable, net (Note 4)	154,695	82,130
Prepaid Expenses	70,397	57,913
Program Properties Inventory (Note 3h and 5)	1,497,534	1,715,631
Loans to Homeowners, net (Note 6)	4,703,775	4,389,941
Property & Equipment, net (see Note 7)	598,654	676,521
<b>Total Assets</b>	<b>\$ 7,664,293</b>	<b>\$ 7,590,483</b>
<b>Liabilities &amp; Net Assets</b>		
Accounts Payable & Accrued Liabilities (Note 8)	\$ 144,361	\$ 170,465
Notes Payable (Note 9)	573,753	637,875
NCHFA Notes Payable, net (Note 10)	1,210,328	1,029,700
<b>Total Liabilities</b>	<b>1,928,442</b>	<b>1,838,040</b>
Net Assets		
Unrestricted	5,614,501	5,498,171
Temporarily Restricted (Note 11)	121,350	254,272
Permanently Restricted (Note 3b)	-	-
<b>Total Net Assets</b>	<b>5,735,851</b>	<b>5,752,443</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>\$ 7,664,293</b>	<b>\$ 7,590,483</b>

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

Cape Fear Habitat for Humanity, Inc.

**Statement of Activities**

as of June 30, 2018

(with comparative totals for 2017)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total FY 2017/18</u>	<u>Total FY 2016/17</u>
<b>OPERATING</b>				
<b>Revenue</b>				
Private Grants & Contributions (Note 3d)	\$ 308,852	\$ 425,382	\$ <b>734,234</b>	\$ 679,310
NCHFA Contribution (Note 10)	297,978	-	<b>297,978</b>	220,431
Home Sales (Note 6)	1,563,700	-	<b>1,563,700</b>	1,292,855
Imputed Interest on Mortgage Loans (Note 6)	419,863	-	<b>419,863</b>	377,474
ReStore, net (see Note 13)	462,311	-	<b>462,311</b>	395,863
Special Events, net (see Note 3e)	88,497	-	<b>88,497</b>	62,214
Interest & Other Income	51,137	-	<b>51,137</b>	29,153
Net Assets Released from Restriction (Note 11)	558,304	(558,304)	-	-
<b>Total Revenue</b>	<b><u>3,750,642</u></b>	<b><u>(132,922)</u></b>	<b><u>3,617,720</u></b>	<u>3,057,300</u>
<b>Expense</b>				
Program (Note 3e)	3,103,957		<b>3,103,957</b>	2,601,678
Management & General (Note 3e)	324,847		<b>324,847</b>	270,389
Fundraising (Note 3e)	307,676	-	<b>307,676</b>	301,109
<b>Total Expense</b>	<b><u>3,736,480</u></b>	<u>-</u>	<b><u>3,736,480</u></b>	<u>3,173,176</u>
<b>Change in Operating Net Assets</b>	<b><u>14,162</u></b>	<b><u>(132,922)</u></b>	<b><u>(118,760)</u></b>	<u>(115,876)</u>
<b>NON-OPERATING</b>				
Duplin Merger (Note 17)	102,168		<b>102,168</b>	-
<b>Change in Net Assets</b>	<b><u>116,330</u></b>	<b><u>(132,922)</u></b>	<b><u>(16,592)</u></b>	<b><u>(115,876)</u></b>
Net Assets Beginning of Year	5,498,171	254,272	<b>5,752,443</b>	5,868,319
<b>Net Assets End of Year</b>	<b><u>5,614,501</u></b>	<b><u>121,350</u></b>	<b><u>5,735,851</u></b>	<b><u>5,752,443</u></b>

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, 2018  
(with comparative totals for 2017)

<u>Expense Type</u>	<u>Program</u>	<u>Management &amp; General</u>	<u>Fundraising</u>	<u>Total FY 2017/18</u>	<u>Total FY 2016/17</u>
Wages, Taxes & Benefits	\$ 576,086	\$ 205,290	\$ 200,069	<b>\$ 981,445</b>	\$ 977,546
Home Construction	1,479,270	445	-	<b>1,479,715</b>	1,057,815
Discount on New Mortgages (Note 6)	776,910	-	-	<b>776,910</b>	638,881
Contracted Services	39,781	43,236	2,892	<b>85,909</b>	62,535
General Operations	56,143	51,803	91,707	<b>199,653</b>	247,904
Occupancy (Note 15)	32,778	15,747	13,008	<b>61,533</b>	70,185
Interest (Note 9)	27,550	-	-	<b>27,550</b>	15,487
Imputed Interest (Note 10)	98,864	-	-	<b>98,864</b>	74,715
Depreciation (Note 7)	16,575	8,326	-	<b>24,901</b>	28,108
<b>Total Expense</b>	<b>\$ 3,103,957</b>	<b>\$ 324,847</b>	<b>\$ 307,676</b>	<b>\$ 3,736,480</b>	<b>\$ 3,173,176</b>

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, 2018

(with comparative totals for 2017)

	<u>FY 2017/18</u>	<u>FY 2016/17</u>
<b>Cash Flows from Operating Activity</b>		
Change in Net Assets	\$ (16,592)	\$ (115,876)
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	16,266	(6,680)
Program Properties Inventory	218,097	(249,554)
Receivables & Prepays	(85,049)	(7,692)
Accounts payable & accrued expenses	(26,104)	(25,314)
Depreciation (including ReStore)	68,416	74,442
Home Sales, net of discounts	(760,903)	(653,974)
Payments from Homeowners	876,383	564,492
NCHFA Contribution (Note 10)	(297,978)	(220,431)
Imputed Interest Income (Note 6)	(419,863)	(377,474)
Imputed Interest Expense (Note 10)	98,864	74,715
Net Cash Used in Operating Activities	<u>(328,463)</u>	<u>(943,346)</u>
<b>Cash Flows from Investing Activities</b>		
Sale (Purchase) of Certificates of Deposit, net	-	252,646
Property & Equipment Acquisitions	-	(251,651)
Net Cash Provided by Investing Activities	<u>-</u>	<u>995</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from Debt Financing	504,150	1,072,078
Payments on Long-term Debt	(188,530)	(124,191)
Net Cash Provided by Financing Activities	<u>315,620</u>	<u>947,887</u>
<b>Net Increase (Decrease) in Cash</b>	<b>(12,843)</b>	<b>5,536</b>
Cash and Cash Equivalents, beginning of year	<u>647,017</u>	<u>641,481</u>
<b>Cash and Cash Equivalents, end of year</b>	<b><u>\$ 634,174</u></b>	<b><u>\$ 647,017</u></b>

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, 2018

**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 12).

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 assisting families in the Cape Fear region of North Carolina towards the purchase of a Habitat home. Habitat has completed 207 houses since its inception. It seeks to build or re-habilitate 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.

See the Independent Auditor’s Report



Cape Fear Habitat for Humanity, Inc.  
**Notes to the Audited Financial Statements**  
June 30, 2018

**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 11, 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, 2018, 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.

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.

See the Independent Auditor's Report

Cape Fear Habitat for Humanity, Inc.  
**Notes to the Audited Financial Statements**  
June 30, 2018

***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 11, Restrictions on Net Assets*.

Contributed services are only recorded if they meet the requirements for recognition discussed in *Note 12, 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 \$155,231 of revenue and incurred \$66,734 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 \$88,497 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

See the Independent Auditor's Report

Cape Fear Habitat for Humanity, Inc.  
**Notes to the Audited Financial Statements**  
June 30, 2018

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 7, Property & Equipment and Note 12, Contributed Services, Donated Lots and Materials.*

**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 included in the line item "Program Properties Inventory." 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 5, 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 7.57%. Discounts are amortized using the effective interest method over the lives of the mortgages. Also see *Note 6, 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.

See the Independent Auditor's Report

Cape Fear Habitat for Humanity, Inc.  
**Notes to the Audited Financial Statements**  
June 30, 2018

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.

**4. Accounts Receivable**

The accounts receivable balance of \$154,695 was fully collected during the first quarter of fiscal year (FY) 2018/19. Accordingly, no provision is made for uncollectible amounts.

**5. Housing Activities**

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

	<u>Cost</u>
Program Properties Inventory, Beginning	\$ 1,715,631
Additional Costs Incurred	1,246,232
15 Homes Sold	(1,541,421)
Other Transfers In	<u>77,092</u>
Program Properties Inventory, Ending	<u>\$ 1,497,534</u>

The line item "Other Transfers In" includes a property previously included in the organization's operational fixed assets that was transferred into the program properties inventory.

**6. 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 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, 2018, Habitat had 155 loans outstanding with a gross value of \$9,871,144 and a discounted value of \$4,703,775. Management has established no provision for loan losses because Habitat is the secured creditor and it can reclaim the homes through foreclosure.

See the Independent Auditor's Report

Cape Fear Habitat for Humanity, Inc.  
**Notes to the Audited Financial Statements**  
 June 30, 2018

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 2018/19	\$ 496,315
FY 2019/20	487,834
FY 2020/21	483,212
FY 2021/22	477,330
FY 2022/23	462,162
Thereafter	<u>7,464,291</u>
	<b><u>\$ 9,871,144</u></b>
Less present value discount	<u>(5,167,369)</u>
<b>Loans to Homeowners, net</b>	<b><u>\$ 4,703,775</u></b>

### 7. Property and Equipment

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

	<b><u>6/30/18</u></b>
Land	\$ 147,000
Buildings & Improvements	722,912
Machinery & Equipment	<u>361,846</u>
	1,231,758
Less accumulated depreciation	<u>(633,104)</u>
<b>Property &amp; Equipment, Net</b>	<b><u>\$ 598,654</u></b>

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 \$68,416 for FY 2017/18. Depreciation expense related to the *ReStore* (see *Note 13*) totaled \$43,515 and appears within the line item "ReStore, net" on the Statement of Activities. The remainder of the depreciation expense, \$24,901, appears on the Statement of Functional Expenses.

See the Independent Auditor's Report

Cape Fear Habitat for Humanity, Inc.  
**Notes to the Audited Financial Statements**  
June 30, 2018

**8. Accounts Payable & Accrued Liabilities**

The accounts payable and accrued liabilities balance of \$144,361 consists of operational accounts payable of \$75,042 and payroll and related liabilities of \$69,319.

**9. Notes Payable**

Habitat's debt consists of the following:

- Note payable to Habitat for Humanity International, Inc. with a principal balance of \$547,759, due in monthly installments of \$6,558, including interest at a fixed rate of 4.75% per annum. The loan matures in December 2026. The note is secured by a group of homeowner loans that are pledged to HFHI whose aggregate mortgage payments are equal to or greater than 105% of the note payment and whose principal balances are at least equal to 125% of the outstanding principal balance of the note. The note may not be pre-paid prior to December 19, 2018 without prior consent of HFHI.

Future years principal payments are scheduled as follows:

FY 2018/19	\$ 53,844
FY 2019/20	56,458
FY 2020/21	59,199
FY 2021/22	62,073
FY 2022/23	65,087
Thereafter	<u>251,098</u>
	<u>\$ 547,759</u>

- Note payable to BB&T Bank with a principal balance of \$25,994 due in monthly installments of \$994, including interest at a fixed rate of 2.64% per annum. The loan matures in September 2020 and is secured by the vehicle that it financed.
- A revolving line of credit with Wells Fargo Bank with no outstanding balance as of June 30, 2018. The credit limit is \$500,000 at a current interest rate of LIBOR plus 2.6%. The line is intended for construction-cycle cash flow needs and has not yet been utilized.

**10. 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).

See the Independent Auditor's Report

Cape Fear Habitat for Humanity, Inc.  
**Notes to the Audited Financial Statements**  
 June 30, 2018

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 2017/18 loans is 7.57% and corresponds to the associated homeowner loans (see *Note 6*).

During FY 2017/18, Habitat received \$504,150 in financing from NCHFA. The difference between the cash proceeds received and the discounted value of the notes is considered contribution revenue.

For FY 2017/18, the NCHFA contribution was calculated at \$297,978 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 2017/18 was \$98,864. Annual repayments and the discounted value of the loan pool are:

FY 2018/19	\$	110,816
FY 2019/20		110,816
FY 2020/21		110,816
FY 2021/22		110,816
FY 2022/23		110,816
Thereafter		<u>2,123,878</u>
		<b><u>\$ 2,677,958</u></b>
Less present value discount		<u>(1,467,630)</u>
<b>NCHFA Note Payable, Net</b>		<b><u>\$ 1,210,328</u></b>

### 11. Restrictions on Net Assets

The restrictions on net assets at the end of FY 2017/18 of \$121,350 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.”

### 12. 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.

See the Independent Auditor’s Report

Cape Fear Habitat for Humanity, Inc.  
**Notes to the Audited Financial Statements**  
June 30, 2018

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 \$81,314 and is included on the Statement of Activities within the revenue line item "Private Grants and Contributions." The contribution is offset by \$81,314 within the expense line item "Home Construction" on the Statement of Functional Expenses.

**13. 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 and one ReStore in Burgaw, 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 2017/18 follows:

Sales	\$ 1,765,405
Less expenses:	
Wages, Taxes & Benefits	804,715
Occupancy	230,207
Depreciation	43,515
All Other	<u>224,657</u>
Total Expenses	<u>1,303,094</u>
<b>Net Revenue</b>	<b><u>\$ 462,311</u></b>

See the Independent Auditor's Report



Cape Fear Habitat for Humanity, Inc.  
**Notes to the Audited Financial Statements**  
June 30, 2018

**14. 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 13*) to Habitat International. These funds are used to construct homes in economically depressed areas around the world. Habitat contributed \$56,448 to Habitat International during FY 2017/18. This amount appears within the line item “General Operations” on the Statement of Functional Expenses.

**15. Leases**

Habitat subleases administrative and program space from the Jo Ann Carter Harrelson Center, Inc. at 20 North 4<sup>th</sup> Street in Wilmington, North Carolina. Total rent expense for the year ended June 30, 2018 totaled \$46,446 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 May 2020.

Habitat rents retail and warehouse space for its ReStore located on Market Street in Wilmington, North Carolina. Rent expense for the year ended June 30, 2018 totaled \$144,407 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 July 2023, from that point forward the lease will be on a month to month term.

Habitat rents retail space for its ReStore located in Burgaw, North Carolina. Rent expense for the year ended June 30, 2017 totaled \$12,600 and appears within the line item “Restore, net” on the Statement of Activities. The agreed-upon annual rent increases annually throughout the life of the lease which expires March 2020

**16. 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. Retirement expense for the year ended June 30, 2018 totaled \$16,619 and appears within the line item “Wages, Taxes & Benefits” on the Statement of Functional Expenses.

**17. Habitat for Humanity of Duplin County Merger**

On December 31, 2017, Habitat for Humanity of Duplin County (“Duplin Habitat”) curtailed its operations and donated its remaining net assets to Cape Fear Habitat after paying all outstanding liabilities. The acquired assets of Duplin Habitat included cash and discounted homeowner mortgage receivables. The total donation recorded of \$102,168 appears as the line item “Duplin Merger” in the non-operating section of the Statement of Activities.

See the Independent Auditor’s Report

Cape Fear Habitat for Humanity, Inc.  
**Notes to the Audited Financial Statements**  
June 30, 2018

**18. 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 2014/15.

**19. Subsequent Events**

In mid-September 2018, the Cape Fear region of North Carolina sustained widespread damage from Hurricane Florence. While Habitat's operations were adversely impacted by the storm and its ReStores were closed for an extended period, management believes there will be no long-term detriment to its financial position or operations. No adjustments related to the storm were required in the accompanying financial statements.

Habitat has evaluated events that have occurred subsequent to the statement of financial position date (June 30, 2018) and through the date that the Independent Auditor's Report was available to be issued (December 17, 2018). 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