CAPE FEAR HABITAT FOR HUMANITY, INC.

Audited Financial Statements

for the fiscal year ended

June 30, 2013

(with comparative totals for 2012)

bearmancpa

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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, 2013, 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, 2013, 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 2012 financial statements and our report dated October 11, 2012 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, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Bearman CPA PLLC

Wilmington, North Carolina
November 8, 2013

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Cape Fear Habitat for Humanity, Inc.

Statement of Financial Position

as of June 30, 2013

(with comparative totals for 2012)

	6/30/13	6/30/12
Assets		
Cash and Cash Equivalents (Note 3c and 4)	$ 801,567	$ 459,855
Restricted Cash for Buyer Closings	6,626	10,550
Restricted Cash for Land Acquisition (Note 13)	250,000	-
Certificate of Deposit (Note 5)	250,000	250,810
Accounts Receivable, net (Note 6)	102,488	174,864
Prepaid Expenses	40,098	23,556
Homes under Construction (Note 3h and 7)	311,938	623,906
Land & Other Assets Held for Future Use (Note 3h)	157,762	374,069
Loans to Homeowners, net (Note 8)	3,038,936	2,757,742
Property & Equipment, net (see Note 9)	544,583	471,225
Total Assets	**$ 5,503,998**	**$ 5,146,577**
Liabilities & Net Assets		
Accounts Payable & Accrued Liabilities (Note 10)	$ 136,001	$ 128,528
Notes Payable (Note 11)	196,557	205,407
NCHFA Notes Payable, net (Note 12)	430,103	384,056
Total Liabilities	**762,661**	**717,991**
Net Assets		
Unrestricted	4,395,504	3,890,575
Temporarily Restricted (Note 13)	345,833	538,011
Permanently Restricted (Note 3b)	-	-
Total Net Assets	**4,741,337**	**4,428,586**
Total Liabilities & Net Assets	**$ 5,503,998**	**$ 5,146,577**

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

Cape Fear Habitat for Humanity, Inc.

Statement of Activities

for the fiscal year ended June 30, 2013
(with comparative totals for 2012)

	Unrestricted	Temporarily Restricted	FY 2012/13 Total	FY 2011/12 Total
OPERATING				
Revenue				
Private Grants & Contributions (Note 3d)	$ 327,035	$ 484,157	**$ 811,192**	$ 798,737
Government Grants & Contracts	-	-	**-**	93,945
NCHFA Contribution (Note 12)	92,672	-	**92,672**	155,359
Home Sales (Note 8)	1,287,079	-	**1,287,079**	922,500
Imputed Interest on Mortgage Loans (Note 8)	308,751	-	**308,751**	253,574
ReStore, net (see Note 15)	680,687	-	**680,687**	260,916
Special Events, net (see Note 3e)	26,160	-	**26,160**	21,446
Interest & Other Income	22,472	-	**22,472**	15,974
Net Assets Released from Restriction (Note 13)	676,335	(676,335)	**-**	-
Total Revenue	**3,421,191**	**(192,178)**	**3,229,013**	2,522,451
Expense				
Program	2,546,759		**2,546,759**	1,972,899
Management & General	199,259		**199,259**	186,567
Fundraising	170,244	-	**170,244**	139,573
Total Expense	**2,916,262**	**-**	**2,916,262**	2,299,039
Change in Net Assets	**504,929**	**(192,178)**	**312,751**	223,412
Net Assets Beginning of Year	3,890,575	538,011	**4,428,586**	4,205,174
Net Assets End of Year	**$ 4,395,504**	**$ 345,833**	**$4,741,337**	$ 4,428,586

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

Cape Fear Habitat for Humanity, Inc.

Statement of Functional Expenses

for the fiscal year ended June 30, 2013

(with comparative totals for 2012)

Expense Type	**Program**	**Management & General**	**Fundraising**	**FY 2012/13 Total**	FY 2011/12 Total
Wages, Taxes & Benefits	$ 182,692	$ 144,859	$ 137,447	**$ 464,998**	$ 390,099
Home Construction	1,514,748	-	-	**1,514,748**	1,123,880
Discount on New Mortgages (Note 8)	682,955	-	-	**682,955**	561,594
Contracted Services	24,880	12,600	-	**37,480**	45,253
General Operations	68,103	18,627	24,803	**111,533**	84,124
Occupancy (Note 17)	28,375	14,846	6,525	**49,746**	44,335
Imputed Interest (Note 12)	41,676	-	-	**41,676**	37,277
Depreciation (Note 9)	3,330	8,327	1,469	**13,126**	12,477
Total Expense	**$ 2,546,759**	**$ 199,259**	**$ 170,244**	**$ 2,916,262**	$ 2,299,039

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

Cape Fear Habitat for Humanity, Inc.

Statement of Cash Flows

for the fiscal year ended June 30, 2013

(with comparative totals for 2012)

	FY 2012/13	FY 2011/12
Cash Flows from Operating Activity		
Change in Net Assets	$ 312,751	$ 223,412
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	3,924	(10,550)
Restricted Cash for Land Acquisition	(250,000)	-
Homes Under Construction	311,968	(275,724)
Receivables & Prepaids	55,834	(135,399)
Accounts payable & accrued expenses	7,473	65,261
Depreciation (including ReStore)	44,244	38,212
Home Sales, net of discounts (Note 19)	(604,124)	(360,906)
NCHFA Contribution (Note 12)	(92,671)	(155,359)
Imputed Interest Income (Note 8)	(308,751)	(253,574)
Imputed Interest Expense (Note 12)	41,676	37,277
Net Cash Used in Operating Activities	(477,676)	(827,350)
Cash Flows from Investing Activities		
Sale (Purchase) of Certificates of Deposit, net	810	(50,256)
Assets Held for Future Use	216,307	97,957
Mortgage Payments Received	631,680	419,865
Purchases of Property & Equipment	(117,601)	(23,147)
Net Cash Provided by Investing Activities	731,196	444,419
Cash Flows from Financing Activities		
Proceeds from Debt Financing	150,000	265,000
Payments on Long-term Debt	(61,808)	(55,387)
Net Cash Provided by Financing Activities	88,192	209,613
Net Increase (Decrease) in Cash	**341,712**	**(173,318)**
Cash and Cash Equivalents, beginning of year	459,855	633,173
Cash and Cash Equivalents, end of year	**$ 801,567**	**$ 459,855**

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

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 assistance with information technology, training, publications and prayer support.

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 more than 150 houses since its inception. It seeks to build 10 to 12 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 interest-free 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.

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, 2013, 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*.

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 $39,452 of revenue and incurred $13,292 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 $26,160 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*.

3g. Escrow

Habitat makes loans to homeowners as described in Note 8. The organization has outsourced the servicing of those loans to Amerinational Community Services, Inc. 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 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 based upon market rates for similar types of loans. Currently the rate used is 7.39%. Discounts are amortized using the effective interest method over the lives of the mortgages. Also see *Note 8, Home Sales / Loans to Homeowners*.

3j. Fair Value Measurements

In establishing the fair value of certain of its assets and liabilities for financial reporting, Habitat follows FASB ASC topic 820, *Fair Value Measurement*, which provides a basic hierarchy for measuring fair values in an effort to make "fair value" more consistent and comparable between entities.

Fair value, as defined by U.S. 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. In determining the best indicators of fair value, the hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements) about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Habitat uses fair value to measure its non-interest bearing mortgage loans receivable and related NCHFA notes payable. The associated present value discount (see Notes 7 and 12) is determined using discounted cash flow analysis which uses an annual risk-adjusted rate. The rate is provided by Habitat International and the organization considers it a prevailing market rate for low-income housing. Over a 30-year period, this rate has ranged from 7.39% to 10%. The rate used for mortgages originated in 2012/13 was 7.39%. As such, fair value for these categories has been determined using a Level 2 measurement (i.e. no active market but observable market inputs provided by Habitat International).

The individual notes receivable and related notes payable are initially measured as described above and are not re-valued on a recurring basis.

3k. 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.

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, 2013, Habitat held a certificate of deposit at a local bank totaling $250,000. The certificate has a 24-month term and matures in March 2015. It does not exceed the FDIC insurance limit noted previously.

6. Accounts Receivable

The accounts receivable balance of $102,488 consists primarily of expenses incurred before June 30 for which the organization had yet to receive reimbursement from various funding sources. Management believes that all amounts are fully collectible. Accordingly, no provision is made for uncollectible amounts.

7. Housing Activities

The following table summarizes home building activity for the fiscal year (FY) 2012/13:

	#	Cost
Homes under Construction, beginning	7	$ 623,906
Additional costs incurred on beginning inventory		77,990
New Homes started	10	894,589
Homes Sold	(13)	(1,284,547)
Homes under Construction, ending	**4**	**$ 311,938**

Of the 10 new homes started, two were acquired through foreclosure proceedings. The two homes remained in inventory at year-end and had a cost basis of $173,948 comprised of the outstanding mortgage principal owed by the predecessor homeowners plus related legal fees and rehabilitation expenses to date.

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 3j). 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, 2013, Habitat had 120 loans outstanding with a gross value of $6,619,627 and a discounted value of $3,038,936. 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). Historically, when foreclosure has occurred, the proceeds to Habitat have exceeded the book value of the loan plus the costs of reselling the home.

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 or refinancing with a new lender. During FY 2012/13 Habitat foreclosed on two homeowner loans and the related properties are included in the Homes Under Construction balance as of June 30, 2013 (see Note 7, above).

Scheduled annual mortgage receipts are as follows:

FY 2013/14	$ 330,619
FY 2014/15	326,303
FY 2015/16	321,234
FY 2016/17	320,421
FY 2017/18	314,313
Thereafter	5,006,737
	$ 6,619,627

9. Property and Equipment

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

	6/30/13
Land	$ 75,000
Buildings & Improvements	600,379
Machinery & Equipment	206,080
	881,459
Less accumulated depreciation	(336,876)
Property & Equipment, Net	**$ 544,583**

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 $44,244 for FY 2012/13. Depreciation expense related to the *ReStore* (see Note 15) totaled $31,118 and appears within the line item "ReStore, net" on the Statement of Activities. The remainder of the depreciation expense, $13,126, appears on the Statement of Functional Expenses.

10. Accounts Payable & Accrued Liabilities

The accounts payable and accrued liabilities balance consists of the following:

	6/30/13
Operational Accounts Payable	$ 77,759
Payroll & Related Payables	58,242
Total	**$ 136,001**

11. Notes Payable

Habitat's long-term debt as of June 30, 2013 consists of the following:

Note payable to Branch Banking & Trust Company (BB&T) with a principal balance of $181,557, due in monthly installments of $1,539, including interest at a fixed rate of 4.84% per annum. The note is secured by the ReStore's land, building and improvements. Future scheduled maturities of the long-term debt are as follows:

FY 2013/14	$ 9,895
FY 2014/15	10,387
FY 2015/16	10,881
FY 2016/17	11,440
FY 2017/18	138,954
Total	**$ 181,557**

An interest-free note payable to Habitat International with a principal balance of $15,000. Repayment commences in January 2014 with monthly installments due of $312. The loan matures in July 2017.

Interest expense for FY 2012/13 totaled $9,753 and is included within the line item "ReStore, net" on the Statement of Activities (see Note 15).

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 $25,000 per homeowner loan per year, to be repaid over 30 years. 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 2012/13 loans is 7.39% and corresponds to the associated homeowner loans (see Note 8).

During FY 2012/13, Habitat received $150,000 in financing from NCHFA. The difference between the cash proceeds received and the discounted value of the notes is considered contribution revenue. For FY 2012/13, the NCHFA contribution was calculated at $92,672 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 2012/13 was $41,676.

Annual repayments and the discounted value of the loan pool are:

FY 2013/14	$ 38,834
FY 2014/15	38,834
FY 2015/16	38,834
FY 2016/17	38,834
FY 2017/18	38,834
Thereafter	862,623
	$ 1,056,793
Less present value discount	(626,690)
NCHFA Note Payable, Net	**$ 430,103**

13. Restrictions on Net Assets

The restrictions on net assets at the end of FY 2012/13 of $345,833 are temporary and consist of $95,833 of contributions restricted to funding the cost of homes under construction as of June 30 and a $250,000 contribution to be used to strategically purchase land for future home building sites. Accordingly, the Board of Directors designated $250,000 held in cash to be used for land acquisition.

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.

Volunteers provide substantial services to Habitat in the form of construction and other services. In addition, 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. In addition, volunteers perform a variety of administrative and fundraising tasks for the organization. Only the services of skilled construction personnel meet the criteria for recognition.

The estimate of in-kind contributions totaled $74,185 for FY 2012/13 and is included on the Statement of Activities within the revenue line item "Private Grants and Contributions." The amount is offset on the Statement of Functional Expenses within the expense line item "Home Construction."

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 2012/13 follows:

	6/30/13
Sales	$ 1,320,399
Less expenses:	
Wages, Taxes & Benefits	366,288
Interest	9,753
Depreciation	31,118
Rent & Utilities	114,085
All Other	118,468
Total Expenses	639,712
Net Revenue	**$ 680,687**

16. Payment to Habitat International

Habitat remits a portion of its unrestricted contributions (excluding in-kind contributions) to Habitat International. These funds are used to construct homes in economically depressed areas around the world. Habitat contributed $44,301 to Habitat International during FY 2012/13. This amount appears within the line item "General Operations" on the Statement of Functional Expenses.

17. Leases

On June 1, 2013, Habitat extended its sublease arrangement with the Jo Ann Carter Harrelson Center, Inc. at 20 North 4th Street in Wilmington, North Carolina for an additional year. Total rent expense for the year ended June 30, 2013 totaled $39,290 and appears within the line item "Occupancy" on the Statement of Functional Expenses. The agreed-upon annual rent for FY 2013/14 totals $46,104.

On July 1, 2012, Habitat entered into a 5-year lease for 16,000 square feet of retail space for a second Re-Store in Wilmington, North Carolina. The base rent of $7,333 is payable monthly. The agreed-upon rent for the four remaining years of the lease totals $87,996 per year.

18. Retirement Plan

Habitat provides its employees with a retirement plan under the terms of Section 403(b) of the Internal Revenue Code. The plan is available to all full-time staff. Habitat does not match participant contributions.

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:

Non-Cash Investing Activities:

	6/30/13
Issuance of non-interest bearing mortgages	$ 1,141,279
Discount of non-interest bearing mortgages	(682,955)
Total Non-Cash Items	$ 458,324
plus cash received at closing	145,800
Home Sales, net of discounts	**$ 604,124**

20. Commitments & Contingencies

In March 2013, Habitat signed an agreement with the City of Wilmington to serve as a contractor to provide up to $150,000 of critical home repair services as part of the City's neighborhood revitalization efforts. In turn, Habitat has signed a memorandum of understanding with Wilmington Area Rebuilding Ministry (WARM), a local non-profit organization, to partner in this activity. As of June 30, 2013, no payments had been received or requested under the contract.

From time to time, Habitat has received grants from the City of Wilmington that were pass-through federal funds to be used for low-income housing development. It is the City's policy to require Habitat to sign a loan payable to the City for the total amount of each of these grants received. The notes are interest-free, have no scheduled principal payments and would only be enforceable if Habitat were unable to use the funds for their specified purposes. The principal balance is reduced as the grant-funded homes are completed and title is transferred to the home-owners. As of June 30, 2013, the principal balance remaining totaled $60,000 for these notes.

Although Habitat could conceivably have a future commitment to repay this balance, no liability for the loans is recorded on Habitat's financial statements. The grants are being used as required and management does not anticipate any future circumstances in which the organization would be unable to meet the requirements of the grants. The unspent portions of the funds received are, however, segregated as restricted net assets on the Statement of Financial Position as described in *Note 13, Restrictions on Net Assets*.

21. 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 2009/10.

22. Subsequent Events
Habitat has evaluated events that have occurred subsequent to the statement of financial position date (June 30, 2013) and through the date that the Independent Auditor's Report was available to be issued and was issued (November 8, 2013). No events have occurred during that period that would require adjustments to the audited financial statements or additional disclosure in these notes.