



# CAPE FEAR HABITAT FOR HUMANITY, INC.

## Audited Financial Statements

for the fiscal year ended

**June 30, 2014**

(with comparative totals for 2013)



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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, 2014, 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, 2014, 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 2013 financial statements and our report dated November 8, 2013 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, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Bearman CPA PC*

Wilmington, North Carolina  
October 8, 2014

Cape Fear Habitat for Humanity, Inc.

**Statement of Financial Position**

as of June 30, 2014

(with comparative totals for 2013)

	<u>6/30/14</u>	<u>6/30/13</u>
<b>Assets</b>		
Cash and Cash Equivalents (Note 3c and 4)	\$ 972,308	\$ 801,567
Restricted Cash for Buyer Closings	14,800	6,626
Cash Designated for Land Acquisition (Note 13)	117,000	250,000
Certificate of Deposit (Note 5)	250,000	250,000
Accounts Receivable, net (Note 6)	130,432	102,488
Prepaid Expenses	40,394	40,098
Homes under Construction (Note 3h and 7)	347,604	311,938
Property Held for Future Use (Note 3h)	149,499	157,762
Loans to Homeowners, net (Note 8)	3,366,068	3,038,936
Property & Equipment, net (see Note 9)	<u>547,628</u>	<u>544,583</u>
<b>Total Assets</b>	<b><u>\$ 5,935,733</u></b>	<b><u>\$ 5,503,998</u></b>
<b>Liabilities &amp; Net Assets</b>		
Accounts Payable & Accrued Liabilities (Note 10)	\$ 149,829	\$ 136,001
Notes Payable (Note 11)	13,128	196,557
NCHFA Notes Payable, net (Note 12)	<u>631,564</u>	<u>430,103</u>
<b>Total Liabilities</b>	<b><u>794,521</u></b>	<b><u>762,661</u></b>
Net Assets		
Unrestricted	4,942,704	4,395,504
Temporarily Restricted (Note 13)	198,508	345,833
Permanently Restricted (Note 3b)	<u>-</u>	<u>-</u>
<b>Total Net Assets</b>	<b><u>5,141,212</u></b>	<b><u>4,741,337</u></b>
<b>Total Liabilities &amp; Net Assets</b>	<b><u>\$ 5,935,733</u></b>	<b><u>\$ 5,503,998</u></b>

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, 2014  
(with comparative totals for 2013)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>FY 2013/14 Total</u>	<u>FY 2012/13 Total</u>
<b>OPERATING</b>				
<b>Revenue</b>				
Private Grants & Contributions (Note 3d)	\$ 426,873	\$ 282,884	\$ 709,757	\$ 811,192
Government Grants & Contracts	133,000	-	133,000	-
NCHFA Contribution (Note 12)	326,638	-	326,638	92,672
Home Sales (Note 8)	1,344,600	-	1,344,600	1,287,079
Imputed Interest on Mortgage Loans (Note 8)	398,782	-	398,782	308,751
ReStore, net (see Note 15)	519,784	-	519,784	680,687
Special Events, net (see Note 3e)	42,169	-	42,169	26,160
Interest & Other Income	28,069	-	28,069	22,472
Net Assets Released from Restriction (Note 13)	430,209	(430,209)	-	-
<b>Total Revenue</b>	<b><u>3,650,124</u></b>	<b><u>(147,325)</u></b>	<b><u>3,502,799</u></b>	<b><u>3,229,013</u></b>
<b>Expense</b>				
Program	2,697,461		2,697,461	2,546,759
Management & General	226,009		226,009	199,259
Fundraising	179,454	-	179,454	170,244
<b>Total Expense</b>	<b><u>3,102,924</u></b>	<b><u>-</u></b>	<b><u>3,102,924</u></b>	<b><u>2,916,262</u></b>
<b>Change in Net Assets</b>	<b><u>547,200</u></b>	<b><u>(147,325)</u></b>	<b><u>399,875</u></b>	<b><u>312,751</u></b>
Net Assets Beginning of Year	4,395,504	345,833	4,741,337	4,428,586
<b>Net Assets End of Year</b>	<b><u>\$ 4,942,704</u></b>	<b><u>\$ 198,508</u></b>	<b><u>\$ 5,141,212</u></b>	<b><u>\$ 4,741,337</u></b>

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, 2014  
(with comparative totals for 2013)

<u>Expense Type</u>	<u>Program</u>	<u>Management &amp; General</u>	<u>Fundraising</u>	<u>FY 2013/14 Total</u>	<u>FY 2012/13 Total</u>
Wages, Taxes & Benefits	\$ 274,547	\$ 154,842	\$ 133,907	<b>\$ 563,296</b>	\$ 464,998
Home Construction	1,447,843	-	-	<b>1,447,843</b>	1,514,748
Discount on New Mortgages (Note 8)	773,567	-	-	<b>773,567</b>	682,955
Contracted Services	28,562	13,000	-	<b>41,562</b>	37,480
General Operations	66,953	33,156	36,617	<b>136,726</b>	111,533
Occupancy (Note 17)	32,063	16,606	7,447	<b>56,116</b>	49,746
Imputed Interest (Note 12)	67,194	-	-	<b>67,194</b>	41,676
Depreciation (Note 9)	6,732	8,405	1,483	<b>16,620</b>	13,126
<b>Total Expense</b>	<b><u>\$ 2,697,461</u></b>	<b><u>\$ 226,009</u></b>	<b><u>\$ 179,454</u></b>	<b><u>\$ 3,102,924</u></b>	<b><u>\$ 2,916,262</u></b>

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, 2014  
(with comparative totals for 2013)

	<b>FY 2013/14</b>	<b>FY 2012/13</b>
<b>Cash Flows from Operating Activity</b>		
Change in Net Assets	\$ 399,875	\$ 312,751
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	(8,174)	3,924
Cash Designated for Land Acquisition	133,000	(250,000)
Homes Under Construction	(35,666)	311,968
Receivables & Prepaids	(28,240)	55,834
Accounts payable & accrued expenses	13,828	7,473
Depreciation (including ReStore)	50,961	44,244
Home Sales, net of discounts (Note 19)	(571,033)	(604,124)
NCHFA Contribution (Note 12)	(326,638)	(92,671)
Imputed Interest Income (Note 8)	(398,782)	(308,751)
Imputed Interest Expense (Note 12)	67,194	41,676
Net Cash Used in Operating Activities	<b>(703,675)</b>	<b>(477,676)</b>
<b>Cash Flows from Investing Activities</b>		
Sale (Purchase) of Certificates of Deposit, net	-	810
Assets Held for Future Use	8,263	216,307
Mortgage Payments Received	642,683	631,680
Purchases of Property & Equipment	(54,006)	(117,601)
Net Cash Provided by Investing Activities	596,940	731,196
<b>Cash Flows from Financing Activities</b>		
Proceeds from Debt Financing	555,000	150,000
Payments on Long-term Debt	(277,524)	(61,808)
Net Cash Provided by Financing Activities	277,476	88,192
<b>Net Increase (Decrease) in Cash</b>	<b>170,741</b>	<b>341,712</b>
Cash and Cash Equivalents, beginning of year	801,567	459,855
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 972,308</b>	<b>\$ 801,567</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, 2014

**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 161 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.

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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, 2014, 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*.

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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 \$72,561 of revenue and incurred \$30,392 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 \$42,169 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

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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 7.58%. 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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**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, 2014, 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 \$130,432 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) 2013/14:

	<u>#</u>	<u>Cost</u>
Homes under Construction, beginning	4	\$ 311,938
Additional costs incurred on beginning inventory		83,139
New Homes started	15	1,194,425
Homes Sold	<u>(14)</u>	<u>(1,241,898)</u>
Homes under Construction, ending	<u>5</u>	<u>\$ 347,604</u>

Of the 19 homes under construction during the year, five were acquired through foreclosure proceedings in FY 2012/13 and 2013/14. Three of the five homes sold prior to year-end producing \$304,000 of home sales revenue. The three homes together had a total cost basis of \$282,017 comprised of the outstanding mortgage principals owed by the predecessor homeowners plus related legal fees and rehabilitation expenses.

**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

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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, 2014, Habitat had 128 loans outstanding with a gross value of \$7,321,544 and a discounted value of \$3,366,068. 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 or refinancing with a new lender. During FY 2013/14 Habitat foreclosed on three homeowner loans. One of the associated properties was re-sold prior to the fiscal year-end and the other two properties are included in the Homes Under Construction balance as of June 30, 2014 (see Note 7, above).

Scheduled annual mortgage receipts are as follows:

FY 2014/15	\$ 360,708
FY 2015/16	356,157
FY 2016/17	355,421
FY 2017/18	349,330
FY 2018/19	344,245
Thereafter	<u>5,555,683</u>
	<b><u>\$ 7,321,544</u></b>

**9. Property and Equipment**

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

	<b><u>6/30/14</u></b>
Land	\$ 75,000
Buildings & Improvements	600,379

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Machinery & Equipment	<u>260,087</u>
	935,466
Less accumulated depreciation	<u>(387,838)</u>
<b>Property &amp; Equipment, Net</b>	<b><u>\$ 547,628</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 \$50,961 for FY 2013/14. Depreciation expense related to the *ReStore* (see Note 15) totaled \$34,341 and appears within the line item "ReStore, net" on the Statement of Activities. The remainder of the depreciation expense, \$16,620, appears on the Statement of Functional Expenses.

#### **10. Accounts Payable & Accrued Liabilities**

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

	<u><b>6/30/14</b></u>
Operational Accounts Payable	\$ 90,119
Payroll & Related Liabilities	<u>59,710</u>
<b>Total</b>	<b><u>\$ 149,829</u></b>

#### **11. Notes Payable**

In April 2014, Habitat paid \$173,557 to Branch Banking & Trust Company (BB&T) to fully satisfy its obligation to the bank.

Habitat owes \$13,128 to Habitat International. The loan is interest-free and repayment is due in monthly installments of \$312. The loan matures in July 2017.

Interest expense for FY 2013/14 totaled \$5,079 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 \$40,000 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 2013/14 loans is 7.58% and corresponds to the associated homeowner loans (see Note 8).

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During FY 2013/14, Habitat received \$555,000 in financing from NCHFA. The difference between the cash proceeds received and the discounted value of the notes is considered contribution revenue. For FY 2013/14, the NCHFA contribution was calculated at \$326,638 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 2013/14 was \$67,194.

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

FY 2014/15	\$ 56,667
FY 2015/16	56,667
FY 2016/17	56,667
FY 2017/18	56,667
FY 2018/19	56,667
Thereafter	<u>1,234,363</u>
	<u>\$ 1,517,698</u>
Less present value discount	<u>(886,134)</u>
<b>NCHFA Note Payable, Net</b>	<b><u>\$ 631,564</u></b>

**13. Restrictions on Net Assets**

The restrictions on net assets at the end of FY 2013/14 of \$198,508 are temporary and consist of \$81,508 of contributions restricted to funding the cost of homes under construction as of June 30 and \$117,000 for land acquisition. In response to the latter gift, the Board of Directors has set aside an equal amount of the organization’s cash balance to be used for land acquisition activities.

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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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 \$165,818 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 2013/14 follows:

	<u>6/30/14</u>
Sales	\$ 1,365,565
Less expenses:	
Wages, Taxes & Benefits	498,111
Interest	5,079
Depreciation	34,341
Rent & Utilities	143,005
All Other	<u>165,245</u>
Total Expenses	<u>845,781</u>
<b>Net Revenue</b>	<b><u>\$ 519,784</u></b>

**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 \$24,780 to Habitat International during FY 2013/14. This amount appears within the line item "General Operations" on the Statement of Functional Expenses.

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**17. Leases**

On June 1, 2014, Habitat extended its sublease arrangement with the Jo Ann Carter Harrelson Center, Inc. at 20 North 4<sup>th</sup> Street in Wilmington, North Carolina for an additional three years. Total rent expense for the year ended June 30, 2014 totaled \$46,107 and appears within the line item “Occupancy” on the Statement of Functional Expenses. The agreed-upon annual rent for the 2014/15 lease period totals \$43,707 and increases by 1% per annum for the remainder of the lease term.

In February, 2014, Habitat modified its existing 5-year lease agreement with a local landlord to rent retail and warehouse space for its ReStore located on Market Street in Wilmington, North Carolina. The base rent of \$10,083 is payable monthly. The agreed-upon rent for the 2014/15 lease period totals \$120,996 and increases by 1% per annum for the remainder of the lease term.

**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 employees working more than 20 hours per week. 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:

	<u>6/30/14</u>
Issuance of non-interest bearing mortgages	\$ 1,295,400
Discount of non-interest bearing mortgages	<u>(773,567)</u>
Total Non-Cash Items	\$ 521,833
plus cash received at closing	<u>49,200</u>
<b>Home Sales, net of discounts</b>	<b><u>\$ 571,033</u></b>

**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

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Wilmington Area Rebuilding Ministry (WARM), a local non-profit organization, to partner in this activity. As of June 30, 2014, no payments had been received or requested under the contract.

**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 2010/11.

**22. Subsequent Events**

Habitat has evaluated events that have occurred subsequent to the statement of financial position date (June 30, 2014) and through the date that the Independent Auditor's Report was available to be issued (October 8, 2014). No events have occurred during that period that would require adjustments to the audited financial statements or additional disclosure in these notes.

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