



CAPE FEAR
HABITAT FOR HUMANITY, INC.

Audited Financial Statements

for the fiscal year ended

June 30, 2020

(with comparative totals for 2019)



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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, 2020, 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, 2020, 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 2019 financial statements and our report dated December 17, 2019 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, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of State Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of State Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2020, on our consideration of Habitat's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Habitat's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Bearman CPA PC".

Wilmington, North Carolina
December 17, 2020

Cape Fear Habitat for Humanity, Inc.
Statement of Financial Position
as of June 30, 2020
(with comparative totals for 2019)

	6/30/20	6/30/19
Assets		
Cash and Cash Equivalents (Note 3c and 4)	\$ 965,155	\$ 1,496,793
Restricted Cash for Buyer Closings	64,335	25,615
Accounts Receivable, net (Note 5)	67,094	172,352
Prepaid Expenses	120,558	89,411
ReStore Inventory (Note 3j)	251,507	187,799
Program Properties Inventory (Note 3h and 6)	5,188,415	2,609,636
Loans to Homeowners, net (Note 7)	5,758,283	5,600,723
Property & Equipment, net (see Note 8)	2,598,507	625,935
Total Assets	\$ 15,013,854	\$ 10,808,264
Liabilities & Net Assets		
Accounts Payable & Accrued Liabilities (Note 9)	\$ 300,188	\$ 375,892
Notes Payable (Note 10)	3,803,153	1,119,477
NCHFA Notes Payable, net (Note 11)	1,287,810	1,253,196
Total Liabilities	5,391,151	2,748,565
Net Assets		
Without Donor Restrictions	8,931,250	7,270,283
With Donor Restrictions (Note 3b and 12)	691,453	789,416
Total Net Assets	9,622,703	8,059,699
Total Liabilities & Net Assets	\$ 15,013,854	\$ 10,808,264

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

Cape Fear Habitat for Humanity, Inc.
Statement of Activities
for the year ended June 30, 2020
(with comparative totals for 2019)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total FY 2019/20</u>	<u>Total FY 2018/19</u>
OPERATING				
Revenue				
Private Grants & Contributions (Note 3d)	\$ 1,078,870	\$ 1,581,221	\$ 2,660,091	\$ 1,756,188
Government Grants & Contracts (Note 3d)	-	677,170	677,170	647,641
NCHFA Contribution (Note 11)	104,653	-	104,653	106,553
Home Sales (Note 7)	1,282,407	-	1,282,407	1,147,445
Imputed Interest on Mortgage Loans (Note 7)	329,677	-	329,677	315,775
Gross ReStore Sales (Note 3j)	1,826,891	-	1,826,891	2,078,073
Less ReStore Cost of Goods Sold	<u>(1,766,119)</u>	<u>-</u>	<u>(1,766,119)</u>	<u>(1,585,711)</u>
ReStore, net	60,772	-	60,772	492,362
Gross Special Events Revenue	145,499	-	145,499	131,946
Less Event Direct Costs	<u>(53,822)</u>	<u>-</u>	<u>(53,822)</u>	<u>(36,990)</u>
Special Events, net (see Note 3e)	91,677	-	91,677	94,956
Interest & Other Income	18,847	-	18,847	35,972
Net Assets Released from Restriction (Note 12)	<u>2,356,354</u>	<u>(2,356,354)</u>	<u>-</u>	<u>-</u>
Total Revenue	<u>5,323,257</u>	<u>(97,963)</u>	<u>5,225,294</u>	<u>4,596,892</u>
Expense				
Program (Note 3e)	3,148,267	-	3,148,267	2,344,499
Management & General (Note 3e)	271,340	-	271,340	214,510
Fundraising (Note 3e)	<u>415,533</u>	<u>-</u>	<u>415,533</u>	<u>366,927</u>
Total Expense	<u>3,835,140</u>	<u>-</u>	<u>3,835,140</u>	<u>2,925,936</u>
Change in Operating Net Assets	<u>1,488,117</u>	<u>(97,963)</u>	<u>1,390,154</u>	<u>1,670,956</u>
NON-OPERATING				
Notes Receivable Discount Rate Change (Note 3k)	-	-	-	527,772
ReStore Inventory Estimate (Note 3k)	-	-	-	125,120
Columbus County Habitat Dissolution (Note 17)	<u>172,850</u>	<u>-</u>	<u>172,850</u>	<u>-</u>
Change in Non-Operating Net Assets	<u>172,850</u>	<u>-</u>	<u>172,850</u>	<u>652,892</u>
Change in Net Assets	<u>1,660,967</u>	<u>(97,963)</u>	<u>1,563,004</u>	<u>2,323,848</u>
Net Assets Beginning of Year	<u>7,270,283</u>	<u>789,416</u>	<u>8,059,699</u>	<u>5,735,851</u>
Net Assets End of Year	<u>8,931,250</u>	<u>691,453</u>	<u>9,622,703</u>	<u>8,059,699</u>

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

Cape Fear Habitat for Humanity, Inc.
Statement of Functional Expenses
for the year ended June 30, 2019
(with comparative totals for 2019)

Expense Type	Program		Management & General	Fundraising	Total FY 2019/20	Total FY 2018/19
	Home Ownership	ReStore				
Wages, Taxes & Benefits	\$ 758,066	\$ 1,060,876	\$ 179,304	\$ 285,230	\$ 2,283,476	\$ 1,935,175
Cost of Homes Sold (Note 6)	1,004,990	-	-	-	1,004,990	897,088
Cost of Rebuild Projects (Note 6)	510,246	-	-	-	510,246	97,928
Discount on New Mortgages (Note 7)	470,519	-	-	-	470,519	366,967
Contracted Services	33,657	36,326	22,366	24,848	117,197	93,569
General Operations	160,135	352,002	45,165	143,918	701,220	625,555
Occupancy (Note 15)	54,489	203,956	22,609	15,359	296,413	363,067
Interest (Note 10)	30,152	40,010	-	-	70,162	2,357
Imputed Interest (Note 11)	113,733	-	-	-	113,733	101,050
Depreciation (Note 8)	12,280	72,949	1,896	-	87,125	65,881
Total Expenses by Function	\$3,148,267	\$1,766,119	\$ 271,340	\$ 469,355	\$5,655,081	\$ 4,548,637
<u>Less Expense Items Netted Against Revenue on the Statement of Activities</u>						
Special Events Expenses	-	-	-	(53,822)	(53,822)	(36,990)
Thrift Store Cost of Goods Sold	-	(1,766,119)	-	-	(1,766,119)	(1,585,711)
Total Expenses per Statement of Activities	\$3,148,267	\$ -	\$ 271,340	\$ 415,533	\$3,835,140	\$2,925,936

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

Cape Fear Habitat for Humanity, Inc.
Statement of Cash Flows
for the year ended June 30, 2020
(with comparative totals for 2019)

	FY 2019/20	FY 2018/19
Cash Flows from Operating Activity		
Change in Net Assets	\$ 1,563,004	\$ 2,323,848
Adjustments to reconcile the change in net assets to net cash provided by (used in) operating activities:		
Changes in certain assets and liabilities:		
Program Properties Inventory	(2,411,530)	(997,752)
Receivables & Prepaids	74,111	(41,879)
ReStore Inventory	(63,708)	(182,591)
Accounts payable & accrued expenses	(75,704)	231,531
Depreciation (including ReStore)	87,125	65,881
Home Sales, net of discounts	(811,888)	(780,478)
Homeowner Payments at Closing	288,465	212,500
Homeowner Mortgage Payments	528,291	512,253
NCHFA Contribution (Note 10)	(104,653)	(106,553)
Imputed Interest Income (Note 6)	(329,677)	(315,775)
Imputed Interest Expense (Note 10)	113,733	101,050
Change in Discount Rate	-	(527,772)
Net Cash Provided by (Used in) Operating Activities	(1,142,431)	494,263
Cash Flows from Investing Activities		
Property & Equipment Acquisitions	(2,059,697)	(202,087)
Net Cash (Used in) Investing Activities	(2,059,697)	(202,087)
Cash Flows from Financing Activities		
Proceeds from Debt Financing	3,006,041	877,208
Loan Origination Fees, net	(15,267)	(93,000)
Payments on Long-term Debt	(281,564)	(193,214)
Net Cash Provided by Financing Activities	2,709,210	590,994
Net Increase (Decrease) in Cash and Cash Equivalents	(492,918)	883,170
Cash and Cash Equivalents, beginning of year	1,522,408	639,238
Cash and Cash Equivalents, end of year	\$ 1,029,490	\$ 1,522,408

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, 2020

1. Organization

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

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

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

2. Mission and Activities

Habitat is a Christian housing ministry assisting families in the Cape Fear region of North Carolina towards the purchase of a Habitat home. Habitat has completed 223 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.

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

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

Net assets without donor restrictions are resources available for use in general operations and not subject to donor (or certain grantor) restrictions. The only limits on their use 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.

Net assets with donor restrictions are resources that are subject to donor (or certain grantor) - imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are permanent in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. *As of June 30, 2020, Habitat held no net assets with permanent donor restrictions.*

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.

3d. Contributions, Grant and Contracts

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in net assets without donor restrictions unless the use of the contributed assets is specifically restricted by the donor (see *Note 3b*, previously). Also, see *Note 12, Restrictions on Net Assets*.

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Cape Fear Habitat for Humanity, Inc.
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Contributed services are only recorded if they meet the requirements for recognition discussed in *Note 13, 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. Functional Allocation of Expenses

The Financial Accounting Standards Board *Accounting Standards Codification* (FASB ASC) topic 958, "Not-for-Profit Entities," requires the reporting of the organization's expenses in a Statement of Activities using functional classifications (program, management and general, and fundraising). The Statement of Functional Expenses presents these same expenses by both functional and natural classification (e.g. wages, contracted services).

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 staff members' time as the primary objective basis for allocated amounts.

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 \$145,499 of revenue and incurred \$53,822 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 \$91,677 appears on the Statement of Activities as the revenue line item "Special Events, net."

3f. Property & Equipment

Habitat capitalizes property and equipment costing more than \$5,000 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

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the asset's use. Also, see *Note 8, Property & Equipment and Note 13, 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 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. 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 6, Housing Activities.*

3i. Home Sales/Notes Receivable

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.

Historically, the non-interest-bearing mortgages have been discounted at a rate provided by Habitat International based upon market rates for similar types of loans. The rate provided for the current year was 7.38%. Discounts are amortized using the effective interest method over the lives of the mortgages.

During 2018/19 and 2019/20, the organization entered into agreements with Live Oak Bank (see Note 10) in which it provided approximately \$2,000,000 of its existing homeowner loans as collateral in exchange for cash payments from Live Oak Bank. In FY 2016/17, it leveraged a similar amount with Habitat for Humanity International under the "Flexcap" program (see Note 10).

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Cape Fear Habitat for Humanity, Inc.
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The effective annual interest rates associated with the two programs are fixed at 2.99% and 4.75%, respectively. Management has chosen to use these interest rates rather than the rate provided by Habitat International to calculate the mortgage discount on the associated portions of the homeowner loan portfolio. Also see *Note 7, Home Sales / Loans to Homeowners*.

3j. ReStore Donations

Habitat receives support in the form of in-kind donations of building materials and household items. It operates three 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 fair market values can be determined (i.e. when the items are sold).

Management has valued inventory held at the ReStores based on guidance provided by Habitat for Humanity International. Using an inventory turnover rate of one month, the value of the inventory has been estimated as the amount of the subsequent month's sales (\$251,507).

The COVID-19 virus (see Note 19) had a significant impact on the ReStores which were closed for much of March, April and May 2020. Nevertheless, Habitat qualified for a payroll protection program (PPP) loan of \$413,400 and used these funds to cover ReStore continued staff employment and occupancy costs allowed under the program during this time frame.

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 (with or without donor restrictions). 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. Liquidity and Availability

CFHFH has calculated that as of June 30, 2020, it had financial assets of \$1,560,768 (cash, accounts receivable and the current portion of loans to homeowners) that will become available within one year for general expenditure. CFHFH has not reduced the available amount by \$691,453 of restricted net assets because the specific restrictions relate to budgeted initiatives in 2020/21 and therefore will be available for general expenditures such as payroll. In FY 2019/20, the organization had average daily expenses of \$13,654, excluding non-cash expenses. Therefore, the

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Cape Fear Habitat for Humanity, Inc.
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\$1,560,768 of available financial assets could theoretically fund operations for 114 days at FY 2019/20 expenditure levels.

As part of CFHFH's liquidity management plan, cash in excess of daily requirements may be invested in short-term investments and money market funds.

5. Accounts Receivable

The accounts receivable balance of \$67,094 was fully collected during the first quarter of fiscal year 2019/20. Accordingly, no provision is made for uncollectible amounts.

6. Housing Activities

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

	<u>Cost</u>
Program Properties Inventory, Beginning	\$ 2,609,636
Additional Costs Incurred	3,583,769
Cost of 8 Homes Sold	<u>(1,004,990)</u>
Program Properties Inventory, Ending	<u>\$ 5,188,415</u>

The properties inventory balance of \$5,188,415 includes \$1,914,783 of land and infrastructure costs of the 11-acre Blendin Meadows development on Daniel Boone Trail off Gordon Road in Wilmington which will ultimately include 27 new Habitat homes. These costs were incurred to upgrade the road and bring water and sewer to the planned community. The costs were primarily funded by almost \$1.3 million of private donations and governmental grants restricted to that purpose. The cost reflected in the inventory balance is stated at the gross amount and is not reduced by the funding received which equates to approximately \$47,500 per lot.

In addition to new home construction, Habitat has engaged in a disaster rebuild program for those communities impacted by 2018's Hurricane Florence. The long-term recovery program helps those on limited incomes to return to their homes once Habitat crews have restored them to safe, livable environments. Project costs of \$510,246 appear as a line item on the Statement of Functional Expenses.

7. 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.

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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.”

As of June 30, 2020, Habitat had 160 loans outstanding with a gross value of \$10,589,914 and a discounted value of \$5,758,283. Management has established no provision for loan losses because Habitat is the secured creditor and it can reclaim the homes through foreclosure.

In addition to the interest-free mortgages, most homeowners are obligated to another mortgage which is forgiven based on compliance with various requirements including timely mortgage payments and occupancy over 20 to 30 years. The forgivable 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 2020/21	\$	528,519
FY 2021/22		524,859
FY 2022/23		506,456
FY 2023/24		487,789
FY 2024/25		472,075
Thereafter		<u>8,070,216</u>
		<u>\$ 10,589,914</u>
Less present value discount		<u>(4,831,631)</u>
Loans to Homeowners, net		<u>\$ 5,758,283</u>

8. Property and Equipment

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

		<u>6/30/20</u>	
Land	\$	1,291,000	
Buildings & Improvements		1,565,028	
Machinery & Equipment		<u>428,111</u>	
		3,284,139	
Less accumulated depreciation		<u>(685,632)</u>	
Property & Equipment, Net		<u>\$ 2,598,507</u>	

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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 \$87,125 for FY 2019/20 and appears as a line item on the Statement of Functional Expenses.

9. Accounts Payable & Accrued Liabilities

The accounts payable and accrued liabilities balance of \$300,188 consists of operational accounts payable of \$184,633 and payroll and related liabilities of \$115,555.

10. Notes Payable

Habitat's debt is summarized in the following table and further described below and in Note 11:

<u>Lender</u>	<u>Balance</u>
Habitat for Humanity International, Inc.	\$ 437,909
Wells Fargo Bank	1,539,579
Live Oak Bank	1,262,265
U.S. Small Business Administration	<u>563,400</u>
Notes Payable Total	<u>\$ 3,803,153</u>
NCHFA Interest-free Loan Program (Note 11)	<u>1,287,810</u>
Total Debt	<u>\$ 5,090,963</u>

- Note payable to Habitat for Humanity International, Inc. with a principal balance of \$437,909, 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.

- Note payable to Wells Fargo Bank with a principal balance of \$1,539,579 due in monthly installments of \$10,379, including interest at a fixed rate of 3.85% per annum. The loan requires principal payments of approximately \$70,000 per year until it matures in November 2024 when a balloon payment of approximately \$1,332,351 will be due. The note is secured by the ReStore facility acquired with the loan proceeds.

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- A revolving line of credit with Wells Fargo Bank with no outstanding balance as of June 30, 2020. 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.
- Two notes payable to Live Oak Bank with a combined principal balance of \$1,964,485 due in installments of approximately \$6,400 per month. The notes mature in May 2048 and December 2049 respectively. The notes are secured by a group of homeowner loans that are pledged to Live Oak Bank. Monthly payments match the terms of those underlying homeowner loans and payment amounts vary based upon the maturity dates of those loans.

The present value of future interest payments calculated at 2.99% per annum was prepaid at the inception of the loans thus reducing the loan proceeds to \$1,394,849. The interest is expensed over the life of the loans and appears within the line item "Interest" on the Statement of Functional Expenses.

Habitat also incurred \$112,000 of loan origination fees related to the notes. Amortization of loan origination fees is computed using the straight-line method over the life of the loan. Amortization expense totaled \$3,733 for FY 2019/20 and appears within the line item "Interest" on the Statement of Functional Expenses.

The Live Oak notes payable balance as of 6/30/20 is summarized as follows:

Principal (Loan 1)	\$ 955,619
less pre-paid interest	(274,331)
Principal (Loan 2)	1,008,866
less pre-paid interest	(322,723)
less unamortized origination fees	<u>(105,166)</u>
	<u>\$ 1,262,265</u>

- Two U.S. Small Business Administration disaster assistance loans: a Payroll Protection Program (PPP) loan of \$413,400 and an Economic Injury Disaster Loan (EIDL) of \$150,000 (see Note 19).

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Future years principal repayments on the combined notes payable balance of \$3,803,153 are as follows:

FY 2020/21	\$ 165,691
FY 2021/22	172,374
FY 2022/23	179,334
FY 2023/24	1,444,377
FY 2024/25	116,655
Thereafter	<u>1,416,488</u>
Total	<u>\$ 3,494,919</u>
<u>Reconciling items</u>	
Payroll Protection Loan (forgivable)	413,400
Live Oak unamortized origination fees	<u>(105,166)</u>
Notes Payable Balance	<u>\$ 3,803,153</u>

11. 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 \$35,000 per homeowner loan per year, to be repaid over the life of the loan (typically 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 2019/20 loans is 7.38% and corresponds to the associated homeowner loans (see *Note 7*).

During FY 2019/20, Habitat received \$175,000 in financing from NCHFA. The difference between the cash proceeds received and the discounted value of the notes is considered contribution revenue. The NCHFA contribution was calculated at \$104,653 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 2019/20 was \$113,733.

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Cape Fear Habitat for Humanity, Inc.
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Annual repayments and the discounted value of the loan pool are:

FY 2020/21	\$	120,482
FY 2021/22		120,482
FY 2022/23		120,482
FY 2023/24		120,482
FY 2024/25		120,482
Thereafter		<u>2,149,453</u>
		<u>\$ 2,751,863</u>
Less present value discount		<u>(1,464,053)</u>
NCHFA Note Payable, Net		<u>\$ 1,287,810</u>

12. Restrictions on Net Assets

The restrictions on net assets at the end of FY 2019/20 of \$691,453 are temporary and consist of contributions restricted to funding future home building or future “Rebuild” projects for those communities impacted by 2018’s Hurricane Florence.

Once Habitat has incurred substantially all costs associated with a build, 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.”

13. 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.

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, land or material provided. The estimate of in-kind contributions totaled \$767,454 and is included on the Statement of Activities within the revenue line item “Private Grants and Contributions.”

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Cape Fear Habitat for Humanity, Inc.
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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 3j*) to Habitat International. These funds are used to construct homes in economically depressed areas around the world. Habitat contributed \$36,739 to Habitat International during FY 2019/20. This amount appears within the line item “General Operations” on the Statement of Functional Expenses.

15. Leases

Habitat leased administrative and program space from the Jo Ann Carter Harrelson Center, Inc. at 20 North 4th Street in Wilmington, North Carolina. Total rent expense for the year ended June 30, 2020 totaled \$47,527 and appears within the line item “Occupancy” on the Statement of Functional Expenses. In July 2020, Habitat re-located to 3310 Fredrickson Road in Wilmington. Future minimum lease payments are as follows:

FY 2020/21	\$ 124,200
FY 2021/22	124,200
FY 2022/23	126,684
FY 2023/24	129,218
FY 2024/25	<u>131,802</u>
	<u>\$ 504,302</u>

In June 2020, Habitat began leasing retail space for a new ReStore located at 6331 Carolina Beach Road in Wilmington, North Carolina. The initial lease expires in May 2022 and Habitat holds an option to renew the lease for one year. Lease payments are \$5,000 per month through the end of the initial lease term in May 2022.

16. Columbus County Habitat for Humanity Dissolution

In August 2019, Columbus County Habitat for Humanity dissolved and transferred its remaining net assets to Cape Fear Habitat after paying all outstanding liabilities. The acquired assets of Columbus County Habitat included cash, property, and discounted homeowner mortgage receivables. The total transfer of \$172,850 appears as the line item “Columbus County Habitat Dissolution” in the non-operating section of the Statement of Activities.

17. Retirement Plan

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

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for the fiscal year. Retirement expense for the year ended June 30, 2020 totaled \$27,164 and appears within the line item “Wages, Taxes & Benefits” on the Statement of Functional Expenses.

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 2016/17.

19. Subsequent Events

As of the date of this report, the COVID-19 virus continues to create worldwide disruption to economic activity. While it is too early to fully assess the long-term financial implications of this massive public health crisis on Habitat’s operations, its employees continue to work remotely and on-site and its ReStores are open after closing for much of March, April and May 2020.

Management is actively monitoring State and Federal relief bills as well as private funding sources for opportunities to offset any negative financial impacts. Habitat qualified for a payroll protection program (PPP) loan of \$413,400 and an Economic Injury Disaster Loan (EIDL) of \$150,000 and used them to continue to employ ReStore employees and other staff members during the crisis and pay for allowed occupancy costs. It intends to seek forgiveness of the PPP loan under the terms of the program at the appropriate time.

Habitat has evaluated events that have occurred subsequent to the statement of financial position date (June 30, 2020) and through the date that the Independent Auditor’s Report was available to be issued (December 17, 2020). No other 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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**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Cape Fear Habitat for Humanity, Inc. (Habitat), a nonprofit organization, which comprise the statement of financial position as June 30, 2020, and the related statements of activities, functional expenses, and cash flows, for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 17, 2020.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered Habitat's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Habitat's internal control. Accordingly, we do not express an opinion on the effectiveness of Habitat's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet is important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. ***Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.*** However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Habitat's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bearman CPA PC

Wilmington, North Carolina
December 17, 2020

Cape Fear Habitat for Humanity, Inc.
Schedule of Expenditures of State Awards
for the year ended June 30, 2020

<u>North Carolina State Grantor/ Program Title</u>	<u>State Ref. Number</u>	<u>Expenditures</u>
Disaster Recovery Act of 2018 (Session Law 2018-136)		
NC Office of State Budget and Management		
Disaster Recovery - Housing Repairs	13624-C	241,599
Disaster Recovery - Affordable Housing	13624-D	<u>435,571</u>
Total State Expenditures		<u>\$ 677,170</u>

The accompanying notes are an integral part of this schedule.

Cape Fear Habitat for Humanity, Inc.
Notes to the Schedule of Expenditures of State Awards
for the year ended June 30, 2020

1. Basis of Presentation

The accompanying Schedule of Expenditures of State Awards (“the Schedule”) includes the state grant activities of Habitat under the Disaster Recovery Act of 2018 for the year ended June 30, 2020.

The information in the Schedule is presented in accordance with the requirements of the applicable sections of *Title 2 U.S. Code of Federal Regulations (CFR), Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) as adopted by the North Carolina State Single Audit Implementation Act.

Because the Schedule presents only a selected portion of the operations of Habitat, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the organization.

Habitat received its state funding directly from the NC Office of State Budget and Management.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in *Title 2 U.S. Code of Federal Regulations, Part 230, Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Subrecipients

Habitat spent the state funds presented in the Schedule directly and did not make awards to subrecipients.

See the accompanying Schedule of Expenditures of State Awards