

**Cape Fear Habitat for Humanity, Inc.**

Financial Statements for the  
Year Ended June 30, 2022  
(with comparative totals for 2021)

Cape Fear Habitat for Humanity, Inc.  
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June 30, 2022

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## INDEPENDENT AUDITOR'S REPORT

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

### **Opinion**

We have audited the accompanying financial statements of Cape Fear Habitat for Humanity, Inc. (a Nonprofit organization), which comprise the statements of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cape Fear Habitat for Humanity, Inc. as of June 30, 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Cape Fear Habitat for Humanity, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Prior Period Financial Statements**

The financial statements of Cape Fear Habitat for Humanity, Inc. as of June 30, 2021 were audited by other auditors whose report dated December 3, 2021, expressed an unmodified opinion on those statements.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Cape Fear Habitat for Humanity, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Cape Fear Habitat for Humanity, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Cape Fear Habitat for Humanity, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Thompson, Price, Scott, Adams & Co., PA*  
*Wilmington, North Carolina*  
*October 14, 2022*

**Cape Fear Habitat for Humanity, Inc.**  
**Statement of Financial Position**  
**June 30, 2022**  
**(With Comparative Totals for 2021)**

<b>Assets</b>	<b>Fiscal Years</b>	
	<b>2022</b>	<b>2021</b>
Current assets		
Cash and cash equivalents	\$ 2,785,846	\$ 1,611,668
Restricted cash for buyers closing	48,012	70,730
Accounts receivable	135,632	268,032
Prepaid expenses	149,533	127,030
ReStore inventory	445,590	389,313
Program properties inventory	3,255,607	3,941,488
Total current assets	<u>6,820,220</u>	<u>6,408,261</u>
Non-current assets		
Loans to homeowners	7,505,028	6,087,257
Property and equipment, net	<u>2,560,026</u>	<u>2,677,455</u>
Total non-current assets		
Total assets	<u>\$ 16,885,274</u>	<u>\$ 15,172,973</u>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable and accrued liabilities	\$ 463,373	\$ 479,478
Notes payable	4,355,149	3,333,443
NCHFA notes payable	<u>1,625,840</u>	<u>1,498,691</u>
Total liabilities	<u>6,444,362</u>	<u>5,311,612</u>
Net assets		
Without donor restrictions	10,131,969	9,457,394
With donor restrictions	<u>308,943</u>	<u>403,967</u>
Total net assets	<u>10,440,912</u>	<u>9,861,361</u>
Total liabilities and net assets	<u>\$ 16,885,274</u>	<u>\$ 15,172,973</u>

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, 2022**  
**(With Comparative Totals for 2021)**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Fiscal Year 2022</u>	<u>Total Fiscal Year 2021</u>
Revenues and Support:				
Private grants and contributions	\$ 621,060	\$ 443,482	\$ 1,064,542	\$ 1,397,841
Government grants and contracts	754,308	416,560	1,170,868	697,617
NCHFA contribution	252,982	-	252,982	372,957
Home sales	3,405,916	-	3,405,916	3,247,216
Imputed interest on mortgage loans	809,379	-	809,379	289,437
Gross ReStore sales	2,931,798	-	2,931,798	2,915,289
Less ReStore expenses	<u>(2,407,883)</u>	<u>-</u>	<u>(2,407,883)</u>	<u>(2,255,416)</u>
ReStore, net	523,915	-	523,915	659,873
Special events	-	-	-	65,600
Gain on sale of property	40,909	-	40,909	100,469
Interest and other income	612	-	612	4,432
Net assets released from restrictions	<u>955,066</u>	<u>(955,066)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>7,364,147</u>	<u>(95,024)</u>	<u>7,269,123</u>	<u>6,835,442</u>
Expenses:				
Program services	5,975,076	-	5,975,076	5,979,596
General and administrative	267,212	-	267,212	239,157
Fundraising	<u>447,284</u>	<u>-</u>	<u>447,284</u>	<u>378,031</u>
Total expenses	<u>6,689,572</u>	<u>-</u>	<u>6,689,572</u>	<u>6,596,784</u>
Change in net assets	674,575	(95,024)	579,551	238,658
Net assets, beginning of year	<u>9,457,394</u>	<u>403,967</u>	<u>9,861,361</u>	<u>9,622,703</u>
Net assets, end of year	<u>\$ 10,131,969</u>	<u>\$ 308,943</u>	<u>\$ 10,440,912</u>	<u>\$ 9,861,361</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, 2022**  
**(With Comparative Totals for 2021)**

	<u>Program</u>		<u>Management and General</u>	<u>Fundraising</u>	<u>Total Fiscal Year 2022</u>	<u>Total Fiscal Year 2021</u>
	<u>Home Ownership</u>	<u>ReStores</u>				
Operating expenses						
Wages, taxes and benefits	\$ 876,916	\$ 1,343,784	\$ 177,271	\$ 220,860	\$ 2,618,831	\$ 2,499,858
Cost of homes sold	3,034,366	-	-	-	3,034,366	3,083,970
Cost of rebuild projects	283,529	-	-	-	283,529	336,824
Discount on new mortgages	1,153,205	-	-	-	1,153,205	1,103,220
Contracted services	81,008	54,481	19,604	18,031	173,124	211,704
Marketing and advertising	-	56,478	-	831	57,309	59,905
Vehicle	20,886	37,436	41	493	58,856	53,207
Insurance	34,731	38,456	878	2,562	76,627	66,380
Cost of goods sold (restore)	-	460,763	-	-	460,763	356,708
Affiliate Expense	46,492	72,717	-	-	119,209	121,874
Occupancy	130,495	185,258	9,158	29,569	354,480	366,085
General operations	81,229	37,635	53,909	174,190	346,963	253,496
Interest	52,413	56,331	4,716	-	113,460	122,760
Imputed interest	152,379	-	-	-	152,379	127,610
Depreciation	27,427	64,544	1,635	748	94,354	88,599
Total operating expenses	<u>5,975,076</u>	<u>2,407,883</u>	<u>267,212</u>	<u>447,284</u>	<u>9,097,455</u>	<u>8,852,200</u>
<u>Less expense items netted against revenue on the Statement of Activities</u>						
ReStore expenses	<u>-</u>	<u>(2,407,883)</u>	<u>-</u>	<u>-</u>	<u>(2,407,883)</u>	<u>(2,255,416)</u>
Total functional expenses	<u>\$ 5,975,076</u>	<u>\$ -</u>	<u>\$ 267,212</u>	<u>\$ 447,284</u>	<u>\$ 6,689,572</u>	<u>\$ 6,596,784</u>

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, 2022**  
**(With Comparative Totals for 2021)**

	<u>Fiscal year 2022</u>	<u>Fiscal year 2021</u>
Cash flows from operating activities:		
Cash collections for:		
Support and revenue	\$ 7,269,123	\$ 6,835,442
Less: Cash payments for:		
Salaries and payroll taxes	(2,618,831)	(2,499,858)
Other operating expenses	<u>(3,252,991)</u>	<u>(2,927,326)</u>
Net cash provided by (used in) operating activities	<u>1,397,301</u>	<u>1,408,258</u>
Cash flows from investing activities:		
Purchases of equipment acquisitions	<u>(167,596)</u>	<u>(167,547)</u>
Net cash provided (used in) investing activities	<u>(167,596)</u>	<u>(167,547)</u>
Cash flows from financing activities:		
Debt payments	(1,898,841)	(1,036,441)
Loan proceeds	2,568,843	1,112,408
Paycheck protection loan (Forgiveness)	(482,408)	(413,400)
Interest expense	<u>(265,839)</u>	<u>(250,370)</u>
Net cash provided by (used in) financing activities	<u>(78,245)</u>	<u>(587,803)</u>
Net (decrease) increase in cash and cash equivalents	1,151,460	652,908
Beginning cash and cash equivalents	1,682,398	1,029,490
Ending cash and cash equivalents	<u>\$ 2,833,858</u>	<u>\$ 1,682,398</u>
Cash flows from operating activities:		
Adjustments to reconcile change in net assets to net cash from operating activities:		
Change in net assets	\$ 579,551	\$ 238,658
Depreciation	94,354	88,599
Change in operating assets and liabilities:		
(Increase) decrease in accounts receivable	132,400	(207,410)
(Increase) decrease prepaid client expenses	(22,503)	-
(Increase) decrease ReStore inventory	(56,277)	(137,806)
(Increase) decrease program properties inventory	685,881	1,246,927
Increase (decrease) accounts payable and accrued liabilities	<u>(16,105)</u>	<u>179,290</u>
Net cash provided by (applies to) operating activities	<u>\$ 1,397,301</u>	<u>\$ 1,408,258</u>

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

Cape Fear Habitat for Humanity, Inc.  
Notes to the Financial Statements  
For the year ended June 30, 2022 and 2021

## **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**

Seeking to put God’s love into action, Cape Fear Habitat brings people together to build homes, communities, and hope. Habitat has served more than 335 families since its inception. It seeks to serve 30-40 families per year, through building and preserving housing. Through the homeownership program, it sells homes to income-qualified families who have actively participated in the construction process and homeowner education. The new homeowners receive an affordable loan to finance the purchase from either Habitat or a third-party lender and pay it off in the same way as a traditional mortgage. Through the Rebuild program, it provides affordable home repairs for income-qualified homeowners who are willing to partner in volunteer activities and partial repayment.

## **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 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.

Cape Fear Habitat for Humanity, Inc.  
Notes to the Financial Statements  
For the year ended June 30, 2022 and 2021

**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, 2022, 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.

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).

*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 hosts occasional special events to raise awareness of its mission and to raise funds for the organization. In recognizing special events revenue, it follows the guidance provided by FASB ASC-958-605, *Revenue Recognition*. Habitat considers its events to be on-going and central to its operations and therefore records revenues at the gross amount. All costs of the events appear within the fundraising category on the Statement of Functional Expenses.

Cape Fear Habitat for Humanity, Inc.  
Notes to the Financial Statements  
For the year ended June 30, 2022 and 2021

**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 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 7. 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 "Cost of Homes Sold." 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 7.49%. Discounts are amortized using the effective interest method over the lives of the mortgages.

During 2018/19, 2019/20, and 2021/2022, the organization entered into agreements with Live Oak Bank (see Note 10) in which it provided approximately \$4,200,000 of its existing homeowner loans as collateral in exchange for cash payments from Live Oak Bank.

The effective annual interest rates associated with the Live Oak Bank program is fixed at 2.99% for Tranche I and Tranche II, and 2% for Tranche III. 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).

Cape Fear Habitat for Humanity, Inc.  
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Management has valued donated 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 (\$207,269).

In addition to donated goods, Habitat also sells purchased goods. Sales of purchased goods totaled \$730,635 and represented 25% of all sales (\$2,931,789).

Habitat received a loan from Live Oak Bank in the amount of \$482,408 under the Paycheck Protection Program established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Habitat applied for and has been notified that the amount in its entirety is eligible expenditures for payroll and other expenses described in the CARES Act, and has been forgiven. Loan forgiveness is reflected as revenues in the accompanying statement of income.

**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**

Financial assets at year-end	
Cash and cash equivalents	\$ 2,833,858
Grants receivable	135,632
Total financial assets	<u>2,969,490</u>
Less amounts not available to be used for general expenditures within one year	
Restricted cash	48,012
Net assets with donor restrictions	308,943
Financial assets not available to be used within one year	<u>356,955</u>
Financial assets available to meet general expenditures	<u><u>\$ 2,612,535</u></u>

The Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. The accompanying statement of cash flows identifies the sources and uses of cash. The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments.

**5. Accounts Receivable**

The accounts receivable balance of \$135,632 consisted of a sales tax reimbursement request of \$39,725 and other receivables totaling \$93,156 which were fully collected during the first quarter of fiscal year 2022/23. Accordingly, no provision is made for uncollectible amounts.

**6. Housing Activities**

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

	<b>2021 Cost</b>	<b>2022 Cost</b>
Program properties inventory, beginning	\$ 5,188,415	\$ 3,941,488
Additional costs incurred	2,011,894	2,317,574
Cost of 22 properties sold	(3,258,821)	(3,003,455)
Program properties inventory, ending	<u>\$ 3,941,488</u>	<u>\$ 3,255,607</u>

In addition to new home construction, Habitat continued its 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 \$283,529 appear as a line item on the Statement of Functional Expenses.

Cape Fear Habitat for Humanity, Inc.  
Notes to the Financial Statements  
For the year ended June 30, 2022 and 2021

**7. Homes Sales / Loans to Homeowners**

Habitat sells homes to program participants who finance the purchase using either an affordable loan from a third-party lender or an interest-free mortgage from Habitat plus any cash payments at closing. The Habitat notes are payable over 20 to 30 years and appear on the Statement of Financial Position discounted to their present value (see Note 3i). This method of accounting reflects the present value of the interest-free loans at inception and recognizes imputed interest income over the life of the loans.

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

As of June 30, 2022, Habitat's loans outstanding had a gross value of \$13,494,269 and a discounted value of \$7,505,030. 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:

Fiscal year end:		
2023	\$	635,951
2024		616,248
2025		607,980
2026		598,465
2027		593,958
Thereafter		<u>10,441,667</u>
	\$	<u>13,494,269</u>
Less present value discount		<u>(5,989,239)</u>
Loans to Homeowners, net	\$	<u><u>7,505,030</u></u>

**8. Property and Equipment**

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

	<u>June 30, 2021</u>	<u>June 30, 2022</u>
Land	\$ 1,291,000	\$ 1,291,000
Buildings and improvements	1,574,334	1,533,526
Machinery and equipment	<u>532,860</u>	<u>546,967</u>
	<u>3,398,194</u>	<u>3,371,493</u>
Less accumulated depreciation	<u>(720,739)</u>	<u>(811,467)</u>
Property and equipment, net	<u><u>\$ 2,677,455</u></u>	<u><u>\$ 2,560,026</u></u>

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

Depreciation expense totaled \$94,354 for fiscal year 2022 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 \$463,373 consists of operational accounts payable of \$227,220 and payroll and related liabilities of \$236,153.

Cape Fear Habitat for Humanity, Inc.  
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**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>
Wells Fargo Bank	\$ 1,405,751
Live Oak Bank	2,801,740
U. S. Small Business Administration	147,658
Notes payable total:	<u>\$ 4,355,149</u>
NCHFA interest-free loan program	1,625,840
Total debt:	<u>\$ 5,980,989</u>

- A revolving line of credit with Dogwood State Bank with no outstanding balance as of June 30, 2022. The credit limit is \$400,000 at a current interest rate of 5.25%. The line is intended for construction-cycle cash flow needs and has not yet been utilized. Loan matures in March 2023.

- Note payable to Wells Fargo Bank with a principal balance of \$1,405,751 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 \$1,231,354 will be due. The note is secured by the ReStore facility acquired with the loan proceeds.

- Three notes payable to Live Oak Bank with a combined principal balance of \$3,964,807 due in installments of approximately \$12,650 per month. The notes mature in May 2048, December 2049, and January 2052 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% and 2.0% per annum were prepaid at the inception of the loans thus reducing the loan proceeds to \$3,044,254. 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 \$146,000 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 \$4027 for FY 2021/2022 and appears within the line item "Interest" on the Statement of Functional Expenses.

The Live Oak notes payable balance as of 6/30/22 is summarized as follows:

Principal (Loan 1)	\$ 875,577
Less: Pre-paid interest	(234,257)
Principal (Loan 2)	935,137
Less: Pre-paid interest	(282,180)
Principal (Loan 3)	2,154,093
Less: Pre-paid interest	(515,223)
Less: Unamortized origination fees	<u>(131,407)</u>
	<u>\$ 2,801,740</u>

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- U.S. Small Business Administration disaster assistance loan: Economic Injury Disaster Loan (EIDL) of \$144,555.

Future years principal debt reductions on the combined notes payable balance of \$4,352,046 are as follows:

FY 2022/23	\$	156,944
FY 2023/24		164,757
FY 2024/25		1,346,138
FY 2025/26		91,566
FY 2026/27		93,759
Thereafter		3,661,948
Total		5,515,113
 <u>Reconciling items:</u>		
Live Oak unamortized origination fees		(1,163,067)
Notes payable balance:		\$ 4,352,046

### 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 2021/2022 loans is 7.49% and corresponds to the associated homeowner loans.

During FY 2021/2022, Habitat received \$420,000 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 \$252,982 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 2021/2022 was \$152,379.

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

FY 2022/23	\$	151,125
FY 2023/24		151,125
FY 2024/25		151,125
FY 2025/26		151,125
FY 2026/27		151,125
Thereafter		2,680,220
		3,435,845
Less: Present value discount		(1,810,005)
NCHFA Note payable, net		\$ 1,625,840

### 12. Restrictions on Net Assets

The restrictions on net assets at the end of FY 2021/2022 of \$308,943 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.”

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**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 \$271,900 and is included on the Statement of Activities within the revenue line item "Government Grants and Contracts."

**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 to Habitat International. These funds are used to construct homes in economically depressed areas around the world. Habitat contributed \$119,209 to Habitat International during FY 2021/2022. This amount appears as the line item "Affiliate Expense" on the Statement of Functional Expenses.

**15. Operating Leases**

Habitat leases retail space for its third ReStore located at 6331 Carolina Beach Road in Wilmington, North Carolina. Lease terms are year to year with lease payments of \$5,250 per month.

**16. 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 90 days of service. Habitat matches employee contributions to the plan up to 3% of each participant's qualified wages for the fiscal year. Retirement expense for the year ended June 30, 2022 totaled \$28,722 and appears within the line item "Wages, Taxes & Benefits" on the Statement of Functional Expenses.

**17. Income Taxes**

The organization is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code. 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 2018/19.

**18. Subsequent Events**

Habitat has evaluated events that have occurred subsequent to the statement of financial position date June 30, 2022 and through the date that the Independent Auditor's Report was available to be issued October 14, 2022. No other events have occurred during that period that would require adjustments to the audited financial statements or additional disclosure in these notes.