

CAPE FEAR HABITAT FOR HUMANITY, INC.
Wilmington, North Carolina

**INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS**

**As of and for the Years Ended
June 30, 2023 and 2022**



Turlington and Company, L.L.P.

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of Cape Fear Habitat for Humanity, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2023, 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 accompanying financial statements present fairly, in all material respects, the financial position of Cape Fear Habitat for Humanity, Inc. as of June 30, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 3 to the financial statements, in 2022, Cape Fear Habitat for Humanity, Inc. adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). Our conclusion is not modified with respect to this matter.

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 for one year after the date that the financial statements are issued.

Auditors' 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 auditors' 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 GAAS 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.

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

Auditors' Responsibilities for the Audit of the Financial Statements (Continued)

In performing an audit in accordance with GAAS, 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.

Other Matter

The financial statements of Cape Fear Habitat for Humanity, Inc. for the year ended June 30, 2022, were audited by another auditor who expressed an unmodified opinion on those statements on October 14, 2022. We were not engaged to audit, review, or apply any procedures to the June 30, 2022 financial statements of Cape Fear Habitat for Humanity, Inc. and, accordingly, we do not express an opinion or any other form of assurance on the June 30, 2022, financial statements as a whole.

Furlington and Company, L.L.P.

Lexington, North Carolina
September 28, 2023

CAPE FEAR HABITAT FOR HUMANITY, INC.

STATEMENTS OF FINANCIAL POSITION

	June 30	
	<u>2023</u>	<u>2022</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,694,589	\$ 2,785,846
Restricted cash	117,690	48,012
Accounts receivable	208,113	135,632
Prepaid expenses	264,638	149,533
ReStore inventory	493,049	445,590
Program properties inventory	5,287,351	3,255,607
Current maturities on loans to homeowners	626,801	635,951
	<u>9,692,231</u>	<u>7,456,171</u>
Noncurrent assets:		
Operating lease right of use asset	240,738	-
Loans to homeowners, net of discounts, less current maturities	6,796,930	6,869,077
Property and equipment, net of accumulated depreciation	2,791,968	2,560,026
	<u>9,829,636</u>	<u>9,429,103</u>
	<u>\$ 19,521,867</u>	<u>\$ 16,885,274</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 502,201	\$ 463,373
Current portion of operating lease obligations, net of discount	117,014	-
Current maturities on notes payable	161,762	156,944
Current maturities on NCHFA notes payable	158,124	151,125
	<u>939,101</u>	<u>771,442</u>
Noncurrent liabilities:		
Operating lease obligation, net of discount, less current portion	126,228	-
Notes payable, net of discounts and origination fees, less current maturities	4,037,162	4,198,205
NCHFA notes payable, net of discounts, less current maturities	1,507,309	1,474,715
	<u>5,670,699</u>	<u>5,672,920</u>
	<u>6,609,800</u>	<u>6,444,362</u>
Net assets:		
With donor restrictions	382,026	308,943
Without donor restrictions	12,530,041	10,131,969
	<u>12,912,067</u>	<u>10,440,912</u>
	<u>\$ 19,521,867</u>	<u>\$ 16,885,274</u>

The accompanying notes are an integral part of the financial statements

CAPE FEAR HABITAT FOR HUMANITY, INC.

STATEMENTS OF ACTIVITIES
Years Ended June 30, 2023 and 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Fiscal Year 2023</u>	<u>Total Fiscal Year 2022</u>
Revenues and support:				
Private grants and contributions	\$ 732,035	\$ 774,977	\$ 1,507,012	\$ 1,032,594
Government grants and contracts		2,129,056	2,129,056	898,968
NCHFA contributions	129,355		129,355	252,982
In-kind contributions	495,303		495,303	303,848
Home sales	2,036,381		2,036,381	3,405,916
Imputed interest on mortgage loans	498,103		498,103	809,379
Gross ReStore sales	3,050,765		3,050,765	2,931,798
Less, ReStore expenses	(2,684,648)		(2,684,648)	(2,407,883)
ReStore, net	366,117	-	366,117	523,915
Gain on sale of property	4,241		4,241	40,909
Interest and other income	11,736		11,736	612
Net assets released from restrictions	2,830,950	(2,830,950)	-	-
Total revenues and support	<u>7,104,221</u>	<u>73,083</u>	<u>7,177,304</u>	<u>7,269,123</u>
Expenses:				
Program services	3,957,540		3,957,540	5,975,076
General and administrative	238,872		238,872	267,212
Fundraising	509,737		509,737	447,284
Total expenses	<u>4,706,149</u>	<u>-</u>	<u>4,706,149</u>	<u>6,689,572</u>
Change in net assets	2,398,072	73,083	2,471,155	579,551
Net assets at beginning of year	<u>10,131,969</u>	<u>308,943</u>	<u>10,440,912</u>	<u>9,861,361</u>
Net assets at end of year	<u>\$ 12,530,041</u>	<u>\$ 382,026</u>	<u>\$ 12,912,067</u>	<u>\$ 10,440,912</u>

The accompanying notes are an integral part of the financial statements

CAPE FEAR HABITAT FOR HUMANITY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended June 30, 2023 and 2022

	Program Services		Supporting Services		Total Fiscal Year 2023	Total Fiscal Year 2022
	Home Ownership	ReStores	Management and General	Fundraising		
Operating expenses:						
Wages, taxes, and benefits	\$ 1,050,828	\$ 1,493,261	\$ 139,120	\$ 245,645	\$ 2,928,854	\$ 2,618,831
Cost of homes sold	1,933,100				1,933,100	3,034,366
Cost of Repair projects	225,721				225,721	283,529
Discount on new mortgages	171,204				171,204	1,153,205
Contracted services	52,926	48,764	25,464	19,200	146,354	173,124
Marketing and advertising	300	51,477		5,439	57,216	57,309
Vehicle	27,982	38,786		10	66,778	58,856
Insurance	40,787	40,759	391	2,715	84,652	76,627
Cost of goods sold (ReStore)		535,344			535,344	460,763
Affiliate expense	2,733	54,517		60,707	117,957	119,209
Occupancy	134,079	211,072	13,400	32,801	391,352	354,480
General operations	99,800	94,196	56,313	142,472	392,781	346,963
Interest	74,442	53,621	2,849		130,912	113,460
Imputed interest	115,264				115,264	152,379
Depreciation	28,374	62,851	1,335	748	93,308	94,354
before depreciation	3,957,540	2,684,648	238,872	509,737	7,390,797	9,097,455
Less expense items netted against revenue on the Statements of Activities:						
ReStore expenses		(2,684,648)			(2,684,648)	(2,407,883)
Total functional expenses	<u>\$ 3,957,540</u>	<u>\$ -</u>	<u>\$ 238,872</u>	<u>\$ 509,737</u>	<u>\$ 4,706,149</u>	<u>\$ 6,689,572</u>

The accompanying notes are an integral part of the financial statements

CAPE FEAR HABITAT FOR HUMANITY, INC.

STATEMENTS OF CASH FLOWS

	Years Ended June 30	
	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,471,155	\$ 579,551
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation	93,308	94,354
Noncash operating lease expense	2,504	-
Donation of property and equipment	(325,000)	-
Mortgage loan discount amortization	(498,103)	(809,379)
Loans to homeowners	(119,830)	(1,365,326)
NCHFA notes payable discount amortization	115,264	152,379
Notes payable discount amortization	69,536	48,387
Loan origination fees amortization	4,906	4,027
Forgiveness of Paycheck Protection Program loan	-	(482,408)
Changes in assets and liabilities:		
Accounts receivable	(72,481)	132,400
Prepaid expenses	(115,105)	(22,503)
ReStore inventory	(47,459)	(56,277)
Program properties inventory	(2,031,744)	723,063
Accounts payable and accrued liabilities	38,828	(16,105)
Net cash used for operating activities	<u>(414,221)</u>	<u>(1,017,837)</u>
Cash flows from investing activities:		
Mortgage payments received	699,230	756,934
Purchase of property and equipment	(250)	(14,107)
Net cash provided by investing activities	<u>698,980</u>	<u>742,827</u>
Cash flows from financing activities:		
Proceeds from long-term borrowings	210,000	2,568,843
Discount on NCHFA notes payable	(129,355)	(252,982)
Principal payments on NCHFA notes payable	(156,316)	(192,248)
Discount on notes payable	-	(523,415)
Principal payments on notes payable	(230,667)	(173,728)
Net cash provided by (used for) financing activities	<u>(306,338)</u>	<u>1,426,470</u>
Net increase (decrease) in cash	<u>(21,579)</u>	<u>1,151,460</u>
Cash and cash equivalents at beginning of years		
Unrestricted	2,785,846	1,611,668
Restricted	48,012	70,730
	<u>2,833,858</u>	<u>1,682,398</u>
Cash and cash equivalents at end of years		
Unrestricted	2,694,589	2,785,846
Restricted	117,690	48,012
	<u>2,812,279</u>	<u>2,833,858</u>
Cash expended during the years for interest	<u>\$ 130,912</u>	<u>\$ 113,460</u>
Supplemental disclosure of non-cash investing and financing transactions:		
Issuance of noninterest-bearing mortgage loans	\$ 291,034	\$ 2,518,531
Discount on noninterest-bearing mortgage loans	(171,204)	(1,153,205)
Transfers to homeowners subject to noninterest-bearing mortgage loans	<u>\$ 119,830</u>	<u>\$ 1,365,326</u>
Transfer of property and equipment to program properties inventory		<u>\$ 37,182</u>
Donation of program properties inventory	<u>\$ 129,200</u>	<u>\$ 271,900</u>
Donation of property and equipment	<u>\$ 325,000</u>	
Forgiveness of Paycheck Protection Program loan		<u>\$ 482,408</u>
Supplemental disclosure on non-cash operating transactions:		
Donation of supplies and materials	<u>\$ 41,103</u>	<u>\$ 31,948</u>
Establishment of operating lease assets and liabilities	<u>\$ 351,581</u>	

The accompanying notes are an integral part of the financial statements

CAPE FEAR HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2023 and 2022

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 18).

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 400 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 Repair 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:

Habitat 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 Habitat 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, Habitat’s management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. Habitat’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 FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies (Continued):

3b. Net Asset Classes (Continued)

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, 2023, Habitat held no net assets with permanent donor restrictions.

3c. Cash and Cash Equivalents

Habitat 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.

3d. Contributions, Grants, 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 and Note 16).

Contributed services are only recorded if they meet the requirements for recognition discussed in Note 17, Contributed Services, Donated Lots, and 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 Habitat's expenses in the Statements of Activities using functional classifications (program, management and general, and fundraising). The Statements 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 Habitat'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 its programs. 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 Statements of Functional Expenses.

CAPE FEAR HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies (Continued):

3f. Property and 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. See Note 11 and Note 17 for additional information regarding Habitat's property and equipment.

3g. Escrow

Habitat makes loans to homeowners as described in Note 10. Habitat has outsourced the servicing of those loans to AmeriNational Community Services 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 Statements 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 Habitat are recorded at cost when the homes are acquired. 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 Statements 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 Statements of Functional Expenses as the line item "Cost of Homes Sold." Also see Note 9, Program Properties Inventory / Housing Activities

3i. Home Sales/Loans to Homeowners

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 Statements 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. Management has established no provision for loan losses because Habitat is the secured creditor and can reclaim the homes through foreclosure.

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 7.85%. Discounts are amortized using the effective interest method over the lives of the mortgages.

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.

Habitat pledges a portion of its loans to homeowners as collateral for notes payable with Live Oak Bank. The effective annual interest rates associated with this debt are fixed at 2.99% and 2.00%. 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 10, Home Sales / Loans to Homeowners.

CAPE FEAR HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies (Continued):

3j. ReStore Donations and Inventory

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.

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 (see Note 8). Purchased inventory for sale at the ReStores is recorded at cost.

3k. Advertising Costs

Habitat expenses advertising costs as they are incurred. Advertising costs incurred for the years ended June 30, 2023 and 2022, amounted to \$57,216 and \$57,309, respectively.

3l. Leases

Habitat accounts for its leasing activities in accordance with FASB ASC topic 842, *Leases*, which was initially adopted on July 1, 2022, using the modified-retrospective method. Under FASB ASC 842, all leases, with limited exceptions, are recognized in the statements of financial position as right of use assets and related lease obligations. Habitat classifies its leases as either operating leases or finance leases, formerly known as capital leases, depending on the nature and terms of the agreements. Operating lease expense is recognized on a straight-line basis over the lease term whereas finance lease expense includes components of interest related to the accretion of the finance lease liability, and amortization related to the finance lease right of use assets. See Note 19 for additional information regarding Habitat's leasing activities.

3m. 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 Habitat'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. Concentration of Credit Risk:

Habitat places its cash and cash equivalents on deposit with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Deposits held in noninterest-bearing transaction accounts are aggregated with any interest-bearing deposits the owner may hold in the same ownership category, and the combined total is insured up to \$250,000. At various times during the year, Habitat's cash balance in financial institutions has exceeded the FDIC insurance limit. At June 30, 2023, Habitat had \$1,952,503 in excess of the insured amount. These financial institutions have strong credit ratings, and management believes that the credit risks related to these deposits are minimal. After the year ended June 30, 2023, Habitat enrolled in an insured cash sweep service to protect the excess deposits.

5. Liquidity and Availability:

The following represents Habitat's financial assets at June 30, 2023:

	<u>2023</u>
Financial assets at year-end:	
Cash and cash equivalents	\$ 2,694,589
Restricted cash	117,690
Accounts receivable	208,113
Loans to homeowners, net	<u>7,423,731</u>
Total financial assets at year-end	<u>\$ 10,444,123</u>

CAPE FEAR HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

5. Liquidity and Availability (Continued):

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the balance sheet comprise the following:

	<u>2023</u>
Financial assets available within one year:	
Cash and cash equivalents	\$ 2,694,589
Restricted cash	117,690
Accounts receivable	208,113
Loans to homeowners, current	<u>626,801</u>
Total financial assets available within one year	<u>3,647,193</u>
Less, amounts unavailable for general expenditures within one year:	
Restricted cash	117,690
Restricted by donors with purpose restrictions	<u>382,026</u>
Total amounts unavailable for general expenditures within one year	<u>499,716</u>
Total financial assets and liquidity resources available within one year	<u>\$ 3,147,477</u>

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

6. Accounts Receivable:

For the year ended June 30, 2023, the accounts receivable balance of \$208,113 consisted of a sales tax reimbursement request of \$31,031 and other receivables totaling \$177,082 which were fully collected during the first quarter of the year ended June 30, 2024. For the year ended June 30, 2022, the accounts receivable balance of \$135,632 consisted of a sales tax reimbursement request of \$39,725 and other receivables of \$95,907, which were also fully collected in the subsequent first quarter. Accordingly, no provision is made for uncollectible amounts.

7. Prepaid Expenses:

The prepaid expenses balances of \$264,638 and \$149,533, respectively, for the years ended June 30, 2023 and 2022, consist of prepaid insurance and other advance payments.

8. ReStore Inventory:

In addition to donated goods, Habitat also sells purchased goods at its ReStore locations. ReStore inventory had a value of \$493,019 and \$445,590, respectively, at June 30, 2023 and 2022.

Sales of purchased goods for the years ended June 30, 2023 and 2022, totaled \$682,779 and \$730,635, respectively, and represented 22% and 25%, respectively, of all ReStore sales for the years then ended.

9. Program Properties Inventory / Housing Activities:

Program properties inventory consists of land held for development or under contract, homes under construction, and repurchased homes available for resale.

CAPE FEAR HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

9. Program Properties Inventory / Housing Activities (Continued):

The following table summarizes program properties inventory and home building activity for the years ended June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Program properties inventory, beginning	\$ 3,255,607	\$ 3,941,488
Additional costs incurred	3,930,085	2,317,574
Less, cost of 11 (22 for 2022) properties sold	(1,898,341)	(3,003,455)
Program properties inventory, ending	<u>\$ 5,287,351</u>	<u>\$ 3,255,607</u>

In addition to new home construction, Habitat operates a repair program for homeowners in the less than 80% area median income range. The program provides critical home repairs and restores homes to a safe, livable environment. Project costs of \$225,721 and \$283,529, respectively, for the years ended June 30, 2023 and 2022, appear as a line item on the Statements of Functional Expenses.

10. 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 Statements 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 Statements of Activities as "Home sales" revenue. The discount expense appears on the Statements of Functional Expenses as "Discount on new mortgages." As imputed interest income is earned over the life of the loan, it appears on the Statements of Activities as the revenue line item "Imputed interest on mortgage loans."

Loans to homeowners at June 30, 2023 and 2022, were as follows:

	<u>2023</u>	<u>2022</u>
Loans to homeowners	\$ 13,086,073	\$ 13,494,269
Less, unamortized present value discount	<u>5,662,342</u>	<u>5,989,241</u>
	<u>\$ 7,423,731</u>	<u>\$ 7,505,028</u>

Scheduled annual mortgage receipts for the next five years and thereafter are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2024	\$ 626,801
2025	614,644
2026	605,801
2027	600,178
2028	596,630
Thereafter	<u>10,042,019</u>
	<u>\$ 13,086,073</u>

CAPE FEAR HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

11. Property and Equipment:

Habitat's property and equipment consisted of the following at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Land	\$ 1,398,000	\$ 1,291,000
Buildings and improvements	1,751,776	1,533,526
Machinery and equipment	<u>546,967</u>	<u>546,967</u>
	3,696,743	3,371,493
Less, accumulated depreciation	<u>904,775</u>	<u>811,467</u>
Property and equipment, net	<u>\$ 2,791,968</u>	<u>\$ 2,560,026</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, and 3 - 7 years for machinery and equipment.

Depreciation expense totaled \$93,308 and \$94,354, respectively, for the years ended June 30, 2023 and 2022, and appears as a line item on the Statements of Functional Expenses.

12. Accounts Payable & Accrued Liabilities:

For the year ended June 30 2023, the accounts payable and accrued liabilities balance of \$502,201 consisted of operational accounts payable of \$276,949 and payroll and related liabilities of \$225,252. For the year ended June 30, 2022, the accounts payable and accrued liabilities balance of \$463,373 consisted of operational accounts payable of \$227,219 and payroll and related liabilities of \$236,154.

13. Line of Credit:

In March 2022, Habitat obtained a revolving line of credit with Dogwood State Bank for potential construction-cycle cash flow needs. The credit limit is \$400,000 at a current interest rate of 8.5%. The line of credit was renewed in March 2023 and matures in March 2025. There was no outstanding balance at June 30, 2023.

14. Notes Payable:

Habitat's debt at June 30, 2023 and 2022, is summarized in the following table and further described below:

	<u>2023</u>	<u>2022</u>
Wells Fargo Bank	\$ 1,334,822	\$ 1,405,751
Live Oak Bank	3,813,014	3,964,807
U.S. Small Business Administration	<u>139,713</u>	<u>147,658</u>
	5,287,549	5,518,216
Less, Live Oak Bank prepaid interest	962,124	1,031,660
Less, Live Oak Bank unamortized origination fees	<u>126,501</u>	<u>131,407</u>
	4,198,924	4,355,149
Less, current maturities	<u>161,762</u>	<u>156,944</u>
	<u>\$ 4,037,162</u>	<u>\$ 4,198,205</u>

During the year ended June 30, 2020, Habitat received loan proceeds from Wells Fargo Bank to purchase a ReStore facility. The note requires monthly installments of \$10,379, including interest at an annual interest rate of 3.85% until it matures in November 2024. At that time, a balloon payment of approximately \$1,231,354 will be due. The note is secured by the ReStore facility acquired with the loan proceeds. The balance of this note was \$1,334,822 and \$1,405,751 at June 30, 2023 and 2022, respectively.

CAPE FEAR HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

14. Notes Payable (Continued):

During the years ended June 30, 2019, 2020, and 2022, Habitat entered into agreements with Live Oak Bank 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 three notes payable to Live Oak Bank have a combined principal balance of \$3,813,014 due in installments of approximately \$12,650 per month. The notes mature in May 2048, December 2049, and January 2052, respectively. 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 Statements of Functional Expenses.

Habitat also incurred \$146,000 of loan origination fees related to the Live Oak Bank notes. Amortization of loan origination fees is computed using the straight-line method over the life of the loans. Amortization expense totaled \$4,906 and \$4,027, respectively, for the years ended June 30, 2023 and 2022, and appears within the line item "Interest" on the Statements of Functional Expenses.

In June 2020, Habitat received an Economic Injury Disaster Loan (EIDL) from the U.S. Small Business Administration in the amount of \$150,000. The EIDL was intended to provide funding to help small businesses recover from the economic impacts of the COVID-19 pandemic. The note requires monthly installments of \$641, including interest at 2.75% until it matures in May 2050. The balance of this note was \$139,713 and \$147,658 at June 30, 2023 and 2022, respectively.

In February 2021, 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 was notified that the amount in its entirety was eligible expenditures for payroll and other expenses described in the CARES Act and has been forgiven. Loan forgiveness was recorded in "Government grants and contracts" revenue in the Statements of Activities for the year ended June 30, 2022.

Maturities on the above debt for the next five years and thereafter are as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2024	\$ 161,762
2025	1,349,867
2026	91,749
2027	94,057
2028	96,425
Thereafter	<u>3,493,689</u>
	<u>\$ 5,287,549</u>

15. 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 \$50,000 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 Statements of Financial Position to reflect the time value of money. The imputed interest rate for loans issued during the year ended June 30, 2023, is 7.85% and corresponds to the associated homeowner loans.

CAPE FEAR HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

15. NCHFA Notes Payable (Continued):

During the years ended June 30, 2023 and 2022, Habitat received \$210,000 and \$420,000, respectively, 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 \$129,355 and \$252,982, respectively, for the years ended June 30, 2023 and 2022, and appears as a revenue line item on the Statements of Activities.

Imputed interest expense is calculated over the life of the loans and appears as a line item on the Statements of Functional Expenses. The amount of imputed expense for the years ended June 30, 2023 and 2022, was \$115,264 and \$152,379, respectively.

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

<u>Year Ended June 30</u>	<u>Amount</u>
2024	\$ 158,124
2025	158,124
2026	158,124
2027	158,124
2028	158,124
Thereafter	<u>2,698,908</u>
	3,489,528
Less, present value discount	<u>1,824,095</u>
NCHFA notes payable, net	<u>\$ 1,665,433</u>

16. Restrictions on Net Assets:

The restrictions on net assets at June 30, 2023 and 2022, of \$382,026 and \$308,943, respectively, are temporary and consist of contributions restricted to funding future home building or future repair projects.

Once Habitat has incurred substantially all costs associated with a build, it releases restrictions on any associated gifts. Funds released from restriction in this way appear on the Statements of Activities within the line item "Net Assets Released from Restriction."

17. 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. During the year ended June 30, 2023, Habitat also received a donated home, which it placed in property and equipment for future rental use. The home was valued using an independent appraisal. The estimate of in-kind contributions totaled \$495,303 and \$303,848, respectively, for the years ended June 30, 2023 and 2022, and is included on the Statements of Activities "In-kind contributions".

CAPE FEAR HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

18. Related-Party Transactions:

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 \$117,957 and \$119,209, respectively, to Habitat International during the years ended June 30, 2023 and 2022. This amount appears as the line item “Affiliate Expense” on the Statements of Functional Expenses.

Amounts payable to Habitat for Humanity International at June 30, 2023 and 2022, were \$20,925 and \$26,507, respectively, and are included in “Accounts payable and accrued liabilities” on the Statements of Financial Position.

19. Operating Leases:

As described in Note 3, Habitat adopted ASC 842, *Leases*, effective July 1, 2022, and implemented the standard under the modified retrospective method. The accompanying financial statements include the effects of the implementation of the standard for the year ended June 30, 2023.

FASB ASC 842 generally requires that all leases are recognized on the balance sheet as a right of use asset and a related lease obligation. Classification of leases as either finance leases, previously known as capital leases, or operating leases is generally consistent with prior guidance; however, under the new guidance, assets held under lease with no alternative use to the lessor automatically results in finance lease classification. Income statement expense recognition under FASB ASC 842 for both finance and operating leases is generally consistent with prior guidance.

FASB ASC 842 provides certain practical expedients for reporting entities upon implementation. These practical expedients include permitting the entity to (1) avoid reevaluating the classification of existing leases at the adoption date, (2) avoid reassessing whether expired or existing contracts contain leases, and (3) avoid reevaluating the previous accounting for initial direct costs related to existing leases. Reporting entities are required to adopt these three practical expedients as a package, and they must be applied consistently to all leases. Habitat separately adopted the hindsight practical expedient whereby hindsight can be used, through the date of adoption, to determine the lease term.

FASB ASC 842 provides an accounting policy election whereby an entity is not required to record right of use assets and lease obligations for leases with terms less than twelve months. The election may be applied by asset class. If elected, the lease expense under the agreements is recognized in the income statement on the straight-line basis over the lease term.

Habitat has elected to apply the practical expedients specified above and has also applied the short-term lease accounting policy election described above.

Habitat leases office space under an agreement that qualifies as an operating lease under FASB 842. The lease agreement provides for certain non-lease components that are paid by Habitat, including utilities, taxes, and insurance. The lease provides for monthly base rental payments of \$10,768 with a 2% annual escalation each June 1. This lease expires June 30, 2025. Rent expense under this agreement for the years ended June 30, 2023 and 2022, was \$126,912 and \$124,200, respectively.

Future minimum rental payments under the lease agreement are as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2024	\$ 126,895
2025	129,433
Total payments under lease obligation	256,328
Less, present value discount	13,086
Total lease liabilities	<u>\$ 243,242</u>

During the years ended June 30, 2023 and 2022, Habitat leased retail space for its third ReStore location. Lease payments were \$5,250 per month, and the lease terminated June 30, 2023. Rent expense under this agreement for the years ended June 30, 2023 and 2022, was \$63,000 and \$60,000, respectively.

CAPE FEAR HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

20. Commitments:

In June 2020, Habitat entered into an agreement for future lease of retail space for its third ReStore location. The lease was contingent upon construction of the facility by the lessor. The construction was complete in June 2023, at which point Habitat began occupancy. Rental payments were to begin 60 days after occupancy. Lease payments are \$27,467 per month for years 1 - 3, with a 5% escalation at years 4 and 7. This lease expires August 6, 2034.

21. 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. Habitat contributed \$38,330 and \$28,722, respectively, for the years ended June 30, 2023 and 2022, which appears within the line item "Wages, Taxes & Benefits" on the Statements of Functional Expenses.

22. Income Taxes:

Habitat 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 Habitat are generally tax deductible.

Habitat has determined that it has no uncertain income tax positions as of June 30, 2023 and 2022. Also, Habitat does not anticipate any increase or decrease in unrecognized tax benefits during the next twelve months that would result in a material change to its financial position. Habitat's income tax returns for years ended after June 30, 2020, remain open for examination.

23. Subsequent Events:

Habitat's management has evaluated all subsequent events through September 28, 2023, the date the financial statements were available to be issued. No subsequent events have been identified that would require adjustment of or disclosure in the accompanying financial statements.