CAPE FEAR
HABITAT FOR HUMANITY, INC.

Audited Financial Statements

for the fiscal year ended

June 30, 2019

(with comparative totals for 2018)

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bearmancpa

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, 2019, 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, 2019, 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.

Emphasis of Matter: Changes in Accounting Estimates

During the year, Habitat elected to change how it estimates the present value discount on homeowner loans and also to begin estimating the value of its ReStore inventory. In accordance with the Financial Accounting Standards Board *Accounting Standards Codification* (FASB ASC) topic 250, "Accounting Changes," the changes in accounting estimates are displayed as current year adjustments. The changes increased the organization's net assets by $652,892 and are displayed in the non-operating section of the Statement of Activities.

Note 3i, Home Sales/Notes Receivable and *Note 3j, ReStore Donations*, provide further discussion of the changes.

Our opinion is not modified with respect to this matter.

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Prior Year Summarized Comparative Information

We have previously audited Habitat's 2018 financial statements and our report dated December 17, 2018 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, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Bearman CPA PLLC

Wilmington, North Carolina
November 18, 2019

Cape Fear Habitat for Humanity, Inc.

Statement of Financial Position

as of June 30, 2019

(with comparative totals for 2018)

	6/30/19	6/30/18
Assets		
Cash and Cash Equivalents (Note 3c and 4)	$ 1,496,793	$ 634,174
Restricted Cash for Buyer Closings	25,615	5,064
Accounts Receivable, net (Note 5)	172,352	154,695
Prepaid Expenses	89,411	65,189
ReStore Inventory (Note 3j)	187,799	5,208
Program Properties Inventory (Note 3h and 6)	2,497,611	1,497,534
Loans to Homeowners, net (Note 7)	5,600,723	4,703,775
Loan Origination Fees, net (see Note 10)	89,900	-
Property & Equipment, net (see Note 8)	737,960	598,654
Total Assets	**$ 10,898,164**	**$ 7,664,293**
Liabilities & Net Assets		
Accounts Payable & Accrued Liabilities (Note 9)	$ 375,892	$ 144,361
Notes Payable (Note 10)	1,209,377	573,753
NCHFA Notes Payable, net (Note 11)	1,253,196	1,210,328
Total Liabilities	**2,838,465**	**1,928,442**
Net Assets		
Without Donor Restrictions	7,270,283	5,614,501
With Donor Restrictions (Note 3b and 12)	789,416	121,350
Total Net Assets	**8,059,699**	**5,735,851**
Total Liabilities & Net Assets	**$ 10,898,164**	**$ 7,664,293**

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, 2019
(with comparative totals for 2018)

	Without Donor Restrictions	With Donor Restrictions	Total FY 2018/19	Total FY 2017/18
OPERATING				
Revenue				
Private Grants & Contributions (Note 3d)	$ 509,746	$ 1,246,442	**$ 1,756,188**	$ 734,234
Government Grants & Contracts (Note 3d)	-	647,641	**647,641**	-
NCHFA Contribution (Note 11)	106,553	-	**106,553**	297,978
Home Sales (Note 7)	1,147,445	-	**1,147,445**	1,563,700
Imputed Interest on Mortgage Loans (Note 7)	315,775	-	**315,775**	419,863
Gross ReStore Sales (Note 3j)	2,078,073	-	**2,078,073**	1,765,405
Less ReStore Cost of Goods Sold	(1,585,711)	-	**(1,585,711)**	(1,303,094)
ReStore, net	492,362	-	**492,362**	462,311
Gross Special Events Revenue	131,946	-	**131,946**	155,231
Less Cost of Direct Benefit to Donors	(36,990)	-	**(36,990)**	(66,734)
Special Events, net (see Note 3e)	94,956	-	**94,956**	88,497
Interest & Other Income	35,972	-	**35,972**	51,137
Net Assets Released from Restriction (Note 12)	1,226,017	(1,226,017)	**-**	-
Total Revenue	**3,928,826**	**668,066**	**4,596,892**	3,617,720
Expense				
Program (Note 3e)	2,344,499	-	**2,344,499**	3,103,957
Management & General (Note 3e)	214,510	-	**214,510**	324,847
Fundraising (Note 3e)	366,927	-	**366,927**	307,676
Total Expense	**2,925,936**	**-**	**2,925,936**	3,736,480
Change in Operating Net Assets	**1,002,890**	**668,066**	**1,670,956**	(118,760)
NON-OPERATING				
Notes Receivable Discount Rate Change (Note 3i)	527,772	-	**527,772**	-
ReStore Inventory Estimate (Note 3j)	125,120	-	**125,120**	-
Duplin Merger	-	-	**-**	102,168
Change in Non-Operating Net Assets	**652,892**	**-**	**652,892**	**102,168**
Change in Net Assets	**1,655,782**	**668,066**	**2,323,848**	**(16,592)**
Net Assets Beginning of Year	5,614,501	121,350	**5,735,851**	5,752,443
Net Assets End of Year	**7,270,283**	**789,416**	**8,059,699**	**5,735,851**

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 2018)

Expense Type	Program: Home Ownership	Program: ReStore	Management & General	Fundraising	Total FY 2018/19	Total FY 2017/18
Wages, Taxes & Benefits	$ 602,159	$ 957,759	$ 133,944	$ 241,313	**$1,935,175**	$ 1,786,160
Home Construction	995,016	-	-	-	**995,016**	1,479,715
Discount on New Mortgages (Note 7)	366,967	-	-	-	**366,967**	776,910
Contracted Services	34,272	30,642	23,482	5,173	**93,569**	142,188
General Operations	155,961	285,651	43,791	103,162	**588,565**	367,137
Occupancy (Notes 15 & 18)	61,545	274,350	9,893	17,279	**363,067**	291,740
Interest (Note 10)	1,799	558	-	-	**2,357**	28,444
Imputed Interest (Note 11)	101,050	-	-	-	**101,050**	98,864
Special Events Expense	-	-	-	36,990	**36,990**	66,734
Depreciation and Amort. (Notes 8 & 10)	25,730	36,751	3,400	-	**65,881**	68,416
Total Expenses by Function	**$2,344,499**	**$1,585,711**	**$ 214,510**	**$ 403,917**	**$4,548,637**	$ 5,106,308

Less Expense Items Netted Against Revenue on the Statement of Activities

	Home Ownership	ReStore	Management & General	Fundraising	Total FY 2018/19	Total FY 2017/18
Special Events Expenses	-	-	-	(36,990)	**(36,990)**	(66,734)
Thrift Store Cost of Goods Sold	-	(1,585,711)	-	-	**(1,585,711)**	(1,303,094)
Total Expenses per Statement of Activities	**$2,344,499**	**$ -**	**$ 214,510**	**$ 366,927**	**$2,925,936**	**$3,736,480**

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, 2019

(with comparative totals for 2018)

	FY 2018/19	FY 2017/18
Cash Flows from Operating Activity		
Change in Net Assets	$ 2,323,848	$ (16,592)
Adjustments to reconcile the change in net assets to net cash provided by (used in) operating activities:		
Changes in certain assets and liabilities:		
Restricted Funds for Buyer Closings	(20,551)	16,266
Program Properties Inventory	(1,000,077)	218,097
Receivables & Prepaids	(41,879)	(85,049)
ReStore Inventory	(182,591)	-
Accounts payable & accrued expenses	231,531	(26,104)
Depreciation (including ReStore)	65,881	68,416
Home Sales, net of discounts	(780,478)	(760,903)
Payments from Homeowners	727,078	876,383
NCHFA Contribution (Note 10)	(106,553)	(297,978)
Imputed Interest Income (Note 6)	(315,775)	(419,863)
Imputed Interest Expense (Note 10)	101,050	98,864
Change in Discount Rate	(527,772)	-
Net Cash Provided by (Used in) Operating Activities	**473,712**	**(328,463)**
Cash Flows from Investing Activities		
Property & Equipment Acquisitions	(202,087)	-
Net Cash (Used in) Investing Activities	**(202,087)**	**-**
Cash Flows from Financing Activities		
Proceeds from Debt Financing	877,208	504,150
Loan Origination Fees	(93,000)	-
Payments on Long-term Debt	(193,214)	(188,530)
Net Cash Provided by Financing Activities	**590,994**	**315,620**
Net Increase (Decrease) in Cash and Cash Equivalents	**862,619**	**(12,843)**
Cash and Cash Equivalents, beginning of year	634,174	647,017
Cash and Cash Equivalents, end of year	**$ 1,496,793**	**$ 634,174**

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

1. Organization

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

Habitat is directly responsible for its own operations. It receives assistance from Habitat International in a variety of ways including 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 215 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.

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, 2019, 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 unrestricted net assets 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).

Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using an objective basis for the following categories:

Expense Category	Method of Allocation by Function
Payroll & related	Time and effort (e.g. staff members' time tracking)
Occupancy & Depreciation	Usage of space (e.g. square footage by function)

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 $131,946 of revenue and incurred $36,990 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 $94,956 appears on the Statement of Activities as "Special Events" revenue.

3f. Property & Equipment
Habitat capitalizes property and equipment costing more than $1,000 with a useful life of more than one year. Lesser amounts are expensed. Purchased property and equipment is capitalized at acquisition cost, including costs necessary to prepare the asset for its intended use. Donations of property and equipment are recorded as contributions at fair value on the date of donation. Such donations are reported as unrestricted contributions unless the donor specifically restricts the asset's use. Also, see *Note 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 Nationwide Loan Servicing 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. A portion of overhead expenses is allocated to the cost of homes. Foreclosed homes purchased by the organization are recorded at cost when the homes are acquired. No interest is capitalized as a cost of houses. Reclaimed houses are recorded as a component of real estate owned at the outstanding balance of the interest-free mortgage at the date of reclamation plus any related legal fees.

The costs of homes under construction are capitalized until the transfer to the homeowner is made. They appear as an asset on the Statement of Financial Position 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.

<u>Change in Estimating the Discount Rates on Homeowner Loans</u>
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 7.66%. Discounts are amortized using the effective interest method over the lives of the mortgages.

During 2018/19, the organization entered into an agreement with Live Oak Bank (see Note 10) in which it provided approximately $1,000,000 of its existing homeowner loans as collateral in exchange for a cash payment 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).

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. The effect of using a lower discount rate to value Habitat's interest-free loan pool is an increase in net assets of $527,772 and the adjustment appears as a non-operating line item on the Statement of Activities.

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 ReStores in Wilmington and Burgaw, 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).

<u>Change in Estimating the Value of ReStore Inventory</u>

Management has elected to begin recognizing the value of 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. The increase in net assets due to the change is $125,120 and appears as a non-operating line item on the Statement of Activities. Previously, no value had been estimated for ReStore inventory on-hand at the end of each fiscal year.

3k. Prior Year Information

The financial statements display prior-year, summarized information for comparative purposes. The prior year information is presented in total but not by net asset class (unrestricted, temporarily restricted and permanently restricted). Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year then ended, from which the summarized information is derived. Certain reclassifications of prior year amounts were made to conform to the current year presentation.

4. Liquidity and Availability

As of June 30, 2019, Habitat had working capital (the difference between current assets and current liabilities) of $3,326,018 including unrestricted cash on hand of $707,377. This amount translates to 104 days of unrestricted cash on hand (calculated by dividing the unrestricted cash on hand by average daily expenses of $6,830, excluding depreciation and amortization, discount on mortgages, and ReStore cost of sales).

Financial assets not considered available for general expenditure within one-year for the purpose of the above calculations include property and equipment of $737,960, loan origination fees of $89,900, property held for future use of $245,646, long-term portions of loans to homeowners of $5,104,439, cash restricted for escrow of $25,615 and donor restricted funds of $789,416.

As part of Habitat'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 $172,352 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:

	Cost
Program Properties Inventory, Beginning	$ 1,497,534
Additional Costs Incurred	1,918,852
Cost of 11 Homes Sold	(918,775)
Program Properties Inventory, Ending	**$ 2,497,611**

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.

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

At June 30, 2019, Habitat had 154 loans outstanding with a gross value of $10,291,512 and a discounted value of $5,600,723. 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 mortgage, most homeowners are obligated to a second mortgage which is forgiven based on compliance with various requirements including timely mortgage payments and occupancy over 20 to 30 years. These second mortgages are a contingent asset of Habitat and are therefore not recorded on the financial statements unless they are realized due to a home foreclosure, re-purchase, or refinancing with a new lender.

Scheduled annual mortgage receipts are as follows:

FY 2019/20	$ 496,284
FY 2020/21	496,284
FY 2021/22	489,440
FY 2022/23	470,932
FY 2023/24	450,306
Thereafter	7,888,266
	$ 10,291,512
Less present value discount	(4,690,789)
Loans to Homeowners, net	**$ 5,600,723**

8. Property and Equipment

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

	6/30/19
Land	$ 147,000
Buildings & Improvements	888,442
Machinery & Equipment	369,681
	1,405,123
Less accumulated depreciation	(667,163)
Property & Equipment, Net	**$ 737,960**

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 $62,781 for FY 2018/19 and appears within the line item "Depreciation and Amortization" on the Statement of Functional Expenses.

9. Accounts Payable & Accrued Liabilities
The accounts payable and accrued liabilities balance of $375,892 consists of operational accounts payable of $281,567 and payroll and related liabilities of $94,325.

10. Notes Payable
Habitat's debt consists of the following:

- Note payable to Habitat for Humanity International, Inc. with a principal balance of $494,130, 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.

Future years principal payments are scheduled as follows:

FY 2019/20	$ 56,448
FY 2020/21	59,188
FY 2021/22	62,062
FY 2022/23	65,075
FY 2023/24	68,234
Thereafter	183,123
	$ 494,130

- Note payable to BB&T Bank with a principal balance of $14,624 due in monthly installments of $994, including interest at a fixed rate of 2.64% per annum. The loan matures in September 2020 and is secured by the vehicle that it financed.

- A revolving line of credit with Wells Fargo Bank with no outstanding balance as of June 30, 2019. 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.

- Note payable to Live Oak Bank with a principal balance of $700,623 due in monthly installments. The note matures in May 2048. The note is 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 collected at the inception of the loan. This payment of $296,767 reduced the initial principal balance to $702,208. Imputed interest is then calculated over the life of the loan and appears in the line item "Interest" on the Statement of Functional Expenses. Habitat also incurred $93,000 of loan origination fees related to the note. Amortization of loan origination fees is computed using the straight-line method over the life of the loan. Amortization expense totaled $3,100 for FY 2018/19 and appears within the line item "Depreciation and Amortization" on the Statement of Functional Expenses.

Future years principal payments are scheduled as follows:

FY 2019/20	$ 19,336
FY 2020/21	19,922
FY 2021/22	20,526
FY 2022/23	21,148
FY 2023/24	21,789
Thereafter	597,902
	$ 700,623

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 2018/19 loans is 7.66% and corresponds to the associated homeowner loans (see *Note 7*).

During FY 2018/19, 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 $106,553 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 2018/19 was $101,050.

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

FY 2019/20	$ 115,983
FY 2020/21	115,983
FY 2021/22	115,983
FY 2022/23	115,983
FY 2023/24	115,983
Thereafter	2,146,416
	$ 2,726,329
Less present value discount	(1,473,134)
NCHFA Note Payable, Net	**$ 1,253,196**

12. Restrictions on Net Assets

The restrictions on net assets at the end of FY 2018/19 of $789,416 are temporary and historically have consisted of contributions restricted to funding the cost of homes under construction or future home builds. In mid-September 2018, the Cape Fear region of North Carolina sustained widespread damage from Hurricane Florence. In response to the hurricane, a wide variety of individuals, businesses, private foundations and government agencies provided Habitat with over $632,000 of donations specifically earmarked for rebuilding the region. Because of the extraordinary nature of the event, the organization created a “Rebuild” program and as of June 30, 2019, $454,445 of the temporarily restricted net asset balance was earmarked for this purpose.

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 if not provided by donation.

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 or material provided.

The estimate of in-kind contributions totaled $292,043 and is included on the Statement of Activities within the revenue line item “Private Grants and Contributions.” The contribution is offset by $99,443 within the expense line item “Home Construction” on the Statement of Functional Expenses, and by $192,000 of donated land within the asset line item “Program Properties Inventory” on the Statement of Financial Position.

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 13*) to Habitat International. These funds are used to construct homes in economically depressed areas around the world. Habitat contributed $86,289 to Habitat International during FY 2018/19. This amount appears within the line item “General Operations” on the Statement of Functional Expenses.

15. Leases

Habitat subleases 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, 2019 totaled $46,671 and appears within the line item “Occupancy” on the Statement of Functional Expenses. The agreed-upon annual rent increases by 1% per annum for the remainder of the lease term which expires in May 2020.

During the year, Habitat leased retail and warehouse space for its ReStore located on Market Street in Wilmington, North Carolina. Rent expense for the year totaled $136,800 and appears within the line item “Occupancy” on the Statement Functional Expenses. In October 2019, Habitat purchased the Market Street property (see Note 18) and therefore there are no future lease payments beyond that date.

Habitat leases retail space for its ReStore located in Burgaw, North Carolina. Rent expense for the year ended June 30, 2019 totaled $14,400 and appears within the line item “Occupancy” on the Statement of Functional Expenses. The agreed-upon annual rent increases annually throughout the life of the lease which expires in March 2020

16. Retirement Plan

Beginning October 1, 2016, 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 for the fiscal year. Retirement expense for the year ended June 30, 2019 totaled $21,798 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. 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 2015/16.

18. Subsequent Events
In October 2019, Habitat purchased the properties at 7330 and 7334 Market Street in Wilmington, North Carolina for $1,900,000 and funded the purchase through a note payable to Wells Fargo Bank for $1,575,000 plus cash at closing for the balance of the purchase price. The properties were formerly leased by Habitat and are the site of one its ReStore operations.

Habitat has evaluated events that have occurred subsequent to the statement of financial position date (June 30, 2019) and through the date that the Independent Auditor's Report was available to be issued (November 18, 2019). No other events have occurred during that period that would require adjustments to the audited financial statements or additional disclosure in these notes.