



CAPE FEAR
HABITAT FOR HUMANITY, INC.

Audited Financial Statements

for the fiscal year ended

June 30, 2021

(with comparative totals for 2020)



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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, 2021, 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, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Summarized Comparative Information

We have previously audited Habitat's 2020 financial statements and our report dated December 17, 2020 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, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Bearman CPA PC

Wilmington, North Carolina
December 3, 2021

Cape Fear Habitat for Humanity, Inc.
Statement of Financial Position
as of June 30, 2021
(with comparative totals for 2020)

	6/30/21	6/30/20
Assets		
Cash and Cash Equivalents (Note 3c and 4)	\$ 1,611,668	\$ 965,155
Restricted Cash for Buyer Closings	70,730	64,335
Accounts Receivable (Note 5)	268,032	67,094
Prepaid Expenses	127,030	120,558
ReStore Inventory (Note 3j)	389,313	251,507
Program Properties Inventory (Note 3h and 6)	3,941,488	5,188,415
Loans to Homeowners, net (Note 7)	6,087,257	5,758,283
Property & Equipment, net (see Note 8)	2,677,455	2,598,507
Total Assets	\$ 15,172,973	\$ 15,013,854
Liabilities & Net Assets		
Accounts Payable & Accrued Liabilities (Note 9)	\$ 479,478	\$ 300,188
Notes Payable (Note 10)	3,333,443	3,803,153
NCHFA Notes Payable, net (Note 11)	1,498,691	1,287,810
Total Liabilities	5,311,612	5,391,151
Net Assets		
Without Donor Restrictions	9,457,394	8,931,250
With Donor Restrictions (Note 3b and 12)	403,967	691,453
Total Net Assets	9,861,361	9,622,703
Total Liabilities & Net Assets	\$ 15,172,973	\$ 15,013,854

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, 2021
(with comparative totals for 2020)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total FY 2020/21</u>	<u>Total FY 2019/20</u>
OPERATING				
Revenue				
Private Grants & Contributions (Note 3d)	\$ 548,389	\$ 849,452	\$ 1,397,841	\$ 2,660,091
Government Grants & Contracts (Note 3d & 10)	413,400	284,217	697,617	677,170
NCHFA Contribution (Note 11)	372,957	-	372,957	104,653
Home Sales (Note 7)	3,247,216	-	3,247,216	1,296,371
Imputed Interest on Mortgage Loans (Note 7)	289,437	-	289,437	329,677
Gross ReStore Sales (Note 3j)	2,915,289	-	2,915,289	1,826,891
Less ReStore Expenses	<u>(2,255,416)</u>	<u>-</u>	<u>(2,255,416)</u>	<u>(1,766,119)</u>
ReStore, net	659,873	-	659,873	60,772
Special Events (Note 3e)	65,600	-	65,600	145,499
Gain on Sale of Property	100,469	-	100,469	-
Interest & Other Income	4,432	-	4,432	4,883
Net Assets Released from Restriction (Note 12)	<u>1,421,155</u>	<u>(1,421,155)</u>	<u>-</u>	<u>-</u>
Total Revenue	<u>7,122,928</u>	<u>(287,486)</u>	<u>6,835,442</u>	<u>5,279,116</u>
Expense				
Program (Note 3e)	5,979,596	-	5,979,596	3,148,267
Management & General (Note 3e)	239,157	-	239,157	271,340
Fundraising (Note 3e)	<u>378,031</u>	<u>-</u>	<u>378,031</u>	<u>469,355</u>
Total Expense	<u>6,596,784</u>	<u>-</u>	<u>6,596,784</u>	<u>3,888,962</u>
Change in Operating Net Assets	<u>526,144</u>	<u>(287,486)</u>	<u>238,658</u>	<u>1,390,154</u>
NON-OPERATING				
Columbus County Habitat Dissolution (Note 16)	<u>-</u>	<u>-</u>	<u>-</u>	<u>172,850</u>
Change in Non-Operating Net Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>172,850</u>
Change in Net Assets	<u>526,144</u>	<u>(287,486)</u>	<u>238,658</u>	<u>1,563,004</u>
Net Assets Beginning of Year	<u>8,931,250</u>	<u>691,453</u>	<u>9,622,703</u>	<u>8,059,699</u>
Net Assets End of Year	<u>9,457,394</u>	<u>403,967</u>	<u>9,861,361</u>	<u>9,622,703</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, 2021
(with comparative totals for 2020)

Expense Type	Program		Management & General	Fundraising	Total FY 2020/21	Total FY 2019/20
	Home Ownership	ReStores				
Wages, Taxes & Benefits	\$ 858,894	\$ 1,284,344	\$ 141,862	\$ 214,758	\$2,499,858	\$ 2,283,476
Cost of Homes Sold (Note 6)	3,083,970				3,083,970	1,004,990
Cost of Rebuild Projects (Note 6)	336,824				336,824	510,246
Discount on New Mortgages (Note 7)	1,103,220				1,103,220	470,519
Contracted Services	91,428	61,927	22,947	35,402	211,704	117,197
Marketing & Advertising	920	55,485	-	3,500	59,905	54,861
Vehicles	21,762	31,386	-	59	53,207	45,291
Insurance	35,597	28,404	355	2,024	66,380	61,239
Cost of Goods Sold (ReStore)		356,708			356,708	171,248
Grant to Affiliate (Note 14)	40,247	81,627			121,874	36,739
Occupancy (Note 15)	132,655	189,034	14,182	30,214	366,085	296,413
General Operations	61,044	46,779	54,347	91,326	253,496	331,842
Interest (Note 10)	59,239	58,939	4,582		122,760	70,162
Imputed Interest (Note 11)	127,610				127,610	113,733
Depreciation (Note 8)	26,186	60,783	882	748	88,599	87,125
Total Expenses by Function	\$ 5,979,596	\$ 2,255,416	\$ 239,157	\$ 378,031	\$8,852,200	\$ 5,655,081
Less Expense Items Netted Against Revenue on the Statement of Activities						
ReStore Expenses	-	(2,255,416)	-	-	(2,255,416)	(1,766,119)
Total Expenses per Statement of Activities	\$ 5,979,596	\$ -	\$ 239,157	\$ 378,031	\$6,596,784	\$ 3,888,962

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, 2021

(with comparative totals for 2020)

	<u>FY 2020/21</u>	<u>FY 2019/20</u>
Cash Flows from Operating Activity		
Change in Net Assets	\$ 238,658	\$ 1,563,004
Adjustments to reconcile the change in net assets to net cash provided by (used in) operating activities:		
Changes in certain assets and liabilities:		
Program Properties Inventory	1,246,927	(2,411,530)
Receivables & Prepaids	(207,410)	74,111
ReStore Inventory	(137,806)	(63,708)
Accounts payable & accrued expenses	179,290	(75,704)
Depreciation	88,599	87,125
Home Sales, net of discounts	(2,143,996)	(811,888)
Homeowner Payments at Closing	1,381,813	288,465
Homeowner Mortgage Payments	722,646	528,291
NCHFA Contribution (Note 10)	(372,957)	(104,653)
Imputed Interest Income (Note 6)	(289,437)	(329,677)
Imputed Interest Expense (Note 10)	127,610	113,733
Change in Discount Rate	-	-
Net Cash Provided by (Used in) Operating Activities	<u>833,937</u>	<u>(1,142,431)</u>
Cash Flows from Investing Activities		
Property & Equipment Acquisitions	<u>(167,547)</u>	<u>(2,059,697)</u>
Net Cash Used in Investing Activities	<u>(167,547)</u>	<u>(2,059,697)</u>
Cash Flows from Financing Activities		
Proceeds from Debt Financing	630,000	2,592,641
Paycheck Protection Loan Proceeds	482,408	413,400
Paycheck Protection Loan (Forgiveness)	(413,400)	-
Loan Origination Fees, net	3,733	(15,267)
Payments on Long-term Debt	<u>(716,223)</u>	<u>(281,564)</u>
Net Cash Provided by (Used in) Financing Activities	<u>(13,482)</u>	<u>2,709,210</u>
Net Increase (Decrease) in Cash and Cash Equivalents	652,908	(492,918)
Cash and Cash Equivalents, beginning of year	<u>1,029,490</u>	<u>1,522,408</u>
Cash and Cash Equivalents, end of year	<u>\$ 1,682,398</u>	<u>\$ 1,029,490</u>

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

Cape Fear Habitat for Humanity, Inc.
Notes to the Audited Financial Statements
June 30, 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

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 more than 240 houses since its inception. It seeks to build or re-habilitate 20 to 25 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 from either Habitat or a third-party lender and pay it off in the same way as a traditional mortgage.

3. Summary of Significant Accounting Policies

The organization prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for not-for-profit organizations using the accrual basis of accounting. As such, revenues are recorded when earned and expenses are recorded when incurred. The significant accounting and reporting policies used by the organization are described below to enhance the usefulness and understandability of the financial statements.

3a. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the organization’s management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The organization’s management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

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3b. Net Asset Classes

The Financial Accounting Standards Board *Accounting Standards Codification* (FASB ASC) topic 958, “Not-for-Profit Entities,” requires the reporting of an organization’s activities by net asset class. The financial statements report net assets and changes in net assets in 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, 2021, Habitat held no net assets with permanent donor restrictions.*

3c. Cash and Cash Equivalents

The organization considers short-term, interest bearing, highly liquid investments with original maturities of three months or less to be cash equivalents for purposes of financial statement presentation.

At various times during the year, Habitat’s cash balance in financial institutions has exceeded the Federal Deposit Insurance Corporation (FDIC) insurance limit of \$250,000 per depositor. These financial institutions have strong credit ratings and management believes that the credit risks related to these deposits are minimal.

3d. Contributions, Grant and Contracts

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

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Contributed services are only recorded if they meet the requirements for recognition discussed in *Note 13, Contributed Services, Donated Lots & Materials*.

Grant revenue is recognized when the qualifying costs are incurred for cost-reimbursement grants or contracts or when a unit of service is provided for performance grants.

3e. Functional Allocation of Expenses

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

Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using staff members' time as the primary objective basis for allocated amounts.

Management and General activities include the functions necessary to provide support for the organization's program. These include those that provide governance (Board of Directors), oversight, business management, financial recordkeeping, budgeting, legal services, human resource management, and similar activities that ensure an adequate working environment and an equitable employment program.

Fundraising activities include publicizing and conducting fundraising campaigns; maintaining donor lists; conducting special fundraising events; and other activities involved with soliciting contributions from corporations, foundations, individuals, and others.

Habitat 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.

3f. Property & Equipment

Habitat capitalizes property and equipment costing more than \$5,000 with a useful life of more than one year. Lesser amounts are expensed. Purchased property and equipment is capitalized at acquisition cost, including costs necessary to prepare the asset for its intended use. Donations of property and equipment are recorded as contributions at fair value on the date of donation. Such donations are reported as unrestricted contributions unless the donor specifically restricts

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the asset's use. Also, see *Note 8, Property & Equipment and Note 13, Contributed Services, Donated Lots and Materials.*

3g. Escrow

Habitat makes loans to homeowners as described in Note 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 7.23%. Discounts are amortized using the effective interest method over the lives of the mortgages.

During 2018/19 and 2019/20, the organization entered into agreements with Live Oak Bank (see Note 10) in which it provided approximately \$2,000,000 of its existing homeowner loans as collateral in exchange for cash payments from Live Oak Bank.

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In FY 2016/17, it leveraged a similar amount with Habitat for Humanity International under the “Flexcap” program (see Note 10). In March 2021, Habitat made a principal payment of \$398,306 to fully retire the Flexcap debt.

The effective annual interest rates associated with the Live Oak Bank program is fixed at 2.99%. Management has chosen to use this interest rate rather than the rate provided by Habitat International to calculate the mortgage discount on the associated portions of the homeowner loan portfolio. Also see *Note 7, Home Sales / Loans to Homeowners*.

3j. ReStore Donations

Habitat receives support in the form of in-kind donations of building materials and household items. It operates three ReStores in Wilmington, NC in order to liquidate these items.

These contributions are valued at the amount of cash received for the items less all costs associated with their sale. The in-kind contributions are recorded as revenue once their fair market values can be determined (i.e. when the items are sold).

Management has valued 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 \$556,405 and represented just under 20% of all sales (\$2,915,289).

The COVID-19 virus had a significant impact on the ReStores which were closed for part of the second quarter of 2020. Nevertheless, Habitat qualified for two Paycheck Protection Program (PPP) loans (see Note 10) and used these funds to cover ReStore continued staff employment and occupancy costs allowed under the program during the pandemic.

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.

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Cape Fear Habitat for Humanity, Inc.
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4. Liquidity and Availability

Habitat's financial assets that will become available within one year for general expenditure (cash, accounts receivable and the current portion of loans to homeowners) total \$2,460,264. Habitat has not reduced the available amount by \$403,967 of restricted net assets because the specific restrictions relate to budgeted initiatives in 2021/22 and therefore will be available for general expenditures such as payroll. In FY 2020/21, the organization had average daily expenses of \$20,638, excluding non-cash expenses. Therefore, the \$2,460,264 of available financial assets could theoretically fund operations for 119 days at FY 2020/21 expenditure levels.

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 \$268,032 consisted of a sales tax reimbursement request of \$47,065 and other receivables totaling \$220,967 which were fully collected during the first quarter of fiscal year 2021/22. Accordingly, no provision is made for uncollectible amounts.

6. Housing Activities

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

	<u>Cost</u>
Program Properties Inventory, Beginning	\$ 5,188,415
Additional Costs Incurred	2,011,894
Cost of 22 Properties Sold	<u>(3,258,821)</u>
Program Properties Inventory, Ending	<u>\$ 3,941,488</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 \$336,824 appear as a line item on the Statement of Functional Expenses.

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.

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

As of June 30, 2021, Habitat’s loans outstanding had a gross value of \$11,732,670 and a discounted value of \$6,087,257. Management has established no provision for loan losses because Habitat is the secured creditor and it can reclaim the homes through foreclosure.

In addition to the interest-free mortgages, most homeowners are obligated to another mortgage which is forgiven based on compliance with various requirements including timely mortgage payments and occupancy over 20 to 30 years. The forgivable mortgages are a contingent asset of Habitat and are therefore not recorded on the financial statements unless they are realized due to a home foreclosure, re-purchase, or refinancing with a new lender.

Scheduled annual mortgage receipts are as follows:

FY 2021/22	\$	580,564
FY 2022/23		560,163
FY 2023/24		545,649
FY 2024/25		531,486
FY 2025/26		520,068
Thereafter		<u>8,994,740</u>
		<u>\$ 11,732,670</u>
Less present value discount		<u>(5,645,413)</u>
Loans to Homeowners, net		<u>\$ 6,087,257</u>

8. Property and Equipment

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

		<u>6/30/21</u>
Land	\$	1,291,000
Buildings & Improvements		1,574,334
Machinery & Equipment		<u>532,860</u>
		3,398,194
Less accumulated depreciation		<u>(720,739)</u>
Property & Equipment, Net		<u>\$ 2,677,455</u>

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

Depreciation expense totaled \$88,599 for FY 2020/21 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 \$479,478 consists of operational accounts payable of \$348,230 and payroll and related liabilities of \$131,248.

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	\$ 1,473,969
Live Oak Bank	1,229,535
U.S. Small Business Administration	<u>629,939</u>
Notes Payable Total	<u>\$ 3,333,443</u>
NCHFA Interest-free Loan Program (Note 11)	<u>1,498,691</u>
Total Debt	<u>\$ 4,832,134</u>

- A revolving line of credit with Wells Fargo Bank with no outstanding balance as of June 30, 2021. The credit limit is \$400,000 at a current interest rate of 5%. The line is intended for construction-cycle cash flow needs and has not yet been utilized. It matures in March 2022.
- Note payable to Wells Fargo Bank with a principal balance of \$1,473,969 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.

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- Two notes payable to Live Oak Bank with a combined principal balance of \$1,887,600 due in installments of approximately \$6,400 per month. The notes mature in May 2048 and December 2049 respectively. The notes are secured by a group of homeowner loans that are pledged to Live Oak Bank. Monthly payments match the terms of those underlying homeowner loans and payment amounts vary based upon the maturity dates of those loans.

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

Habitat also incurred \$112,000 of loan origination fees related to the notes. Amortization of loan origination fees is computed using the straight-line method over the life of the loan. Amortization expense totaled \$3,733 for FY 2020/21 and appears within the line item “Interest” on the Statement of Functional Expenses.

The Live Oak notes payable balance as of 6/30/21 is summarized as follows:

Principal (Loan 1)	\$ 915,598
less pre-paid interest	(254,232)
Principal (Loan 2)	972,002
less pre-paid interest	(302,400)
less unamortized origination fees	<u>(101,433)</u>
	<u>\$ 1,229,535</u>

- Two U.S. Small Business Administration disaster assistance loans: a second Paycheck Protection Program (PPP) loan of \$482,408 and an Economic Injury Disaster Loan (EIDL) of \$147,531.

In addition, in March 2021, Habitat obtained complete forgiveness of its first Paycheck Protection Program loan of \$413,400 and following the guidance provided under FASB ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*, the forgiven loan is included within the government grants line item on the Statement of Activities.

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Future years principal repayments on the combined notes payable balance of \$3,333,443 are as follows:

FY 2021/22	\$ 110,321
FY 2022/23	114,273
FY 2023/24	118,364
FY 2024/25	1,303,610
FY 2025/26	46,444
Thereafter	<u>1,259,456</u>
Total	<u>\$ 2,952,468</u>
<u>Reconciling items</u>	
Payroll Protection Loan (forgivable)	482,408
Live Oak unamortized origination fees	<u>(101,433)</u>
Notes Payable Balance	<u>\$ 3,333,443</u>

11. NCHFA Notes Payable

Habitat participates in the “Self-Help Loan Pool,” a program of the North Carolina Housing Finance Agency (NCHFA), a public agency of the State of North Carolina. The program provides Habitat up to \$35,000 per homeowner loan per year, to be repaid over the life of the loan (typically 30 years).

Because the NCHFA loans are interest-free, Habitat has discounted the liability on the Statement of Financial Position to reflect the time value of money. The imputed interest rate for FY 2020/21 loans is 7.23% and corresponds to the associated homeowner loans (see *Note 7*).

During FY 2020/21, Habitat received \$630,000 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 \$372,957 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 2020/21 was \$127,610.

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

FY 2021/22	\$ 139,315
FY 2022/23	139,315
FY 2023/24	139,315
FY 2024/25	139,315
FY 2025/26	139,315
Thereafter	<u>2,511,514</u>
	<u>\$ 3,208,091</u>
Less present value discount	<u>(1,709,400)</u>
NCHFA Note Payable, Net	<u>\$ 1,498,691</u>

12. Restrictions on Net Assets

The restrictions on net assets at the end of FY 2020/21 of \$403,967 are temporary and consist of contributions restricted to funding future home building or future “Rebuild” projects for those communities impacted by 2018’s Hurricane Florence.

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

13. Contributed Services, Donated Lots and Materials

The requirements for the recognition of contributed services in the financial statements are set forth in FASB ASC 958-605-25-16, “Contributed Services.” They should be recorded when (1) they create or enhance non-financial assets; or (2) they require specialized skills provided by individuals possessing those skills and are services that would typically be purchased.

Volunteers provide substantial in-kind support to Habitat in the form of construction services and also administrative and fundraising support. Only the services of skilled construction personnel meet the criteria for recognition in the financial statements. Additionally, Habitat International provides the affiliate with advisory support and periodic assistance with information technology and training needs. However, it does not perform regular services for and under the direction of Habitat and therefore these services are not recognized in the financial statements.

Habitat receives donated lots and construction materials in the course of its construction activities. These in-kind donations are valued using an estimate of fair value for the service, land or material provided. The estimate of in-kind contributions totaled \$227,742 and is included on the Statement of Activities within the revenue line item “Private Grants and Contributions.”

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14. Payment to Habitat International

Habitat remits a portion of its unrestricted contributions (excluding in-kind contributions) and a portion of its net ReStore revenue (see *Note 3j*) to Habitat International. These funds are used to construct homes in economically depressed areas around the world. Habitat contributed \$121,874 to Habitat International during FY 2020/21. This amount appears as the line item “Affiliate Expense” on the Statement of Functional Expenses.

15. Leases

Habitat leases administrative and program space at 3310 Fredrickson Road in Wilmington. Future minimum lease payments are as follows:

FY 2021/22	\$ 124,200
FY 2022/23	126,684
FY 2023/24	129,218
FY 2024/25	<u>131,802</u>
	<u>\$ 380,102</u>

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

16. Columbus County Habitat for Humanity Dissolution

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

17. Retirement Plan

Habitat provides its employees with a retirement plan under the terms of Section 401(k) of the Internal Revenue Code. The plan is available to employees with more than 6 months of service. Habitat matches employee contributions to the plan up to 3% of each participant’s qualified wages for the fiscal year. Retirement expense for the year ended June 30, 2021 totaled \$24,625 and appears within the line item “Wages, Taxes & Benefits” on the Statement of Functional Expenses.

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18. 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 2017/18.

19. Subsequent Events

Habitat has evaluated events that have occurred subsequent to the statement of financial position date (June 30, 2021) and through the date that the Independent Auditor's Report was available to be issued (December 3, 2021). No other events have occurred during that period that would require adjustments to the audited financial statements or additional disclosure in these notes.

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