



# Brunswick County Habitat for Humanity, Inc.

## Audited Financial Statements

for the fiscal year ended

**June 30, 2022**

(with comparative totals for 2021)



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Brunswick County Habitat for Humanity, Inc.  
Supply, North Carolina

### ***Opinion***

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

**In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat, as of June 30, 2022, 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Habitat 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.

### ***Management's Responsibility 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 Habitat's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Habitat'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 Habitat'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 if we identified any during the audit.

***Prior Year Summarized Comparative Information***

We have previously audited Habitat's 2021 financial statements and our report dated October 15, 2021, 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, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Bearman CPA P.C.*

Wilmington, North Carolina  
October 11, 2022

Brunswick County Habitat for Humanity, Inc.

**Statement of Financial Position**

as of June 30, 2022

(with comparative totals for 2021)

	<u>6/30/22</u>	<u>6/30/21</u>
<b>Assets</b>		
Cash and Cash Equivalents (Notes 3c and 4)	\$ 606,302	\$ 820,892
Accounts Receivable (Note 5)	18,129	13,039
Prepaid Expenses	617	18,101
ReStore Inventory (Note 3j)	267,364	225,970
Program Properties Inventory (Notes 3h and 6)	954,153	686,122
Loans to Homeowners, net (Note 7)	1,691,551	1,383,816
Property & Equipment, net (see Note 8)	<u>2,313,405</u>	<u>2,316,417</u>
<b>Total Assets</b>	<b><u>\$ 5,851,521</u></b>	<b><u>\$ 5,464,357</u></b>
<b>Liabilities &amp; Net Assets</b>		
Accounts Payable & Accrued Liabilities (Note 9)	\$ 186,937	\$ 208,490
Notes Payable (Note 10)	673,730	895,579
NCHFA Note Payable, Net (Note 11)	<u>173,606</u>	<u>81,260</u>
<b>Total Liabilities</b>	<b><u>1,034,273</u></b>	<b><u>1,185,329</u></b>
Net Assets		
Without Donor Restrictions		
Undesignated (Note 3b)	4,438,577	4,034,784
Board Designated Reserve (Note 3b)	<u>378,671</u>	<u>241,119</u>
Total Net Assets Without Donor Restriction	4,817,248	4,275,903
With Donor Restrictions (Note 3b)		
	<u>-</u>	<u>3,125</u>
<b>Total Net Assets</b>	<b><u>4,817,248</u></b>	<b><u>4,279,028</u></b>
<b>Total Liabilities &amp; Net Assets</b>	<b><u>\$ 5,851,521</u></b>	<b><u>\$ 5,464,357</u></b>

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

Brunswick County Habitat for Humanity, Inc.

**Statement of Activities**

for the fiscal year ended June 30, 2022

(with comparative totals for 2021)

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total FY 2021/22</b>	Total FY 2020/21
<b>OPERATING</b>				
<b>Revenue</b>				
Private Grants & Contributions (Note 3d)	\$ 185,744	\$ -	\$ 185,744	\$ 131,377
Paycheck Protection Program (Note 10)	175,600		175,600	175,600
NCHFA Imputed Contribution (Note 11)	141,550		141,550	118,399
Home Sales (Note 7)	953,112		953,112	545,204
Gross ReStore Sales	2,364,644		2,364,644	2,015,241
Less ReStore Cost of Goods Sold	<u>(1,395,774)</u>		<u>(1,395,774)</u>	<u>(1,166,864)</u>
ReStore, net (see Note 3j)	968,870	-	968,870	848,377
Special Events (Note 3e)	18,118		18,118	28,510
Interest & Other Income	5,417		5,417	4,468
Imputed Income on Interest-free Loans (Note 7)	175,054		175,054	128,375
Gain on Sale of Assets	19,977		19,977	-
Net Assets Released from Restriction (Note 3b)	<u>3,125</u>	<u>(3,125)</u>	<u>-</u>	<u>-</u>
<b>Total Revenue</b>	<b><u>2,646,567</u></b>	<b><u>(3,125)</u></b>	<b><u>2,643,442</u></b>	<b><u>1,980,310</u></b>
<b>Expense</b>				
Program (Note 3e)	1,638,938		1,638,938	1,157,782
Management & General (Note 3e)	349,718		349,718	240,725
Fundraising (Note 3e)	<u>116,566</u>	<u>-</u>	<u>116,566</u>	<u>127,169</u>
<b>Total Expense</b>	<b><u>2,105,222</u></b>	<b><u>-</u></b>	<b><u>2,105,222</u></b>	<b><u>1,525,676</u></b>
<b>Change in Net Assets</b>	<b><u>541,345</u></b>	<b><u>(3,125)</u></b>	<b><u>538,220</u></b>	<b><u>454,634</u></b>
Net Assets Beginning of Year	<u>4,275,903</u>	<u>3,125</u>	<u>4,279,028</u>	<u>3,824,394</u>
<b>Net Assets End of Year</b>	<b><u>\$ 4,817,248</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 4,817,248</u></b>	<b><u>\$ 4,279,028</u></b>

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

Brunswick County Habitat for Humanity, Inc.  
**Statement of Functional Expenses**  
for the fiscal year ended June 30, 2022  
(with comparative totals for 2021)

<b>Expense Type</b>	<b>Program</b>				<b>Total FY 2021/22</b>	Total FY 2020/21
	<b>Home Ownership</b>	<b>ReStore</b>	<b>Management &amp; General</b>	<b>Fundraising</b>		
Wages, Taxes & Benefits	\$ 289,651	\$ 819,821	\$ 259,479	\$ 54,311	\$ <b>1,423,262</b>	\$ 1,218,461
Construction	645,255	-	-	-	<b>645,255</b>	450,705
New Mortgages Discount (Note 7)	540,298	-	-	-	<b>540,298</b>	267,847
Contracted Services	24,760	-	32,518	-	<b>57,278</b>	23,151
General Operations	94,916	305,595	22,752	58,364	<b>481,627</b>	330,878
Occupancy (Note 13)	7,806	115,493	8,457	-	<b>131,756</b>	129,956
Grants to Others	-	-	-	-	-	71,357
Interest (Note 10)	-	26,683	-	-	<b>26,683</b>	34,418
Imputed Interest (Note 11)	8,188	-	-	-	<b>8,188</b>	2,575
Insurance	20,754	53,545	18,592	3,891	<b>96,782</b>	85,304
Depreciation (Note 8)	7,310	74,637	7,920	-	<b>89,867</b>	77,888
<b>Total Expenses by Function</b>	<b>\$ 1,638,938</b>	<b>\$ 1,395,774</b>	<b>\$ 349,718</b>	<b>\$ 116,566</b>	<b>\$ 3,500,996</b>	<b>\$ 2,692,540</b>
<b><u>Less Expense Items Netted Against Revenue on the Statement of Activities</u></b>						
ReStore Cost of Goods Sold	-	(1,395,774)	-	-	<b>(1,395,774)</b>	(1,166,864)
<b>Total Expenses per Statement of Activities</b>	<b>\$ 1,638,938</b>	<b>\$ -</b>	<b>\$ 349,718</b>	<b>\$ 116,566</b>	<b>\$ 2,105,222</b>	<b>\$ 1,525,676</b>

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

Brunswick County Habitat for Humanity, Inc.  
**Statement of Cash Flows**  
for the fiscal year ended June 30, 2022  
(with comparative totals for 2021)

	<b>FY 2021/22</b>	<b>FY 2020/21</b>
<b>Cash Flows from Operating Activity</b>		
Change in Net Assets	\$ 538,220	\$ 454,634
Adjustments to reconcile the change in net assets to net cash used in operating activities:		
Changes in certain assets and liabilities:		
Accounts Receivable	(5,090)	(6,760)
Prepaid Expenses	17,484	(93)
ReStore Inventory	(41,394)	(70,260)
Accounts payable & accrued expenses	(21,553)	118,946
Program Properties Inventory	(268,031)	(231,936)
Depreciation	89,867	77,888
Gain on Sale of Assets	(19,977)	-
Home Sales, net of discounts	(412,814)	(277,357)
Imputed Income & Expense - Interest-free Loans	(308,416)	(244,199)
Homeowner Payments Received	280,133	292,351
PPP Loan Forgiven (non-cash)	(175,600)	(175,600)
<b>Net Cash (Used in) or Provided by Operating Activities</b>	<b>(327,171)</b>	<b>(62,386)</b>
<b>Cash Flows from Investing Activities</b>		
Other Sales of Property	20,034	-
Purchases of Property & Equipment	(86,912)	(63,277)
<b>Net Cash (Used in) or Provided by Investing Activities</b>	<b>(66,878)</b>	<b>(63,277)</b>
<b>Cash Flows from Financing Activities</b>		
Proceeds from Debt Financing	235,000	375,600
Payments on Long-term Debt	(55,541)	(63,481)
<b>Net Cash (Used in) or Provided by Financing Activities</b>	<b>179,459</b>	<b>312,119</b>
<b>Net Increase (Decrease) in Cash</b>	<b>(214,590)</b>	<b>186,456</b>
Cash and Cash Equivalents, beginning of year	820,892	634,436
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 606,302</b>	<b>\$ 820,892</b>

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



Brunswick County Habitat for Humanity, Inc.

**Notes to the Audited Financial Statements**

June 30, 2022

**1. Organization**

Brunswick County Habitat for Humanity, Inc. (“Habitat”) is a North Carolina nonprofit corporation organized in June 1993 operating in Brunswick County, North Carolina. 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 assistance with training, publications and prayer support. 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 an ecumenical Christian housing ministry partnering with community volunteers to assist families who are working toward the purchase of a Habitat house. Habitat had completed 69 houses since its inception in 1993 through June 30, 2021. It sells the homes to pre-qualified, low-income families who have actively participated in the construction process. New homeowners qualify for an interest-free loan from Habitat to finance the purchase and repay Habitat over time.

**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 nonprofit 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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Brunswick County Habitat for Humanity, Inc.

**Notes to the Audited Financial Statements**

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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.

Board-Designated Funds

The board has set aside a portion of its unrestricted net assets as an operating reserve. Since none of the funds are donor-restricted, the board of directors may remove or change the designation at any time as it sees fit.

*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.

During the fiscal year, funds totaling \$86,080 that were initially restricted by donors were expended for their intended purposes and released from restriction. These appear as the line item “Net Assets Released from Restriction” on the Statement of Activities.

*As of June 30, 2022, Habitat held no net assets with permanent donor restrictions.*

**3c. Cash and Cash Equivalents**

The organization considers short-term, interest bearing, highly liquid investments with original maturities of three months or less to be cash equivalents for purposes of financial statement presentation. At various times during the year, the organization’s cash balance in financial institutions has exceeded the Federal Deposit Insurance Corporation (FDIC) insurance limit of \$250,000 per depositor. The financial institutions have strong credit ratings and management believes that the credit risks related to these deposits are minimal.

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Brunswick County Habitat for Humanity, Inc.

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***3d. Contributions***

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).

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 services to Habitat in the form of construction and other services. In addition, Habitat receives donated property 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. In addition, volunteers perform a variety of administrative and fundraising tasks for the organization. Only the services of skilled construction personnel meet the criteria for recognition.

***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 and effort as an objective basis for the allocations for certain expenses within the following categories: payroll and related; general operations, occupancy, insurance and depreciation.

*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.

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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 \$2,500 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*.

**3g. Escrow**

Habitat makes loans to homeowners as described in *Note 7*. The homeowner escrow accounts are held as cash on the balance sheet and are offset by a corresponding liability within the accounts payable and accrued liabilities section since Habitat retains no ownership of the escrow funds.

**3h. Real Estate Owned and Homes under Construction**

Real estate, including pre-acquisition, acquisition, and development costs, building materials and labor, are recorded at cost when assets are acquired or services are provided, or at estimated fair market value when donated. No interest is capitalized as a cost of houses.

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 within 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 program expense "Construction." Also see *Note 6, Housing Activities*.

**3i. Home Sales**

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. The non-interest-bearing mortgages are discounted at a rate provided by Habitat International that seeks to approximate a market rate for similar types of loans. Currently, the rate used is 7.49%. Discounts are amortized using the effective interest method over the lives of the mortgages. Also see *Note 7, Home Sales / Loans to Homeowners*.

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**3j. ReStore Donations**

Habitat receives support in the form of in-kind donations of building materials and household items. It operates ReStores in Ocean Isle Beach, Southport, and Leland, 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).

**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.

**4. Liquidity and Availability**

Habitat's financial assets that will become available within one year for general expenditure totaled \$865,998 as of June 30, 2022. The calculation was determined as follows:

Total Cash & Cash Equivalents	\$ 606,302
Accounts Receivable due within one year	18,129
Homeowner payments due within one year	241,567
<b>Total Available</b>	<b>\$ 865,998</b>

In FY 2021/22, the organization had average daily expenses of \$7,861, excluding depreciation and other non-cash items. Therefore, the \$865,998 of available financial assets could theoretically fund operations for 110 days at FY 2021/22 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 \$18,129 consists of sales taxes paid by the organization that were requested for reimbursement from the State of North Carolina. Management believes the amount is fully collectible. Accordingly, no provision is made for uncollectible amounts.

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Brunswick County Habitat for Humanity, Inc.

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**6. Housing Activities**

The following table summarizes home building activity for FY 2021/22.

	<u>Cost</u>
Program Properties Inventory, Beginning	\$ 686,122
Additional costs incurred	944,477
5 Homes Sold	<u>(676,446)</u>
Program Properties Inventory, Ending	<u>\$ 954,153</u>

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

Habitat sells homes to program participants in exchange for interest-free mortgage notes. The mortgages 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 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 within the revenue line item "Imputed Income – Interest-Free Loans."

As of June 30, 2022, Habitat had 62 loans outstanding with a gross value of \$3,575,192 and a discounted value of \$1,691,551. Management has established no provision for loan losses because Habitat is the secured creditor and it can reclaim the homes through foreclosure.

Scheduled annual mortgage receipts are as follows:

FY 2021/22	\$ 241,567
FY 2022/23	167,634
FY 2023/24	163,469
FY 2024/25	157,396
FY 2025/26	151,158
Thereafter	<u>2,693,968</u>
	<u>\$ 3,575,192</u>
Less present value discount	<u>(1,883,641)</u>
Loans to Homeowners, Net	<u>\$ 1,691,551</u>

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

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payments and occupancy over a period up to 20 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 or refinancing with a new lender. During FY 2021/22, Habitat did not foreclose on any homeowners.

**8. Property and Equipment**

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

	<u>6/30/22</u>
Land	\$ 667,077
Buildings & Improvements	2,103,460
Machinery & Equipment	<u>172,198</u>
	2,942,735
Less accumulated depreciation	<u>(629,330)</u>
Property & Equipment, Net	<u>\$ 2,313,405</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, 5 to 10 years for machinery and equipment).

Depreciation expense totaled \$89,867 and appears as a line item on the Statement of Functional Expenses.

**9. Accounts Payable & Accrued Liabilities**

The accounts payable and accrued liabilities balance consists of the following:

	<u>6/30/22</u>
Operational Accounts Payable	\$ 96,881
Escrow Funds Payable	22,063
Payroll & Related Payables	<u>67,993</u>
Total	<u>\$ 186,937</u>

**10. Notes Payable**

Habitat's debt consists of the following:

- Note payable to First Bank with a principal balance of \$395,039, due in monthly installments of \$2,290, including interest at a fixed rate of 3.15% per annum. The loan matures in November 2031. The note is secured by the Southport ReStore.

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Brunswick County Habitat for Humanity, Inc.

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- Note payable to First Bank with a principal balance of \$278,691, due in monthly installments of \$1,625, including interest at a fixed rate of 3.15% per annum. The loan matures in November 2031. The note is secured by the Ocean Isle Beach ReStore.

Habitat received notification that its second Paycheck Protection Loan of \$175,600, was completely forgiven in November 2021 and it is therefore shown on the Statement of Activities as grant revenue in accordance with the guidance provided by FASB ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*.

Interest expense totaled \$26,683 and appears as a line item on the Statement of Functional Expenses. Scheduled annual mortgage principal payments on the two bank notes are as follows:

FY 2022/23	\$ 26,131
FY 2023/24	26,966
FY 2024/25	27,828
FY 2025/26	28,717
FY 2026/27	29,635
Thereafter	<u>534,453</u>
Total	<u>\$ 673,730</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 \$50,000 per homeowner loan per year, to be repaid over the life of the loans (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 used corresponds to that of the homeowner loan pool that the proceeds finance (see Note 7).

During FY 2021/22, Habitat received \$235,000 in financing from NCHFA. The difference between the cash proceeds received and the discounted value of the notes is considered imputed revenue. The imputed amount was calculated at \$141,550 and appears as the revenue line item “NCHFA Imputed Contribution” on the Statement of Activities. Imputed interest expense is calculated over the life of the loan and appears as the line item “Imputed Interest” on the Statement of Activities. The amount of imputed expense for FY 2021/22 was \$8,188.

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

FY 2022/23	\$ 14,500
FY 2023/24	14,500
FY 2025/25	14,500
FY 2025/26	14,500
FY 2026/27	14,500
Thereafter	<u>350,291</u>
	<u>\$ 422,791</u>
Less present value discount	<u>(249,185)</u>
NCHFA Note Payable, Net	<u>\$ 173,606</u>

**12. Payment to Habitat International**

Habitat remits a portion of its revenues each year to Habitat International and Habitat North Carolina. A portion of these funds known as a “tithe” comes from unrestricted contributions and is used to help construct homes in economically depressed areas around the world. The rest of these funds are fees charged by Habitat International and Habitat NC for the support services they provide their affiliates. Habitat contributed \$31,250 in this way during the fiscal year and this expense is included within the General Operations line item on the Statement of Functional Expenses.

**13. Leases**

Habitat leases commercial space for its Leland ReStore from a local landlord on a short-term basis. Rent is paid on a month-to-month. Rent expense for FY 2021/22 totaled \$38,367 and appears within the line item “Occupancy” on the Statement of Functional Expenses.

Habitat has elected, as allowed by ASC 842-20-25-2, not to recognize right-of-use assets and lease liabilities for short-term leases (that is, leases with terms of 12 months or less). As such, future scheduled payments under short-term lease arrangements, or the corresponding rights-of-use, are not displayed on the Statement of Financial Position.

**15. 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 2019/20.

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**16. Subsequent Events**

Habitat has evaluated events that have occurred subsequent to the Statement of Financial Position date (June 30, 2022) and through the date the Independent Auditor's Report was available to be issued (October 11, 2022). No 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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