

HABITAT FOR HUMANITY OF CRAVEN COUNTY, INC.

**AUDITED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**



HABITAT FOR HUMANITY OF CRAVEN COUNTY, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Habitat for Humanity of Craven County, Inc.
New Bern, North Carolina

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Habitat for Humanity of Craven County, Inc., which comprise the statements of financial position as of June 30, 2022, and June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Habitat for Humanity of Craven County, Inc. as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 for Humanity of Craven County, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Habitat for Humanity of Craven County, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are 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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Habitat for Humanity of Craven County, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Habitat for Humanity of Craven County, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Pettit & Company, PLLC

Indianapolis, Indiana
March 6, 2023

HABITAT FOR HUMANITY OF CRAVEN COUNTY, INC.

**STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
Current assets		
Cash and cash equivalents	\$ 1,059,044	\$ 45,204
Accounts receivable	18,393	9,586
Restricted cash for escrow funds	54,395	5,221
Escrow receivable	19,820	20,784
Mortgage notes receivable	80,700	87,018
	<u>1,232,352</u>	<u>167,813</u>
Total current assets		
Property and equipment		
Land	79,526	79,526
Buildings	331,361	331,361
Vehicles	82,775	82,775
Equipment	39,376	39,376
	<u>533,038</u>	<u>533,038</u>
Total property and equipment	533,038	533,038
Accumulated depreciation	<u>(242,971)</u>	<u>(225,535)</u>
	<u>290,067</u>	<u>307,503</u>
Net property and equipment		
Non-current assets		
Investments, at fair value	32,793	70,462
Real estate owned	-	36,361
Land held for future use	64,536	64,536
Construction in progress	298,647	316,960
Mortgage notes receivable, net of present value	1,435,490	1,123,239
	<u>1,831,466</u>	<u>1,611,558</u>
Total non-current assets		
Total assets	<u><u>\$ 3,353,885</u></u>	<u><u>\$2,086,874</u></u>

HABITAT FOR HUMANITY OF CRAVEN COUNTY, INC.

STATEMENTS OF FINANCIAL POSITION (CONTINUED) AS OF JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Current liabilities		
Accounts payable	\$ 67,852	\$ 45,660
Accrued payroll and payroll taxes payable	10,523	1,747
Escrow funds payable	125,105	102,029
Line of credit	2,022	20,054
Notes payable	17,477	16,636
NCHFAs notes payable	42,153	40,116
	<u>265,132</u>	<u>226,242</u>
Total current liabilities		
	265,132	226,242
Long-term liabilities		
Notes payable, net of current portion	86,915	102,273
NCHFAs notes payable, net of current portion, and present value	528,422	422,713
	<u>615,337</u>	<u>524,986</u>
Total long-term liabilities		
	615,337	524,986
Total liabilities	<u>880,469</u>	<u>751,228</u>
Net assets		
Without donor restrictions	2,434,458	1,331,688
With donor restrictions	38,958	3,958
	<u>2,473,416</u>	<u>1,335,646</u>
Total net assets		
	2,473,416	1,335,646
Total liabilities and net assets	<u>\$ 3,353,885</u>	<u>\$2,086,874</u>

HABITAT FOR HUMANITY OF CRAVEN COUNTY, INC.

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	2022			2021		
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Support and revenue						
Grants	\$ 90,058	\$ 61,654	\$ 151,712	\$ 388,879	\$ -	\$ 388,879
Grants - federal	5,000	-	5,000	96,670	-	96,670
Contributions	1,472,370	-	1,472,370	71,663	-	71,663
ReStore	337,918	-	337,918	350,035	-	350,035
Imputed interest on interest free loans	25,659	-	25,659	25,659	-	25,659
Gain on sale of property	122,747	-	122,747	48,406	-	48,406
Rental income	-	-	-	3,037	-	3,037
Investment income	9,144	-	9,144	15,180	-	15,180
Other income	18,582	-	18,582	4,653	-	4,653
Net assets released from restrictions						
Satisfaction of program requirements	26,654	(26,654)	-	48,000	(48,000)	-
Total support and revenue	<u>2,108,132</u>	<u>35,000</u>	<u>2,143,132</u>	<u>1,052,182</u>	<u>(48,000)</u>	<u>1,004,182</u>
Expenses						
Construction	108,947	-	108,947	128,484	-	128,484
Volunteers	41,853	-	41,853	50,731	-	50,731
ReStore	260,032	-	260,032	237,926	-	237,926
Neighborhood revitalization	304,135	-	304,135	236,058	-	236,058
Homeownership services	39,377	-	39,377	56,393	-	56,393
Management and general	231,743	-	231,743	227,575	-	227,575
Fund raising	19,275	-	19,275	12,825	-	12,825
Total expenses	<u>1,005,362</u>	<u>-</u>	<u>1,005,362</u>	<u>949,992</u>	<u>-</u>	<u>949,992</u>
Change in net assets	1,102,770	35,000	1,137,770	102,190	(48,000)	54,190
Net assets - beginning of year	<u>1,331,688</u>	<u>3,958</u>	<u>1,335,646</u>	<u>1,229,498</u>	<u>51,958</u>	<u>1,281,456</u>
Net assets - end of year	<u>\$ 2,434,458</u>	<u>\$ 38,958</u>	<u>\$ 2,473,416</u>	<u>\$ 1,331,688</u>	<u>\$ 3,958</u>	<u>\$ 1,335,646</u>

HABITAT FOR HUMANITY OF CRAVEN COUNTY, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2022

	<u>Construction</u>	<u>Volunteers</u>	<u>ReStore</u>	<u>Neighborhood revitalization</u>	<u>Homeownership services</u>	<u>Total Program</u>	<u>Management and general</u>	<u>Fund Raising</u>	<u>Total</u>
Salaries	\$ 81,459	\$ 32,990	\$ 145,563	\$ 131,295	\$ 22,515	\$ 413,822	\$ 116,741	\$ -	\$ 530,563
Employee benefits	-	-	-	-	-	-	1,182	-	1,182
Payroll taxes	8,635	2,772	12,375	10,906	-	34,688	9,552	-	44,240
Volunteer stipend	-	-	-	-	-	-	5,065	-	5,065
Advertising	113	-	1,974	162	1,115	3,364	1,070	144	4,578
Bank charges	-	-	-	-	-	-	2,693	-	2,693
Dues and subscriptions	1,618	539	3,974	2,233	1,079	9,443	1,970	1,064	12,477
Habitat International tithe & support	1,125	750	6,375	500	-	8,750	1,125	125	10,000
Equipment rent	-	-	-	-	-	-	654	-	654
Occupancy	2,892	964	13,176	3,856	1,928	22,816	22,840	-	45,656
Insurance	5,236	827	4,960	12,144	5,705	28,872	2,480	964	32,316
Workers compensation	6,077	-	12,154	-	2,026	20,257	6,077	827	27,161
Professional fees	4,857	1,619	9,713	7,000	-	23,189	4,332	2,026	29,547
License and fees	-	-	-	-	-	-	-	2,119	2,119
Office expense	1,629	600	11,593	2,370	1,172	17,364	2,931	-	20,295
Meals and entertainment	-	-	-	-	-	-	128	3,110	3,238
Office supplies	370	-	6,271	776	3,367	10,784	5,282	-	16,066
Travel	1,209	-	4,127	7,033	-	12,369	1,322	5,017	18,708
Repairs & maintenance	(7,107)	-	3,659	116,941	-	113,493	-	400	113,893
Employee training	-	-	-	47	-	47	4,771	2,400	7,218
Interest expense	704	235	1,521	939	470	3,869	15,706	235	19,810
Contract labor	-	-	22,165	-	-	22,165	-	-	22,165
Fundraising	-	-	-	2,247	-	2,247	-	-	2,247
Miscellaneous	130	557	432	5,686	-	6,805	8,386	844	16,035
Depreciation	-	-	-	-	-	-	17,436	-	17,436
	<u>\$ 108,947</u>	<u>\$ 41,853</u>	<u>\$ 260,032</u>	<u>\$ 304,135</u>	<u>\$ 39,377</u>	<u>\$ 754,344</u>	<u>\$ 231,743</u>	<u>\$ 19,275</u>	<u>\$ 1,005,362</u>

HABITAT FOR HUMANITY OF CRAVEN COUNTY, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2021

	<u>Construction</u>	<u>Volunteers</u>	<u>ReStore</u>	<u>Neighborhood revitalization</u>	<u>Homeownership services</u>	<u>Total Program</u>	<u>Management and general</u>	<u>Fund Raising</u>	<u>Total</u>
Salaries	\$ 78,788	\$ 38,884	\$ 144,148	\$ 94,502	\$ 44,656	400,978	\$ 82,604	\$ -	\$ 483,582
Employee benefits	120	24	144	96	-	384	72	24	480
Payroll taxes	9,450	2,625	10,848	7,244	-	30,167	9,677	-	39,844
Volunteer stipend	-	-	-	-	-	-	39,954	-	39,954
Advertising	122	-	3,420	-	5	3,547	836	-	4,383
Bank charges	-	-	587	-	-	587	1,304	-	1,891
Dues and subscriptions	907	302	2,044	1,209	605	5,067	1,024	327	6,418
Habitat International tithe & support	750	375	5,625	-	-	6,750	1,950	-	8,700
Equipment rent	-	-	-	-	-	-	-	-	-
Occupancy	3,942	1,314	16,557	5,256	2,628	29,697	15,851	-	45,548
Insurance	5,037	1,008	7,760	6,649	3,200	23,654	2,820	1,314	27,788
Workers compensation	2,610	-	6,424	-	906	9,940	2,610	803	13,353
Professional fees	3,219	1,073	6,438	4,292	-	15,022	4,415	797	20,234
License and fees	-	-	-	-	-	-	-	1,073	1,073
Office expense	1,567	886	11,821	2,234	1,117	17,625	1,882	-	19,507
Meals and entertainment	-	-	-	-	-	-	440	1,223	1,663
Office supplies	79	-	7,686	157	2,689	10,611	3,976	-	14,587
Travel	2,887	3,500	3,382	-	-	9,769	-	2,770	12,539
Repairs & maintenance	17,777	-	1,014	110,385	-	129,176	418	-	129,594
Employee training	-	-	-	154	-	154	961	4,200	5,315
Interest expense	998	352	2,641	1,174	587	5,752	13,152	294	19,198
Contract labor	-	-	7,122	-	-	7,122	-	-	7,122
Fundraising	-	-	-	119	-	119	-	-	119
Miscellaneous	231	388	265	2,587	-	3,471	26,193	-	29,664
Depreciation	-	-	-	-	-	-	17,436	-	17,436
	<u>\$ 128,484</u>	<u>\$ 50,731</u>	<u>\$ 237,926</u>	<u>\$ 236,058</u>	<u>\$ 56,393</u>	<u>\$ 709,592</u>	<u>\$ 227,575</u>	<u>\$ 12,825</u>	<u>\$ 949,992</u>

HABITAT FOR HUMANITY OF CRAVEN COUNTY, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Change in net assets	\$1,137,770	\$ 54,190
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation	17,436	17,436
Imputed interest income on non-interest bearing mortgage loans	(25,659)	(25,659)
Imputed interest expense on non-interest-bearing notes payable	13,905	13,905
Investment income	(9,144)	(15,180)
(Increase) decrease in assets		
Accounts receivable	(8,807)	12,372
Escrow receivable	964	7,785
Mortgage notes receivable	(243,430)	(209,544)
Prepaid expense	-	6,156
Construction in progress	18,313	(123,207)
Increase (decrease) in liabilities		
Accounts payable	22,192	14,908
Accrued payroll and payroll taxes payable	8,776	-
Escrow funds payable	23,076	30,046
Net cash provided by (used in) operating activities	<u>955,392</u>	<u>(216,792)</u>
Cash from investing activities		
Purchase of property and equipment	-	(13,747)
Homes owned	-	(36,361)
Proceeds from sale of investments	31,813	-
Net cash provided by (used in) investing activities	<u>31,813</u>	<u>(50,108)</u>
Cash flows from financing activities		
Proceeds from line of credit	8,179	26,350
Line of credit principal payments	(26,211)	(21,297)
Proceeds from notes payable	185,900	138,000
Notes payable principal payments	(92,059)	(18,213)
Net cash provided by (used in) financing activities	<u>75,809</u>	<u>124,840</u>
Net increase (decrease) in cash and cash equivalents	1,063,014	(142,060)
Cash, cash equivalents and restricted cash, beginning of fiscal year	<u>50,425</u>	<u>192,485</u>
Cash, cash equivalents and restricted cash, end of fiscal year	<u>\$1,113,439</u>	<u>\$ 50,425</u>

HABITAT FOR HUMANITY OF CRAVEN COUNTY, INC.

**STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

Supplemental Schedule of Cash Flow Information

Interest paid	<u>\$ 5,905</u>	<u>\$ 5,293</u>
Non cash transactions:		
Real estate owned	<u>\$ -</u>	<u>\$ 36,361</u>

HABITAT FOR HUMANITY OF CRAVEN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

Habitat for Humanity of Craven County, Inc. ("Habitat") is a North Carolina nonprofit Organization organized in May 1989 operating in the City of New Bern and Craven County region of 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 information technology, training, publications and prayer support. Habitat is exempt from income taxes under the Internal Revenue Service Code Section 501(c) (3) under a group exemption letter granted to Habitat International. As such, contributions to Habitat are generally tax deductible.

Mission and activities

Habitat seeks to put God's love into action by bringing people together to build homes, communities and hope. It is an ecumenical Christian housing ministry partnering with community volunteers to assist families who are working toward the purchase of a Habitat house. Habitat has completed 60 houses since its inception. It seeks to build 2 or more 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 interest-free loan to finance the purchase and pay it off in the same way as a traditional mortgage.

Basis of accounting

The financial statements Habitat have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP") and accordingly reflect all significant receivables, prepaid expenses, payables, and other liabilities.

Classification of net assets

Net assets of Habitat are classified as net assets without donor restrictions or net assets with donor restrictions.

- **Net assets without donor restrictions** consist of net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of Habitat. These net assets may be used at the discretion of Habitat's management and the Board of Directors.
- **Net assets with donor restrictions** consist of net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Habitat or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

HABITAT FOR HUMANITY OF CRAVEN COUNTY, INC.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

Habitat considers deposits on account and investments with maturity dates less than three months at the time of purchase to be cash and cash equivalents. As of June 30, 2022 and 2021 there were no investments included in the cash balance. At various times throughout the year, Habitat has deposits in excess of amounts covered by federal depository insurance. Cash accounts at a financial institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. These accounts may at times exceed federally insured limits. Habitat has not experienced any losses on these accounts and management does not believe it is exposed to any significant credit risk.

Accounts receivable

The accounts receivable balance of as of June 30, 2022 and 2021 consists primarily of sales taxes paid by Habitat 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.

Restricted cash for escrow funds

Restricted cash consists of amounts held on behalf of mortgagors for payment of taxes and insurance and are offset by a corresponding liability since Habitat retains no ownership of the escrow funds.

Mortgage notes receivable

Habitat records and accounts for mortgage loans receivable based on the present value of the loan at the time of closing. For purposes of calculating loan present values, interest rates are determined based on the market rates for a similar type of loan on the date of closing and range from 3.15% to 10% for all loans outstanding. This method of accounting properly reflects the value of the mortgage loans receivable in the financial statements and recognizes interest income over the life of the loans. An expense is recorded upon the sale of houses for the difference between the face value of the mortgage loans receivable and the present value of the loans. Habitat has not established an allowance for doubtful accounts as it can reclaim houses through foreclosure in the event that a loan is deemed to be uncollectible, and management believes any reclaimed house can be resold at or above the amount of unpaid, discounted loan principal plus costs to sell the home. Mortgage loans receivable are generally considered delinquent when payment is thirty days past due; however, delinquency status may be mitigated by other qualitative factors.

Property and equipment

Property and equipment are recorded at cost and depreciation is computed using the straight line method. Depreciation is computed over the estimated useful lives of each individual asset. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized as income or loss for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

HABITAT FOR HUMANITY OF CRAVEN COUNTY, INC.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment

Habitat is subject to the provisions of the Impairment or Disposal of Long-Lived Assets topic of the FASB Accounting Standards Codification (ASC) 360-10. Impairment or Disposal of Long-Lived Assets has no retroactive impact on Habitat's financial statements. The standard requires impairment losses to be recorded on long-lived assets when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets (excluding interest) are less than the carrying amount of the assets. In such cases, the carrying value of assets to be held and used are adjusted to their estimated fair value and assets held for sale are adjusted to their estimated fair value less selling expenses. No impairment losses were recognized during the years ended June 30, 2022 and 2021.

Investments

The Organization accounts for investments with readily determinable fair values in the statement of financial position at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Interest income is recorded on the accrual basis, and dividends are recorded on the ex-dividend date. Purchases and sales of investments are recorded on the trade date. Gains and losses on the sale of investments are determined using the specific identification method. Unrealized gains and losses are included in the statement of activities.

Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect the amounts reported in the financial statements.

Support and revenue recognition

Habitat's revenue from contracts with customers consists of home sales and repairs, and Habitat ReStore sales. Habitat's contracts have a single performance obligation. The transaction price is the amount of consideration to which Habitat expects to be entitled in exchange for transferring goods to the customer.

Revenue is recorded based on transaction price, which is a fixed consideration. Habitat recognizes Habitat ReStore sales at a point in time when control of the goods is passed to the customer, which typically occurs at point of sale and is also when customer payment is collected. Sales from the Habitat ReStores are reported net of sales tax collected.

Habitat recognizes revenue from home sales at a point in time, when a closing occurs. A closing is considered to occur when title, possession and other attributes of ownership have been transferred to the buyer; and Habitat is not obligated to perform significant activities and changes in net assets after the sale.

Revenue from the sale of homes is recorded in the consolidated statements of activities as home sale and repair income.

HABITAT FOR HUMANITY OF CRAVEN COUNTY, INC.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and support

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Habitat recognizes as unrestricted revenue any donor-restricted contributions whose restrictions are met in the same reporting period as received.

Contributed services

A substantial number of volunteers have made significant contributions of their time to Habitat, principally in the area of house construction. The value of non-professional contributed time is not reflected in the accompanying financial statements. However, Habitat values donated professional services based on the market value of the service being provided. There were no contributed professional services which met the requirements to be recognized as revenue for either of the years ended June 30, 2022 and 2021.

Houses under construction and real estate owned

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, as applicable, or at estimated fair market value when donated. Foreclosed homes purchased by Habitat are recorded at cost when the homes are acquired. A portion of overhead expenses is allocated to the cost of houses. No interest is capitalized as a cost of houses.

Reclaimed houses are recorded as a component of real estate owned at the outstanding mortgage balance at the date of reclamation if foreclosed or at the fair market value if repurchased. During the years ended June 30, 2022 and 2021, Habitat did not reclaim any homes.

One requirement of homeownership is to have demonstrated one year of independent living prior to closing. As some potential homebuyers have not had previous independent living experience, they are able to satisfy this requirement by renting the home. Habitat did not receive any rental income during the year ended June 30, 2022. Habitat has recognized rental income of approximately \$3,037 during the year ended June 30, 2021, respectively.

ReStore donations

Habitat receives support in the form of in-kind donations of building materials and household items. It operates the ReStore in New Bern, 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). Accordingly, no inventory of these items is recorded at year-end.

HABITAT FOR HUMANITY OF CRAVEN COUNTY, INC.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional expenses

The costs of providing program and supporting services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated between the program and supporting services benefited. Directly identifiable expenses are charged to the appropriate programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of estimates made by management.

Income taxes

Habitat is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes.

Habitat has adopted the provisions of the accounting pronouncement related to accounting for uncertainty in income taxes. Habitat recognized no interest or penalties in the statements of activities for the years ended June 30, 2022 and 2021. If the situation arose in which Habitat would have interest to recognize it, it would recognize this as interest expense and penalties would be recognized in other expenses. Currently, the prior three years are open under federal and state statutes of limitations and remain subject to review and change. Habitat is not currently under audit nor has Habitat been contacted by these jurisdictions.

Based on the evaluation of Habitat's tax positions, management believes all positions taken would be upheld under an examination. Therefore, no provision for the effects of uncertain tax positions has been recorded for the years ended June 30, 2022 and 2021.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advertising

Habitat uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Total advertising expense for the years ended June 30, 2022 and 2021 totaled \$4,578 and \$4,383, respectively.

Management's review of subsequent events

The Management has performed an analysis of the activities and transactions subsequent to June 30, 2022, to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2022. Management has performed their analysis of subsequent events through March 6, 2023, the date the financial statements were available to be issued.

Reclassifications

Certain amounts from the prior year have been reclassified to conform to the current year presentation.

HABITAT FOR HUMANITY OF CRAVEN COUNTY, INC.

NOTE 2 – RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued ASU 2016-02, Leases. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and corresponding lease liability on the statement of financial position at the date of the lease commencement. Leases will be classified as either finance or operating, and this distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the entity for the year ending June 30, 2023. The Organization is currently in the process of evaluating the effect of adoption of this ASU on its financial statements.

In September 2020, the FASB issued ASU 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. The standard will improve transparency in the reporting of contributed nonfinancial assets, also known as gifts in-kind, for not-for-profit organizations. The ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets, along with expanded disclosure requirements. This standard will be effective for the organization for the year ending June 30, 2023. The Organization does not expect this ASU to have a significant impact on the Organization's financial statements.

NOTE 3 – CASH, CASH EQUIVALENTS AND RESTRICTED CASH

The following table provides a reconciliation of cash, cash equivalents and restricted cash within the Statement of Financial Position that sums to the total of such amounts shown in the Statement of Cash Flows:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 1,059,044	\$ 45,204
Restricted cash for escrow funds	<u>54,395</u>	<u>5,221</u>
Total cash, cash equivalents, and restricted cash show in the Statement of Cash Flows	<u>\$ 1,113,439</u>	<u>\$ 50,425</u>

NOTE 4 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects Habitat's financial assets as of June 30, 2022 and 2021, reduced by amounts not available for general use because of contractual or donor-imposed restrictions and board designation within one year of the date of the statement of financial position. Amounts with board designations not available include amounts set aside for program related activity that could be drawn upon if the governing board approves that action. Amounts appropriated from either donor-restricted or board designation categories for general expenditures within one year of the date of the statement of financial position are available.

HABITAT FOR HUMANITY OF CRAVEN COUNTY, INC.

NOTE 4 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (CONTINUED)

The following schedule explains Habitat’s financial assets to meet cash needs for general expenditures within one year. The financial assets were derived from the total assets on the statements of financial position.

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 1,059,044	\$ 45,204
Accounts receivable	18,393	9,586
Mortgage notes receivable	80,700	87,018
Investments	<u>32,793</u>	<u>70,462</u>
 Total financial assets	 <u>1,190,930</u>	 <u>212,270</u>
 Less amounts not available to be used within one year	 <u>(38,958)</u>	 <u>(3,958)</u>
 Financial assets available to meet general expenditure within one year	 <u><u>\$ 1,151,972</u></u>	 <u><u>\$ 208,312</u></u>

Habitat manages its liquidity by developing and adopting annual operating budgets that provide sufficient funds for general expenditures in meeting its liabilities and other obligations as they become due.

NOTE 5 – INVESTMENTS

Investments are composed of the following:

	<u>2022</u>	<u>2021</u>
Cash and sweep balances	\$ 95	\$ -123
Stocks, options & ETFs	7,674	2,713
Mutual funds	<u>25,023</u>	<u>67,872</u>
	<u><u>\$ 32,792</u></u>	<u><u>\$ 70,462</u></u>

Net return on investments is as follows:

	<u>2022</u>	<u>2021</u>
Unrealized gain (loss)	\$ (4,264)	\$ 18,824
Realized gain (loss)	<u>(1,592)</u>	<u>(3,644)</u>
	<u><u>\$ (5,856)</u></u>	<u><u>\$ 15,180</u></u>

HABITAT FOR HUMANITY OF CRAVEN COUNTY, INC.

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Organization utilizes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1** Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.
- Level 2** Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data.
- Level 3** Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

In determining the appropriate levels, the Organization performs a detailed analysis of the assets and liabilities that are measured and reported on a fair value basis. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. The Organization does not have significant level 3 assets or liabilities. During the years ended June 30, 2022 and 2021, there were no changes to the Organization's valuation techniques that had, or are expected to have, a material impact on its financial position or results of operations.

The following is a description of the valuation methodologies used for assets measured at fair value:

Stocks, options & ETFs: Valued at the quoted market price for similar securities, which approximates fair value.

Mutual funds: Valued at the closing price of the active market in which the security is traded.

Assets measured at fair value as of June 30, 2022 and 2021 are summarized as follows:

	2022			
	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and sweep balances	\$ 95	\$ 95	\$ -	\$ -
Stocks, options & ETFs	7,674	7,674	-	-
Mutual funds	<u>25,023</u>	<u>25,023</u>	-	-
Total investments	<u>\$ 32,792</u>	<u>\$ 32,792</u>	<u>\$ -</u>	<u>\$ -</u>

HABITAT FOR HUMANITY OF CRAVEN COUNTY, INC.

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

		2021			
	Fair value	Level 1	Level 2	Level 3	
Cash and sweep balances	\$ -123	\$ -123	\$ -	\$ -	
Stocks, options & ETFs	2,713	2,713	-	-	
Mutual funds	67,872	67,872	-	-	
Total investments	\$ 70,462	\$ 70,462	\$ -	\$ -	

Management evaluated the significance of transfers between levels based upon the nature of the financial instruments and size of the transfer relative to total assets. For the years ended June 30, 2022 and 2021, there were no significant transfers in or out of Levels 1, 2 or 3.

NOTE 7 – HOMES SALES/LOANS TO HOMEOWNERS

During the year ended June 30, 2022, Habitat started 3 new houses. During the year ended June 30, 2021, Habitat started 5 new houses, and received no houses through donation. Completed houses were either sold at cost or held in inventory at cost, as real estate owned, pending sale.

At June 30, 2022 and 2021, respectively, Habitat had 3 and 5 houses under construction on land owned by Habitat. Sales of houses were approximately \$467,500 and \$209,000 during the years ended June 30, 2022 and 2021, respectively.

The future maturities of the home sales/loans to homeowners are as follows:

2023	\$ 87,000
2024	87,000
2025	87,000
2026	87,000
2027	87,000
Thereafter	1,781,187
	\$ 2,216,187
Less present value discount	(699.997)
Loans to Homeowners, Net	\$ 1,516,190

NOTE 8 – LINE OF CREDIT

Habitat has a \$25,000 bank line of credit which is payable upon demand. Amounts borrowed under this agreement bear interest at the bank's prime rate plus 2.5% (5.75% at June 30, 2022 and 7.50% at June 30, 2019). At June 30, 2022 and 2021, \$2,022 and \$20,054 were outstanding on this line, respectively. The line of credit is unsecured.

HABITAT FOR HUMANITY OF CRAVEN COUNTY, INC.

NOTE 9 – NOTES PAYABLE

Habitat's debt consists of a note payable to a financial institution with an original amount of \$160,000. The loan was restructured in January 2019. The note bears interest at 5.26% per annum. Principal and interest are payable by Habitat in equal monthly installments of \$1,275 through December 21, 2024, with a single balloon payment of the entire unpaid balance due on January 21, 2024. The note is secured by Habitat's land, building and improvements. The balance on this note payable at June 30, 2022 and 2021 totaled \$85,860 and \$93,930, respectively.

In November 2019, Habitat was extended approximately \$35,066 to finance the purchase of a vehicle which bears an effective interest rate of 4.5%. The term note matures on December, 2024 and is payable through monthly principal and interest payments of approximately \$651. The term note is secured by the vehicle. The balance on this note payable at June 30, 2022 and 2021 totaled \$18,532 and \$24,979, respectively.

The future maturities of the notes payable are as follows:

2023	\$ 17,477
2024	18,361
2025	<u>68,554</u>
	<u>\$ 104,392</u>

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 loans (20 - 25 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. The notes payable in monthly installments of \$3,513, maturing through May 2047.

The future maturities of the NCHFA notes payable are as follows:

2023	\$ 42,153
2024	42,153
2025	42,153
2026	42,153
2027	42,153
Thereafter	<u>530,961</u>
	\$ 741,726
Less present value discount	<u>(171,151)</u>
NCHFA note payable, net	<u>\$ 570,575</u>

HABITAT FOR HUMANITY OF CRAVEN COUNTY, INC.

NOTE 10 – 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 (tithes) comes from unrestricted contributions and is used to help construct homes in economically depressed areas around the world. The rest of the funds are fees charged by Habitat International and Habitat NC for the support services they provide their affiliates. Habitat contributed \$10,000 and \$8,700 in this way during the years ended June 30, 2022 and 2021, respectively.

NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at June 30, 2022 and 2021 are available for the following purposes:

	<u>2022</u>	<u>2021</u>
Purpose or time restricted:		
PNC Foundation	\$ 3,958	\$ 3,958
The Cannon Foundation	<u>35,000</u>	<u>-</u>
	<u>\$ 38,958</u>	<u>\$ 3,958</u>

NOTE 12 – PAYCHECK PROTECTION PROGRAM LOAN

Paycheck protection program loan

In March 2020, Congress established the Paycheck Protection Program (“PPP”) to provide relief to small businesses during the coronavirus pandemic (“COVID-19”) as part of the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act. The legislation authorized the Treasury to use the Small Business Administration’s (“SBA’s”) 7(a) small business lending program to fund forgivable loans that qualifying businesses could spend to cover payroll, mortgage interest, rent, and utilities during the “Covered Period” defined as the 8-week period starting on the date the PPP loan proceeds are received. Upon meeting certain criteria as specified in the PPP program, the loans are eligible for partial or total forgiveness. On June 5, 2020, the PPP Flexibility Act of 2020 (the “Act”) was signed into law, giving borrowers flexibility with certain criteria under the PPP program including extension of the Covered Period to 24 weeks from 8 weeks, reduction to 60% of the payroll costs requirements (previously 75%), extension of the payment deferral period, extension of the full-time equivalent (“FTE”) restoration deadline to December 31, 2020, and safe harbor provisions to remove the FTE reduction in forgiveness under limited circumstances.

In June 2020, the AICPA issued Technical Question and Answer (“TQA”) 3200.18, Borrower Accounting for a Forgivable Loan Received under the Small Business Administration Paycheck Protection Program. The TQA addresses accounting for nongovernmental entities that are not Not-For-Profits, i.e. business entities, that believe the PPP loan represents, in substance, a grant that is expected to be forgiven, it may account for the loan as a deferred income liability. The TQA further states that if such an entity expects to meet the PPP’s eligibility criteria and concludes that the PPP loan represents in substance, a grant that is expected to be forgiven, it may account for such PPP loans in accordance with FASB ASC 958-605 as a conditional contribution.

HABITAT FOR HUMANITY OF CRAVEN COUNTY, INC.

NOTE 12 – PAYCHECK PROTECTION PROGRAM LOAN (CONTINUED)

On April 21, 2020, Habitat received a loan through the Small Business Administration (SBA) Paycheck Protection Program (PPP) of \$91,670. The loan accrues interest at 1% with principal and interest payments deferred until either the date the SBA remits Habitat's loan forgiveness amount to the lender, First Horizon Bank, or if Habitat does not apply for loan forgiveness, 10 months after the end of Habitat's loan forgiveness covered period. After the deferral period expires, the outstanding principal and interest are to be paid in monthly installments for eighteen months at which time the loan is due in full. There are provisions under the PPP loan program where all or a portion of the loan may be forgiven based on certain requirements being met. The loan was forgiven in full during the year ended June 30, 2021.