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

INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS

As of and for the Years Ended
June 30, 2026 and 2025

Turlington and Company, L.L.P.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of Cape Fear Habitat for Humanity, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2026 and 2025, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Cape Fear Habitat for Humanity, Inc. as of June 30, 2026 and 2025, 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 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Cape Fear Habitat for Humanity, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Cape Fear Habitat for Humanity, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

In performing an audit in accordance with GAAS, we:

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

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

Turlington and Company, L.L.P.

Lexington, North Carolina
September 23, 2026

CAPE FEAR HABITAT FOR HUMANITY, INC.

STATEMENTS OF FINANCIAL POSITION

	June 30	
	2026	**2025**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,138,337	$ 2,336,923
Restricted cash	81,490	64,532
Accounts receivable	139,605	159,808
Prepaid expenses	239,075	247,699
ReStore inventory	405,030	484,583
Program properties inventory	9,536,650	7,566,988
Current maturities on loans to homeowners	675,211	623,263
	13,215,398	11,483,796
Noncurrent assets:		
Operating lease right of use asset	254,977	-
Loans to homeowners, net of discounts, less current maturities	6,990,574	6,653,253
Property and equipment, net of accumulated depreciation	6,670,064	7,328,354
	13,915,615	13,981,607
	$ 27,131,013	$ 25,465,403
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued liabilities	$ 767,648	$ 479,486
Current portion of operating lease obligations, net of discount	123,935	-
Current maturities on notes payable	248,106	235,674
Current maturities on NCHFA notes payable	200,937	175,625
	1,340,626	890,785
Noncurrent liabilities:		
Operating lease obligation, net of discount, less current portion	133,695	-
Notes payable, net of discounts and origination fees, less current maturities	8,178,143	7,447,208
NCHFA notes payable, net of discounts, less current maturities	1,846,463	1,639,267
	10,158,301	9,086,475
	11,498,927	9,977,260
Net assets:		
With donor restrictions	169,477	1,640,255
Without donor restrictions	15,462,609	13,847,888
	15,632,086	15,488,143
	$ 27,131,013	$ 25,465,403

The accompanying notes are an integral part of the financial statements

CAPE FEAR HABITAT FOR HUMANITY, INC.

STATEMENTS OF ACTIVITIES
Years Ended June 30, 2026 and 2025

	Without Donor Restrictions	With Donor Restrictions	Total Fiscal Year 2026	Total Fiscal Year 2025
Revenues and support:				
Private grants and contributions	$ 1,405,021	$ 498,585	$ 1,903,606	$ 4,813,120
Government grants and contracts		70,000	70,000	327,560
NCHFA contributions	416,602		416,602	248,718
In-kind contributions	111,313		111,313	65,187
Home sales	4,126,400		4,126,400	2,824,485
Imputed interest on mortgage loans	422,798		422,798	524,663
Gross ReStore sales	3,258,979		3,258,979	3,321,453
Less, ReStore expenses	(3,276,093)		(3,276,093)	(3,425,407)
ReStore, net	(17,114)	-	(17,114)	(103,954)
Gain on sale of property	1,346,678		1,346,678	177,387
Interest and other income	80,770		80,770	63,589
Net assets released from restrictions	2,039,363	(2,039,363)	-	-
Total revenues and support	9,931,831	1,470,778	8,461,053	8,940,755
Expenses:				
Program services	6,922,773		6,922,773	5,700,589
General and administrative	431,329		431,329	318,010
Fundraising	963,008		963,008	826,591
Total expenses	8,317,110	-	8,317,110	6,845,190
Change in net assets	1,614,721	(1,470,778)	143,943	2,095,565
Net assets at beginning of years	13,847,888	1,640,255	15,488,143	13,392,578
Net assets at end of years	$ 15,462,609	$ 169,477	$ 15,632,086	$ 15,488,143

The accompanying notes are an integral part of the financial statements

CAPE FEAR HABITAT FOR HUMANITY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2026 and 2025

	Program Services		Supporting Services			
	Home Ownership	ReStores	Management and General	Fundraising	Total Fiscal Year 2026	Total Fiscal Year 2025
Operating expenses:						
Wages, taxes, and benefits	$ 1,498,362	$ 1,910,409	$ 290,263	$ 569,458	$ 4,268,492	$ 3,911,378
Cost of homes sold	3,540,872				3,540,872	2,629,024
Cost of Repair projects	132,918				132,918	444,170
Discount on new mortgages	1,089,691				1,089,691	450,837
Contracted services	59,958	26,860	29,918	31,861	148,597	241,688
Marketing and advertising	3,514	47,559		22,270	73,343	70,286
Vehicle	34,275	46,119	704	215	81,313	60,266
Insurance	48,809	66,868	2,077	4,518	122,272	124,662
Cost of goods sold (ReStore)		419,140			419,140	557,191
Affiliate expense		28,698		51,684	80,382	67,362
Occupancy	142,335	202,465	15,760	16,143	376,703	672,578
General operations	101,333	88,706	67,963	265,570	523,572	544,832
Interest	68,623	292,993	16,242		377,858	184,818
Imputed interest	167,693				167,693	175,866
Depreciation	34,390	146,276	8,402	1,289	190,357	135,639
	6,922,773	3,276,093	431,329	963,008	11,593,203	10,270,597
Less expense items netted against revenue on the Statements of Activities:						
ReStore expenses		(3,276,093)			(3,276,093)	(3,425,407)
Total functional expenses	$ 6,922,773	$ -	$ 431,329	$ 963,008	$ 8,317,110	$ 6,845,190

The accompanying notes are an integral part of the financial statements

CAPE FEAR HABITAT FOR HUMANITY, INC.

STATEMENTS OF CASH FLOWS

	Years Ended June 30	
	2026	**2025**
Cash flows from operating activities:		
Change in net assets	$ 143,943	$ 2,095,565
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	190,357	135,639
Noncash operating lease expense	2,653	(23,747)
Gain on sale of property	(1,346,678)	(177,387)
Mortgage loan discount amortization	(422,798)	(524,663)
Loans to homeowners	(1,132,584)	(275,115)
NCHFA notes payable discount amortization	167,693	175,866
Notes payable discount amortization	63,717	71,886
Loan origination fees amortization	4,906	4,906
Changes in assets and liabilities:		
Accounts receivable	20,203	14,327
Prepaid expenses	8,624	28,544
ReStore inventory	79,553	(17,773)
Program properties inventory	(92,859)	850,773
Accounts payable and accrued liabilities	288,162	(101,621)
Net cash provided by (used for) operating activities	(2,025,108)	2,257,200
Cash flows from investing activities:		
Mortgage payments received	1,166,113	929,837
Proceeds from sale of program properties inventory	239,241	429,945
Proceeds from sale of property and equipment	1,734,026	-
Purchase of program properties inventory	(1,987,293)	(1,659,249)
Purchase of property and equipment	(48,166)	(1,092,893)
Net cash provided by (used for) investing activities	1,103,921	(1,392,360)
Cash flows from financing activities:		
Proceeds from long-term borrowings	1,645,000	696,638
Discount on NCHFA notes payable	(416,602)	(248,718)
Principal payments on NCHFA notes payable	(188,583)	(319,786)
Principal payments on notes payable	(300,256)	(233,462)
Net cash provided by (used for) financing activities	739,559	(105,328)
Net increase (decrease) in cash	(181,628)	759,512
Cash and cash equivalents at beginning of years		
Unrestricted	2,336,923	1,579,371
Restricted	64,532	62,572
	2,401,455	1,641,943
Cash and cash equivalents at end of years		
Unrestricted	2,138,337	2,336,923
Restricted	81,490	64,532
	2,219,827	2,401,455
Cash expended during the years for interest	$ 377,858	$ 184,818
Supplemental disclosure of non-cash investing and financing transactions:		
Issuance of noninterest-bearing mortgage loans	$ 2,222,275	$ 725,952
Discount on noninterest-bearing mortgage loans	(1,089,691)	(450,837)
Transfers to homeowners subject to noninterest-bearing mortgage loans	$ 1,132,584	$ 275,115
Debt extinguishment with issuance of new debt		$ 1,240,394
Purchase of property and equipment with issuance of new debt		$ 3,500,000
Supplemental disclosure on non-cash operating transactions:		
Donation of supplies and materials	$ 111,313	$ 65,187
Establishment of operating lease assets and liabilities	$ 372,377	

The accompanying notes are an integral part of the financial statements

CAPE FEAR HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2026 and 2025

1. Organization:

Cape Fear Habitat for Humanity, Inc. ("Habitat") is a North Carolina nonprofit corporation organized in February 1987 with operations in New Hanover, Pender, and Duplin counties. It is an affiliate of Habitat for Humanity International, Inc. ("Habitat International"), a nondenominational Christian nonprofit organization whose purpose is to create and preserve affordable housing and to make housing 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 17).

2. Mission and Activities:

Seeking to put God's love into action, Cape Fear Habitat brings people together to build homes, communities, and hope. Habitat has served more than 530 families since its inception. It seeks to serve 30 - 40 families per year, through building and preserving housing. Through the Homeownership program, it sells homes to income-qualified families who have actively participated in the construction process and homeowner education. The new homeowners receive an affordable loan to finance the purchase from either Habitat or a third-party lender and pay it off in the same way as a traditional mortgage. Through the Repair program, it provides affordable home repairs for income-qualified homeowners who are willing to partner in volunteer activities and partial repayment.

3. Summary of Significant Accounting Policies:

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

3a. Use of Estimates

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

3b. Net Asset Classes

The Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Topic 958, *Not-for-Profit Entities*, requires the reporting of an organization's activities by net asset class. The financial statements report net assets and changes in net assets in classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Net assets without donor restrictions are resources available for use in general operations and not subject to donor (or certain grantor) restrictions. The only limits on their use are the broad limits resulting from the nature of the organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

3. Summary of Significant Accounting Policies (Continued):

3b. Net Asset Classes (Continued)

Net assets with donor restrictions are resources that are subject to donor (or certain grantor)-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are permanent in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. As of June 30, 2026, Habitat held no net assets with permanent donor restrictions.

3c. Cash and Cash Equivalents

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

3d. Contributions, Grants, and Contracts

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in net assets without donor restrictions unless the use of the contributed assets is specifically restricted by the donor (see Note 3b and Note 15).

Contributed services are only recorded if they meet the requirements for recognition discussed in Note 16, Contributed Services, Donated Lots, and Materials.

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

3e. Functional Allocation of Expenses

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

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

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

Habitat hosts occasional special events to raise awareness of its mission and to raise funds for its programs. In recognizing special events revenue, it follows the guidance provided by FASB ASC 958-605, *Revenue Recognition*. Habitat considers its events to be on-going and central to its operations and, therefore, records revenues at the gross amount. All costs of the events appear within the fundraising category on the Statements of Functional Expenses.

3. Summary of Significant Accounting Policies (Continued):

3f. Property and Equipment

Habitat capitalizes property and equipment costing more than $5,000 with a useful life of more than one year. Lesser amounts are expensed. Purchased property and equipment is capitalized at acquisition cost, including costs necessary to prepare the asset for its intended use. Donations of property and equipment are recorded as contributions at fair value on the date of donation. Such donations are reported as unrestricted contributions unless the donor specifically restricts the asset's use. See Note 10 and Note 16 for additional information regarding Habitat's property and equipment.

3g. Escrow

Habitat makes loans to homeowners as described in Note 9. Habitat has outsourced the servicing of those loans to AmeriNational Community Services including management of the homeowner escrow accounts. Habitat retains no ownership of the escrow funds and, accordingly, the escrow accounts are not shown on the Statements of Financial Position.

3h. Real Estate Owned and Homes under Construction

Real estate, including pre-acquisition, acquisition, and development costs, building materials and skilled labor, are recorded at cost when assets are acquired or services are provided, or at estimated fair market value when donated. Foreclosed homes purchased by Habitat are recorded at cost when the homes are acquired. Reclaimed houses are recorded as a component of real estate owned at the outstanding balance of the interest-free mortgage at the date of reclamation plus any related legal fees.

The costs of homes under construction are capitalized until the transfer to the homeowner is made. They appear as an asset on the Statements of Financial Position included in the line item "Program Properties Inventory." Once the home is occupied and title has passed to the homeowner, the construction costs are expensed and appear on the Statements of Functional Expenses as the line item "Cost of Homes Sold." Also see Note 8, Program Properties Inventory / Housing Activities.

3i. Home Sales/Loans to Homeowners

Habitat transfers ownership of its properties to homeowners when the homes are occupied, and title is transferred. The transfers are recorded as revenue on the Statements of Activities at the gross amount of payments to be received over the lives of the associated mortgages plus any cash payments received at closing. Management has established no provision for loan losses because Habitat is the secured creditor and can reclaim the homes through foreclosure.

Historically, the non-interest-bearing mortgages have been discounted at a rate provided by Habitat International based upon market rates for similar types of loans. The rate provided for the current year was 8.01%. Discounts are amortized using the effective interest method over the lives of the mortgages.

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

Habitat pledges a portion of its loans to homeowners as collateral for notes payable with Live Oak Bank. The effective annual interest rates associated with this debt are fixed at 2.99% and 2.00%. Management has chosen to use these interest rates rather than the rate provided by Habitat International to calculate the mortgage discount on the associated portions of the homeowner loan portfolio. Also see Note 9, Home Sales / Loans to Homeowners.

3. Summary of Significant Accounting Policies (Continued):

3j. ReStore Donations and Inventory

Habitat receives support in the form of in-kind donations of building materials and household items. It operates two ReStores in Wilmington, NC in order to liquidate these items. These contributions are valued at the amount of cash received for the items less all costs associated with their sale. The in-kind contributions are recorded as revenue once their fair market values can be determined.

Management has valued donated inventory held at the ReStores based on guidance provided by Habitat for Humanity International. Using an inventory turnover rate of one month, the value of the inventory has been estimated as the amount of the subsequent month's sales (see Note 7). Purchased inventory for sale at the ReStores is recorded at cost.

3k. Advertising Costs

Habitat expenses advertising costs as they are incurred. Advertising costs incurred for the years ended June 30, 2026 and 2025, amounted to $73,343 and $70,286, respectively.

3l. Leases

Habitat accounts for its leasing activities in accordance with FASB ASC Topic 842, *Leases*. Under FASB ASC 842, all leases, with limited exceptions, are recognized in the statements of financial position as right of use assets and related lease obligations. Habitat classifies its leases as either operating leases or finance leases, formerly known as capital leases, depending on the nature and terms of the agreements. Operating lease expense is recognized on a straight-line basis over the lease term whereas finance lease expense includes components of interest related to the accretion of the finance lease liability, and amortization related to the finance lease right of use assets. See Note 18 for additional information regarding Habitat's leasing activities.

3m. Prior Year Information

The financial statements display prior-year, summarized information for comparative purposes. The prior year information is presented in total but not by net asset class (with or without donor restrictions). Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Habitat's financial statements for the year then ended, from which the summarized information is derived. Certain reclassifications of prior year amounts were made to conform to the current year presentation.

4. Liquidity and Availability:

The following represents Habitat's financial assets at June 30, 2026 and 2025:

	2026	2025
Financial assets at year-end:		
Cash and cash equivalents	$ 2,138,337	$ 2,336,923
Restricted cash	81,490	64,532
Accounts receivable	139,605	159,808
Loans to homeowners, net	7,665,785	7,276,516
Total financial assets at year-end	$ 10,025,217	$ 9,837,779

4. Liquidity and Availability (Continued):

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

	2026	2025
Financial assets available within one year:		
Cash and cash equivalents	$ 2,138,337	$ 2,336,923
Restricted cash	81,490	64,532
Accounts receivable	139,605	159,808
Loans to homeowners, current	675,211	623,263
Total financial assets available within one year	3,034,643	3,184,526
Less, amounts unavailable for general expenditures within one year:		
Restricted cash	81,490	64,532
Restricted by donors with purpose restrictions	169,477	1,640,255
Total amounts unavailable for general expenditures within one year	250,967	1,704,787
Total financial assets and liquidity resources available within one year	$ 2,783,676	$ 1,479,739

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

5. Accounts Receivable:

For the year ended June 30, 2026, the accounts receivable balance of $139,605 consisted of a sales tax reimbursement request of $32,828 and other receivables totaling $106,777 which were fully collected during the first quarter of the year ended June 30, 2027. For the year ended June 30, 2025, the accounts receivable balance of $159,808 consisted of a sales tax reimbursement request of $43,437 and other receivables of $116,371, which were also fully collected in the subsequent first quarter. Accordingly, no provision is made for uncollectible amounts.

6. Prepaid Expenses:

The prepaid expenses balances of $239,075 and $247,699, respectively, for the years ended June 30, 2026 and 2025, consist of prepaid insurance and other advance payments.

7. ReStore Inventory:

In addition to donated goods, Habitat also sells purchased goods at its ReStore locations. ReStore inventory had a value of $405,030 and $484,583, respectively, at June 30, 2026 and 2025.

Sales of purchased goods for the years ended June 30, 2026 and 2025, totaled $479,859 and $688,176, respectively, and represented 14% and 21%, respectively, of all ReStore sales for the years then ended.

8. Program Properties Inventory / Housing Activities:

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

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

The following table summarizes program properties inventory and home building activity for the years ended June 30, 2026 and 2025:

	2026	2025
Program properties inventory, beginning	$ 7,566,988	$ 7,011,070
Additional costs incurred	5,561,979	3,409,216
Less, cost of 15 (16 for 2025) properties sold	(3,592,317)	(2,853,298)
Program properties inventory, ending	$ 9,536,650	$ 7,566,988

In addition to new home construction, Habitat operates a repair program for homeowners in the less than 80% area median income range. The program provides critical home repairs and restores homes to a safe, livable environment. Project costs of $132,918 and $444,170, respectively, for the years ended June 30, 2026 and 2025, appear as a line item on the Statements of Functional Expenses.

9. 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 affordable mortgage from Habitat plus any cash payments at closing. The Habitat notes are payable over 20 to 30 years and appear on the Statements of Financial Position discounted to their present value (see Note 3i). This method of accounting reflects the present value of the loans at inception and recognizes imputed interest income over the life of the loans.

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

Loans to homeowners at June 30, 2026 and 2025, were as follows:

	2026	2025
Loans to homeowners	$ 13,885,084	$ 12,828,922
Less, unamortized present value discount	6,219,299	5,552,406
	$ 7,665,785	$ 7,276,516

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

Year Ending June 30	Amount
2027	$ 675,211
2028	671,205
2029	669,019
2030	667,431
2031	662,857
Thereafter	10,539,361
	$ 13,885,084

10. Property and Equipment:

Habitat's property and equipment consisted of the following at June 30, 2026 and 2025:

	2026	2025
Land	$ 2,199,000	$ 2,381,000
Buildings and improvements	4,764,855	5,424,370
Machinery and equipment	657,156	672,301
Leasehold improvements in process	-	11,683
	7,621,011	8,489,354
Less, accumulated depreciation	950,947	1,161,000
Property and equipment, net	$ 6,670,064	$ 7,328,354

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

Depreciation expense totaled $190,357 and $135,639, respectively, for the years ended June 30, 2026 and 2025, and appears as a line item on the Statements of Functional Expenses.

During the year ended June 30, 2026, Habitat sold its 3rd Street ReStore location to strengthen the overall stability of its ReStores and dedicate more resources to its core mission. Net proceeds from the sale are included in "Gain on sale of property" on the Statements of Activities.

11. Accounts Payable & Accrued Liabilities:

For the year ended June 30 2026, the accounts payable and accrued liabilities balance of $767,648 consisted of operational accounts payable of $493,726 and payroll and related liabilities of $273,922. For the year ended June 30, 2025, the accounts payable and accrued liabilities balance of $479,486 consisted of operational accounts payable of $257,577 and payroll and related liabilities of $221,909.

12. Line of Credit:

In March 2022, Habitat obtained a revolving line of credit with Dogwood State Bank for potential construction-cycle cash flow needs. The credit limit is $400,000 at a rate of prime plus 0.00%. The line of credit was renewed in March 2025 and matures in March 2027. There was no outstanding balance at June 30, 2026.

13. Notes Payable:

Habitat's debt at June 30, 2026 and 2025, is summarized in the following table and further described below:

	2026	2025
Live Oak Bank	$ 3,341,820	$ 3,494,417
U.S. Small Business Administration	127,688	131,337
Dogwood Bank	4,551,660	4,695,670
New Hanover County	300,000	300,000
First Citizens Bank	975,000	-
	9,296,168	8,621,424
Less, Live Oak Bank prepaid interest	758,135	821,852
Less, Live Oak Bank unamortized origination fees	111,784	116,690
	8,426,249	7,682,882
Less, current maturities	248,106	235,674
	$ 8,178,143	$ 7,447,208

13. Notes Payable (Continued):

During the year ended June 30, 2025, Habitat received new financing with Dogwood Bank to pay off a prior note with Wells Fargo Bank. The note requires monthly installments of $10,833, including interest at an annual rate of 6.50% until it matures in November 2029. At that time, a balloon payment of approximately $960,942 will be due. The note is secured by the ReStore facility. The balance of this note was $1,155,449 and $1,207,400, respectively, at June 30, 2026 and 2025.

During the years ended June 30, 2019, 2020, and 2022, Habitat entered into agreements with Live Oak Bank in which it provided approximately $4,200,000 of its existing homeowner loans as collateral in exchange for cash payments from Live Oak Bank. The three notes payable to Live Oak Bank have a combined principal balance of $3,341,820 due in installments of approximately $12,572 per month. The notes mature in May 2048, December 2049, and January 2052, respectively. Monthly payments match the terms of those underlying homeowner loans and payment amounts vary based upon the maturity dates of those loans.

The present value of future interest payments calculated at 2.99% and 2.0% per annum were prepaid at the inception of the loans thus reducing the loan proceeds to $3,044,254. The interest is expensed over the life of the loans and appears within the line item “Interest” on the Statements of Functional Expenses.

Habitat also incurred $146,000 of loan origination fees related to the Live Oak Bank notes. Amortization of loan origination fees is computed using the straight-line method over the life of the loans. Amortization expense totaled $4,906 for each of the years ended June 30, 2026 and 2025, and appears within the line item “Interest” on the Statements of Functional Expenses.

In June 2020, Habitat received an Economic Injury Disaster Loan (EIDL) from the U.S. Small Business Administration in the amount of $150,000. The EIDL was intended to provide funding to help small businesses recover from the economic impacts of the COVID-19 pandemic. The note requires monthly installments of $641, including interest at 2.75% until it matures in May 2050. The balance of this note was $127,688 and $131,337 at June 30, 2026 and 2025, respectively.

During the year ended June 30, 2025, Habitat received loan proceeds from Dogwood Bank to purchase a ReStore building it was previously leasing. The note requires monthly installments of $25,584, including interest at an annual rate of 6.15% until it matures in April 2030. At that time, a balloon payment of approximately $3,011,147 will be due. The note is secured by the ReStore facility acquired with the loan proceeds. The balance of this note was $3,396,211 and $3,488,270, respectively, at June 30, 2026 and 2025.

During the year ended June 30, 2025, Habitat entered into an agreement with New Hanover County, North Carolina, to utilize $300,000 of the American Rescue Plan’s Coronavirus State and Local Fiscal Recovery Funds. The funds will be used to assist construction of six single-family dwellings in the Haven Place development in New Hanover County. The funds must be spent by December 30, 2026, and will be forgiven 20 years from inception.

In March 2026, Habitat received loan proceeds from First Citizens Bank to purchase land for future development. The note requires interest-only payments at 4.95% until it matures in March 2028, at which time the principal and all unpaid accrued interest will be due. The balance of this note was $975,000 at June 30, 2026.

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

Year Ended June 30	Amount
2027	$ 248,106
2028	1,234,975
2029	273,647
2030	4,158,516
2031	103,343
Thereafter	3,277,581
	$ 9,296,168

14. NCHFA Notes Payable:

Habitat participates in the "Self-Help Loan Pool," a program of the North Carolina Housing Finance Agency (NCHFA), a public agency of the State of North Carolina. The program provides Habitat up to $50,000 per homeowner loan per year, to be repaid over the life of the loan (typically 30 years).

Because the NCHFA loans are interest-free, Habitat has discounted the liability on the Statements of Financial Position to reflect the time value of money. The imputed interest rate for loans issued during the year ended June 30, 2026, is 8.01% and corresponds to Habitat for Humanity International's stipulated discount rate.

During the years ended June 30, 2026 and 2025, Habitat received $670,000 and $400,000, respectively, in financing from NCHFA. The difference between the cash proceeds received and the discounted value of the notes is considered contribution revenue. The NCHFA contribution was calculated at $416,602 and $248,718, respectively, for the years ended June 30, 2026 and 2025, and appears as a revenue line item on the Statements of Activities.

Imputed interest expense is calculated over the life of the loans and appears as a line item on the Statements of Functional Expenses. The amount of imputed expense for the years ended June 30, 2026 and 2025, was $167,693 and $175,866, respectively.

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

Year Ended June 30	Amount
2027	$ 200,937
2028	200,937
2029	200,937
2030	200,937
2031	200,937
Thereafter	3,365,504
	4,370,189
Less, present value discount	2,322,789
NCHFA notes payable, net	$ 2,047,400

15. Restrictions on Net Assets:

The restrictions on net assets at June 30, 2026 and 2025, of $169,477 and $1,640,255, respectively, are temporary and consist of contributions restricted to funding future home building or future repair projects.

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

16. 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.

16. Contributed Services, Donated Lots, and Materials (Continued):

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 $111,313 and $65,187, respectively, for the years ended June 30, 2026 and 2025, and is included on the Statements of Activities as " In-kind contributions."

17. Related-Party Transactions:

Habitat remits a portion of its unrestricted contributions (excluding in-kind contributions) and a portion of its net ReStore revenue to Habitat International. These funds are used to construct homes in economically depressed areas around the world. Habitat contributed $80,382 and $67,362, respectively, to Habitat International during the years ended June 30, 2026 and 2025. This amount appears as the line item "Affiliate Expense" on the Statements of Functional Expenses.

Amounts payable to Habitat for Humanity International at June 30, 2026 and 2025, were $12,729 and $12,291, respectively, and are included in "Accounts payable and accrued liabilities" on the Statements of Financial Position.

18. Operating Leases:

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

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

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

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

Habitat leases office space under an agreement that qualifies as an operating lease under FASB 842. The lease agreement provides for certain non-lease components that are paid by Habitat, including utilities, taxes, and insurance. The lease provides for monthly base rental payments of $10,768 with a 2% annual escalation each June 1. This lease expired June 30, 2025, and renewed July 1, 2025. The new agreement requires monthly payments of $10,980 with a 2% annual escalation, through June 30, 2028.

During the year ended June 30, 2024, Habitat leased retail space for its Monkey Junction ReStore location under an agreement that also qualified as an operating lease under FASB 842. Lease payments were to be $27,467 per month through July 2026, with a 5% escalation at August 2026 and August 2029. During the year ended June 30, 2025, Habitat purchased this ReStore with financing through Dogwood Bank. See Note 13 for details of the loan agreement.

18. Operating Leases (Continued):

Rent expense under these agreements for the years ended June 30, 2026 and 2025, was $134,413 and $391,477, respectively.

A summary of Habitat's weighted average remaining lease term and discount rate for its operating lease is as follows:

	2026
Weighted average remaining lease term	2.00 years
Weighted average discount rate	5.50 %

19. Retirement Plan:

Habitat provides its employees with a retirement plan under the terms of Section 401(k) of the Internal Revenue Code. The plan is available to employees with more than 90 days of service. Habitat matches employee contributions to the plan up to 3% of each participant's qualified wages for the fiscal year. Habitat contributed $52,786 and $40,488, respectively, for the years ended June 30, 2026 and 2025, which appears within the line item "Wages, Taxes & Benefits" on the Statements of Functional Expenses.

20. Income Taxes:

Habitat is exempt from income taxes under the Internal Revenue Service Code Section 501(c)(3) under a group exemption letter granted to Habitat International. As such, contributions to Habitat are generally tax deductible.

Habitat has determined that it has no uncertain income tax positions as of June 30, 2026 and 2025. Also, Habitat does not anticipate any increase or decrease in unrecognized tax benefits during the next twelve months that would result in a material change to its financial position. Habitat's income tax returns for years ended after June 30, 2026, remain open for examination.

21. Cape Fear Habitat for Humanity Endowment:

During the year ended June 30, 2025, Habitat signed an agreement with the North Carolina Community Foundation (Foundation) to create a designated endowment with Habitat as the beneficiary. The Foundation may distribute all or part of the endowment including principal and income at any time for any authorized purpose at the Foundation's discretion; all funds, including the endowment and any subsequent contributions and income, are the Foundation's property. The balance of the endowment at June 30, 2026 and 2025, was $414,654 and $324,131, respectively. During the year ended June 30, 2026, Habitat received endowment income of $10,370, which is included in private grants and contributions without donor restrictions on the statements of activities.

22. Subsequent Events:

Habitat's management has evaluated all subsequent events through September 23, 2026, the date the financial statements were available to be issued. No subsequent events have been identified that would require adjustment of or disclosure in the accompanying financial statements.