

***HABITAT FOR HUMANITY  
OF  
LINCOLN COUNTY, N.C., INC.***

***FINANCIAL STATEMENTS  
JUNE 30, 2016***

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***Habitat for Humanity of Lincoln County, N. C., Inc.***

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**June 30, 2016**

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# C. DEWITT FOARD & COMPANY, P.A.

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Habitat for Humanity of Lincoln County, N. C., Inc.  
Lincolnton, North Carolina

We have audited the accompanying financial statements of Habitat for Humanity of Lincoln County, N. C., Inc. (the "Organization" - a nonprofit corporation), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Habitat for Humanity of Lincoln County, N. C., Inc., as of June 30, 2016 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.

### Report on Summarized Comparative Information

We have previously audited the Organization's 2015 financial statements, and our report dated January 8, 2016, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*C. Dewitt Foard & Company, P.A.*  
December 22, 2016

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**Habitat for Humanity of Lincoln County, N. C., Inc.****Statement of Financial Position****June 30, 2016, with prior year comparative totals**

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	June 30,	
	2016	2015
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ 369,744	\$ 524,086
Accounts receivable	8,815	4,184
Prepaid expenses	29,186	9,909
Inventories:		
Land held for development	227,924	227,924
Land held for resale	59,500	59,500
Construction in process	53,505	-
Reposessed home	26,544	26,855
Store	66,190	158,306
Property and equipment (net of depreciation)	396,452	398,687
Mortgages receivable (net of present value discount)	263,880	256,509
<b><i>TOTAL ASSETS</i></b>	<b>\$ 1,501,740</b>	<b>\$ 1,665,960</b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Liabilities:		
Accounts payable	\$ 26,633	\$ 46,341
Payroll liabilities	8,008	27,327
Escrows	15,016	8,392
Note payable	26,673	9,200
Total Liabilities	76,330	91,260
Net Assets:		
Unrestricted	1,424,910	1,569,200
Temporarily restricted	500	5,500
Total Net Assets	1,425,410	1,574,700
<b><i>TOTAL LIABILITIES AND NET ASSETS</i></b>	<b>\$ 1,501,740</b>	<b>\$ 1,665,960</b>

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**Habitat for Humanity of Lincoln County, N. C., Inc.****Statement of Activities****Year ended June 30, 2016**

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	Unrestricted	Temporarily Restricted	TOTALS	Prior Year Comparative Totals
<b><u>SUPPORT AND REVENUE</u></b>				
Contributions and grants	\$ 61,285	\$ -	\$ 61,285	\$ 72,588
In-kind contributions	17,475	-	17,475	149,000
Resale store	641,297	-	641,297	400,950
Sale of homes, net of discount	51,512	-	51,512	-
Mortgage discount amortization	17,835	-	17,835	19,087
Discount on notes payable	6,434	-	6,434	-
Investment income	2,988	-	2,988	2,888
Other income	1,433	-	1,433	3,544
Gain (loss) on sale of lots	-	-	-	(982)
Net assets released from restrictions by payment for restricted purpose	5,000	(5,000)	-	-
<b><i>TOTAL</i></b>	<b>805,259</b>	<b>(5,000)</b>	<b>800,259</b>	<b>647,075</b>
<b><u>EXPENSES</u></b>				
Program services:				
Construction	253,505	-	253,505	61,819
Resale store	538,325	-	538,325	320,577
Management and general	122,026	-	122,026	58,029
Fundraising	35,693	-	35,693	16,084
<b><i>TOTAL</i></b>	<b>949,549</b>	<b>-</b>	<b>949,549</b>	<b>456,509</b>
<b><i>CHANGE IN NET ASSETS</i></b>	<b>(144,290)</b>	<b>(5,000)</b>	<b>(149,290)</b>	<b>190,566</b>
<b><i>NET ASSETS, BEGINNING</i></b>	<b>1,569,200</b>	<b>5,500</b>	<b>1,574,700</b>	<b>1,384,134</b>
<b><i>NET ASSETS, ENDING</i></b>	<b>\$ 1,424,910</b>	<b>\$ 500</b>	<b>\$ 1,425,410</b>	<b>\$ 1,574,700</b>

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**Habitat for Humanity of Lincoln County, N. C., Inc.****Statement of Functional Expenses****Year ended June 30, 2016**

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	Program Services				
	Construction	Resale Store	Management and General	Fund Raising	TOTALS
<b><u>PERSONNEL</u></b>					
Wages	\$ 119,915	\$ 304,358	\$ 25,788	\$ 22,822	\$ 472,883
Payroll taxes	11,283	28,637	2,426	2,147	44,493
Benefits	9,047	22,964	1,946	1,722	35,679
<b>Total</b>	<b>140,245</b>	<b>355,959</b>	<b>30,160</b>	<b>26,691</b>	<b>553,055</b>
<b><u>OTHER EXPENSES</u></b>					
Cost of homes	47,041	-	-	-	47,041
Cost of goods sold	397	13,876	-	-	14,273
Supplies	6,990	12,788	6,071	2,807	28,656
Insurance	659	10,545	1,454	659	13,317
Tithe	24,930	-	-	-	24,930
Rent	1,067	34,647	352	-	36,066
Services	7,405	1,585	45,934	-	54,924
Repairs	234	10,154	1,426	-	11,814
Dues	582	33	12,406	22	13,043
Depreciation	485	19,158	2,423	962	23,028
Postage	165	563	280	548	1,556
Telephone	2,905	4,333	1,334	262	8,834
Technology	8,908	9,211	6,521	1,068	25,708
Travel	8,201	13,499	8,571	646	30,917
Auto	106	189	394	-	689
Utilities	2,524	27,803	1,594	114	32,035
Advertising	504	13,648	2,659	1,914	18,725
Interest expense	157	-	33	-	190
Bank fees	-	10,334	414	-	10,748
<b>Total</b>	<b>113,260</b>	<b>182,366</b>	<b>91,866</b>	<b>9,002</b>	<b>396,494</b>
<b>TOTAL</b>	<b>\$ 253,505</b>	<b>\$ 538,325</b>	<b>\$ 122,026</b>	<b>\$ 35,693</b>	<b>\$ 949,549</b>

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**Habitat for Humanity of Lincoln County, N. C., Inc.****Statement of Cash Flows****Year ended June 30, 2016**

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	For the Year Ended June 30,	
	2016	2015
<b><u>OPERATING ACTIVITIES</u></b>		
Change in net assets	\$ (149,290)	190,566
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Depreciation	23,028	14,232
Donated land	-	(16,000)
Amortization of loan discount	(17,835)	(19,087)
(Increase) decrease in operating assets:		
Receivables	(4,631)	(3,782)
Prepays	(19,277)	(3,518)
Inventories	38,922	(123,242)
Increase (decrease) in operating liabilities:		
Accounts payable	(19,708)	41,565
Payroll liabilities	(19,319)	13,034
Escrows	6,624	3,657
<b><i>Cash Flows from Operating Activities</i></b>	<b><i>(161,486)</i></b>	<b><i>97,425</i></b>
<b><u>INVESTING ACTIVITIES</u></b>		
Principal payments received from homeowners	10,464	31,710
Disposal of property and equipment	7,000	-
Purchase of property and equipment	(27,793)	(110,401)
<b><i>Cash Flows from Investing Activities</i></b>	<b><i>(10,329)</i></b>	<b><i>(78,691)</i></b>
<b><u>FINANCING ACTIVITIES</u></b>		
Proceeds from note payable	-	11,000
Principal paid on note payable	17,473	(1,800)
<b><i>Cash Flows from Financing Activities</i></b>	<b><i>17,473</i></b>	<b><i>9,200</i></b>
<b>CHANGE IN CASH</b>	<b>(154,342)</b>	<b>27,934</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<b>524,086</b>	<b>496,152</b>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<b>\$ 369,744</b>	<b>524,086</b>

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# ***Habitat for Humanity of Lincoln County, N. C., Inc.***

## **Notes to Financial Statements**

**June 30, 2016**

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### **NOTE 1 – NATURE OF OPERATIONS**

#### **Organization**

Habitat for Humanity of Lincoln County, N. C., Inc., (Habitat) is a North Carolina not-for-profit corporation that operates from a facility in Lincolnton, North Carolina. Habitat is an affiliate of Habitat for Humanity International (HFH International) and was founded in August 1991.

#### **Purpose**

The purpose of Habitat is to create decent, affordable housing for those in need. This is accomplished by partnering with families in need. Habitat builds homes, whose size averages 1,100 square feet, which are then sold to individuals at no profit, utilizing a non-interest bearing 25 year mortgage. In exchange, the families are required to contribute 250 hours of “sweat equity” towards the construction of their home and other projects.

#### **Funding sources**

Habitat is supported primarily through contributions, grants, and homeowner mortgage payments. In addition, Habitat operates resale stores in Lincolnton and Denver, which sells donated furniture and goods.

### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Unrestricted net assets* – Unrestricted net assets are those which are not subject to donor-imposed stipulations and are currently available for use in the day-to-day operations.

*Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of Habitat and/or the passage of time.

*Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by Habitat. During the year, Habitat did not have any permanently restricted net assets.

#### **Federal income tax status**

Habitat is exempt from Federal income tax on its exempt function income under Internal Revenue Code Section 501(c)(3) under a group exemption letter granted to HFH International, which is classified as other than a private foundation as defined by Section 509(a) of the Internal Revenue Code.

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***Habitat for Humanity of Lincoln County, N. C., Inc.***  
**Notes to Financial Statements**  
**June 30, 2016**

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

*Presentation*

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law. Expenses are recorded as decreases in unrestricted net assets. Contributions with donor-imposed restrictions, such as time or purpose restrictions, are recorded as temporarily restricted net assets. When donor-imposed time restrictions expire, or a donor-imposed purpose restriction is fulfilled, the temporarily restricted net assets are released to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are utilized within the same fiscal year are recorded as unrestricted. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. At June 30, 2016, Habitat had one material conditional promise to give, which was the \$34,698 balance due on a capacity grant with HFH International, which will be reimbursed as qualifying expenses are incurred.

*Accounts receivable*

Accounts receivable represents sales tax and amounts due to Habitat for services provided and are presented at the amount expected to be realized with no allowance for doubtful accounts.

*Inventories*

Land held for development is expected to be used for the construction of homes by Habitat and is carried on the books at cost or the fair value when donated. Donated land is recorded at appraised value; however, if an appraisal was not available at the date of the contribution, it is recorded at the value used for assessing local property taxes. Land held for resale represents four lots which are not expected to be used for the construction of homes but are listed for sale to the public. Habitat has one repossessed home which is expected to be re-sold after improvements are made and it is carried on the books at the loan balance less unamortized discount at the time the house was repossessed. Habitat receives a large amount of furniture and other goods which are sold in its resale store. Management estimates that the net realizable value of these goods at year-end approximates one month's sales.

*Fixed assets*

Property is recorded at cost if purchased or fair value if donated, subject to a \$500 capitalization policy. Costs that improve or extend the useful lives of assets are capitalized. Amounts paid for maintenance and repairs are expensed as incurred. Depreciation expense is recorded using the straight-line method of depreciation over the estimated useful lives of the assets, which are assumed to be five years for computers, furniture and equipment, and 20 - 40 years for buildings and improvements.

*Escrows*

The \$15,016 balance in escrows consists primarily of amounts received from homeowners, which will be used to pay real estate taxes and homeowners' insurance, and down payments received from prospective homeowners.

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**Habitat for Humanity of Lincoln County, N. C., Inc.****Notes to Financial Statements****June 30, 2016**

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**Donated services

Habitat pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist Habitat with program services, management and general, and fundraising efforts. In particular, the resale store utilizes a large number of volunteers to perform cashier and other functions. No amounts have been reflected in the financial statements for these contributions, as these services do not meet the criteria for recording under U.S. generally accepted accounting principles.

Prior-year comparative totals

The financial statements include certain prior-year summarized information, which is presented for comparative purposes only. Accordingly, such information should be read in conjunction with Habitat's 2015 financial statements, from which the summarized information was derived. Also certain prior-year amounts have been restated to conform with the current year presentation.

Use of estimates

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

**NOTE 3 – PROPERTY AND EQUIPMENT**

Property and equipment which are used by Habitat in its operations consisted of the following:

Buildings and improvements	\$	405,283
Furniture and equipment		64,757
Vehicles		37,787
Land		15,000
Total		522,827
Less – accumulated depreciation		126,375
<b>TOTAL</b>		<b>\$ 396,452</b>

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**Habitat for Humanity of Lincoln County, N. C., Inc.****Notes to Financial Statements****June 30, 2016**

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**NOTE 4 – MORTGAGES RECEIVABLE**

Mortgages receivable from homeowners do not bear interest. Therefore, these mortgages are carried on the books net of a discount for the present value of future payments. The rate of interest used to determine this discount is established annually by Habitat for Humanity International and was 7.48 percent for the current fiscal year. The present value of all mortgages is determined annually based on this interest rate. Mortgage activity for the year ended June 30, 2016 was as follows:

	<u>Mortgages</u>	<u>Discount</u>
Mortgages receivable, beginning	\$ 481,328	\$ 224,819
Add – new mortgage	115,000	63,488
Total	596,328	288,307
Deduct:		
House foreclosed and transferred to inventory	51,518	24,974
Payments received and change in value of discount	34,349	16,752
<u>Mortgages receivable, ending</u>	<u>\$ 510,461</u>	<u>\$ 246,581</u>

Income from sale of houses of \$51,512 shown in the accompanying financial statements consists of gross sales of \$115,000 net of \$63,488 of present value discount. Mortgage discount amortization of \$17,835 consists of \$34,349 of payments received less \$16,514 change in value of discount.

**NOTE 5 – NOTE PAYABLE**Habitat affiliate

A loan with a balance of \$3,350 is due to another Habitat affiliate and is secured by the vehicle to which it relates. This loan does not bear interest and is payable in monthly installments of \$450. A discount for present value was not material to the financial statements and was not recorded.

North Carolina Housing Finance Agency (NCHFA)

During the year Habitat received a \$30,000 loan from NCHFA. The loan does not bear interest and is payable in monthly installments of \$100. A discount of \$6,434 was recorded at the time the proceeds were received, based on the long-term *U.S. Treasury* rate of 2.01% in effect at June 30, 2016. At the end of the year the note balance was \$29,600 and is presented net of a remaining unamortized discount of \$6,277.

Maturities

Maturities of notes payable are \$4,550 for the year ending June 30, 2017 and \$1,200 per year through the year ending June 30, 2040.

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***Habitat for Humanity of Lincoln County, N. C., Inc.*****Notes to Financial Statements****June 30, 2016**

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**NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets as of June 30, 2016 were restricted to be used for the Oaklawn Neighborhood.

**NOTE 7 – RELATED PARTY TRANSACTIONS**

Habitat regularly remits a portion of its contributions to HFH International, primarily to be used for construction activities in foreign countries. During the year ended June 30, 2016, the amount remitted was \$24,930 and is shown as a title in the accompanying statement of functional expenses. Habitat also received \$32,495 in grants from HFH International during the year to be used for various purposes.

**NOTE 8 – FAIR VALUE MEASUREMENTS**

Generally accepted accounting principles require fair value of financial instruments to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. It establishes a three-level valuation hierarchy based upon observable and unobservable inputs, as follows:

Level 1 - Fair value is based on quoted prices in active markets for identical assets or liabilities.

Level 2 - Fair value is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Fair value is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Habitat's mortgages receivable are classified as Level 2 assets. The mortgages are valued based on the present value of expected future cash flows, utilizing an interest rate determined annually by Habitat for Humanity International.

**NOTE 9 – CONCENTRATIONS OF RISK****Geographic area**

Habitat operates in a small geographic area, and is therefore sensitive to changes in the local economy.

**Cash in excess of insured limits**

Cash held in bank accounts is insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The total cash held by Habitat at June 30, 2016 includes \$31,973 in excess of insured limits covered by FDIC.

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***Habitat for Humanity of Lincoln County, N. C., Inc.***  
**Notes to Financial Statements**  
**June 30, 2016**

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**NOTE 10 – LEASES**

Habitat leases office and retail space, as well as equipment under operating lease agreements. Lease expense for the current fiscal year was \$22,876. Future minimum lease payments are as follows:

2017	\$ 21,691
2018	33,732
2019	50,844
2020	48,835
2021	48,165
2022 and thereafter	<u>221,813</u>
TOTAL	<u>\$ 425,080</u>

**NOTE 11 – SUBSEQUENT EVENTS**

Habitat has evaluated subsequent events from the date of the statement of financial position through the date the financial statements were available to be issued, which is the date of the audit report. During this period, no material recognizable subsequent events were identified.