

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

***FINANCIAL STATEMENTS
JUNE 30, 2017***

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

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June 30, 2017

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C. DEWITT FOARD & COMPANY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS
817 EAST MOREHEAD STREET SUITE 100
CHARLOTTE, NORTH CAROLINA 28202
TELEPHONE: 704-372-1515 FACSIMILE: 704-372-6066

PHILLIP G. WILSON
TERRY W. LANCASTER

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. ("Habitat" - a nonprofit corporation), which comprise the statement of financial position as of June 30, 2017, 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, 2017 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 Habitat's 2016 financial statements, and our report dated December 22, 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, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

C. DeWitt Foard & Company, P.A.
December 27, 2017

Habitat for Humanity of Lincoln County, N. C., Inc.**Statement of Financial Position****June 30, 2017, with prior year comparative totals**

	June 30,	
	2017	2016
<u>ASSETS</u>		
Cash and cash equivalents	\$ 132,530	\$ 369,744
Accounts receivable	10,740	8,815
Prepaid expenses	16,794	29,186
Inventories:		
Land held for development	266,611	227,924
Land held for resale	59,500	59,500
Construction in process	74,105	53,505
Repossessed home	53,650	26,544
Store	77,964	66,190
Deposits	6,341	-
Property and equipment (net of depreciation)	608,194	396,452
Mortgages receivable (net of present value discount)	246,012	263,880
<u>TOTAL ASSETS</u>	\$ 1,552,441	\$ 1,501,740
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable	\$ 47,720	\$ 26,633
Payroll liabilities	10,671	8,008
Escrows	20,391	15,016
Notes payable	189,783	26,673
<u>Total Liabilities</u>	<u>268,565</u>	<u>76,330</u>
Net Assets:		
Unrestricted	1,283,876	1,424,910
Temporarily restricted	-	500
<u>Total Net Assets</u>	<u>1,283,876</u>	<u>1,425,410</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	\$ 1,552,441	\$ 1,501,740

Habitat for Humanity of Lincoln County, N. C., Inc.**Statement of Activities****Year ended June 30, 2017**

	Unrestricted	Temporarily Restricted	TOTALS	Prior Year Comparative Totals
<u>SUPPORT AND REVENUE</u>				
Contributions and grants	\$ 79,563	\$ 25,000	\$ 104,563	\$ 61,285
In-kind contributions	45,300	-	45,300	17,475
Resale store	875,644	-	875,644	641,297
Sale of homes, net of discount	62,160	-	62,160	51,512
Mortgage discount amortization	48,615	-	48,615	17,835
Discount on notes payable	5,536	-	5,536	6,434
Investment income	1,538	-	1,538	2,988
Other income	7,022	-	7,022	1,433
Gain (loss) on sale of fixed assets	(12,082)	-	(12,082)	-
Net assets released from restrictions by payment for restricted purpose	25,500	(25,500)	-	-
<i>TOTAL</i>	<i>1,138,796</i>	<i>(500)</i>	<i>1,138,296</i>	<i>800,259</i>
<u>EXPENSES</u>				
Program services:				
Construction	386,600	-	386,600	253,505
Resale store	666,847	-	666,847	538,325
Management and general	85,183	-	85,183	122,026
Fundraising	141,200	-	141,200	35,693
<i>TOTAL</i>	<i>1,279,830</i>	<i>-</i>	<i>1,279,830</i>	<i>949,549</i>
<i>CHANGE IN NET ASSETS</i>	<i>(141,034)</i>	<i>(500)</i>	<i>(141,534)</i>	<i>(149,290)</i>
<i>NET ASSETS, BEGINNING</i>	<i>1,424,910</i>	<i>500</i>	<i>1,425,410</i>	<i>1,574,700</i>
<i>NET ASSETS, ENDING</i>	<i>\$ 1,283,876</i>	<i>\$ -</i>	<i>\$ 1,283,876</i>	<i>\$ 1,425,410</i>

Habitat for Humanity of Lincoln County, N. C., Inc.**Statement of Functional Expenses****Year ended June 30, 2017**

	Program Services				
	Construction	Resale Store	Management and General	Fund Raising	TOTALS
<u>PERSONNEL</u>					
Wages	\$ 139,185	\$ 352,484	\$ 32,987	\$ 83,359	\$ 608,014
Payroll taxes	11,733	28,675	2,781	7,027	50,216
Benefits	8,181	19,995	1,939	4,900	35,015
Total	159,099	401,154	37,706	95,286	693,245
<u>OTHER EXPENSES</u>					
Cost of homes	109,600	-	-	-	109,600
Cost of goods sold	-	24,680	-	-	24,680
Supplies	16,770	26,518	2,906	10,766	56,960
Insurance	5,394	6,415	1,043	1,541	14,393
Tithe	13,625	50	-	-	13,675
Rent	12,771	130,801	1,567	3,133	148,272
Services	9,483	16,198	32,535	388	58,604
Repairs	1,013	1,534	240	607	3,394
Dues	5,741	125	176	444	6,486
Depreciation	19,291	-	2,756	5,512	27,559
Postage	933	1,137	221	559	2,850
Telephone	3,338	6,402	791	1,999	12,530
Technology	10,025	12,256	2,376	6,004	30,661
Travel	9,547	5,308	2,263	5,718	22,836
Auto	1,695	15,929	402	1,015	19,041
Advertising	-	17,620	-	7,826	25,446
Property taxes	6,633	720	-	-	7,353
Interest expense	1,642	-	201	402	2,245
Total	227,501	265,693	47,477	45,914	586,585
TOTAL	\$ 386,600	\$ 666,847	\$ 85,183	\$ 141,200	\$ 1,279,830

Habitat for Humanity of Lincoln County, N. C., Inc.**Statement of Cash Flows****Year ended June 30, 2017**

	For the Year Ended June 30,	
	2017	2016
<u>OPERATING ACTIVITIES</u>		
Change in net assets	\$ (141,534)	\$ (149,290)
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Depreciation	27,559	23,028
Amortization of loan discount	(48,615)	(17,835)
(Increase) decrease in operating assets:		
Receivables	(1,925)	(4,631)
Prepays	12,392	(19,277)
Inventories	(98,167)	38,922
Deposits	(6,341)	-
Increase (decrease) in operating liabilities:		
Accounts payable	21,087	(19,708)
Payroll liabilities	2,663	(19,319)
Escrows	5,375	6,624
<i>Cash Flows from Operating Activities</i>	<i>(227,506)</i>	<i>(161,486)</i>
<u>INVESTING ACTIVITIES</u>		
Principal payments received from homeowners	66,483	10,464
Disposal of property and equipment	-	7,000
Purchase of property and equipment	(239,301)	(27,793)
<i>Cash Flows from Investing Activities</i>	<i>(172,818)</i>	<i>(10,329)</i>
<u>FINANCING ACTIVITIES</u>		
Proceeds from note payable	175,000	-
Principal paid on note payable	(11,890)	17,473
<i>Cash Flows from Financing Activities</i>	<i>163,110</i>	<i>17,473</i>
CHANGE IN CASH	(237,214)	(154,342)
CASH AND CASH EQUIVALENTS, BEGINNING	369,744	524,086
CASH AND CASH EQUIVALENTS, ENDING	\$ 132,530	\$ 369,744

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

Notes to Financial Statements

June 30, 2017

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.

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

Notes to Financial Statements

June 30, 2017

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, 2017, Habitat had one material conditional promise to give, which was the \$18,833 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 \$20,391 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.

Habitat for Humanity of Lincoln County, N. C., Inc.**Notes to Financial Statements****June 30, 2017**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continuedDonated 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. Contributed engineering services of \$550 were recorded during the year.

Functional allocation of expenses

Expenses are allocated to program services, management and general, and fund raising based on management's estimates of time spent and various allocation methods appropriate to the type of expense.

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 2016 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	\$ 545,112
Furniture and equipment	88,761
Vehicles	64,677
Land	63,578
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Total	762,128
Less – accumulated depreciation	(153,934)
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TOTAL	\$ 608,194

Habitat for Humanity of Lincoln County, N. C., Inc.**Notes to Financial Statements****June 30, 2017**

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, 2017 was as follows:

	<u>Mortgages</u>	<u>Discount</u>
Mortgages receivable, beginning	\$ 510,461	\$ 246,581
Add – new mortgage	120,000	57,840
Total	630,461	304,421
Deduct:		
Early payoff of loans	130,381	65,636
Payments received and change in value of discount	32,306	17,023
<u>Mortgages receivable, ending</u>	<u>\$ 467,774</u>	<u>\$ 221,762</u>

Income from sale of houses of \$62,160 shown in the accompanying financial statements consists of gross sales of \$120,000 net of \$57,840 of present value discount.

NOTE 5 – NOTES PAYABLENorth Carolina Housing Finance Agency (NCHFA)

During the year, Habitat received a \$35,000 loan from NCHFA. The loan does not bear interest and is payable in monthly installments of \$146. A discount of \$5,960 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, 2017.

During the prior year, Habitat received a \$30,000 loan from NCHFA. The loan does not bear interest and is payable in monthly installments of \$100.

At the end of the year, the combined note balances were \$62,771 and is presented net of a remaining unamortized discount of \$11,813.

Mortgage Note Payable

During the year, Habitat received an \$80,000 loan from a local financial institution that is secured by Habitat's property located on East Main Street. Monthly payments of \$531 are applied first to interest at a rate of 5.0 percent and then to principal, with any remaining balance due December 2021. Interest expense of \$2,010 was paid during the year.

Habitat for Humanity of Lincoln County, N. C., Inc.**Notes to Financial Statements****June 30, 2017**

NOTE 5 – NOTES PAYABLE, continuedLine of Credit Payable

During the year, Habitat received a line of credit for an amount up to \$300,000 from a local financial institution. Monthly payments of accrued and unpaid interest at an interest rate of 3.5 percent with any remaining balance due September 2017. Habitat drew \$60,001 during the year and interest expense of \$236 was paid during the year.

Maturities

Maturities of long term debt occur during the year ending June 30, 2017:

2018	\$	65,438
2019		5,565
2020		5,698
2021		5,839
2022		71,035
Thereafter		48,021
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TOTAL		201,596
Less – present value discount		11,813
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NOTES PAYABLE, NET	\$	189,783

NOTE 6 – 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, 2017, the amount remitted was \$13,675 and is shown as a title in the accompanying statement of functional expenses. Habitat also received \$11,777 in grants from HFH International during the year to be used for various purposes.

NOTE 7 – 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

Habitat for Humanity of Lincoln County, N. C., Inc.**Notes to Financial Statements****June 30, 2017**

NOTE 7 – FAIR VALUE MEASUREMENTS, continued

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 8 – CONCENTRATIONS OF RISKGeographic area

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

NOTE 9 – LEASES

Habitat leases office and retail space, as well as equipment under operating lease agreements. Lease expense for the current fiscal year was \$50,919. Future minimum lease payments are as follows:

2018	\$	80,658
2019		97,769
2020		95,760
2021		97,837
2022 and thereafter		106,074
TOTAL	\$	478,098

NOTE 10 – 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.