

HABITAT FOR HUMANITY OF SPARTANBURG, INC.

FINANCIAL STATEMENTS

JUNE 30. 2019 AND 2018

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Habitat for Humanity of Spartanburg, Inc.
Spartanburg, South Carolina

We have audited the accompanying financial statements of Habitat for Humanity of Spartanburg, Inc. (a nonprofit organization) which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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 from 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 above present fairly, in all material respects, the financial position of Habitat for Humanity of Spartanburg, Inc. as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

McAbee, Schwartz, Halliday & Co.

Spartanburg, South Carolina
September 23, 2019

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

| | ASSETS | |
|---|--------------|--------------|
| | 2019 | 2018 |
| Current Assets | | |
| Cash and cash equivalents | \$ 255,657 | \$ 426,607 |
| Accounts receivable | 5,710 | - |
| Pledges receivable | 10,000 | 77,568 |
| Construction in progress | 142,523 | 95,409 |
| Mortgages receivable - current | 106,171 | 119,986 |
| Prepaid insurance | 10,354 | 10,960 |
| | 530,415 | 730,530 |
| Property and Equipment | | |
| Land and improvements | 120,000 | 120,000 |
| Furniture and equipment | 70,561 | 70,561 |
| Trailers and vehicles | 20,319 | 20,319 |
| Pine Street building | 582,863 | 521,745 |
| | 793,743 | 732,625 |
| Less: accumulated depreciation | (273,533) | (252,141) |
| | 520,210 | 480,484 |
| Other Assets | | |
| Spartanburg County Foundation account | 79,779 | 76,944 |
| Mortgages receivable - net of current portion | 2,269,324 | 2,124,066 |
| Land for development | 299,691 | 253,401 |
| | 2,648,794 | 2,454,411 |
| Total Assets | \$ 3,699,419 | \$ 3,665,425 |

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
 STATEMENTS OF FINANCIAL POSITION - CONTINUED
 JUNE 30, 2019 AND 2018

| LIABILITIES AND NET ASSETS | | |
|--|--------------|--------------|
| | 2019 | 2018 |
| Current Liabilities | | |
| Accounts payable | \$ 32,640 | \$ 25,971 |
| Accrued payroll liabilities | 33,491 | 20,788 |
| Notes payable - current | 9,718 | 12,928 |
| | 75,849 | 59,687 |
| Long-term liabilities | | |
| Notes payable - net of current portion | 170,487 | 176,671 |
| Total Liabilities | 246,336 | 236,358 |
| Net Assets | | |
| Without donor restrictions | 3,347,454 | 3,091,831 |
| With donor restrictions | 105,629 | 337,236 |
| Total Net Assets | 3,453,083 | 3,429,067 |
| Total Liabilities and Net Assets | \$ 3,699,419 | \$ 3,665,425 |

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

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2019 AND 2018

| | 2019 | | | 2018 | | |
|--|-------------------------------|----------------------------|---------------------|-------------------------------|----------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| Revenues, Gains and Other Support | | | | | | |
| Contributions | \$ 483,567 | \$ 94,224 | \$ 577,791 | \$ 358,539 | \$ 431,873 | \$ 790,412 |
| ReStore sales | 685,266 | - | 685,266 | 642,702 | - | 642,702 |
| Transfers to homeowners | 736,000 | - | 736,000 | 574,706 | - | 574,706 |
| Noncash donations of land and appliances | 95,937 | - | 95,937 | 12,608 | - | 12,608 |
| Other income | 1,785 | - | 1,785 | 76 | - | 76 |
| Gain (loss) on disposal of donated land | 13,518 | - | 13,518 | - | - | - |
| Investment return, net | 2,835 | - | 2,835 | - | 3,479 | 3,479 |
| Mortgage loan discount amortization | 210,356 | - | 210,356 | 156,474 | - | 156,474 |
| | <u>2,229,264</u> | <u>94,224</u> | <u>2,323,488</u> | <u>1,745,105</u> | <u>435,352</u> | <u>2,180,457</u> |
| Net assets released from restrictions | <u>325,831</u> | <u>(325,831)</u> | <u>-</u> | <u>216,222</u> | <u>(216,222)</u> | <u>-</u> |
| Total Revenues, Gains and Other Support | <u>2,555,095</u> | <u>(231,607)</u> | <u>2,323,488</u> | <u>1,961,327</u> | <u>219,130</u> | <u>2,180,457</u> |
| Functional Expenses | | | | | | |
| Program services | | | | | | |
| Construction | 955,406 | - | 955,406 | 730,295 | - | 730,295 |
| Family support | 80,961 | - | 80,961 | 76,345 | - | 76,345 |
| Discounts on mortgages | 456,652 | - | 456,652 | 352,972 | - | 352,972 |
| ReStore expenses | 447,909 | - | 447,909 | 436,755 | - | 436,755 |
| Supporting services | | | | | | |
| Management and general | 257,139 | - | 257,139 | 196,976 | - | 196,976 |
| Fundraising | 59,629 | - | 59,629 | 57,894 | - | 57,894 |
| Golf Tournament Direct costs | 26,776 | - | 26,776 | 27,077 | - | 27,077 |
| Total Functional Expenses | <u>2,284,472</u> | <u>-</u> | <u>2,284,472</u> | <u>1,878,314</u> | <u>-</u> | <u>1,878,314</u> |
| Unallocated payment to affiliated organization | <u>15,000</u> | <u>-</u> | <u>15,000</u> | <u>15,000</u> | <u>-</u> | <u>15,000</u> |
| | <u>2,299,472</u> | <u>-</u> | <u>2,299,472</u> | <u>1,893,314</u> | <u>-</u> | <u>1,893,314</u> |
| Increase (Decrease) in Net Assets | <u>255,623</u> | <u>(231,607)</u> | <u>24,016</u> | <u>68,013</u> | <u>219,130</u> | <u>287,143</u> |
| Net Assets - Beginning of Year | <u>3,091,831</u> | <u>337,236</u> | <u>3,429,067</u> | <u>3,023,818</u> | <u>118,106</u> | <u>3,141,924</u> |
| Net Assets - End of Year | <u>\$ 3,347,454</u> | <u>\$ 105,629</u> | <u>\$ 3,453,083</u> | <u>\$ 3,091,831</u> | <u>\$ 337,236</u> | <u>\$ 3,429,067</u> |

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

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018

| | 2019 | 2018 |
|--|-------------|-------------|
| Cash Flows Provided (Used) by Operating Activities | | |
| Cash received from contributors | \$ 645,359 | \$ 630,281 |
| Cash received from ReStore sales | 685,266 | 642,702 |
| Interest received | 1,244 | 76 |
| Other income received | 541 | - |
| Proceeds from sale of donated land | 13,518 | - |
| Cash paid to employees and suppliers | (1,807,877) | (1,465,058) |
| Interest paid | (10,432) | (9,279) |
| | (472,381) | (201,278) |
| Cash Flows Provided (Used) by Investing Activities | | |
| Purchase of fixed assets | (61,118) | (17,982) |
| Mortgage receivables increase | 371,944 | 270,873 |
| | 310,826 | 252,891 |
| Cash Flows Provided (Used) by Financing Activities | | |
| Payments on long term debt | (9,394) | (10,547) |
| Net increase (decrease) in cash and cash equivalents | (170,950) | 41,066 |
| Cash and Cash Equivalents - Beginning of Year | 426,607 | 385,541 |
| Cash and Cash Equivalents - End of Year | \$ 255,657 | \$ 426,607 |
| Supplemental Disclosure: Interest Paid | \$ 10,432 | \$ 9,279 |

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
STATEMENTS OF CASH FLOWS - CONTINUED
YEARS ENDED JUNE 30, 2019 AND 2018

| | 2019 | 2018 |
|--|--------------|--------------|
| Reconciliation of Change in Net Assets to Net Cash Provided By (Used In) Operating Activities | | |
| Total Change in Net Assets | \$ 24,016 | \$ 287,143 |
| Adjustments to Reconcile Total Change in Net Assets to Net Cash Provided (Used) by Operating Activities | | |
| Depreciation | 21,392 | 17,833 |
| Mortgage loan discount amortization | (210,356) | (156,474) |
| Transfers to homeowners, net of amortization | (293,031) | (230,029) |
| Net realized and unrealized (gains) losses on investments | (2,835) | (4,042) |
| Change in assets and liabilities | | |
| (Increase) decrease in construction in progress | (47,114) | 96,994 |
| (Increase) decrease in prepaid insurance | 606 | 3,053 |
| (Increase) decrease in contributions receivables | 67,568 | (77,568) |
| (Increase) decrease in accounts receivables | (5,710) | 3,750 |
| (Increase) decrease in land for development | (46,290) | (124,628) |
| Increase (decrease) in accounts payable - trade | 6,670 | (5,883) |
| Increase (decrease) in accrued payroll liabilities | 12,703 | (11,427) |
| | (496,397) | (488,421) |
| Net Cash Provided (Used) by Operating Activities | \$ (472,381) | \$ (201,278) |

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

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

| | Program Services | | | | Total Program Services | Supporting Services | | | Total Supporting Services | Total Expenses |
|--------------------------------|-------------------|-------------------|---------------------------|-------------------|------------------------------|---------------------------|------------------|----------------------|---------------------------------|---------------------|
| | Construction | Family Support | Discounts on Mortgages | ReStore | | Management and General | Fund Raising | Golf Tourn. Costs | | |
| Salaries and benefits | \$ 303,485 | \$ 74,242 | \$ - | \$ 313,594 | \$ 691,321 | \$ 156,100 | \$ 54,320 | \$ - | \$ 210,420 | \$ 901,741 |
| Mortgage discounts | - | - | 456,652 | - | 456,652 | - | - | - | - | 456,652 |
| Building material and supplies | 615,968 | - | - | - | 615,968 | - | - | - | - | 615,968 |
| Travel and auto expenses | 10,323 | 1,074 | - | 33,610 | 45,007 | 1,886 | 1,016 | - | 2,902 | 47,909 |
| Building expense and other | 14,960 | 4,858 | - | 54,353 | 74,171 | 28,737 | - | 26,776 | 55,513 | 129,684 |
| Office supplies and expenses | 1,457 | 532 | - | 19,007 | 20,996 | 37,524 | 3,850 | - | 41,374 | 62,370 |
| Interest | 209 | - | - | 8,867 | 9,076 | 1,356 | - | - | 1,356 | 10,432 |
| Training and education | 180 | 255 | - | 294 | 729 | 4,335 | 443 | - | 4,778 | 5,507 |
| Tithe to HFHI | - | - | - | - | - | 10,000 | - | - | 10,000 | 10,000 |
| Professional fees | 8,396 | - | - | - | 8,396 | 14,420 | - | - | 14,420 | 22,816 |
| Total before depreciation | 954,978 | 80,961 | 456,652 | 429,725 | 1,922,317 | 254,358 | 59,629 | 26,776 | 340,763 | 2,263,079 |
| Depreciation | 428 | - | - | 18,184 | 18,612 | 2,781 | - | - | 2,781 | 21,393 |
| Total expenses | \$ 955,406 | \$ 80,961 | \$ 456,652 | \$ 447,909 | \$ 1,940,929 | \$ 257,139 | \$ 59,629 | \$ 26,776 | \$ 343,544 | \$ 2,284,472 |

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

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

| | Program Services | | | | Total Program Services | Supporting Services | | | Total Supporting Services | Total Expenses |
|--------------------------------|-------------------|-------------------|---------------------------|-------------------|------------------------------|---------------------------|------------------|---------------------|---------------------------------|---------------------|
| | Construction | Family Support | Discounts on Mortgages | ReStore | | Management and General | Fund Raising | Golf Tour. Costs | | |
| Salaries and benefits | \$ 224,469 | \$ 69,338 | \$ - | \$ 306,525 | \$ 600,332 | \$ 99,888 | \$ 51,079 | \$ - | \$ 150,967 | \$ 751,299 |
| Mortgage discounts | - | - | 352,972 | - | 352,972 | - | - | - | - | 352,972 |
| Building material and supplies | 472,427 | - | - | - | 472,427 | - | - | - | - | 472,427 |
| Travel and auto expenses | 5,155 | 1,010 | - | 30,097 | 36,262 | 1,652 | 712 | - | 2,364 | 38,626 |
| Building expense and other | 23,732 | 5,155 | - | 60,516 | 89,403 | 36,701 | - | - | 36,701 | 126,104 |
| Office supplies and expenses | 1,113 | 265 | - | 17,184 | 18,562 | 33,314 | 4,419 | 27,077 | 64,810 | 83,372 |
| Interest | 93 | - | - | 7,887 | 7,980 | 1,299 | - | - | 1,299 | 9,279 |
| Training and education | 1,763 | 577 | - | - | 2,340 | 118 | 1,684 | - | 1,802 | 4,142 |
| Tithe to HFHI | - | - | - | - | - | 4,000 | - | - | 4,000 | 4,000 |
| Professional fees | 480 | - | - | - | 480 | 17,779 | - | - | 17,779 | 18,259 |
| Total before depreciation | 729,232 | 76,345 | 352,972 | 422,209 | 1,580,758 | 194,751 | 57,894 | 27,077 | 279,722 | 1,860,480 |
| Depreciation | 1,063 | - | - | 14,546 | 15,609 | 2,225 | - | - | 2,225 | 17,834 |
| Total expenses | \$ 730,295 | \$ 76,345 | \$ 352,972 | \$ 436,755 | \$ 1,596,367 | \$ 196,976 | \$ 57,894 | \$ 27,077 | \$ 281,947 | \$ 1,878,314 |

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

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Habitat for Humanity of Spartanburg, Inc. (Habitat), is presented to assist in understanding the financial statements. The financial statements and notes are representations of Habitat's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses.

Organization

Habitat, a nonprofit corporation, was incorporated on July 21, 1987 under the laws of the State of South Carolina. Habitat is a local affiliate of Habitat for Humanity International, a nondenominational, Christian nonprofit organization whose purpose is to create decent, affordable housing for those in need, and make decent shelter a matter of conscience with people everywhere. Although Habitat for Humanity International assists with information resources, training, publications, prayer support and in other ways, Habitat is primarily and directly responsible for its own operations. Support for Habitat's program of services and operations is received from individuals, churches and other organizations located primarily in Spartanburg County, South Carolina.

Financial Statement Presentation

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

Without Donor Restrictions: Net assets available for use in general operations and not subject to donor restrictions. Grants and contributions gifted for recurring programs are generally not considered "restricted" under GAAP, though for internal reporting, the Organization tracks such grants and contributions to verify that the disbursement matches the intent. Assets restricted solely through the actions of the Board are reported as net assets without donor restrictions, board-designated.

With Donor Restrictions: Net assets subject to donor-imposed stipulations that are more restrictive than the Organization's mission and purpose. 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. Donor-imposed restrictions are released when the 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. Other donor-imposed restrictions could potentially be perpetual in nature when the donor stipulates that resources be maintained in perpetuity.

Basis of Accounting

Habitat's financial statements have been prepared utilizing the accrual basis of accounting.

Tax Exempt Status

Habitat has received exemption from income taxes under section 501(c)(3) of the Internal Revenue Code under a group exemption letter granted to Habitat for Humanity International by the Internal Revenue Service.

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cash and Cash Equivalents

Habitat considers all short-term, highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Pledges Receivable

Habitat records pledges receivable if a donor has given written notification of their intent to give. Pledges receivable are not discounted due to being collected in less than one year.

Mortgages Receivable

Mortgages receivable consist of non-interest bearing mortgages which are secured by real estate and contracts for deed and are payable in monthly installments over the life of the mortgage or contract. No allowance for doubtful mortgages receivable is recorded by Habitat since substantially all mortgages are relatively current with payments and any defaulted mortgage would be foreclosed and the home resold for greater than mortgage balance.

Property, Equipment, and Improvements

Property, equipment, and improvements are recorded at acquisition cost, including costs necessary to get the asset ready for its intended use, or estimated fair value on the date contributed. Depreciation expense is provided on a straight-line and accelerated basis over the estimated useful lives of the respective assets, as follows:

| | |
|----------------------------|---------------|
| Furniture and equipment | 5 to 7 years |
| Buildings and improvements | 5 to 39 years |

Depreciation expense for the years ended June 30, 2019 and 2018 was \$21,393 and \$17,834, respectively.

Land for Development

Land for development has been recorded at estimated fair value at the date donated to Habitat and is charged to construction cost when a house is substantially completed. Land development charged to construction during the years ended June 30, 2019 and 2018, was \$74,783 and \$37,372, respectively.

Contributions

Unconditional promises to give are recognized as revenue when the underlying promises are received by Habitat. Gifts of cash or other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without donor restriction, (unless explicit donor stipulations specify how the donated assets are to be used) upon acquisition of the assets and the assets are placed in service.

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Donated Goods and Services

Donated assets are recorded at their fair market value on the date of contribution. A substantial number of volunteers have made significant contributions of their time to Habitat's program and supporting services. The value of this contributed time generally is not reflected in these financial statements since it is not susceptible to objective measurement or valuation.

Transfers to Homeowners

Transfers to homeowners are recorded at the gross selling price. Net closing costs are absorbed in the mortgage. Non-interest bearing mortgages have been discounted based upon prevailing market rates for low income housing at the inception of the mortgages. Utilizing the amortization rate, this discount is recognized as revenue over the term of the mortgage.

ReStore Sales and Fund Raising Revenues

ReStore sales represent the gross proceeds, net of returns, of sales of donated merchandise at the thrift store. Expenses of operating the thrift store including salaries, rent, and utilities have been shown as program services expenses and totaled \$447,909 and \$436,755 for the years ended June 30, 2019 and 2018, respectively.

Functional Expenses

Habitat allocates its expenses on a functional basis among its various programs and supporting services. Expenses that can be identified with a specific program and supporting service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated using estimates of employee time or space utilization as a basis for allocation.

Financial Instruments

Financial instruments consist of cash, investments, accounts receivable, accounts payable, and other accrued liabilities. Management is of the opinion that Habitat is not exposed to significant interest rate or credit risk arising from these instruments. Unless otherwise noted, the fair values of these financial instruments are the market values of these financial instruments and approximate their carrying values.

Fair Value Measurements

The fair value of financial assets and liabilities is measured according to the Fair Value Measurements and Disclosures topic of the FASB Accounting Standards Codification. Fair value is required to be evaluated and adjusted according to the following valuation techniques:

Level 1 – Fair value is determined using quoted market prices in active markets for identical assets and liabilities.

Level 2 – Fair value is determined using quoted market prices in active markets for similar assets and liabilities, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant inputs are observable in the market for substantially the full term of the assets or liabilities.

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Level 3 – Fair value is determined using inputs that are generally unobservable and typically reflect management’s estimates of assumptions that market participants would use in pricing the asset or liability. The market for assets and liabilities using level 3 measures is typically inactive.

New Accounting Pronouncement - Change in Accounting Principle

For the year ended June 30, 2019, Habitat adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements for Not-For-Profit Entities*, which requires changes to the presentation of net assets and several enhanced disclosures. Net assets is now required to be presented in two classes with new terminology, rather than the three classes required in the previous standard. Net assets are now presented “with” or “without donor restrictions”. Enhanced disclosures include (a) amounts and purposes of governing board designations on the use of resources without donor-imposed restrictions, (b) composition of net assets with donor restrictions, (c) qualitative and quantitative information regarding the organization’s liquidity and its ability to meet cash needs within one year of the balance sheet date, (d) expenses classified by both their natural classification and functional classification, (e) information on underwater endowment funds, and (f) reporting of investment return net of investment expenses.

As stated in Note 17, the financial statements for the year ended June 30, 2018 have been restated for the change.

NOTE 2 – CONCENTRATION OF CUSTODIAL CREDIT RISK

Habitat maintains its cash balances in one financial institution in which the balances are insured by the Federal Deposit Insurance Corporation. At June 30, 2019, Habitat’s bank balances at this institution totaled \$255,793 and its book balances were \$255,657. At times the balances in these accounts exceed insured balances. Habitat does not have a formal deposit policy for custodial credit risk. Habitat has not experienced any losses on the uninsured cash balances and does not believe that it is exposed to any significant risk in connection, therewith.

Concentrations of credit risk with respect to mortgages receivable are limited due to the collateral held and the ability to reclaim, refurbish, and resale the home.

NOTE 3 - INVESTMENTS AT SPARTANBURG COUNTY FOUNDATION

The Bob Breitweiser Habitat for Humanity Fund is held and managed by the Foundation as component funds for the benefit of Habitat. The Fund agreement calls for the principal and income of the fund to be devoted to annual distributions for the purpose of providing the means necessary to change lives by building decent affordable homes for families in need. The trust agreement grants variance power to the Foundation. The Foundation maintains an investment pool of various mutual funds and managed accounts. The investment pool is allocated to various sub-funds, including Habitat, based on a percentage of ownership interest in the market value of the investment pool. Distributions are made from the fund at the discretion of the Foundation.

The following table represents the investments that are measured at fair value on a recurring basis at June 30, 2019 and 2018:

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 3 - INVESTMENTS AT SPARTANBURG COUNTY FOUNDATION - CONTINUED

| 2019 | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|--|-------------------|----------------|----------------|------------------|
| Funds held at Spartanburg County Foundation | <u>\$ 79,779</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 79,779</u> |
| 2018 | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Funds held at Spartanburg County Foundation | <u>\$ 76,944</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 76,944</u> |

Level 3 consists of investments which are part of the joint investment account of the Spartanburg County Foundation and its fair value is based on the average value of the underlying investments determined at least monthly.

Investment return is presented net of investment fees on the statement of activities. Changes in the Foundation account for the years ended June 30, 2019 and 2018 were as follows:

| | <u>2019</u> | <u>2018</u> |
|--|------------------|------------------|
| Beginning Balance | \$ 76,944 | \$ 72,902 |
| Dividends and interest | 1,511 | 1,326 |
| Realized and unrealized gains (losses) | 2,091 | 3,479 |
| Investment fees | <u>(767)</u> | <u>(763)</u> |
| Ending Balance | <u>\$ 79,779</u> | <u>\$ 76,944</u> |

Gains and (losses) for the year ended June 30, 2019 of \$(249) realized and \$2,340 unrealized and for the year ended June 30, 2018 of \$(4) realized and \$3,483 unrealized are included in unrestricted revenues, gains and other support and are reported in realized and unrealized gains (losses) on investments on the statements of activities.

The Spartanburg County Foundation's annual audited financial statements are available by contacting the Spartanburg County Foundation at 424 East Kennedy Street, Spartanburg, SC 29302, (864) 582-0138.

NOTE 4 - MORTGAGES RECEIVABLE

Mortgages receivable consist of non-interest bearing mortgages which are secured by real estate and contracts for deed and are payable in monthly installments. Most of the mortgages and contracts have original maturities ranging from 20 to 30 years and arose in connection with Habitat's homebuilding initiatives in Spartanburg, South Carolina. The mortgages and contract receivables at June 30, 2019 and 2018 are as follows:

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|---------------------|
| Receivables at face value | \$ 4,624,792 | \$ 4,247,053 |
| Less unamortized discount at 7.39% to 8.5% | <u>(2,249,297)</u> | <u>(2,003,001)</u> |
| | <u>\$ 2,375,495</u> | <u>\$ 2,244,052</u> |

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 4 - MORTGAGES RECEIVABLE – CONTINUED

At June 30, 2019 these mortgages and contracts are receivable as follows:

| Year Ended June 30, | |
|---------------------|---------------------|
| 2020 | \$ 281,633 |
| 2021 | 274,147 |
| 2022 | 267,302 |
| 2023 | 261,274 |
| 2024 | 250,884 |
| Thereafter | <u>3,289,552</u> |
| | <u>\$ 4,624,792</u> |

During the year ended June 30, 2019, seven new non-interest bearing mortgage notes and one refinance were accepted with a face value of \$749,683 and a discounted value of \$293,031. In addition, \$210,356 of mortgage loan discount amortization was recognized as revenue in the statement of activities during the year ended June 30, 2019.

During the year ended June 30, 2018 six new non-interest bearing mortgage notes were accepted with a face value of \$583,000 and a discounted value of \$230,028. In addition, \$156,474 of mortgage loan discount amortization was recognized as revenue in the statement of activities during the year ended June 30, 2018.

During the year ended June 30, 2019, Habitat foreclosed on one home. This home was refurbished and sold during the year ended June 30, 2019.

NOTE 5 – HOME CONSTRUCTION COSTS

Costs incurred in conjunction with home construction are capitalized until completion of the home. Land costs are allocated to homes once construction is substantially complete. Following is a summary of home building activity:

| | 2019 | | 2018 | |
|---|------------|-------------------|------------|------------------|
| | Units | Costs | Units | Costs |
| Homes under construction, beginning of period | 2 | \$ 95,409 | 4 | \$ 192,403 |
| New homes started during the period and additional construction costs | 8 | 584,043 | 4 | 375,898 |
| Homes transferred during the period | <u>(7)</u> | <u>(536,929)</u> | <u>(6)</u> | <u>(472,892)</u> |
| Homes under construction, end of period | <u>3</u> | <u>\$ 142,523</u> | <u>2</u> | <u>\$ 95,409</u> |

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 6 – NOTES PAYABLE

Notes payable at June 30, 2019 and 2018 consist of the following:

| | 2019 | 2018 |
|--|------------|------------|
| A mortgage with interest rate of prime plus .25% (but not less than 3.75%). Monthly payments of \$1,652.17, including interest, are due through October 17, 2029. Collateralized by land, building and equipment located at 2270 South Pine Street, Spartanburg, South Carolina. | \$ 180,205 | \$ 189,599 |
| | 180,205 | 189,599 |
| Less current portion | 9,718 | 12,928 |
| | \$ 170,487 | \$ 176,671 |

Future minimum principal payments over the next five years and in the aggregate are as follows:

| Fiscal Year Ended June 30, | |
|-------------------------------|------------|
| 2020 | 9,718 |
| 2021 | 10,291 |
| 2022 | 10,899 |
| 2023 | 11,543 |
| 2024 | 12,224 |
| Thereafter | 115,812 |
| | \$ 170,487 |

Interest expense on long term debt totaled \$10,432 and \$9,279 for the years ended June 30, 2019 and 2018, respectively.

NOTE 7 – LOAN SERVICING AGREEMENT

For part of the year, Habitat was in an agreement with BB&T whereby the Bank administers and services the mortgage loans receivable of Habitat. During the year Habitat began using United Home Loan Service as their provider for this service. United Home Loan Service provides a broader range of services to include loan origination as well as servicing after closing. Both BB&T and United Home Loan Service collect payments for principal, taxes, insurance and any other assessments. Amounts collected against the mortgage principal are remitted to Habitat net of the loan servicing fees. Funds received on the account of the loan debtor for the purpose of paying taxes, assessments, insurance premiums, or other similar purposes is retained and disbursed by the Bank. Loan servicing fees for the years ended June 30, 2019 and 2018 totaled \$7,743 and \$5,810, respectively.

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 8 – COMPOSITION OF NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes:

| Net Assets with Donor Restrictions: | 2019 | 2018 |
|---|------------|------------|
| Subject to expenditure for a specific purpose: | | |
| Home construction and repairs | \$ 103,091 | \$ 332,608 |
| Una Light Project and education | 2,538 | 4,628 |
| | \$ 105,629 | \$ 337,236 |

Net assets released from donor restrictions by incurring expenses or satisfying restricted purposes are as follows:

| Releases from Restrictions: | 2019 | 2018 |
|---|------------|------------|
| Subject to expenditure for a specific purpose: | | |
| Home constructions and repairs | \$ 323,742 | \$ 213,350 |
| Una Light Project and education | 2,089 | 2,872 |
| | \$ 325,831 | \$ 216,222 |

NOTE 9 - RETIREMENT PLAN

Effective March 2015, Habitat established a SIMPLE IRA Plan which covers all employees who are reasonably expected to receive at least \$5,000 in compensation in the calendar year or who have received at least \$5,000 during any one prior calendar year. Habitat matches employee contributions to the plan up to 3% of gross salaries. Plan expense was \$8,499 and \$7,921 for the years ended June 30, 2019 and 2018.

NOTE 10 – LEASES

Habitat entered into an operating truck lease with Ryder Truck Rental, Inc. on March 16, 2016 to lease a 2017 Isuzu truck for use with its thrift store. The lease is for 78 months and requires a monthly payment of \$1,010 plus 9 cents per mile driven. Habitat is responsible for reimbursing Ryder for all amounts it paid for licenses, taxes and permits on the vehicle which exceed the annual allowance amount of \$196. Ryder is responsible for maintenance and repairs.

Future minimum lease payments under the terms of the lease assuming a November delivery are as follows:

| Year Ended June 30 | |
|--------------------|-----------|
| 2020 | \$ 12,120 |
| 2021 | 12,120 |
| 2022 | 12,120 |
| 2023 | 3,030 |
| 2024 | - |
| | \$ 39,390 |

Total lease related payments during the year ended June 30, 2019 and 2018, were \$14,079 and \$22,291, respectively.

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 10 – LEASES - CONTINUED

Habitat entered into an operating lease with Marlin Leasing Corporation on March 9, 2018 to lease a telecom system. The lease is for 60 months and requires a monthly payment of \$349 per month.

Future minimum lease payments under the terms of the lease are as follows:

| Year Ended June 30 | |
|--------------------|-----------|
| 2020 | \$ 4,188 |
| 2021 | 4,188 |
| 2022 | 4,188 |
| 2023 | 3,490 |
| 2024 | - |
| | \$ 16,054 |

Total lease related payments during the year ended June 30, 2019 and 2018 were \$4,312, and \$1,172, respectively.

NOTE 11 - TRANSACTIONS WITH HABITAT FOR HUMANITY INTERNATIONAL

Habitat annually remits a portion of its contributions (excluding noncash contributions) to Habitat for Humanity International. These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2019 and 2018, Habitat contributed \$10,000 and \$4,000 respectively to Habitat for Humanity International. Such amounts are included in program services expense on the statements of activities.

In November 2013, Habitat for Humanity International (HFHI) adopted a policy, U.S. Stewardship and Organizational Sustainability Initiative (US-SOSI), affecting its U.S. affiliated organizations of which Habitat is one. The policy requires all affiliates to pay an annual US-SOSI fee which is determined by population within the affiliate’s approved Geographic Service Area. The purpose is to generate a revenue stream for HFHI to help offset a portion of the operational costs to assist U.S. affiliates and to use in leveraging the strength of the many for the benefit of all. The amount of the fee is fixed through June 30, 2019. The fee is \$15,000 annually. The fee is invoiced at the beginning of the fiscal year, and is due by July 31.

NOTE 12 - NONRECURRING FAIR VALUE MEASUREMENTS

The fair value of land donated to Habitat for development is measured on a nonrecurring basis in the year the land is donated. The valuation technique is considered a Level 3 valuation (significant unobservable inputs) and is based on the current market value of other properties in the area and the assessed tax values of the land donated as determined by the Spartanburg County Tax Assessor’s office. No land was received during fiscal year 2019. The fair value of the three parcels of land received during the year ended June 30, 2018 was determined to be \$82,000.

NOTE 13 - NEIGHBORHOOD INITIATIVE PROGRAM

Effective May 8, 2015, Habitat entered into a Neighborhood Initiative Program (NIP) Award Agreement with SC Housing Corp. (SCHC), the City of Spartanburg and four other partners each a nonprofit entity. The SCHC will provide NIP funds to these organizations to be used to acquire and demolish blighted residential structures. Habitat is eligible to receive up to \$35,000 per home for 4 homes in the Northside Area and 4 homes in the Southside area. As of June 30, 2019, Habitat had acquired nine lots and demolished the structure on another lot it owned through this program. A total of \$112,613 has been received from the City. There is a three-year forgivable mortgage on each property from the date of the note modification agreement which is entered into once the demolition is complete that requires

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
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JUNE 30, 2019 AND 2018

NOTE 13 - NEIGHBORHOOD INITIATIVE PROGRAM - CONTINUED

Habitat to hold the land for three years before disposing of it. Habitat believes it has the ability to hold the property for the required term and has recorded the \$80,000 as revenue on the statements of activities for the year ended June 30, 2018. There was no purchases of property with NIP funds in fiscal year 2019, therefore no revenue was recorded for June 30, 2019. None of the NIP revenue has been included in the restricted net assets or revenue with donor restrictions due to the time restriction being satisfied or Habitat's ability to get a waiver on the three year holding period.

NOTE 14 - SPARTANBURG HOUSING AUTHORITY YOUTH BUILD

The Spartanburg Housing Authority has entered into an agreement with Habitat to provide \$50,000 each for two homes. These homes will be constructed under the Youth Build program in order to provide training in job skills and education to the youth. The grant is contingent upon the donation of two parcels of land from Spartanburg Leased Housing Corporation and the construction of homes on these properties. During the years ended June 30, 2019, and June 30, 2018, \$9,763 and \$16,246, respectively has been recorded as revenue on the statements of activities.

NOTE 15 - SPARTANBURG COUNTY HOME FUNDING

Spartanburg County Community Development Department has granted Habitat \$143,100 to construct two homes in an unincorporated area of Spartanburg County. Habitat has purchased two lots in the Drayton area for this project. The grant is contingent on the completion of the homes. During the year ended June 30, 2019, and June 30, 2018, \$2,864 and \$98,730, respectively, has been recorded as revenue on the statements of activities.

NOTE 16 – LIQUIDITY

Habitat has \$345,436 of financial assets that are available within one year of the statement of financial position date to meet cash needs for general expenditures consisting of cash of \$255,657, contributions receivable of \$10,000, and investments of \$79,779. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. The contribution receivable is expected to be collected within one year.

Habitat does not have a set goal to maintain financial assets, which consist of cash and investments on hand to meet 60 days of normal operating expenses, however, per their history, Habitat comes very close to that standard. As part of Habitat's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE 17 – RECLASSIFICATIONS AND CHANGES IN PRESENTATION OF PRIOR YEAR ITEMS

Due to a change in accounting principle as discussed in Note 1, certain financial statement line items shown for the prior year have been reclassified and restated to conform to the current year presentation. There was no change in net income as a result of the reclassifications.

NOTE 18 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 23, 2019, which is the date the financial statements were available to be issued.