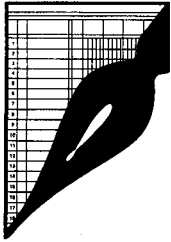


Habitat for Humanity of Spartanburg, Inc.

Financial Statements
Years Ended June 30, 2016 and 2015

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Norman, Johnson & Co., PA

Certified Public Accountants

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, 2016 and 2015, 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, 2016 and 2015, 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.

Norman, Johnson & Co., PA

Spartanburg, South Carolina
October 11, 2016

191 N. Daniel Morgan Avenue, Spartanburg, South Carolina 29306

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Member: American Institute of Certified Public Accountants

South Carolina Association of Certified Public Accountants • North Carolina Association of Certified Public Accountants

Habitat for Humanity of Spartanburg, Inc.

Statements of Financial Position
June 30, 2016 and 2015

ASSETS

	<u>2016</u>	<u>2015</u>
Current Assets		
Cash and cash equivalents	\$ 388,224	\$ 275,697
Accounts receivable	19,139	21,166
Contributions receivable	101,900	27,500
Construction in progress	70,833	50,365
Mortgages receivable, current - net	114,092	121,782
Prepaid insurance	14,013	11,713
Total current assets	<u>708,201</u>	<u>508,223</u>
Property and Equipment		
Land and improvements	120,000	120,000
Furniture and equipment	64,189	59,498
Trailers and vehicles	4,584	-
Rice Volunteer Center	-	69,574
Pine Street building	521,745	514,907
	<u>710,518</u>	<u>763,979</u>
Less accumulated depreciation	(217,551)	(209,277)
Net property and equipment	<u>492,967</u>	<u>554,702</u>
Other Assets		
Spartanburg County Foundation account	66,936	69,771
Mortgages receivable, noncurrent - net	1,983,623	1,884,898
Land for development	139,905	132,121
Total other assets	<u>2,190,464</u>	<u>2,086,790</u>
Total assets	<u>\$ 3,391,632</u>	<u>\$ 3,149,715</u>

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

LIABILITIES AND NET ASSETS

	<u>2016</u>	<u>2015</u>
Current Liabilities		
Accounts payable	\$ 22,001	\$ 33,152
Accrued payroll liabilities	38,390	26,061
Notes payable, current	11,983	11,514
Property exchange liability	20,218	-
Total current liabilities	<u>92,592</u>	<u>70,727</u>
Long-term liabilities		
Notes payable, less current maturities	199,750	211,733
Total long-term liabilities	<u>199,750</u>	<u>211,733</u>
Total liabilities	<u>292,342</u>	<u>282,460</u>
Net Assets		
Unrestricted	2,921,666	2,832,343
Temporarily restricted	177,624	34,912
Total net assets	<u>3,099,290</u>	<u>2,867,255</u>
Total liabilities and net assets	<u>\$ 3,391,632</u>	<u>\$ 3,149,715</u>

Habitat for Humanity of Spartanburg, Inc.

Statements of Activities
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Unrestricted Net Assets		
Revenues, Gains and Other Support		
Contributions	\$ 80,173	\$ 51,559
ReStore sales	560,224	506,592
Fund raising	51,371	47,286
Transfers to homeowners	517,500	425,000
Noncash donations of land and appliances	36,508	81,014
Other income - net	416	475
Gain (loss) on disposal of donated land	(4,573)	3,800
Realized and unrealized gains (losses) on investments	(3,164)	(349)
Mortgage loan discount amortization	158,894	153,498
Total unrestricted revenues	<u>1,397,349</u>	<u>1,268,875</u>
Net assets released from restrictions	<u>406,961</u>	<u>266,343</u>
Total revenues and other support	<u>1,804,310</u>	<u>1,535,218</u>
Expenses and Losses		
Program services		
Construction	731,670	575,370
Family support	71,644	69,292
Discounts on mortgages	315,464	258,504
ReStore expenses	340,674	297,025
Supporting services		
Management and general	132,998	141,036
Fund raising	55,797	49,331
Cost of direct benefits	23,330	20,281
Total functional expenses	<u>1,671,577</u>	<u>1,410,839</u>
Unallocated payment to affiliated organization	15,000	10,000
Loss on sale of fixed asset	28,410	-
Total expenses and losses	<u>1,714,987</u>	<u>1,420,839</u>
Increase (decrease) in unrestricted net assets	<u>89,323</u>	<u>114,379</u>
Temporarily Restricted Net Assets		
Contributions and fundraising	549,673	190,975
Net assets released from restrictions	<u>(406,961)</u>	<u>(266,343)</u>
Increase (decrease) in temporarily restricted net assets	<u>142,712</u>	<u>(75,368)</u>
Increase (decrease) in net assets	232,035	39,011
Net Assets		
Beginning of year	<u>2,867,255</u>	<u>2,828,244</u>
End of year	<u>\$ 3,099,290</u>	<u>\$ 2,867,255</u>

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

Habitat for Humanity of Spartanburg, Inc.

**Statement of Functional Expenses
Year Ended June 30, 2016**

	Program Services			
	Construction	Family Support	Discounts on Mortgages	ReStore
Salaries				
Officers	\$ 12,459	\$ 6,229	\$ -	\$ 12,459
Others	142,380	49,030	-	198,432
Payroll taxes	12,391	4,422	-	16,876
Retirement	1,775	634	-	2,418
Insurance	10,327	3,397	-	29,388
Mortgage discounts	-	-	315,464	-
Building material and supplies	511,996	-	-	-
Travel, mileage, food and lodging	4,202	583	-	2,212
Truck leasing and expenses	-	-	-	19,368
Supplies	1,214	-	-	3,528
Utilities	123	2,942	-	10,441
Telephone, web, and internet	1,226	300	-	2,030
Postage & freight	-	80	-	145
Printing and advertising	-	100	-	409
Bank fees and charges	-	-	-	6,723
Club fees and expenses	-	-	-	-
Interest	83	-	-	7,065
Resource development	-	-	-	-
Education expense	-	1,191	-	-
Other expenses	6,761	1,037	-	7,927
Repairs, maintenance and security	11,577	1,699	-	5,021
Software expense	-	-	-	-
Tithe to HFHI	2,000	-	-	-
Professional fees	10,915	-	-	-
Total before depreciation	<u>729,429</u>	<u>71,644</u>	<u>315,464</u>	<u>324,442</u>
Depreciation	<u>2,241</u>	<u>-</u>	<u>-</u>	<u>16,232</u>
 Total expenses	 <u>\$ 731,670</u>	 <u>\$ 71,644</u>	 <u>\$ 315,464</u>	 <u>\$ 340,674</u>

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

Total Program Services	Supporting Services			Total Supporting Services	Total Expenses
	Management and General	Fund Raising	Direct Benefits		
\$ 31,147	\$ 15,574	\$ 15,574	\$ -	\$ 31,148	\$ 62,295
389,842	44,649	24,300	-	68,949	458,791
33,689	4,819	3,191	-	8,010	41,699
4,827	690	457	-	1,147	5,974
43,112	6,407	2,451	-	8,858	51,970
315,464	-	-	-	-	315,464
511,996	-	-	-	-	511,996
6,997	1,709	962	-	2,671	9,668
19,368	-	-	-	-	19,368
4,742	2,923	-	-	2,923	7,665
13,506	1,720	-	-	1,720	15,226
3,556	4,111	-	-	4,111	7,667
225	6,142	782	-	6,924	7,149
509	890	527	-	1,417	1,926
6,723	9,760	-	-	9,760	16,483
-	-	-	23,330	23,330	23,330
7,148	1,164	-	-	1,164	8,312
-	-	666	-	666	666
1,191	870	-	-	870	2,061
15,725	8,462	50	-	8,512	24,237
18,297	7,010	-	-	7,010	25,307
-	-	6,837	-	6,837	6,837
2,000	-	-	-	-	2,000
10,915	13,424	-	-	13,424	24,339
<u>1,440,979</u>	<u>130,324</u>	<u>55,797</u>	<u>23,330</u>	<u>209,451</u>	<u>1,650,430</u>
<u>18,473</u>	<u>2,674</u>	<u>-</u>	<u>-</u>	<u>2,674</u>	<u>21,147</u>
<u>\$ 1,459,452</u>	<u>\$ 132,998</u>	<u>\$ 55,797</u>	<u>\$ 23,330</u>	<u>\$ 212,125</u>	<u>\$ 1,671,577</u>

Habitat for Humanity of Spartanburg, Inc.

Statement of Functional Expenses
Year Ended June 30, 2015

	Program Services			
	Construction	Family Support	Discounts on Mortgages	ReStore
Salaries				
Officers	\$ 11,255	\$ 5,628	\$ -	\$ 11,255
Others	113,875	47,609	-	166,794
Payroll taxes	9,586	4,078	-	13,640
Retirement	360	150	-	515
Insurance	6,341	2,428	-	23,707
Mortgage discounts	-	-	258,504	-
Building material and supplies	398,295	-	-	-
Travel, mileage, food and lodging	3,149	976	-	2,034
Truck leasing and expenses	-	-	-	20,684
Supplies	491	-	-	3,643
Utilities	141	3,758	-	12,012
Telephone, web, and internet	1,162	385	-	2,025
Postage & freight	-	232	-	5
Printing and advertising	-	42	-	1,115
Bank fees and charges	-	-	-	5,329
Club fees and expenses	-	-	-	-
Interest	84	-	-	7,133
Resource development	-	-	-	-
Education expense	300	563	-	-
Other expenses	10,554	1,964	-	5,731
Repairs, maintenance and security	3,418	1,479	-	7,130
Software expense	-	-	-	-
Tithe to HFHI	2,000	-	-	-
Professional fees	11,543	-	-	-
Total before depreciation	572,554	69,292	258,504	282,752
Depreciation	2,816	-	-	14,273
Total expenses	\$ 575,370	\$ 69,292	\$ 258,504	\$ 297,025

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

Total Program Services	Supporting Services			Total Supporting Services	Total Expenses
	Management and General	Fund Raising	Direct Benefits		
\$ 28,138	\$ 14,069	\$ 14,069	\$ -	\$ 28,138	\$ 56,276
328,278	52,053	22,939	-	74,992	403,270
27,304	5,065	2,835	-	7,900	35,204
1,025	190	106	-	296	1,321
32,476	5,583	1,688	-	7,271	39,747
258,504	-	-	-	-	258,504
398,295	-	-	-	-	398,295
6,159	3,150	821	-	3,971	10,130
20,684	-	-	-	-	20,684
4,134	3,065	2,192	-	5,257	9,391
15,911	1,978	-	-	1,978	17,889
3,572	3,812	-	-	3,812	7,384
237	3,812	94	-	3,906	4,143
1,157	5,871	278	-	6,149	7,306
5,329	10,257	-	-	10,257	15,586
-	-	-	20,281	20,281	20,281
7,217	1,175	-	-	1,175	8,392
-	-	671	-	671	671
863	4,236	-	-	4,236	5,099
18,249	3,917	50	-	3,967	22,216
12,027	10,297	-	-	10,297	22,324
-	-	3,588	-	3,588	3,588
2,000	-	-	-	-	2,000
11,543	10,155	-	-	10,155	21,698
<u>1,183,102</u>	<u>138,685</u>	<u>49,331</u>	<u>20,281</u>	<u>208,297</u>	<u>1,391,399</u>
<u>17,089</u>	<u>2,351</u>	<u>-</u>	<u>-</u>	<u>2,351</u>	<u>19,440</u>
<u>\$ 1,200,191</u>	<u>\$ 141,036</u>	<u>\$ 49,331</u>	<u>\$ 20,281</u>	<u>\$ 210,648</u>	<u>\$ 1,410,839</u>

Habitat for Humanity of Spartanburg, Inc.

Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities		
Cash received from contributors	\$ 506,217	\$ 254,534
Cash received from fundraising events	51,371	47,286
Cash received from ReStore sales	560,224	506,592
Interest received	85	81
Proceeds from sale of donated land	-	3,800
Cash paid to employees and suppliers	(1,275,118)	(1,104,924)
Interest paid	(8,312)	(8,392)
Net cash provided by (used in) operating activities	<u>(165,533)</u>	<u>(301,023)</u>
Cash Flows from Investing Activities		
Proceeds from sale of property and equipment	28,291	-
Purchase of fixed assets	(16,113)	(12,168)
Mortgage payments received	277,396	254,149
Net cash provided by (used in) investing activities	<u>289,574</u>	<u>241,981</u>
Cash Flows from Financing Activities		
Principal payments on long term debt	(11,514)	(9,503)
Net cash provided by (used in) financing activities	<u>(11,514)</u>	<u>(9,503)</u>
Net increase (decrease) in cash and cash equivalents	112,527	(68,545)
Cash and Cash Equivalents		
Beginning of year	<u>275,697</u>	<u>344,242</u>
End of year	<u>\$ 388,224</u>	<u>\$ 275,697</u>

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

Habitat for Humanity of Spartanburg, Inc.

Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Reconciliation of Changes in Net Assets to Net Cash Provided By (Used In) Operating Activities		
Change in Net Assets	\$ 232,035	\$ 39,011
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided By (Used In) Operating Activities		
Depreciation	21,147	19,440
(Gain) loss on sale of fixed assets	28,410	-
Mortgage loan discount amortization	(158,894)	(153,498)
Transfers to homeowners, net of amortization	(208,607)	(170,113)
Net realized and unrealized (gains) losses on investments	3,164	349
Reinvested interest and dividends on long-term investments	(330)	(395)
Change in assets and liabilities		
(Increase) decrease in construction in progress	(20,468)	(39,014)
(Increase) decrease in prepaid insurance	(2,300)	(380)
(Increase) decrease in contributions receivables	(74,400)	12,000
(Increase) decrease in accounts receivables	1,098	(1,098)
(Increase) decrease in land for development	(7,784)	(9,876)
Increase (decrease) in accounts payable - trade	(11,151)	(1,750)
Increase (decrease) in accrued payroll liabilities	12,329	4,301
Increase (decrease) in other current liability	20,218	-
Total adjustments	(397,568)	(340,034)
Net cash provided by (used in) operating activities	\$ (165,533)	\$ (301,023)

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

Habitat for Humanity of Spartanburg, Inc.

Notes to Financial Statements

Note 1 - Organization and Purpose

Habitat for Humanity of Spartanburg, Inc. (Habitat), a non-profit 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.

Note 2 - Summary of Significant Accounting Policies**a. Financial Statement Presentation**

Habitat for Humanity of Spartanburg, Inc. adopted the provisions of Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, 958-205 "*Not-for-Profit Entities – Presentation of Financial Statements*". Under ASC 958-205, Habitat is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. In addition, Habitat is required to present a statement of cash flows. Accordingly, net assets and changes therein are classified as follows:

Temporarily restricted net assets contain donor-imposed restrictions that permit Habitat to use or expend the donated assets as specified and are satisfied either by the passage of time or by actions of Habitat.

Unrestricted net assets are not restricted by donors, or the donor imposed restrictions have expired.

Permanently restricted net assets are restricted by the donor to be retained perpetually for specific purposes. There were no permanently restricted net assets at the end of Habitat's reporting periods.

b. Method of Accounting

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

c. Cash and Cash Equivalents

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

d. 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.

Habitat for Humanity of Spartanburg, Inc.

Notes to Financial Statements

Note 2 - (continued)

e. 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 totaled \$21,147 and \$19,440 for the years ended June 30, 2016 and 2015.

f. 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. During the years ended June 30, 2016 and 2015, \$81,445 and \$59,413 of land for development was charged to construction costs.

g. Contributions

Habitat also adopted the provisions of Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, 958-605, "Accounting for Contributions Received and Contributions Made", whereby contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Unconditional promises to give are recognized as revenue when the underlying promises are received by Habitat. Gifts of cash or other assets are reported as temporarily 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

h. Gifts of Long-lived Assets

Habitat reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets are to be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, Habitat reports expiration of donor restrictions when the donated or acquired items are placed in service.

i. Donated Services

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.

Habitat for Humanity of Spartanburg, Inc.

Notes to Financial Statements

Note 2 - (continued)

j. 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.

k. 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 \$340,674 and \$297,025 for the years ended June 30, 2016 and 2015.

l. Advertising Costs

Advertising costs are expensed as incurred and totaled \$1,112 and \$592 for the years ended June 30, 2016 and 2015.

m. 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.

n. 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.

	2016		2015	
	Units	Costs	Units	Costs
Homes under construction, beginning of period	4	\$ 50,365	1	\$ 11,351
New homes started during the period and additional construction costs	6	532,464	8	437,309
Homes transferred during the period	(6)	(511,996)	(5)	(398,295)
Homes under construction, end of period	<u>4</u>	<u>\$ 70,833</u>	<u>4</u>	<u>\$ 50,365</u>

o. Income Tax 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

Note 2 - (continued)

p. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

q. Date Through Which Subsequent Events Have Been Evaluated

Habitat has evaluated subsequent events through October 11, 2016; the date financial statements were available to be issued.

Note 3 - 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, 2016 and 2015 are as follows:

	2016	2015
Receivables at face value	\$ 3,807,135	\$ 3,559,531
Less unamortized discount at 7.39% to 8.5%	<u>(1,709,420)</u>	<u>(1,552,851)</u>
	<u>\$ 2,097,715</u>	<u>\$ 2,006,680</u>

At June 30, 2016 these mortgages and contracts are receivable as follows

Year Ended June 30,	
2017	\$ 271,138
2018	261,675
2019	254,176
2020	240,768
2021	227,816
Thereafter	<u>2,551,562</u>
	<u>\$ 3,807,135</u>

During the year ended June 30, 2016, six new non-interest bearing mortgage notes were accepted with a face value of \$524,072 and a discounted value of \$208,608. In addition, \$158,894 of mortgage loan discount amortization was recognized as revenue in the statement of activities during the year ended June 30, 2016.

During the year ended June 30, 2015, five new non-interest bearing mortgage notes were accepted with a face value of \$428,616 and a discounted value of \$170,112. In addition, \$153,498 of mortgage loan discount amortization was recognized as revenue in the statement of activities during the year ended June 30, 2015.

Habitat for Humanity of Spartanburg, Inc.

Notes to Financial Statements

Note 4 - Notes Payable

Notes payable at June 30, 2016 and 2015 consist of the following

	<u>2016</u>	<u>2015</u>
A mortgage with BB&T with monthly interest only payments at prime plus .25% (but not less than 3.75%) and annual principal payments of \$14,700. Collateralized by land, building and equipment located at 2270 South Pine Street, Spartanburg, South Carolina. This loan was modified October 17, 2014. Interest remains the same and 179 monthly payments of \$1,652.17, including interest, are due beginning November 2014 with a final payment of all remaining principal and interest due October 17, 2029.	\$ 211,733	\$ 223,247
	<u>211,733</u>	<u>223,247</u>
Less current portion	11,983	11,514
	<u>\$ 199,750</u>	<u>\$ 211,733</u>

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

Year Ended June 30,	
2017	\$ 11,983
2018	12,446
2019	12,928
2020	13,410
2021	13,947
Thereafter	<u>147,019</u>
	<u>\$ 211,733</u>

Interest expense on long term debt totaled \$8,312 and \$8,392 for the years ended June 30, 2016 and 2015, respectively.

Habitat for Humanity of Spartanburg, Inc.

Notes to Financial Statements

Note 5 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or due for subsequent receipt

	2016	2015
Home construction	\$ 71,000	\$ 1,000
Pledges receivable - home construction	94,400	20,000
New trailer and upfitting	4,724	-
United Way pledge receivable	7,500	7,500
Fundraising software	-	6,412
	<u>\$ 177,624</u>	<u>\$ 34,912</u>

Net assets were released from restrictions by incurring expenses for the purpose or by the passage of time as follows

	2016	2015
Home construction	\$ 387,773	\$ 253,995
Fundraising software	6,412	3,588
New trailer and upfitting	5,276	-
Other purposes	-	1,260
United Way pledge received	7,500	7,500
	<u>\$ 406,961</u>	<u>\$ 266,343</u>

Note 6 - Loan Servicing Agreement

Habitat has entered into an agreement with BB&T whereby the Bank administers and services the mortgage loans receivable of Habitat. The Bank collects 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, 2016 and 2015 totaled \$5,735 and \$5,460, respectively.

Note 7 - ReStore Truck Lease

Habitat entered into an operating lease agreement with Ryder Truck Rental, Inc. on February 19, 2013 to lease a 2011 Isuzu truck for use with its thrift store. The lease was for 36 months and required a monthly payment of \$900 plus 9 cents per mile driven. Habitat was responsible for reimbursing Ryder for all amounts it paid for licenses, taxes and permits on the vehicle which exceeded the annual allowance amount of \$196. Ryder was responsible for maintenance and repairs.

Upon termination of the lease, Habitat entered into a new 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. Due to a problem with the cargo body installation, the new truck has not been delivered and Habitat is continuing to lease the old truck on a monthly basis. The 78-month lease term will commence once the new truck is received.

Habitat for Humanity of Spartanburg, Inc.

Notes to Financial Statements

Note 7 - (continued)

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

Year Ended June 30,		
2017	\$	8,080
2018		12,120
2019		12,120
2020		12,120
2021		12,120
Thereafter		22,220
	<u>\$</u>	<u>78,780</u>

Total lease related payments during the year ended June 30, 2016 and 2015, were \$12,974 and \$12,510.

Note 8 - 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, 2016 and 2015, Habitat contributed \$2,000 and \$2,000 to Habitat for Humanity International. Such amounts are included in program services expense on the statements of activities.

In addition, effective January 1, 2014, Habitat is required to pay an annual U.S. Stewardship and Organizational Sustainability Initiative (US-SOSI) fee to Habitat for Humanity International. For the year ended June 30, 2016 and 2015, the fee was \$15,000 and \$10,000 and is reported as a separate support item on the statements of activities.

Note 9 - Significant Tax Positions

Habitat believes that it is more likely than not that any significant tax positions would be sustained upon examination by the taxing authorities and it has not been subjected to such examinations. Tax years ending June 30, 2014, 2015, and 2016 remain subject to examination by the taxing authorities.

Note 10 - Concentration of Credit Risk

Habitat maintains its cash balances in one financial institution in which the balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2016, Habitat's bank balances at this institution totaled \$381,902 and its book balances were \$388,074. At times the balances in these accounts exceed insured balances. 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.

Habitat for Humanity of Spartanburg, Inc.

Notes to Financial Statements

Note 11 - Assets Transferred to a Recipient Organization

Habitat has an interest in a fund with the Spartanburg County Foundation. 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 to redistribute the principal and income of the fund if it determines the charitable use is unnecessary, undesirable, impractical, or no longer adapted to the needs of the community.

Habitat adopted ASC, 820-10, "Fair Value Measurements" for fair value measurements of investments that are recognized and disclosed at fair value in the financial statements on a recurring basis. ASC, 820-10, "Fair Value Measurements" establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical investments that the Organization has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the investments, either directly or indirectly.
- Level 3 inputs are unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table represents the investments that are measured at fair value on a recurring basis at June 30, 2016 and 2015:

2016	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Funds held at Spartanburg County Foundation	\$ 66,936	\$ -	\$ -	\$ 66,936
2015	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Funds held at Spartanburg County Foundation	\$ 69,771	\$ -	\$ -	\$ 69,771

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.

Habitat for Humanity of Spartanburg, Inc.

Notes to Financial Statements

Note 11 - (continued)

Changes in the Foundation account for the years ended June 30, 2016 and 2015 were as follows:

	2016	2015
Beginning Balance	\$ 69,771	\$ 69,725
Dividends and interest	996	1,088
Realized and unrealized gains (losses)	(3,165)	(349)
Investment fees	(666)	(693)
Ending Balance	\$ 66,936	\$ 69,771

Gains and (losses) for the year ended June 30, 2016 of \$124 realized and \$(3,289) unrealized and for the year ended June 30, 2015 of \$385 realized and \$(734) 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.

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. The fair value of the two parcels of land which were received during the current fiscal year was determined to be \$23,900 and is shown in land held for development on the statement of financial position. The fair value of the eleven parcels of land received during the year ended June 30, 2015 was determined to be \$69,289.

Note 13 - U.S. Stewardship and Organizational Sustainability Initiative

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. For the year ended June 30, 2014, the fee was \$5,000. For the year ending June 30, 2015, the fee was \$10,000. For the remaining fixed term, the fee is \$15,000 annually. The fee is invoiced annually at the start of the fiscal year, July 1, and is due by July 31.

Note 14 - 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 \$5,974 and \$1,321 for the years ended June 30, 2016 and 2015.

Habitat for Humanity of Spartanburg, Inc.

Notes to Financial Statements

Note 15 - BMW Joint House with Greenville Habitat

BMW Corporation sponsored a joint home in Greer with Habitat for Humanity of Greenville, Inc. and Habitat for Humanity of Spartanburg, Inc. during the year ended June 30, 2016. All monies for the construction of this home went through the Greenville Chapter. As of June 30, 2016 total costs of \$74,955 had been incurred and construction of the home was complete. Habitat for Humanity of Greenville, Inc. had received \$70,000 from BMW for sponsorship of the home. One-half of the construction costs, \$37,477 is included in construction in progress on the statements of financial position and \$35,000 is included in contributions for home sponsorships on the statements of activities as of June 30, 2016. The home closed on July 27, 2016 and an outside federal credit union holds the mortgage. Habitat for Humanity received half of the proceeds which equaled \$38,857 on August 19, 2016.

Note 16 - 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, 2016, Habitat had acquired one lot and demolished the structure on another lot it owned through this program. A total of \$21,537 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 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 \$21,537 as contributions on the statements of activities.

Note 17 - Land Swap with Northside Development Corporation

Habitat and Northside Development Corporation entered into an agreement to swap certain parcels of land. Northside Development Corporation deeded three parcels of land with a value of \$40,435 to Habitat. Habitat has deeded 2 parcels with an established value of \$20,217 to Northside. Northside has identified the last piece of property and Habitat is in the process of acquiring that land. A current liability of \$20,218 is shown on the statements of financial position for the value of the lot owed to Northside Development Corporation from the property exchange.

Note 18 - 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 YouthBuild 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.

Note 19 - 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 currently plans to purchase two lots in the Dayton area for this project. The grant is contingent on the completion of the homes.