

HABITAT FOR HUMANITY OF SPARTANBURG, INC.

FINANCIAL STATEMENTS

JUNE 30. 2017 AND 2016

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

TABLE OF CONTENTS

	<u>Page</u>
Independent Accountant's Report	2
Statements Financial Position	3-4
Statements of Activities and Changes in Net Assets	5
Statements of Functional Expenses	6-7
Statements of Cash Flows	8-9
Notes to Financial Statements	10-19

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

INDEPENDENT AUDITOR'S REPORT

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, 2017, 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 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 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 June 30, 2017 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, 2017, 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.

Prior Period Financial Statements

The financial statements of Habitat for Humanity of Spartanburg, Inc. as of June 30, 2016, were audited by other auditors whose report dated October 11, 2016, expressed an unmodified opinion on those statements.

McAbee, Schwartz, Halliday & Co.

Spartanburg, South Carolina
October 4, 2017

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
 STATEMENTS OF FINANCIAL POSITION
 JUNE 30, 2017 AND 2016

	ASSETS	
	2017	2016
Current Assets		
Cash and cash equivalents	\$ 385,541	\$ 388,224
Accounts receivable	3,750	19,139
Contributions receivable	-	101,900
Construction in progress	192,403	70,833
Mortgages receivable - current	113,205	114,092
Prepaid insurance	14,013	14,013
	708,912	708,201
Property and Equipment		
Land and improvements	120,000	120,000
Furniture and equipment	68,314	64,189
Trailers and vehicles	4,584	4,584
Pine Street building	521,745	521,745
	714,643	710,518
Less: accumulated depreciation	(234,308)	(217,551)
	480,335	492,967
Other Assets		
Spartanburg County Foundation account	72,902	66,936
Mortgages receivable - net of current portion	2,015,218	1,983,623
Land for development	128,773	139,905
	2,216,893	2,190,464
Total Assets	\$ 3,406,140	\$ 3,391,632

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
 STATEMENTS OF FINANCIAL POSITION - CONTINUED
 JUNE 30, 2017 AND 2016

LIABILITIES AND NET ASSETS		
	2017	2016
Current Liabilities		
Accounts payable	\$ 31,758	\$ 22,001
Accrued payroll liabilities	32,215	38,390
Notes payable - current	12,446	11,983
Property exchange liability	-	20,218
	76,419	92,592
Long-term liabilities		
Notes payable - net of current portion	187,700	199,750
Total Liabilities	264,119	292,342
Net Assets		
Unrestricted	3,023,915	2,854,730
Temporarily restricted	118,106	244,560
Total Net Assets	3,142,021	3,099,290
Total Liabilities and Net Assets	\$ 3,406,140	\$ 3,391,632

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

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Unrestricted Net Assets		
Revenues, Gains and Other Support		
Contributions	\$ 112,155	\$ 131,544
ReStore sales	630,923	560,224
Transfers to homeowners	487,684	517,500
Noncash donations of land and appliances	23,340	36,508
Other income	74	416
Gain (loss) on disposal of donated land	(552)	(4,573)
Mortgage loan discount amortization	158,533	158,894
	1,412,157	1,400,513
Net assets released from restrictions	354,102	406,961
	1,766,259	1,807,474
Expenses		
Program services		
Construction	636,321	731,670
Family support	70,892	71,644
Discounts on mortgages	255,615	315,464
ReStore expenses	380,441	340,674
Supporting services		
Management and general	150,290	132,998
Fundraising	62,792	55,797
Cost of direct benefits	25,724	23,330
	1,582,075	1,671,577
Unallocated payment to affiliated organization	15,000	15,000
Loss on sale of fixed asset	-	28,410
	1,597,075	1,714,987
Change in Unrestricted Net Assets	169,184	92,487
Temporarily Restricted Net Assets		
Contributions and fundraising	221,683	549,673
Realized and unrealized gains (losses) on investments	5,966	(3,164)
Net assets released from restrictions	(354,102)	(406,961)
Change in Temporarily Restricted Net Assets	(126,453)	139,548
Total Change in Net Assets	42,731	232,035
Net Assets - Beginning of Year	3,099,290	2,867,255
Net Assets - End of Year	\$ 3,142,021	\$ 3,099,290

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, 2017

	Program Services				Total Program Services	Supporting Services			Total Supporting Services	Total Expenses
	Construction	Family Support	Discounts on Mortgages	ReStore		Management and General	Fund Raising	Direct Benefits		
Salaries and benefits	\$ 194,457	\$ 65,468	\$ -	\$ 280,154	\$ 540,079	\$ 79,212	\$ 57,700	\$ -	\$ 136,912	\$ 676,991
Mortgage discounts	-	-	255,615	-	255,615	-	-	-	-	255,615
Building material and supplies	402,249	-	-	-	402,249	-	-	-	-	402,249
Travel and auto expenses	4,669	814	-	24,443	29,926	2,579	633	-	3,212	33,138
Building expense and other	24,045	2,711	-	43,012	69,768	23,918	-	-	23,918	93,686
Office supplies and expenses	1,218	503	-	11,964	13,685	23,073	3,169	25,724	51,966	65,651
Interest	82	-	-	7,003	7,085	1,154	-	-	1,154	8,239
Training and education	600	1,396	-	100	2,096	5,299	1,290	-	6,589	8,685
Tithe to HFHI	-	-	-	-	-	2,000	-	-	2,000	2,000
Professional fees	8,276	-	-	-	8,276	10,788	-	-	10,788	19,064
Total before depreciation	635,596	70,892	255,615	366,676	1,328,779	148,023	62,792	25,724	236,539	1,565,318
Depreciation	725	-	-	13,765	14,490	2,267	-	-	2,267	16,757
Total expenses	\$ 636,321	\$ 70,892	\$ 255,615	\$ 380,441	\$ 1,343,269	\$ 150,290	\$ 62,792	\$ 25,724	\$ 238,806	\$ 1,582,075

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, 2016

	Program Services				Total Program Services	Supporting Services			Total Supporting Services	Total Expenses
	Construction	Family Support	Discounts on Mortgages	ReStore		Management and General	Fund Raising	Direct Benefits		
Salaries and benefits	\$ 179,139	\$ 63,712	\$ -	\$ 243,150	\$ 486,001	\$ 69,434	\$ 45,973	\$ -	\$ 115,407	\$ 601,408
Mortgage discounts	-	-	315,464	-	315,464	-	-	-	-	315,464
Building material and supplies	511,996	-	-	-	511,996	-	-	-	-	511,996
Travel and auto expenses	4,202	583	-	21,580	26,365	1,709	962	-	2,671	29,036
Building expense and other	19,868	5,678	-	43,340	68,886	22,820	50	-	22,870	91,756
Office supplies and expenses	1,226	480	-	9,307	11,013	20,903	8,146	23,330	52,379	63,392
Interest	83	-	-	7,065	7,148	1,164	-	-	1,164	8,312
Training and education	-	1,191	-	-	1,191	870	666	-	1,536	2,727
Tithe to HFHI	2,000	-	-	-	2,000	-	-	-	-	2,000
Professional fees	10,915	-	-	-	10,915	13,424	-	-	13,424	24,339
Total before depreciation	729,429	71,644	315,464	324,442	1,440,979	130,324	55,797	23,330	209,451	1,650,430
Depreciation	2,241	-	-	16,232	18,473	2,674	-	-	2,674	21,147
Total expenses	\$ 731,670	\$ 71,644	\$ 315,464	\$ 340,674	\$ 1,459,452	\$ 132,998	\$ 55,797	\$ 23,330	\$ 212,125	\$ 1,671,577

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, 2017 AND 2016

	2017	2016
Cash Flows Provided (Used) by Operating Activities		
Cash received from contributors	\$ 435,738	\$ 557,588
Cash received from ReStore sales	630,923	560,224
Interest received	74	85
Proceeds from sale of donated land	20,500	-
Cash paid to employees and suppliers	(1,406,183)	(1,275,118)
Interest paid	(8,239)	(8,312)
	(327,187)	(165,533)
Cash Flows Provided (Used) by Investing Activities		
Proceeds from sale of property and equipment	-	28,291
Purchase of fixed assets	(4,125)	(16,113)
Mortgage receivables increase	340,216	277,396
	336,091	289,574
Cash Flows Provided (Used) by Financing Activities		
Payments on long term debt	(11,587)	(11,514)
Net increase (decrease) in cash and cash equivalents	(2,683)	112,527
Cash and Cash Equivalents - Beginning of Year	388,224	275,697
Cash and Cash Equivalents - End of Year	\$ 385,541	\$ 388,224
Supplemental Disclosure: Interest Paid	\$ 8,239	\$ 8,312

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
STATEMENTS OF CASH FLOWS - CONTINUED
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Reconciliation of Change in Net Assets to Net Cash Provided By (Used In) Operating Activities		
Total Change in Net Assets	\$ 42,731	\$ 232,035
Adjustments to Reconcile Total Change in Net Assets to Net Cash Provided (Used) by Operating Activities		
Depreciation	16,757	21,147
(Gain) loss on sale of fixed assets & donated land	552	28,410
Mortgage loan discount amortization	(158,533)	(158,894)
Transfers to homeowners, net of amortization	(224,875)	(208,607)
Net realized and unrealized (gains) losses on investments	5,596	3,164
Reinvested interest and dividends; long-term investments	369	(330)
Change in assets and liabilities		
(Increase) decrease in construction in progress	(121,570)	(20,468)
(Increase) decrease in prepaid insurance	-	(2,300)
(Increase) decrease in contributions receivables	101,900	(74,400)
(Increase) decrease in accounts receivables	15,389	1,098
(Increase) decrease in land for development	11,132	(7,784)
Increase (decrease) in accounts payable - trade	9,757	(11,151)
Increase (decrease) in accrued payroll liabilities	(6,175)	12,329
Increase (decrease) in other current liability	(20,218)	20,218
	(369,918)	(397,568)
Net Cash Provided (Used) by Operating Activities	\$ (327,187)	\$ (165,533)

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

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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

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.

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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.

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, 2017 and 2016. was \$16,757 and \$21,147, 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, 2017 and 2016, was \$96,428 and \$81,445, respectively.

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.

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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.

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 \$380,441 and \$340,674 for the years ended June 30, 2017 and 2016.

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.

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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.

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, 2017, Habitat's bank balances at this institution totaled \$372,555 and its book balances were \$385,541. 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.

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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, 2017 and 2016:

2017	Fair Value	Level 1	Level 2	Level 3
Funds held at Spartanburg County Foundation	\$ 72,902	\$ -	\$ -	\$ 72,902
2016	Fair Value	Level 1	Level 2	Level 3
Funds held at Spartanburg County Foundation	\$ 66,936	\$ -	\$ -	\$ 66,936

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.

Changes in the Foundation account for the years ended June 30, 2017 and 2016 were as follows:

	2017	2016
Beginning Balance	\$ 66,936	\$ 69,771
Dividends and interest	1,068	996
Realized and unrealized gains (losses)	5,596	(3,165)
Investment fees	(698)	(666)
Ending Balance	\$ 72,902	\$ 66,936

Gains and (losses) for the year ended June 30, 2017 of \$(293) realized and \$5,889 unrealized and for the year ended June 30, 2016 of \$124 realized and \$(3,289) 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.

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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, 2017 and 2016 are as follows:

	2017	2016
Receivables at face value	\$ 3,934,925	\$ 3,807,135
Less unamortized discount at 7.39% to 8.5%	(1,806,502)	(1,709,420)
	\$ 2,128,423	\$ 2,097,715

At June 30, 2017 these mortgages and contracts are receivable as follows:

Year Ended June 30,			
2018	\$	271,386	
2019		265,657	
2020		251,106	
2021		238,640	
2022		229,546	
Thereafter		2,678,590	
		\$ 3,934,925	

During the year ended June 30, 2017, five new non-interest bearing mortgage notes were accepted with a face value of \$452,506 and a discounted value of \$194,885. In addition, \$158,533 of mortgage loan discount amortization was recognized as revenue in the statement of activities during the year ended June 30, 2017.

During the year ended June 30, 2017, Habitat foreclosed on one home. The carrying amount of the home is \$55,670 and is included in Construction in progress.

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.

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.

	2017		2016	
	Units	Costs	Units	Costs
Homes under construction, beginning of period	4	\$ 70,833	4	\$ 50,365
New homes started during the period and additional construction costs	6	523,819	6	532,464
Homes transferred during the period	(6)	(402,249)	(6)	(511,996)
Homes under construction, end of period	4	\$ 192,403	4	\$ 70,833

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 6 – NOTES PAYABLE

Notes payable at June 30, 2017 and 2016 consist of the following:

	2017	2016
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.	\$ 200,146	\$ 211,733
	200,146	211,733
Less current portion	12,446	11,983
	\$ 187,700	\$ 199,750

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

Year Ended June 30,	
2018	\$ 12,446
2019	12,928
2020	13,410
2021	13,947
2022	14,486
Thereafter	120,483
	\$ 187,700

Interest expense on long term debt totaled \$8,239 and \$8,312 for the years ended June 30, 2017 and 2016, respectively.

NOTE 7 – 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, 2017 and 2016 totaled \$5,790 and \$5,735, respectively.

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2017</u>	<u>2016</u>
Home construction	\$ 35,768	\$ 71,000
Pledges receivable - home construction	-	94,400
New trailer and upfitting	-	4,724
United Way pledge receivable	-	7,500
Capacity Grant	1,236	-
Una Light Project and education	8,200	-
Spartanburg County Foundation Account	72,902	66,936
	<u>\$ 118,106</u>	<u>\$ 244,560</u>

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

	<u>2017</u>	<u>2016</u>
Home construction	\$ 338,115	\$ 387,773
Fundraising software	-	6,412
New trailer and upfitting	-	5,276
Construction container	8,487	-
United Way	7,500	7,500
	<u>\$ 354,102</u>	<u>\$ 406,961</u>

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 \$8,564 and \$5,974 for the years ended June 30, 2017 and 2016.

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 10 – RESTORE TRUCK 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.

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

Year Ended June 30		
2018	\$	12,120
2019		12,120
2020		12,120
2021		12,120
2022		12,120
Thereafter		3,030
		\$ 63,630

Total lease related payments during the year ended June 30, 2017 and 2016, were \$13,493 and \$12,974.

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, 2017 and 2016, Habitat contributed \$2,000 each year 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. The fair value of the three parcels of land which were received during the current fiscal year was determined to be \$21,075 and the 1 parcel not transferred to a homeowner during the year is shown in land held for development on the statement of financial position. The fair value of the two parcels of land received during the year ended June 30, 2016 was determined to be \$23,900.

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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, 2017, Habitat had acquired one lot and demolished the structure on another lot it owned through this program. A total of \$32,612 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 \$12,075 as revenue on the statements of activities for the year ended June 30, 2017.

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 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. During the year ended June 30, 2017, \$39,811 has been recorded as revenue on the statements of activities, with 4,431 remaining in temporarily restricted net assets.

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 currently plans to purchase 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, 2017, \$41,507 has been recorded as revenue on the statements of activities, with 27,652 remaining in temporarily restricted net assets.

NOTE 16 - RECLASSIFICATIONS

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

NOTE 17 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 4, 2017, which is the date the financial statements were available to be issued.