

HABITAT FOR HUMANITY OF SPARTANBURG, INC.

FINANCIAL STATEMENTS

JUNE 30. 2018 AND 2017

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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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, 2018 and 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 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, 2018 and 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.

McAbee, Schwartz, Halliday & Co.

Spartanburg, South Carolina
October 3, 2018

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 426,607	\$ 385,541
Accounts receivable	-	3,750
Pledges receivable	77,568	-
Construction in progress	95,409	192,403
Mortgages receivable - current	119,986	113,206
Prepaid insurance	10,960	14,013
	730,530	708,913
Property and Equipment		
Land and improvements	120,000	120,000
Furniture and equipment	70,561	68,314
Trailers and vehicles	20,319	4,584
Pine Street building	521,745	521,745
	732,625	714,643
Less: accumulated depreciation	(252,141)	(234,308)
	480,484	480,335
Other Assets		
Spartanburg County Foundation account	76,944	72,902
Mortgages receivable - net of current portion	2,124,066	2,015,218
Land for development	253,401	128,773
	2,454,411	2,216,893
Total Assets	\$ 3,665,425	\$ 3,406,140

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
 STATEMENTS OF FINANCIAL POSITION - CONTINUED
 JUNE 30, 2018 AND 2017

LIABILITIES AND NET ASSETS		
	2018	2017
Current Liabilities		
Accounts payable	\$ 25,874	\$ 31,757
Accrued payroll liabilities	20,788	32,215
Notes payable - current	12,928	12,446
	59,590	76,419
Long-term liabilities		
Notes payable - net of current portion	176,671	187,700
Total Liabilities	236,261	264,119
Net Assets		
Unrestricted	3,091,928	3,023,915
Temporarily restricted	337,236	118,106
Total Net Assets	3,429,164	3,142,021
Total Liabilities and Net Assets	\$ 3,665,425	\$ 3,406,140

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, 2018 AND 2017

	2018	2017
Unrestricted Net Assets		
Revenues, Gains and Other Support		
Contributions	\$ 191,826	\$ 112,155
ReStore sales	642,702	630,923
Transfers to homeowners	574,706	487,684
Noncash donations of land and appliances	12,608	23,340
Other income	76	74
Gain (loss) on disposal of donated land	-	(552)
Mortgage loan discount amortization	156,474	158,533
	1,578,392	1,412,157
Net assets released from restrictions	382,935	354,102
	1,961,327	1,766,259
Expenses		
Program services		
Construction	730,295	636,321
Family support	76,345	70,892
Discounts on mortgages	352,972	255,615
ReStore expenses	436,755	380,441
Supporting services		
Management and general	196,976	150,290
Fundraising	57,894	62,792
Golf tournament direct costs	27,077	25,724
	1,878,314	1,582,075
Unallocated payment to affiliated organization	15,000	15,000
	1,893,314	1,597,075
Change in Unrestricted Net Assets	68,013	169,184
Temporarily Restricted Net Assets		
Contributions and fundraising	598,586	221,683
Realized and unrealized gains (losses) on investments	3,479	5,966
Net assets released from restrictions	(382,935)	(354,102)
Change in Temporarily Restricted Net Assets	219,130	(126,453)
Total Change in Net Assets	287,143	42,731
Net Assets - Beginning of Year	3,142,021	3,099,290
Net Assets - End of Year	\$ 3,429,164	\$ 3,142,021

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	1,580,759	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	\$ 1,596,368	\$ 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.
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	Golf Tour. Costs		
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.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash Flows Provided (Used) by Operating Activities		
Cash received from contributors	\$ 630,281	\$ 435,738
Cash received from ReStore sales	642,702	630,923
Interest received	76	74
Proceeds from sale of donated land	-	20,500
Cash paid to employees and suppliers	(1,465,058)	(1,406,183)
Interest paid	(9,279)	(8,239)
	(201,277)	(327,187)
Cash Flows Provided (Used) by Investing Activities		
Proceeds from sale of property and equipment	-	-
Purchase of fixed assets	(17,982)	(4,125)
Mortgage receivables increase	270,873	340,216
	252,891	336,091
Cash Flows Provided (Used) by Financing Activities		
Payments on long term debt	(10,547)	(11,587)
Net increase (decrease) in cash and cash equivalents	41,066	(2,683)
Cash and Cash Equivalents - Beginning of Year	385,541	388,224
Cash and Cash Equivalents - End of Year	\$ 426,607	\$ 385,541
Supplemental Disclosure: Interest Paid	\$ 9,279	\$ 8,239

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
STATEMENTS OF CASH FLOWS - CONTINUED
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Reconciliation of Change in Net Assets to Net Cash Provided By (Used In) Operating Activities		
Total Change in Net Assets	\$ 287,143	\$ 42,731
Adjustments to Reconcile Total Change in Net Assets to Net Cash Provided (Used) by Operating Activities		
Depreciation	17,833	16,757
(Gain) loss on sale of fixed assets & donated land	-	552
Mortgage loan discount amortization	(156,474)	(158,533)
Transfers to homeowners, net of amortization	(230,029)	(224,875)
Net realized and unrealized (gains) losses on investments	(4,042)	5,596
Reinvested interest and dividends; long-term investments	-	369
Change in assets and liabilities		
(Increase) decrease in construction in progress	96,994	(121,570)
(Increase) decrease in prepaid insurance	3,053	-
(Increase) decrease in contributions receivables	(77,568)	101,900
(Increase) decrease in accounts receivables	3,750	15,389
(Increase) decrease in land for development	(124,628)	11,132
Increase (decrease) in accounts payable - trade	(5,882)	9,757
Increase (decrease) in accrued payroll liabilities	(11,427)	(6,175)
Increase (decrease) in other current liability	-	(20,218)
	(488,420)	(369,919)
Net Cash Provided (Used) by Operating Activities	\$ (201,277)	\$ (327,188)

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

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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 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, 2018 AND 2017

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.

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, 2018 and 2017 was \$17,834 and \$16,757, 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, 2018 and 2017, was \$37,372 and \$96,428, respectively.

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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 \$436,755 and \$380,441 for the years ended June 30, 2018 and 2017.

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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, 2018, Habitat's bank balances at this institution totaled \$418,728 and its book balances were \$426,607. 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, 2018 AND 2017

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, 2018 and 2017:

2018	Fair Value	Level 1	Level 2	Level 3
Funds held at Spartanburg County Foundation	\$ 76,944	\$ -	\$ -	\$ 76,944
2017	Fair Value	Level 1	Level 2	Level 3
Funds held at Spartanburg County Foundation	\$ 72,902	\$ -	\$ -	\$ 72,902

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, 2018 and 2017 were as follows:

	2018	2017
Beginning Balance	\$ 72,902	\$ 66,936
Dividends and interest	1,326	1,068
Realized and unrealized gains (losses)	3,479	5,596
Investment fees	(763)	(698)
Ending Balance	\$ 76,944	\$ 72,902

Gains and (losses) for the year ended June 30, 2018 of \$(4) realized and \$3,483 unrealized and for the year ended June 30, 2017 of \$(293) realized and \$5,889 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, 2018 AND 2017

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, 2018 and 2017 are as follows:

	2018	2017
Receivables at face value	\$ 4,247,053	\$ 3,934,925
Less unamortized discount at 7.39% to 8.5%	(2,003,001)	(1,806,502)
	\$ 2,244,052	\$ 2,128,423

At June 30, 2018 these mortgages and contracts are receivable as follows:

Year Ended June 30,		
2019	\$	284,697
2020		268,416
2021		257,909
2022		249,062
2023		240,647
Thereafter		2,946,322
		\$ 4,247,053

During the year ended June 30, 2018, six new non-interest bearing mortgage notes and one refinance 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, 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. This home was refurbished and sold during the year ended June 30, 2018

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:

	2018		2017	
	Units	Costs	Units	Costs
Homes under construction, beginning of period	4	\$ 192,403	4	\$ 70,833
New homes started during the period and additional construction costs	4	375,898	6	523,819
Homes transferred during the period	(6)	(472,892)	(6)	(402,249)
Homes under construction, end of period	2	\$ 95,409	4	\$ 192,403

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 6 – NOTES PAYABLE

Notes payable at June 30, 2018 and 2017 consist of the following:

	2018	2017
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.	\$ 189,599	\$ 200,146
	189,599	200,146
Less current portion	12,928	12,446
	\$ 176,671	\$ 187,700

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

Year Ended June 30,	
2019	12,928
2020	13,410
2021	13,947
2022	14,486
2023	15,047
Thereafter	106,853
	\$ 176,671

Interest expense on long term debt totaled \$9,279 and \$8,239 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017 totaled \$5,810 and \$5,790, respectively.

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2018</u>	<u>2017</u>
Home construction	\$ 81,643	\$ 35,768
Pledges receivable - home construction	68,438	-
United Way pledge receivable	10,000	-
Capacity Grant	1,199	1,236
Una Light Project and education	4,628	8,200
Land donations via NIP grant agreement	94,384	-
Spartanburg County Foundation Account	76,944	72,902
	<u>\$ 337,236</u>	<u>\$ 118,106</u>

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

	<u>2018</u>	<u>2017</u>
Home construction and pledges receivable	\$ 379,363	\$ 338,115
Una Lights	3,572	-
Construction container	-	8,487
United Way	-	7,500
	<u>\$ 382,935</u>	<u>\$ 354,102</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 \$7,921 and \$8,564 for the years ended June 30, 2018 and 2017.

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
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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	
2019	\$ 12,120
2020	12,120
2021	12,120
2022	12,120
2023	3,030
	\$ 51,510

Total lease related payments during the year ended June 30, 2018 and 2017, were \$22,291 and \$13,493.

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	
2019	\$ 4,188
2020	4,188
2021	4,188
2022	4,188
2023	3,490
	\$ 20,242

Total lease related payments during the year ended June 30, 2018 were \$1,172.

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, 2018 and 2017, Habitat contributed \$4,000 and \$2,000 respectively to Habitat for Humanity International. Such amounts are included in program services expense on the statements of activities.

HABITAT FOR HUMANITY OF SPARTANBURG, INC.
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NOTE 11 – TRANSACTIONS WITH HABITAT FOR HUMANITY INTERNATIONAL - CONTINUED

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 seven parcels of land which were received during the current fiscal year was determined to be \$82,000. The fair value of the three parcels of land received during the year ended June 30, 2017 was determined to be \$21,075.

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, 2018, 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 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 and \$12,075 as revenue on the statements of activities for the year ended June 30, 2018 and 2017, respectively.

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 years ended June 30, 2018, and June 30, 2017, \$16,246 and \$39,811, respectively has been recorded as revenue on the statements of activities.

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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, 2017, and June 30, 2018, \$41,507 and \$98,730, respectively, has been recorded as revenue on the statements of activities.

NOTE 16 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 3, 2018, which is the date the financial statements were available to be issued.