

HABITAT FOR HUMANITY OF THE NC SANDHILLS, INC.

**Audited Financial Statements
June 30, 2017 and 2016**

HABITAT FOR HUMANITY OF THE NC SANDHILLS, INC.
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Habitat for Humanity of the NC Sandhills, Inc.
Aberdeen, North Carolina

We have audited the accompanying financial statements of Habitat for Humanity of the NC Sandhills, Inc. (a nonprofit corporation), which comprise the statements of financial position as of June 30, 2017 and 2016 and the related statements of activities, 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 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of the NC Sandhills, Inc. as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Busby & Co.

Busby & Co.

January 3, 2018

HABITAT FOR HUMANITY OF THE NC SANDHILLS, INC.
Statements of Financial Position
June 30, 2017 and 2016

	2017	2016
ASSETS		
Current Assets:		
Cash	\$ 567,280	\$ 388,174
Cash - restricted	12,138	36,505
Inventory	456,707	509,481
Pledges receivable	7,200	18,790
Sales tax receivable	7,687	9,743
Other receivable	1,800	1,761
Prepaid expense	-	7,500
Total Current Assets	1,052,812	971,954
Fixed Assets:		
Buildings	821,581	818,041
Furniture and equipment	96,565	83,928
Vehicles	138,764	143,264
	1,056,910	1,045,233
Less accumulated depreciation	446,248	422,453
	610,662	622,780
Land	121,499	151,599
Total Fixed Assets	732,161	774,379
Other Assets:		
Mortgages receivable	4,559,222	4,507,753
Gift annuity	11,761	11,122
SECU escrow	3,950	-
Cash value of life insurance	30,605	17,480
Total Other Assets	4,605,538	4,536,355
TOTAL ASSETS	\$ 6,390,511	\$ 6,282,688

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF THE NC SANDHILLS, INC.
Statements of Financial Position
June 30, 2017 and 2016

	2017	2016
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 45,595	\$ 49,545
Sales tax payable	6,178	4,912
Accrued liabilities	2,456	3,105
House deposits	19,582	20,582
Gift annuity	6,944	6,979
Funds held for the benefit of mortgagees	12,138	36,505
Deferred revenue	25,000	-
Notes payable - current portion of long-term debt	265,794	221,500
Total Current Liabilities	383,687	343,128
Long-Term Debt:		
Long-term debt - less current portion	2,418,447	2,486,907
Total Long-Term Debt	2,418,447	2,486,907
Net Assets:		
Unrestricted	3,588,377	3,445,557
Temporarily restricted	-	7,096
Total Net Assets	3,588,377	3,452,653
TOTAL LIABILITIES AND NET ASSETS	\$ 6,390,511	\$ 6,282,688

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF THE NC SANDHILLS, INC.

Statements of Activities

For the Years Ended June 30, 2017 and 2016

	2017		
	Unrestricted	Temporarily Restricted	Total
Support:			
Contributions	\$ 402,477	\$ -	\$ 402,477
Special events	153,424	-	153,424
Total Support	555,901	-	555,901
Revenue:			
Homes	765,400	-	765,400
Discount amortized	291,995	-	291,995
Interest	510	-	510
Store sales	1,007,946	-	1,007,946
Other	15,957	-	15,957
Gain (loss) on sale or disposal of fixed asset	(12,517)	-	(12,517)
Gain (loss) on annuity	638	-	638
Net assets released from restrictions:			
Satisfaction of purpose restrictions	7,096	(7,096)	-
Total Revenue	2,077,025	(7,096)	2,069,929
Total Support and Revenue	2,632,926	(7,096)	2,625,830
Expenses:			
Program Services			
Cost of homes	716,617	-	716,617
Cost of store sales	562,234	-	562,234
Program	518,290	-	518,290
Discounts issued	341,320	-	341,320
General and administrative	263,527	-	263,527
Fundraising	88,118	-	88,118
Total Expenses	2,490,106	-	2,490,106
Change in Net Assets	142,820	(7,096)	135,724
Net Assets, Beginning of Year	3,445,557	7,096	3,452,653
Net Assets, End of Year	\$ 3,588,377	\$ -	\$ 3,588,377

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF THE NC SANDHILLS, INC.

Statements of Activities

For the Years Ended June 30, 2017 and 2016

	2016		Total
	Unrestricted	Temporarily Restricted	
Support:			
Contributions	\$ 278,755	\$ 61,904	\$ 340,659
Special events	145,478	-	145,478
Total Support	<u>424,233</u>	<u>61,904</u>	<u>486,137</u>
Revenue:			
Homes	876,250	-	876,250
Discount amortized	291,583	-	291,583
Interest	276	-	276
Store sales	929,502	-	929,502
Other	7,205	-	7,205
Gain (loss) on sale or disposal of fixed asset	249,172	-	249,172
Gain (loss) on annuity	(531)	-	(531)
Net assets released from restrictions:			
Satisfaction of purpose restrictions	54,808	(54,808)	-
Total Revenue	<u>2,408,265</u>	<u>(54,808)</u>	<u>2,353,457</u>
Total Support and Revenue	<u>2,832,498</u>	<u>7,096</u>	<u>2,839,594</u>
Expenses:			
Program Services			
Cost of homes	965,759	-	965,759
Cost of store sales	513,618	-	513,618
Program	494,189	-	494,189
Discounts issued	371,307	-	371,307
General and administrative	262,207	-	262,207
Fundraising	75,634	-	75,634
Total Expenses	<u>2,682,714</u>	<u>-</u>	<u>2,682,714</u>
Change in Net Assets	149,784	7,096	156,880
Net Assets, Beginning of Year	<u>3,295,773</u>	<u>-</u>	<u>3,295,773</u>
Net Assets, End of Year	<u>\$ 3,445,557</u>	<u>\$ 7,096</u>	<u>\$ 3,452,653</u>

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF THE NC SANDHILLS, INC.
Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 135,724	\$ 156,880
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	31,930	30,816
(Gain) loss on annuity	(638)	531
(Gain) loss on sale or disposal of property	12,517	(249,172)
(Increase) decrease in mortgage receivable	(51,469)	(110,916)
(Increase) decrease in sales tax receivable	2,056	5,086
(Increase) decrease in other receivables	11,551	25,470
(Increase) decrease in prepaid expenses	7,500	(7,500)
(Increase) decrease in inventories	52,774	206,865
(Increase) decrease in other assets	(17,714)	32,493
Increase (decrease) in accounts payable	(3,950)	(16,167)
Increase (decrease) in accrued liabilities	(649)	7,394
Increase (decrease) in sales tax payable	1,266	(413)
Increase (decrease) in money held for the benefit of mortgagees	(25,402)	(10,935)
Increase (decrease) in deferred revenue	25,000	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>180,496</u>	<u>70,432</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash payments for the purchase of property	(25,176)	(13,759)
Cash proceeds from the sale of property	35,557	325,000
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>10,381</u>	<u>311,241</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	235,701	627,095
Principal payments on long-term debt	(271,839)	(777,167)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(36,138)</u>	<u>(150,072)</u>

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF THE NC SANDHILLS, INC.

Statements of Cash Flows

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
NET INCREASE (DECREASE) IN CASH	\$ 154,739	\$ 231,601
CASH AT BEGINNING OF YEAR	424,679	193,078
CASH AT END OF YEAR	<u>\$ 579,418</u>	<u>\$ 424,679</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest expense	\$ 13,499	\$ 10,237

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF THE NC SANDHILLS, INC.
Notes to Financial Statements
June 30, 2017 and 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CORPORATION'S ACTIVITIES

Habitat for Humanity of the NC Sandhills, Inc. (Corporation) was incorporated as a nonprofit organization in 1988. The purpose of the Corporation is to implement the gospel of Jesus Christ throughout the United States of America and around the world by working with economically disadvantaged people to help them create a better human habitat in which to live and work, and to cooperate with other charitable organizations, through grants and otherwise, which are working to develop a better habitat for economically disadvantaged people.

The Corporation built 5 homes, recycled 3 homes and had 13 repairs in 2017. The Corporation built 5 homes, recycled 5 homes and had 13 repairs in 2016.

PRINCIPLES OF PRESENTATION

The financial statements of Habitat for Humanity of the NC Sandhills, Inc. have been prepared in accordance with generally accepted accounting principles as applied to nonprofit corporations.

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.

CASH AND CASH EQUIVALENTS

For purposes of the statements of cash flows, the Corporation considers all demand deposits with initial maturities of three months or less to be cash or cash equivalents.

REVENUE AND COST RECOGNITION

The Corporation recognizes revenue from homebuilding activities at the closing of the sale. During construction, all direct material and labor costs and those indirect costs related to acquisition and construction is accumulated as inventory. Inventory costs are charged to expense upon the closing of each home.

PLEDGES RECEIVABLE

Pledges receivable are recorded as assets when received. At this time, no allowances are provided for amounts that are uncollectible due to relocation, death, financial problems, etc.

HABITAT FOR HUMANITY OF THE NC SANDHILLS, INC.

Notes to Financial Statements

June 30, 2017 and 2016

ADVERTISING COSTS

All advertising costs are expensed when incurred. Advertising costs totaled \$9,562 in 2017 and \$16,429 in 2016.

INCOME TAXES

Habitat for Humanity of the NC Sandhills, Inc. qualifies as a tax-exempt corporation under 501(c) (3) of the Internal Revenue Code; therefore, no provision for income taxes is included in the financial statements.

FIXED ASSETS

Property and equipment are capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair market value on the date of the gift. Such donations are reported as unrestricted contributions unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property, buildings, and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Corporation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Corporation reclassifies temporarily restricted net assets to unrestricted net assets at the time they are placed in service. Property and equipment are depreciated using the straight-line method using the following lives:

Furniture and equipment	3 – 7 years
Vehicles	5 years
Building	39 years

INVESTMENTS

Investments in marketable equity securities, government bonds and mutual funds with readily determinable fair values are stated at fair market value. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

HABITAT FOR HUMANITY OF THE NC SANDHILLS, INC.

Notes to Financial Statements

June 30, 2017 and 2016

NOTE 1 - MORTGAGE RECEIVABLES

The Corporation, through a no interest twenty-five or thirty year mortgage, finances completed homes. Mortgages are recorded when a home sale is closed. All mortgages are considered to be fully collectible; accordingly, no allowance for doubtful accounts has been made. Mortgages receivable have been discounted using an imputed interest rate of 7.47% for 2017 based upon Habitat for Humanity International averages. Discounted amortization income is recorded over the lives of the mortgages using the effective interest method. Mortgage receivables as of June 30, 2017 and 2016 were the following:

	<u>2017</u>	<u>2016</u>
Mortgages receivable	\$ 7,769,357	\$ 7,675,548
Less discount amortization	<u>(3,210,135)</u>	<u>(3,167,795)</u>
Mortgages receivable net of amortization	<u>\$ 4,559,222</u>	<u>\$ 4,507,753</u>

NOTE 2 - ESCROW ACCOUNT

The mortgagees own the funds in one escrow account. This money is used to pay for homeowners' real estate taxes and insurance. The balance in the escrow account on June 30, 2017 and 2016 was \$12,138 and \$36,505, respectively.

NOTE 3 - DONATED SERVICES, MATERIALS, AND FACILITIES

During the years ended June 30, 2017 and 2016, the value of contributed services and materials meeting the requirements for recognition in the financial statements was \$20,827 and \$24,355, respectively. In addition, many other individuals volunteer their time to the Corporation; however these services do not meet the criteria for recognition as donated services.

NOTE 4 - INVENTORIES - REAL PROPERTY

Inventories consist of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Homes under construction	\$ 229,724	\$ 367,012
Developed lots for construction	2,045	-
Undeveloped real estate	213,737	142,469
Resale inventory	<u>11,201</u>	<u>-</u>
	<u>\$ 456,707</u>	<u>\$ 509,481</u>

HABITAT FOR HUMANITY OF THE NC SANDHILLS, INC.
Notes to Financial Statements
June 30, 2017 and 2016

NOTE 5 - LONG-TERM DEBT

	<u>2017</u>	<u>2016</u>
Note payable to the national office, payable in monthly installments beginning July, 2014 of \$1,093 including interest at 0.00%, final payment due June, 2018. Note is secured by mortgage receivables.	\$ 15,018	\$ 28,134
Note payable to a housing agency, payable in monthly installments of \$7,450, interest free, final payment is various. Note is secured by mortgage receivables.	2,324,488	2,270,775
Note payable to investment company, payable 2.95% interest only payments. Note is due the earlier of IRA owner's death or September 2031. Note is secured by a life insurance policy that matures May, 2060.	100,000	100,000
Note payable to the national office, payable in monthly installments beginning July, 2016 of \$468 including interest at 0.00%, final payment due June, 2020. Note is secured by mortgage receivables.	16,884	22,500
Note payable to the national office, payable in monthly installments beginning July, 2017 of \$121 including interest at 0.00%, final payment due June, 2021. Note is secured by mortgage receivables.	5,837	5,837
Mortgage payable to a bank, payable in monthly installments of \$3,051 including interest at 3.00%, final payment due December, 2020. Note is secured by building and land.	222,014	281,161
Less current portion	(265,794)	(221,500)
Total long-term debt	<u>\$2,418,447</u> =====	<u>\$2,486,907</u> =====

HABITAT FOR HUMANITY OF THE NC SANDHILLS, INC.
Notes to Financial Statements
June 30, 2017 and 2016

LONG-TERM DEBT (CONTINUED)

Maturities of debt are as follows:

Fiscal year ending June 30, 2018		\$ 265,794
2019		256,515
2020		256,643
2021		208,750
Thereafter		1,696,539
		2,684,241
Less current portion		(265,794)
Total long-term debt		\$2,418,447

NOTE 6 - CONCENTRATIONS OF CREDIT RISK

Cash and cash equivalents that potentially subject the Corporation to concentrations of credit risk consist principally of accounts in four financial institutions located in North Carolina. The Federal Deposit Insurance Corporation (FDIC) up to \$250,000 covers accounts at these institutions. The amount in excess of the FDIC limit totaled \$0 as of June 30, 2017 and 2016.

NOTE 7 - FIXED ASSETS

Property and equipment at June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Furniture and equipment	\$ 96,565	\$ 83,928
Vehicles	138,764	143,264
Building	821,581	818,041
Land	121,499	151,599
Less: accumulated depreciation	(446,248)	(422,453)
	\$ 732,161	\$ 774,379
Depreciation expense	\$ 31,930	\$ 30,816

HABITAT FOR HUMANITY OF THE NC SANDHILLS, INC.

Notes to Financial Statements

June 30, 2017 and 2016

NOTE 8 – OPERATING LEASES

The Corporation entered into a one year lease agreement for store space which will be renewable each year. Store rental expense totaled \$24,000 and \$24,000 for 2017 and 2016, respectively. The Corporation leases two pieces of office equipment. Office equipment and rental expense totaled \$9,753 and \$6,413 for 2017 and 2016, respectively.

Future minimum rental payments as of June 30, 2017 are as follows:

Fiscal year ending June 30, 2018	\$ 9,465
2019	9,465
2020	9,465
2021	-
2022	-

NOTE 9 – GAIN CONTINGENCIES

The homes are sold at fair market value as determined by a professional appraiser unless the amount is deemed unaffordable for the homeowner. Unaffordable is defined as the mortgage payment is more than 30% of the family's monthly income. If the price of the home is unaffordable, the Corporation will create a silent mortgage to be paid only in the event of a sale on the open market or refinancing of the home. The silent mortgage is forgiven if mortgagee does not sell or refinance the home during the life of the mortgage. If the mortgagee sells or refinances the home before the mortgage is paid off, then the silent mortgage is prorated over the time left on the mortgage and it is paid to the Corporation. The amount the Corporation may receive cannot be determined because there is no way to know when or if a homeowner will sell or refinance their home.

The Corporation and Federal Home Loan Bank of Atlanta take a promissory note on some mortgages of \$10,000. The promissory note is forgiven if mortgagee does not sell their home for five years from start of mortgage. If mortgagee sells the home before five year period has past, then the \$10,000 is prorated over time left and it is paid to the Corporation and Federal Home Loan Bank of Atlanta. The amount the Corporation may receive cannot be determined because there is no way to know when or if a homeowner will sell their home.

HABITAT FOR HUMANITY OF THE NC SANDHILLS, INC.
Notes to Financial Statements
June 30, 2017 and 2016

NOTE 10 – PLEDGES RECEIVABLE

Pledges receivable at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Receivable in less than one year	\$ 4,200	\$ 13,290
Receivable in one to five years	<u>3,000</u>	<u>5,500</u>
 Total pledges receivable	 \$ 7,200 <u>=====</u>	 \$ 18,790 <u>=====</u>

NOTE 11 – CONFLICT OF INTEREST POLICY

It is the policy of the Corporation that all officers, directors, and committee members shall avoid any conflict between their own individual interests and the interests of the corporation. Included among the corporation’s board members and officers are volunteers from the financial and legal community, who provide valuable assistance to the corporation in the development of policies and programs. The corporation has a conflict-of-interest policy whereby board and committee members must advise the board of any direct or indirect interest in any transaction or relationship with the corporation and not participate in discussions and decisions regarding any action affecting their individual, professional, or business interests.

NOTE 12 – SUBSEQUENT EVENTS

The Corporation evaluated subsequent events through January 3, 2018, which is the date the financial statements were available to be issued. No subsequent events were identified that required adjustment to or disclosure within the financial statements.