

**Habitat for Humanity of Lancaster County**

**Financial Statements and  
Independent Auditor's Report**

**June 30, 2016**

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**COHN  REZNICK**  
ACCOUNTING • TAX • ADVISORY

# Habitat for Humanity of Lancaster County

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## Independent Auditor's Report

Habitat for Humanity of Lancaster County  
Board of Directors  
Lancaster, South Carolina

### Report on Financial Statements

We have audited the accompanying financial statements of Habitat for Humanity of Lancaster County, which comprise the statement of financial position as of June 30, 2016, and the related statement of activities and cash flows for the year 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.

#### *Basis for Qualified Opinion*

As explained in Note 2 to the financial statements, real estate that Habitat for Humanity of Lancaster County acquired by gift is recorded in the financial statements at its assessed tax value and adjusted annually. Accounting principles generally accepted in the United States of America require gifts of real estate to be recorded at its fair value at the date of receipt. The effects on the accompanying financial statements of the failure to record real estate acquired by gift at fair value on the date of receipt have not been determined.

*Qualified Opinion*

In our opinion, except of the effects of the matters discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Lancaster County as of June 30, 2016, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*CohnReznick LLP*

Charlotte, North Carolina  
February 7, 2017

Habitat for Humanity of Lancaster County

Statement of Financial Position  
June 30, 2016

Assets

Current assets	
Cash and cash equivalents	\$ 27,130
Restricted cash	6,044
Accounts receivable	2,364
Mortgages receivable - current	34,897
Prepaid expenses	<u>1,498</u>
Total current assets	<u>71,933</u>
Fixed assets	
Home construction	111,152
Land, property and equipment, net	<u>348,100</u>
Total fixed assets, net	<u>459,252</u>
Long-term assets	
Mortgages receivable, net	<u>393,233</u>
Total long-term assets	<u>393,233</u>
Total assets	<u><u>\$ 924,418</u></u>

**Habitat for Humanity of Lancaster County**

**Statement of Financial Position  
June 30, 2016**

Liabilities and Net Assets (Deficit)

Current liabilities	
Prepaid homeowner expense	\$ 1,890
Taxes payable	172
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Total current liabilities	2,062
	<hr/>
Total liabilities	2,062
	<hr/>
Net assets (deficit)	
Unrestricted net assets (deficit)	922,356
Temporarily restricted net assets	-
	<hr/>
Total net assets (deficit)	922,356
	<hr/>
Contingencies	-
	<hr/>
Total liabilities and net assets (deficit)	\$ 924,418
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See Notes to Financial Statements.

**Habitat for Humanity of Lancaster County**

**Statement of Activities  
Year Ended June 30, 2016**

	Unrestricted	Temporarily restricted	Total
Operating support and revenue			
Contributions, sponsorships, and grants	\$ 19,623	\$ -	\$ 19,623
Interest income	191	-	191
Other revenue	2,356	-	2,356
Donated property, materials and services	98,600	-	98,600
Gain on foreclosures	8,652	-	8,652
Fundraising and special events revenue (net of expenses of \$6,432)	21,517	-	21,517
Total operating support and revenue	<u>150,939</u>	<u>-</u>	<u>150,939</u>
Operating expenses			
Program services:			
Home construction and construction support	54,691	-	54,691
Total program services	<u>54,691</u>	<u>-</u>	<u>54,691</u>
Supporting activities:			
Management and general	7,757	-	7,757
Total supporting activities	<u>7,757</u>	<u>-</u>	<u>7,757</u>
Total operating expenses	<u>62,448</u>	<u>-</u>	<u>62,448</u>
Change in net assets (deficit)	88,491	-	88,491
Net assets (deficit) - beginning of year	<u>833,865</u>	<u>-</u>	<u>833,865</u>
Net assets (deficit) - end of year	<u>\$ 922,356</u>	<u>\$ -</u>	<u>\$ 922,356</u>

See Notes to Financial Statements.

Habitat for Humanity of Lancaster County

Statement of Functional Expenses  
Year Ended June 30, 2016

	Home construction	Management and general	Total
Salaries and wages	\$ 18,937	\$ 4,442	\$ 23,379
Home construction costs	21,624	-	21,624
Tithe	810	190	1,000
Rent	2,296	538	2,834
Property taxes	-	221	221
Equipment rental and maintenance	585	137	722
Insurance for homeowners	942	-	942
Utilities	162	38	200
Miscellaneous	3,698	867	4,565
Office expenses	1,093	256	1,349
Postage	1,111	261	1,372
Professional fees	783	184	967
Telephone	1,857	435	2,292
Travel and meals	521	122	643
Education	274	64	338
	<u>\$ 54,691</u>	<u>\$ 7,757</u>	<u>\$ 62,448</u>

See Notes to Financial Statements.

**Habitat for Humanity of Lancaster County**

**Statement of Cash Flows  
Year Ended June 30, 2016**

Reconciliation of change in net assets (deficit) to net cash provided by operating activities	
Change in net assets (deficit)	\$ 88,491
Adjustments to reconcile change in net assets (deficit) to net cash used in operating activities:	
Gain on foreclosure	(8,652)
Donated property, materials and services	(98,600)
Changes in assets and liabilities:	
Accounts receivable, net	(560)
Home construction and inventory	13,699
Prepaid expenses	(1,498)
Mortgages receivable	(43,003)
Prepaid homeowner expense	(1,766)
Taxes payable	(95)
	<hr/>
Net cash used in operating activities	(51,984)
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Net decrease in cash	(51,984)
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Cash and cash equivalents, beginning	85,158
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Cash and cash equivalents, end	<u>\$ 33,174</u>

See Notes to Financial Statements.

## Habitat for Humanity of Lancaster County

### Notes to Financial Statements June 30, 2016

#### Note 1 - Organization

Habitat for Humanity of Lancaster County ("Habitat" or the "Organization") was organized as a non-profit organization in the state of South Carolina and is associated with Habitat for Humanity International, Inc. Habitat has received tax exempt status under the provisions of Section 501(c)(3) of the Internal Revenue Code of 1954 to construct affordable, decent housing for sale to low-income families at cost and to build communities by encouraging existing homeowners to upgrade and improve their property.

The primary source of the Organization's revenues is contributions and sponsorships received from the general public, corporations and religious organizations.

The Organization's activities are primarily comprised of the following:

#### **Program services**

*Home construction, financing and support* - Includes all home construction costs such as materials, supplies, labor and overhead, as well as financing certain mortgages for the homeowners. This programming also includes construction supporting costs such as real estate development, volunteer mobilization and family selection services.

#### **Supporting activities**

*Management and general* - Includes the functions necessary to maintain an equitable employment program; ensure an adequate working environment; provide coordination and articulation of the Organization's program strategy; secure proper administrative functioning of the Board of Directors; and manage the financial and budgetary responsibilities of the Organization.

*Fundraising* - Provides the structure necessary to encourage and secure financial support for the Organization through grants, contributions and special events.

#### Note 2 - Summary of significant accounting policies

#### **Basis of presentation**

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets temporarily restricted net assets and permanently restricted net assets. Additionally, information is required to segregate program service expenses from support expenses. Support expenses include management and general and fundraising expenses.

#### **Revenue recognition**

Contributions and grants received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions of assets other than cash are recorded at their estimated fair market value.

Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions received with donor imposed restrictions that are met in the same year as received are reported as unrestricted revenues. The expiration of temporary restrictions on net assets (i.e., the donor imposed stipulated purpose has been fulfilled, or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

## Habitat for Humanity of Lancaster County

### Notes to Financial Statements June 30, 2016

Unconditional pledges receivable that are expected to be collected within a year are recorded at their net realizable value when the donor makes the promise. Unconditional pledges receivable that are expected to be collected in the future years are recorded at the present value of their estimated future cash flows.

Grants that are received prior to recognition of revenue are recorded as deferred revenue.

Sales to homeowners represent the sale of homes built or rehabilitated by the Organization. The resulting mortgages are noninterest-bearing and have been discounted based upon prevailing market rates for low-income housing at the inception of the mortgages. The Organization recognizes income from the sales to homeowners on the completed contract method when home closings occur.

#### **Donated property, materials and services**

Donated property is valued based on tax assessment amounts, which is not consistent with generally accepted accounting principles. Donated property is adjusted annually based on changes to tax assessments for the related property. Donated materials are valued at the lesser of estimated donor cost or fair value at the date of contribution. Certain professional services are donated to the Organization by various organizations. Since these donated services meet the criteria for recognition, as stated by generally accepted accounting principles, they are recorded at fair value at the date of donation. In addition, a substantial number of volunteers have donated a significant amount of time to the Organization. These donated services have not been recognized as contributions in the financial statements since the recognition criteria, as stated by generally accepted accounting principles, were not met.

#### **Net assets**

The Organization classifies net assets as unrestricted, temporarily restricted or permanently restricted.

Unrestricted net assets of the Organization are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets of the Organization result (a) from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations and (c) from reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the Organization pursuant to those stipulations.

Permanently restricted net assets of the Organization result (a) from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations and (c) from reclassifications from (or to) other classes of net assets as a consequence of donor-imposed stipulations. The Organization has not received any permanently restricted contributions. There are no permanently restricted net assets.

#### **Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that

## **Habitat for Humanity of Lancaster County**

### **Notes to Financial Statements June 30, 2016**

affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Cash and cash equivalents**

The Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

#### **Allowance for loan losses**

The Organization maintains an allowance for mortgages receivable that may not be ultimately collected. The balance maintained is based upon prior experience and management's assessment of the collectability of existing specific loans. Individual loans are written off against the allowance when they are deemed uncollectible and increases to the allowance are charged to the provision for loan losses.

#### **Accounts receivable**

Accounts receivable consists of homeowner balances for insurance and real estate taxes due from homeowners that are collected and paid by Habitat. Tenant receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

#### **Capitalization and depreciation**

Property and equipment are recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. Assets are depreciated over their estimated service lives. The estimated service lives of the assets for depreciation purposes may be different than their actual economic useful lives.

#### **Impairment of long-lived assets**

The company reviews its rental property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the property are less than its carrying amount, management compares the carrying amount of the property to its fair value in order to determine whether an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss has been recognized during the year ended June 30, 2016.

#### **Income taxes**

Habitat has applied for and received a determination letter from the Internal Revenue Service ("IRS") to be treated as a tax exempt entity pursuant to Section 501(c)(3) of the Internal Revenue Code and did not have any unrelated business income for the year ended June 30, 2016. Due to its tax exempt status, Habitat is not subject to income taxes. They are required to file, and do file, tax returns with the IRS and other taxing authorities. The Forms 990, Return of Organization Exempt from Income Tax, are subject to examination by the IRS generally for three years after they were filed. While no Income Tax reporting is currently being examined by the IRS, tax years since 2013 remain open.

Habitat for Humanity of Lancaster County

Notes to Financial Statements  
June 30, 2016

**Advertising costs**

Advertising costs are charged to operations when incurred.

**Note 2 - Mortgages receivable**

Mortgages receivable consist of non-interest bearing mortgages secured by real estate, receivable in monthly installments through years ranging to 2036. As of June 30, 2016, \$428,130 of mortgages remain receivable.

**Note 3 - Home construction**

Home construction for the years ended June 30, 2016 consisted of homes currently being renovated prior to sale.

**Note 4 - Property and equipment**

Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. Property and equipment as of June 30, 2016 is comprised of the following:

	<u>Useful Life</u>	<u>Total</u>
Land	N/A	\$ 348,100
Equipment	5 years	<u>823</u>
Total property and equipment		348,923
Less: Accumulated depreciation		<u>(823)</u>
Property and equipment, net		<u><u>\$ 348,100</u></u>

No amounts for depreciation expense were incurred for the year ended June 30, 2016.

**Note 5 - Temporarily restricted net assets**

Temporarily restricted net assets as of June 30, 2016 are subject to the following restrictions:

Designated grant proceeds	<u><u>\$ 10,000</u></u>
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**Note 6 - Leasing arrangements**

The Organization has been granted rent free use of space from the Covenant Baptist Church in Lancaster, South Carolina. Management has recorded contributions of free rent based on comparative fair values of office space in the area. For the year ended June 30, 2016, \$2,078 of income and related rent expense have been recognized.

## Habitat for Humanity of Lancaster County

### Notes to Financial Statements June 30, 2016

#### **Note 7 - Related party transactions**

Habitat has a nonbinding covenant with Habitat for Humanity International, Inc. ("HFHI") to make an annual voluntary tithe payment to HFHI. For the year ended June 30, 2016, \$1,000 of expense is included in management and general expenses on the statement of activities.

#### **Note 8 - Commitments and contingencies**

The organization provides a limited warranty for work done and materials purchased in construction of the home. This warranty is for a period of one year from the time the owner took occupancy, including the buyer's lease term, if applicable. During this time, upon verbal or written notice, verified by the construction manager or other qualified organization representative, Organization will repair or replace substantial defects, at no charge to the owner. Based on past experience, management has determined no reserve is needed for warranties.

#### **Note 9 - Subsequent events**

Events that occur after the statement of financial position date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of financial position date are recognized in the accompanying financial statements. Subsequent events which reflect significant matters but which provide evidence about conditions that existed after the statement of financial position date require disclosure in the accompanying notes. Management evaluated the activity of the Organization through February 7, 2017 (the date the financial statements were available to be issued) and concluded that no additional subsequent events, other than described below, have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

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