

HABITAT FOR HUMANITY  
OF GREENVILLE  
COUNTY, S.C., INC.

Financial Statements

June 30, 2010

(with Independent Auditors'  
Report thereon)

**HABITAT FOR HUMANITY OF  
GREENVILLE COUNTY, S.C., INC.**

June 30, 2010

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**DIXON HUGHES GOODMAN** LLP  
Certified Public Accountants and Advisors

## Independent Auditors' Report

To the Board of Directors of  
Habitat for Humanity of Greenville County, S.C., Inc.  
Greenville, South Carolina

We have audited the accompanying statement of financial position of Habitat for Humanity of Greenville County, S.C., Inc. ("Habitat") as of June 30, 2010 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Habitat's management. Our responsibility is to express an opinion on these 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Habitat's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Greenville County, S.C., Inc. as of June 30, 2010, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 8, certain errors in recording discounts on mortgages notes receivable, prepaid expenses and land held for development were discovered during 2010. Accordingly, beginning net assets as of June 30, 2009 has been restated to correct these errors.

*Dixon Hughes Goodman LLP*

May 6, 2011

**HABITAT FOR HUMANITY OF GREENVILLE COUNTY, S.C., INC.**

Statement of Financial Position

June 30, 2010

**Assets**

Cash and cash equivalents	\$	50,614
Restricted cash for mortgage escrows		92,318
Non-interest bearing mortgage loans receivable, less discount		4,114,463
Other receivables		9,205
Prepaid expenses		15,185
Houses under construction		137,847
Completed homes available for sale		472,895
Residential property held for development		837,175
Property and equipment, less accumulated depreciation		<u>867,915</u>
Total assets	\$	<u><u>6,597,617</u></u>

**Liabilities and Net Assets**

Accounts payable and accrued expenses	\$	60,749
Funds held for others		12,584
Mortgage escrows for taxes and insurance		92,318
Notes payable		<u>1,124,514</u>
Total liabilities:		<u>1,290,165</u>
Net assets - unrestricted		<u>5,307,452</u>
Total liabilities and net assets	\$	<u><u>6,597,617</u></u>

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

# HABITAT FOR HUMANITY OF GREENVILLE COUNTY, S.C., INC.

Statement of Activities  
For the Year Ended June 30, 2010

## Unrestricted revenues

Contributions	\$	691,117
Donated property and materials		292,621
Less: Support to Habitat International		<u>(16,138)</u>
Total contributions, net		967,600
Home sale income		1,257,868
ReStore retail operations		326,162
Housing grants		173,107
Imputed interest income on non-interest bearing mortgage loans receivable		382,269
Other revenue		<u>18,940</u>
Total unrestricted revenues		<u>3,125,946</u>

## Expenses

Program:		
Construction, supervision and support		1,747,498
Family support and educational ministries		142,504
ReStore retail operations		278,956
Discount on current year non-interest bearing mortgage loans receivable		<u>704,964</u>
Total program expenses		2,873,922
Fundraising and public relations		126,445
Management and general		<u>445,891</u>
Total expenses		<u>3,446,258</u>
Change in unrestricted net assets		(320,312)
Net assets, beginning of year, as restated		<u>5,627,764</u>
Net assets, end of year	\$	<u><u>5,307,452</u></u>

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

**HABITAT FOR HUMANITY OF GREENVILLE COUNTY, S.C., INC.**

Statement of Functional Expenses

For the Year Ended June 30, 2010

	Program Services					Supporting Services		Total Expenses
	Construction Supervision and Support	Family Support and Educational Ministries	ReStore Retail	Discount on Mortgage Originations	Total	Fundraising and Public Relations	Management and General	
Bank charges	\$ 6	\$ -	\$ 3,755	\$ -	\$ 3,761	\$ 910	\$ 2,556	\$ 7,227
Computer	2,280	1,871	1,451	-	5,602	2,107	14,702	22,411
Contributions	-	-	-	-	-	-	1,000	1,000
Cost of homes transferred	1,272,909	-	-	-	1,272,909	-	-	1,272,909
Credit reports	-	959	-	-	959	-	-	959
Depreciation	-	-	-	-	-	-	53,432	53,432
Development/presentation materials	-	260	-	-	260	57,680	3,542	61,482
Insurance	18,213	-	10,229	-	28,442	-	21,400	49,842
Interest	26,812	-	-	-	26,812	-	26,396	53,208
Loss on sale of property to nonprofit	13,804	-	-	-	13,804	-	-	13,804
Discount on current year non-interest bearing mortgage loans receivable	-	-	-	704,964	704,964	-	-	704,964
Office supplies	291	372	1,632	-	2,295	37	8,340	10,672
Other	10,155	2,003	7,814	-	19,972	2,452	20,217	42,641
Payroll taxes and employee benefits	62,014	17,274	45,178	-	124,466	9,823	46,038	180,327
Postage	81	834	42	-	957	288	2,548	3,793
Professional fees	-	22,894	-	-	22,894	-	42,930	65,824
Property taxes	21,601	-	-	-	21,601	-	7,478	29,079
Rental	1,307	-	951	-	2,258	223	336	2,817
Repairs and maintenance	421	-	9,224	-	9,645	-	246	9,891
Repairs to completed homes	13,221	-	-	-	13,221	-	-	13,221
Salaries	287,727	89,775	162,065	-	539,567	49,739	152,216	741,522
Telephone/cell phones	6,057	2,668	2,881	-	11,606	1,915	9,351	22,872
Thrift store supplies	-	-	15,861	-	15,861	-	-	15,861
Training	195	213	8	-	416	75	3,477	3,968
Travel/entertainment	4,427	2,748	1,125	-	8,300	1,196	17,642	27,138
Utilities	-	-	9,548	-	9,548	-	11,076	20,624
Vehicle expense	4,954	122	7,022	-	12,098	-	968	13,066
Volunteer support	1,023	511	170	-	1,704	-	-	1,704
	<u>\$ 1,747,498</u>	<u>\$ 142,504</u>	<u>\$ 278,956</u>	<u>\$ 704,964</u>	<u>\$ 2,873,922</u>	<u>\$ 126,445</u>	<u>\$ 445,891</u>	<u>\$ 3,446,258</u>

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

# HABITAT FOR HUMANITY OF GREENVILLE COUNTY, S.C., INC.

## Statement of Cash Flows For the Year Ended June 30, 2010

Cash flows from operating activities:	
Change in net assets	\$ (320,312)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Imputed interest income on non-interest bearing mortgage loans	(382,269)
Discount on current year non-interest bearing mortgage loans	704,964
Depreciation	53,432
Loss on sale of property to other nonprofit	13,804
Net changes in operating assets and liabilities:	
Restricted cash for mortgage escrows	(14,168)
Mortgage loans receivable	(706,215)
Other receivables	36,880
Prepaid expenses	(2,016)
Houses under construction	207,115
Completed homes available for sale	442
Residential property held for development	(654,928)
Accounts payable and accrued expenses	47,568
Funds held for others	9,217
Mortgage escrows for taxes and insurance	14,168
Net cash used in operating activities	<u>(992,318)</u>
Cash flows from investing activities:	
Purchases of property and equipment	<u>(110,862)</u>
Cash flows from financing activities:	
Proceeds from issuance of notes payable	699,200
Payments on notes payable	<u>(54,508)</u>
Net cash provided by financing activities	<u>644,692</u>
Net decrease in cash	(458,488)
Cash, beginning of year	<u>509,102</u>
Cash, end of year	\$ <u><u>50,614</u></u>
Supplemental disclosure of cash flow information:	
Cash paid for interest during the year	\$ <u><u>50,985</u></u>
Supplemental disclosure of noncash investing and financing activities:	
Purchase of property and equipment through issuance of debt	\$ <u><u>479,822</u></u>

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

**HABITAT FOR HUMANITY OF  
GREENVILLE COUNTY, S.C., INC.**

Notes to Financial Statements

June 30, 2010

(1) **Organization and Purpose**

Habitat for Humanity of Greenville County, S.C., Inc. (“Habitat”) was incorporated on September 20, 1985 as an interdenominational, nonprofit organization whose mission is the construction and sale of quality housing to underprivileged families. Habitat operates the Habitat for Humanity ReStore (the “ReStore”), a retail operation, where building supplies not utilized by Habitat in home construction and home furnishings, appliances and other miscellaneous items donated by the general public are available for sale. The ReStore is operated for the sole purpose of generating funds to assist in Habitat’s main purpose of building houses.

(2) **Basis of Presentation and Summary of Significant Accounting Policies**

**Basis of Presentation** – The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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 Statement of Activities as net assets released from restrictions.

**Cash and Cash Equivalents** – Cash and cash equivalents consists of all highly liquid investments with an original maturity of three months or less when purchased.

**Concentration of Credit Risk** – Habitat maintains bank accounts at various financial institutions covered by the FDIC. At times throughout the year, Habitat may maintain bank account balances in excess of the FDIC insured limit. Habitat believes it is not exposed to any significant credit risk.

**Restricted Cash for Escrow Funds** – Restricted cash for escrow funds consists of amounts received from homeowners for insurance and property taxes.

**Non-Cash Contributions** – Donated assets are recorded as contributions at their estimated fair values at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. A substantial number of volunteers have made significant contributions of their time to Habitat principally in the area of house construction. The value of non-professional contributed time is not reflected in the accompanying financial statements.

**Houses Under Construction** – The development costs, building materials and labor are recorded at cost when incurred or at estimated fair market value when donated. At June 30, 2010, Habitat had 2 houses under construction and site work in process on 3 houses on land owned by Habitat.

**Completed Homes Available for Sale** – At times, Habitat leases homes to potential homebuyers so that the homebuyer can demonstrate independent living prior to closing. The completed costs of these homes is held in completed homes available for sale until such time that independent living is demonstrated and the home is transferred through a mortgage to the homebuyer. Reclaimed houses are recorded as a component of completed homes available for sale at the outstanding mortgage balance at the date of reclamation. Donate homes are recorded in completed homes available for sale at the fair market value at the date of the contribution. During the year ended June 30, 2010, Habitat reclaimed two houses with a recorded value of approximately \$62,000. At June 30, 2010, Habitat had 7 completed homes available for sale.

**Residential Property Held for Development** – Residential property held for development includes the cost of land and improvements to land held for future home builds. At June 30, 2010, Habitat has approximately 48 lots available for future construction of homes.

**Property and Equipment** – Property and equipment are stated at cost or, if donated, at the approximate fair value at the date of donation. Additions with a value of \$1,500 or greater are capitalized and expenditures for repairs and maintenance are expensed when incurred. Depreciation is computed on the straight-line basis over the estimated useful life of the assets, which is 3-30 years.

**Mortgage Loans Receivable** – Habitat records and accounts for non-interest bearing mortgage loans receivable based on the present value of the loan at the time of closing. For purposes of calculating loan present values, discount rates are determined based on the market rates for a similar type of loan on the date of closing and range from 6% to 9% for all loans outstanding. This method of accounting properly reflects the value of the mortgage loans receivable in the financial statements and recognizes imputed interest income over the life of the loans. An expense is recorded upon the sale of the houses for the difference between the face value of the mortgage loans receivable and the present value of the loans. Habitat has not established an allowance for doubtful accounts as it can reclaim houses through foreclosure in the event that a loan is deemed to be uncollectible.

**Income Taxes** – Habitat is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, the accompanying financial statements do not reflect at provision or liability for federal and state income taxes. Habitat has determined that there are no material unrecognized tax benefits or obligations as of June 30, 2010. Fiscal years ending on or after June 30, 2007 remain subject to examination by federal and state taxing authorities.

**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 affect the reported amounts of assets and liabilities and disclosure

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

(3) **Mortgage Loans Receivable**

During the year ended June 30, 2010, Habitat placed 18 families into houses constructed or reclaimed through the issuance of mortgage loans receivable.

Maturities of mortgage loans as of June 30 follow:

2011	\$ 487,000
2012	485,000
2013	481,000
2014	474,000
2015	461,000
Thereafter	5,306,463
	<u>7,694,463</u>
Less discount	<u>(3,580,000)</u>
	<u>\$ 4,114,463</u>

(4) **Property and Equipment**

Property and equipment as of June 30 follows:

Buildings	\$ 848,100
Land	50,227
Equipment and furnishings	157,592
Vehicles	64,411
	<u>1,120,330</u>
Less accumulated depreciation	<u>(252,415)</u>
	<u>\$ 867,915</u>

(5) **Line of Credit**

Habitat has a \$300,000 revolving line of credit with a financial institution which expires in January 2011 and has been extended through May 2011. The line accrued interest at the banks prime rate, however, there is a floor of 5% and a maximum of 8%. The line is collateralized by property located at 305 Rutherford Road in Greenville, S.C. There were no borrowings against the line of credit at June 30, 2010.

(6) **Notes Payable**

Notes payable at June 30 consist of the following:

Term note payable from a bank in monthly payments of \$3,480 including accrued interest at 6.15% through August 2016; final balloon payment due September 2016; secured by Habitat’s office building.	\$ 471,328
Term note payable from Habitat for Humanity International in quarterly payments of \$19,881 including accrued interest at 6.50% through December 2019; secured by receipts from mortgage loans receivable.	540,483
Term note payable from Habitat for Humanity International in quarterly payments of \$5,097 including accrued interest at 5.5% through June 2017; secured by receipts from mortgage loans receivable.	<u>112,703</u>
Total notes payable	<u>\$ 1,124,514</u>

The aggregate annual maturities of notes payable subsequent to June 30 are as follows:

2011	\$ 71,559
2012	76,131
2013	80,998
2014	86,178
2015	91,690
Thereafter	<u>717,958</u>
	<u>\$ 1,124,514</u>

The note agreements with Habitat International detailed above contain financial covenants for minimum net assets, maintenance of certain conditions of loans securing the notes and financial reporting. At June 30, 2010, management was either in compliance with these covenants or had obtained appropriate waivers for instances of noncompliance.

(7) **Retirement Plan**

Habitat sponsors a 401(k) Retirement Plan for all employees who are at least eighteen years of age and have completed three months of service. Active participants may elect to have Habitat make salary reduction contributions on their behalf based on a percentage of their earnings, not to exceed 94% or \$16,500. Habitat matches each employee’s contribution to the plan up to 6%. Habitat’s contributions totaled approximately \$22,000 for the year ended June 30, 2010.

(8) **Restatement**

During the current year, management determined the amount previously recorded as unamortized discounts on mortgage notes receivable was understated, the amount recorded in land held for development was overstated and the amount of prepaid expenses was understated. The effect on Habitat's previously issued financial statements for 2009 is summarized as follows:

Net assets at June 30, 2009, as previously reported	\$ 7,535,817
Increase (decrease) in net assets attributable to:	
Mortgage loans receivable	(1,880,645)
Residential property held for development	(40,577)
Prepaid expenses	<u>13,169</u>
Net assets at June 30, 2009, as restated	\$ <u>5,627,764</u>

For the year ended June 30, 2009, Habitat originally reported a decrease in net assets of \$119,530. After considering the effects for the above adjustments for 2009 and prior years, the decrease in net assets for 2009 would have been \$32,673.

(9) **Subsequent Events**

In November 2010, a home originally donated in the 2010 fiscal year with a value of \$175,000 and held in homes available for sale was sold for approximately \$153,000.

On July 1, 2010, Habitat entered into a three year building lease agreement with lease payments beginning on October 1, 2010 for \$3,000 a month. The lease agreement contains options to renew for two terms of two years each. In addition, the lease agreement contains a right of first refusal option to purchase the building.

Habitat evaluated the effect subsequent events would have on the financial statements through May 6, 2011, which is the date the financial statements were available to be issued.