

DORCHESTER HABITAT FOR
HUMANITY, INC.

INDEPENDENT AUDITORS' REPORT
AND
AUDITED FINANCIAL STATEMENTS

AS OF AND FOR THE YEAR ENDED
JUNE 30, 2018

Dorchester Habitat for Humanity, Inc.
Audited Financial Statements
As of and for the Year Ended June 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Dorchester Habitat for Humanity, Inc.
Summerville, SC

We have audited the accompanying financial statements of Dorchester Habitat for Humanity, Inc. ("the Entity"), which comprise the statement of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the fiscal 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.

Auditors' 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 auditors' 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 auditors consider 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dorchester Habitat for Humanity, Inc. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Samard, Nowell, & Russell, LLC

Charleston, SC
August 10, 2018

DORCHESTER HABITAT FOR HUMANITY, INC.
STATEMENTS OF FINANCIAL POSITION
As of June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Cash	\$ 406,628	\$ 410,812
Accounts Receivable	12,675	10,606
Other Current Assets	14,654	21,005
Construction in Progress	95,517	76,479
Mortgage Receivables, net, current	76,576	67,836
Total Current Assets	<u>\$ 606,050</u>	<u>\$ 586,738</u>
Property and Equipment, net	<u>\$ 1,480,740</u>	<u>\$ 1,505,856</u>
Other Assets		
Land Held for Development	280,837	230,837
Mortgages Receivables, net, long term	1,217,791	1,016,878
Home Held for Sale	-	104,725
Land Held for Investment	5,176	5,176
Total Other Assets	<u>\$ 1,503,804</u>	<u>\$ 1,357,616</u>
Total Assets	<u><u>\$ 3,590,594</u></u>	<u><u>\$ 3,450,210</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable	\$ 31,124	\$ 25,671
Compensated Absences	5,401	3,613
Accrued Salaries	9,108	6,764
Note Payable	655,036	50,898
Total Current Liabilities	<u>\$ 700,669</u>	<u>\$ 86,946</u>
Long Term Liabilities		
Note Payable	-	668,586
Total Long Term Liabilities	<u>\$ -</u>	<u>\$ 668,586</u>
Total Liabilities	<u><u>\$ 700,669</u></u>	<u><u>\$ 755,532</u></u>
Net Assets		
Unrestricted	\$ 2,857,125	\$ 2,650,953
Temporarily Restricted	32,800	43,725
Total Net Assets	<u><u>\$ 2,889,925</u></u>	<u><u>\$ 2,694,678</u></u>
Total Liabilities and Net Assets	<u><u>\$ 3,590,594</u></u>	<u><u>\$ 3,450,210</u></u>

DORCHESTER HABITAT FOR HUMANITY, INC.
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and Other Support			
Contributions	\$ 41,717	\$ 2,000	\$ 43,717
Contributions In-kind	39,926	-	39,926
Grant Revenue	3,583	56,000	59,583
Home Sales, net	312,073	-	312,073
Mortgage Discount Amortization	91,626	-	91,626
Special Events	87,890	-	87,890
ReStore Sales	982,212	-	982,212
Interest Income	205	-	205
Other Income	25,355	-	25,355
Net Assets Released from Restrictions	68,925	(68,925)	-
Total Revenues and Other Support	<u>\$ 1,653,512</u>	<u>\$ (10,925)</u>	<u>\$ 1,642,587</u>
Expenses			
Program			
Construction	725,155	-	725,155
ReStore	562,715	-	562,715
Total Program Expenses	<u>\$ 1,287,870</u>	<u>\$ -</u>	<u>\$ 1,287,870</u>
Support Services			
Management and General	34,838	-	34,838
Fundraising	74,249	-	74,249
Special Events	50,383	-	50,383
Total Support Services	<u>\$ 159,470</u>	<u>\$ -</u>	<u>\$ 159,470</u>
Total Expenses	<u>\$ 1,447,340</u>	<u>\$ -</u>	<u>\$ 1,447,340</u>
Change in Net Assets	\$ 206,172	\$ (10,925)	\$ 195,247
Net Assets at Beginning of Year	2,650,953	43,725	2,694,678
Net Assets at End of Year	<u>\$ 2,857,125</u>	<u>\$ 32,800</u>	<u>\$ 2,889,925</u>

DORCHESTER HABITAT FOR HUMANITY, INC.
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and Other Support			
Contributions	\$ 103,885	\$ -	\$ 103,885
Contributions In-kind	36,221	-	36,221
Grant Revenue	49,834	4,100	53,934
Home Sales, net	231,588	-	231,588
Mortgage Discount Amortization	82,361	-	82,361
Special Events	76,376	-	76,376
ReStore Sales	826,867	-	826,867
Interest Income	135	-	135
Other Income	5,124	-	5,124
Net Assets Released from Restrictions	56,084	(56,084)	-
Total Revenues and Other Support	<u>\$ 1,468,475</u>	<u>\$ (51,984)</u>	<u>\$ 1,416,491</u>
Expenses			
Program			
Construction	549,664	-	549,664
ReStore	457,879	-	457,879
Total Program Expenses	<u>\$ 1,007,543</u>	<u>\$ -</u>	<u>\$ 1,007,543</u>
Support Services			
Management and General	35,214	-	35,214
Fundraising	69,979	-	69,979
Special Events	34,712	-	34,712
Total Support Services	<u>\$ 139,905</u>	<u>\$ -</u>	<u>\$ 139,905</u>
Total Expenses	<u>\$ 1,147,448</u>	<u>\$ -</u>	<u>\$ 1,147,448</u>
Change in Net Assets before other changes	\$ 321,027	\$ (51,984)	\$ 269,043
Other Changes-(Expense) Revenue			
Foreclosure	<u>\$ 74,161</u>	<u>\$ -</u>	<u>\$ 74,161</u>
Total other changes	<u>\$ 74,161</u>	<u>\$ -</u>	<u>\$ 74,161</u>
Net Assets at Beginning of Year	2,255,765	95,709	2,351,474
Net Assets at End of Year	<u>\$ 2,650,953</u>	<u>\$ 43,725</u>	<u>\$ 2,694,678</u>

DORCHESTER HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Fiscal Year Ended June 30, 2018

	Program		Management and General		Support Service		Total Expenses
	Construction	ReStore	Total		Fundraising	Special Events	Total
Salaries	\$ 101,310	\$ 253,353	\$ 354,663	\$ 8,446	\$ 46,038	\$ -	\$ 409,147
Payroll Taxes	7,742	19,347	27,089	651	3,521	-	31,261
Employee Benefits	4,701	16,456	21,157	940	1,411	-	23,508
Total Salaries and Benefits	\$ 113,753	\$ 289,156	\$ 402,909	\$ 10,037	\$ 50,970	\$ -	\$ 463,916
Cost of Homes Sold	\$ 518,480	-	\$ 518,480	\$ -	\$ -	\$ -	\$ 518,480
Supplies	2,127	56,387	58,514	415	827	147	59,903
Vehicle Expense	-	7,947	7,947	-	-	-	7,947
Telephone	1,442	4,966	6,408	276	424	-	7,108
Advertising	4,700	45,020	49,720	-	1,553	3,635	54,908
Postage and Shipping	551	309	860	178	387	-	1,425
Occupancy	2,619	23,117	25,736	1,659	1,885	-	29,280
Insurance	3,407	13,166	16,573	1,116	985	-	18,674
Professional Fees	45,912	13,970	59,882	13,421	6,322	397	80,022
Seminar Travel & Meals	3,063	9,178	12,241	110	1,095	305	13,751
Printing and Publications	1,731	2,361	4,092	359	1,235	1,468	7,154
Homeowner and Volunteer Expenses	8,529	3,255	11,784	1	159	-	11,944
Fundraising Expense	-	-	-	-	-	43,445	43,445
Contributions	-	-	-	-	-	-	-
Interest	3,926	18,310	22,236	1,832	2,094	-	26,162
Bank and Processing Charges	507	13,557	14,064	350	349	986	15,749
Dues and Memberships	4,954	5,251	10,205	166	1,233	-	11,604
Repairs and Maintenance	3,262	18,467	21,729	1,430	1,709	-	24,868
Habitat International	600	-	600	-	-	-	600
Total Expenses Before Depreciation	\$ 719,563	\$ 524,417	\$ 1,243,980	\$ 31,350	\$ 71,227	\$ 50,383	\$ 1,396,940
Depreciation	5,647	38,253	43,900	3,488	3,012	-	50,400
Total Expenses	\$ 725,210	\$ 562,670	\$ 1,287,880	\$ 34,838	\$ 74,239	\$ 50,383	\$ 1,447,340

DORCHESTER HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Fiscal Year Ended June 30, 2017

	Program		Support Service			Total Expenses
	Construction	ReStore	Management and General	Fundraising	Special Events	
Salaries	\$ 86,382	\$ 215,622	\$ 8,336	\$ 43,576	\$ -	\$ 353,916
Payroll Taxes	6,638	16,434	655	3,345	-	27,072
Employee Benefits	2,633	9,228	527	791	-	13,179
Total Salaries and Benefits	\$ 95,653	\$ 241,284	\$ 9,518	\$ 47,712	\$ -	\$ 394,167
Cost of Homes Sold	\$ 377,432	\$ -	\$ -	\$ -	\$ -	\$ 377,432
Supplies	2,480	26,183	806	1,193	995	31,657
Vehicle Expense	237	11,797	-	-	-	12,034
Telephone	1,158	4,070	300	325	-	6,653
Advertising	4,095	30,549	-	25	3,643	38,312
Postage and Shipping	231	286	305	398	-	1,220
Occupancy	5,838	26,129	1,786	2,054	-	35,807
Insurance	2,921	9,151	724	832	-	13,628
Professional Fees	29,505	13,738	13,661	6,706	-	63,610
Seminar Travel & Meals	5,676	9,623	323	2,173	787	18,582
Printing and Publications	1,766	1,329	330	717	1,707	5,849
Homeowner and Volunteer Expenses	5,256	3,179	3	3	6	8,441
Fundraising Expense	-	-	-	-	27,196	27,196
Contributions	-	-	640	-	-	640
Interest	4,525	21,104	2,110	2,412	-	30,151
Bank and Processing Charges	410	11,251	235	275	384	12,555
Dues and Memberships	4,735	3,820	245	1,244	-	10,044
Repairs and Maintenance	1,594	9,523	691	842	-	12,650
Habitat International	400	-	-	-	-	400
Total Expenses Before Depreciation	\$ 543,912	\$ 423,016	\$ 31,677	\$ 66,911	\$ 34,712	\$ 1,100,228
Depreciation	5,752	34,863	3,537	3,068	-	47,220
Total Expenses	\$ 549,664	\$ 457,879	\$ 35,214	\$ 69,979	\$ 34,712	\$ 1,147,448

DORCHESTER HABITAT FOR HUMANITY, INC.
STATEMENTS OF CASH FLOWS
For the Fiscal Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Increase in net assets	\$ 195,247	\$ 343,204
Adjustments to reconcile change in net assets to net cash provided/(used) by operating activities:		
Depreciation	50,400	47,220
Amortization of discount on mortgages	(91,626)	(82,361)
Discounts on mortgages issued	449,152	330,202
Recognized amortization income from foreclosure	-	(22,221)
Recognized second mortgage income from foreclosure	-	(56,300)
(Increase)/Decrease in:		
Restricted cash	-	558
Construction in progress	(19,038)	46,135
Other current assets	6,352	(14,497)
Increase/(Decrease) in:		
Accounts payable	5,453	17,687
Payroll taxes and benefits payable	4,132	8,098
Net Cash Provided (Used) By Operating Activities	<u>\$ 600,072</u>	<u>\$ 617,725</u>
Cash Flows From Investing Activities		
Lots used in development and closed	\$ 56,000	\$ 61,176
Purchase of land for inventory	(106,000)	-
Land held for investment	-	(5,176)
Property held for resale	104,725	(104,725)
Purchase of equipment	-	(19,709)
Purchase of truck	-	(35,500)
Building Improvements	(25,285)	-
Principal balances of foreclosed/paid off properties	-	108,113
Collection of mortgage receivable	180,489	152,963
Issuance of mortgage receivable	(749,737)	(561,790)
Net Cash (Used)/Provided By Investing Activities	<u>\$ (539,808)</u>	<u>\$ (404,648)</u>
Cash Flows From Financing Activities		
Proceeds from issuance of note payable	\$ -	\$ -
Principal payments on note payable	(64,448)	(146,862)
Net Cash (Used)/Provided By Financing Activities	<u>\$ (64,448)</u>	<u>\$ (146,862)</u>
Increase In Cash and Cash Equivalents	<u>\$ (4,184)</u>	<u>\$ 66,215</u>
Cash and Cash Equivalents At Beginning Of Year	<u>410,812</u>	<u>344,597</u>
Cash and Cash Equivalents At End Of Year	<u>\$ 406,628</u>	<u>\$ 410,812</u>
Supplemental Disclosures		
Noncash investing and financing activities:		
Assets donated for use	-	-
Interest paid	26,162	30,151
Income taxes paid	-	-

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2018 and 2017

Note 1 – Nature of Activities and Summary of Significant Accounting Policies

Nature of Organization

Dorchester Habitat for Humanity, Inc. (DHFH) was founded in 1993 and is an approved affiliate for Habitat for Humanity International (HFHI). DHFH builds and sells new homes to first-time homeowners. DHFH's homeowners are working families who must earn 35%-60% of the Area Median Income as determined yearly by the HUD Home Program, the South Carolina Housing Finance & Development Authority, and the Federal Home Loan Bank. Habitat homes are built by DHFH's construction crew and hundreds of volunteers. DHFH holds an interest-free first mortgage on each home built with terms of twenty (20), twenty-five (25), or thirty (30) years. Since 1993, DHFH has helped build sixty-one (61) homes for working families in Dorchester County, South Carolina. DHFH also operates a ReStore, which accepts donated items that are sold to the general public. ReStore proceeds are used to fund DHFH's operation and home building efforts.

Mission

DHFH is a locally run affiliate of Habitat for Humanity International, a non-profit, ecumenical Christian housing organization. DHFH's mission statement is "Putting God's love into action by bringing people together building homes and hope." DHFH's vision statement is "Transforming Dorchester County one home at a time." DHFH seeks to eliminate poverty housing and homelessness in Dorchester County, South Carolina and to make decent shelter a matter of conscience and action.

Organizational and Program Values

DHFH relies on the generosity of volunteers to keep the cost of construction of Habitat homes low. Volunteers donate approximately 2,000 hours to build each Habitat home.

DHFH builds permanent, affordable, decent, safe, simple and energy-efficient homes in partnership with low-wealth families who meet the requirements of its Construction and Homeownership Program.

DHFH seeks to build in, safe, decent and diverse neighborhoods.

DHFH's Construction and Homeownership Program requires that applicants meet the 35%-60% of the Median Income for Dorchester County, South Carolina; have a debt-to-income ratio at or below 40% and 35% for fiscal year 2018 and 2017 respectively; have a housing expenses-to-income ratio at or below 32% and 31% for fiscal year 2018 and

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2018 and 2017

Note 1 – Nature of Activities and Summary of Significant Accounting Policies –
(continued)

Organizational and Program Values – (continued)

2017 respectively; have an established credit history; and work at least 425 sweat-equity hours in partnership with DHFH, including working at least 60 hours on other future homeowners' homes and at least 60 hours on their own home.

DHFH thrives only through the support of the community, and it owes the community a regular accounting of its spending and achievements.

DHFH builds to Energy Star 3 standards by utilizing sustainable and energy efficient building products and methods that reduce homeowners' living expenses and promotes environmental stewardship.

DHFH works to strengthen the financial stability and creditworthiness of low-wealth families by partnering with Origin SC, a HUD-approved counseling agency and non-profit corporation. Origin SC provides financial, budgeting and credit counseling and education before the application process, during the application process, and after homeownership.

Homeowners pay back to DHFH an interest-free mortgage over twenty, twenty-five, or thirty years. The mortgage payments go into a revolving fund ("seed money") used to build additional Habitat homes in partnership with other future homeowners.

The ReStore is DHFH's largest fundraiser accepting and selling donated items from and to the public six days a week. The ReStore depends upon a large number of volunteers who perform various tasks ranging from assisting with the pick-up and delivery of donated items to assisting customers in the ReStore.

Basis of Accounting

The financial statements of Dorchester Habitat for Humanity, Inc. have been prepared on the accrual basis of accounting. Revenue, other than contributions, is recognized when earned and expenses are recorded when the obligation is incurred.

Basis of Presentation

DHFH follows accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB sets accounting principles generally accepted in the United States of America ("GAAP") that DHFH follows to ensure the consistent reporting of its financial

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2018 and 2017

Note 1 – Nature of Activities and Summary of Significant Accounting Policies –
(continued)

Basis of Presentation – (continued)

condition, changes in net assets and cash flows. References to GAAP issued by the FASB in the accompanying footnotes are the FASB Accounting Standards Codification ("ASC").

DHFH's financial statements have been prepared in accordance with standards of accounting and financial reporting under FASBASC 958, *Not-For-Profit Entities* and the AICPA Audit and Accounting Guide, *Not-For-Profit Entities*. Under this authoritative guidance, DHFH is required to provide financial statements which are prepared in focus on DHFH as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets having similar characteristics have been combined into similar categories.

- **Unrestricted** – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors. Restricted net assets received and expended in the same year are classified as unrestricted.
- **Temporarily Restricted** – Net assets whose use by DHFH is subject to donor-imposed stipulations that can be fulfilled by actions of DHFH pursuant to those stipulations or that expire through the passage of time.
- **Permanently Restricted** – Net assets that are subject to donor-imposed stipulations that assets be maintained permanently by DHFH. The donors of these assets permit DHFH to use all or part of the investment return of these assets for continuing operation which may be subject to certain restrictions.

Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as transfers between the applicable classes of net assets. Gains and losses on investments and other assets and liabilities are reported as increases and decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or law.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2018 and 2017

Note 1 – Nature of Activities and Summary of Significant Accounting Policies –
(continued)

Basic Program

DHFH builds homes with donated funds, Restore income and mostly volunteer labor. The homes are sold to working families for the fair market value determined by appraisal. DHFH holds the right to reduce the sales price to meet the affordability of the approved qualified future homeowners. At this time, management feels that all approved qualified future homeowners exceed the prescribed affordability standards. Before July 1, 2016, homes were sold at cost. DHFH holds an interest-free first mortgage collectible in monthly installments. On October 27, 2016, the board of directors approved increasing the length of future mortgages from twenty-five to thirty years. The mortgage notes receivable are discounted at an imputed interest rate, and interest income is recognized over the life of the mortgage in accordance with FASB ASC 835-30, Imputation of Interest. DHFH also holds a second mortgage for the difference between the appraised value of the home and land and the amount of the first mortgage. No payments are due on the second mortgage unless the home is sold to a third party, foreclosed upon, and/or refinanced. DHFH retains the right to release the homeowner from the obligation set forth in the terms of the second mortgage. DHFH generally does not collect nor reflect the second mortgage on the financial statements. All related costs of construction are recognized on the "completed contract" method, which recognizes cost when a contract, or in this case a home, is completed or substantially completed.

Cash and Cash Equivalents

For the purposes of the Statements of Cash Flows, DHFH considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. As of June 30, 2018 and 2017, DHFH does not have any cash equivalents.

Promises to Give

Unconditional promises to give are recognized as revenues in the period in which the promise is received, and as assets, decreases in liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2018 and 2017

Note 1 – Nature of Activities and Summary of Significant Accounting Policies –
(continued)

Construction in Progress

Construction in Progress represents the cost of homes that are currently under construction for qualified future homeowners. Purchased materials and land for the construction of these homes are recorded at cost. Donated materials, labor, and land, if applicable, are recorded at fair market value. Land is recorded and traced in the land held for development account. Overhead and administration expenses of DHFH's home construction are included in other program expenses of DHFH.

Donated Assets

DHFH's receives building materials, home goods, and furniture, substantially all of which the organization receives as gifts or contributions for the purpose of resale. The donated items are deemed to be of value only when, and if, sold. In accordance with ASC 958-605-25-4, Not-for-Profit Entities-Revenue Recognition, the donated inventory is not recorded in the financial statements until the time of sale, when a fair market value is determined, and items sold are reflected in the statement of activities. No value is recorded at the date of donation, and the values at June 30, 2018 and 2017, were zero. Donated materials for construction and lot inventory are recorded at their estimated fair market values as the date of the donation. Merchandise purchased for resale is recorded at cost.

Property and Equipment

Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at the approximate fair value at the date of donation. Expenditures for major additions and improvements, generally in excess of \$2,500, are capitalized and minor replacements, maintenance, and repairs are charged to expense as incurred. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is included in the results of the operations for the respective period. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, ranging from 5 to 40 years.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2018 and 2017

Note 1 – Nature of Activities and Summary of Significant Accounting Policies –
(continued)

Compensated Absences

Full time and part-time employees of DHFH are entitled to paid time off (PTO) which is used for vacations, paid sick days and personal days off, depending on job classification and length of service. Part-time employees, and full-time employees working less than forty (40) and more than thirty-four (34) hours per week are eligible for PTO benefits and the accrual of PTO hours on a prorated basis based upon the percentage of the forty (40) hour work week that the employee usually works. The following schedule provides PTO hours allowed based on years of service:

<u>Years of Service</u>	<u>Annual PTO Hours</u>
0 - 3 years	120
4 - 8 years	160
Over 9 years	200

Change in Net Assets

The change in net assets is affected by, and dependent upon, home sales. In particular, DHFH sold five (5) homes in 2018 and four (4) homes in 2017. When home sales occur, the revenue is recorded, and the related previously capitalized construction in progress is recognized and expensed in the year of the sale. On July 1, 2016, DHFH adopted Policy 22 from Habitat for Humanity International's US Affiliated Organizations Policy Handbook. The policy states the sales price of housing units is its market value. The market value is to be established by a third party appraisal for each housing unit. If the qualified program participant does not financially qualify for sale at FMV, then DHFH has the ability to use other means to reach an affordable payment. For 2018 and 2017, all homes were sold at FMV as demonstrated by appraisal.

Effect of Change in Policy

Prior to adoption, Policy 23 referred to the "total repayable price of the home" which was stated by DHFH as the first mortgage. The practice for determining the "total repayable price of the home" was the total development costs of the house unless the market value by appraisal or affordability by the homeowner using prescribed ratio testing was less than total development costs. The prior policy did not include subordinate mortgage amounts when recording note receivable.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2018 and 2017

Note 1 – Nature of Activities and Summary of Significant Accounting Policies –
(continued)

Home Sales

Revenue related to home sales is recognized when properties are sold to qualified homebuyers. The "sales price" is the total of all consideration paid by (or on behalf of) the homebuyer for the home. This includes any down payment and the amount of all mortgages, including any subordinate mortgage in favor of DHFH or any third party lender.

Donated Services

Donated services are recognized in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958 *Not-For-Profit Entities* if services (a) create or enhance a non-financial asset, or (b) require special skills, are performed by people with those skills, and would otherwise be purchased by DHFH. Volunteers perform a variety of tasks that assist DHFH with specific programs, fund-raising, and various team assignments throughout the year. These tasks are not recognized as contributions in the financial statements since the recognition criteria under FASB ASC 958 were not met.

Revenue Recognition

In accordance with Standards FASB ASC 958-50, *Accounting or Contributions Received and Contributions Made*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. DHFH reports contributions as restricted support if they are received with donor stipulations that limit the use of the donation. 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 statement of activities as net assets released from restriction. DHFH reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the assets must be used. It is DHFH's policy to record restricted contributions received and released in the same year as unrestricted support. DHFH did not have any permanently restricted contributions or assets as of the fiscal years ended June 30, 2018 and 2017.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2018 and 2017

Note 1 – Nature of Activities and Summary of Significant Accounting Policies –
(continued)

Advertising

Cost of promotions and advertising are expensed as incurred. Advertising and promotion expenses total \$54,908 and \$38,312 for the fiscal years ended June 30, 2018 and 2017.

Expense Allocation

The cost of providing various programs and other activities are summarized on a functional basis in the Statements of Activities and the Statements of Functional Expenses. Directly identifiable expenses are charged to program services including home or Restore and supporting services including management and general, fundraising, or special events, as applicable. Accordingly, overhead and certain other expenses are allocated to functional categories based on percentages estimated by the organization's management.

Income Taxes

DHFH is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, DHFH qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation. DHFH has no tax liability on unrelated business income during the fiscal years ended June 30, 2018 and 2017.

Management has evaluated the tax positions of DHFH and does not believe that any uncertain tax positions or unrecognized tax benefits exist for the fiscal years ended June 30, 2018 and 2017. DHFH's policy is to report accrued interest related to unrecognized tax benefits, when applicable, as interest expense and to report penalties as other expense.

DHFH currently has no taxable unrelated business income. Accordingly, no provision for income taxes has been recorded. With few exceptions, DHFH is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before the fiscal year ended June 30, 2015.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2018 and 2017

Note 1 – Nature of Activities and Summary of Significant Accounting Policies –
(continued)

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.

Note 2 – Restricted Cash

The \$0 of restricted cash as of June 30, 2018 and 2017, are related to specific home builds.

Note 3 – Homeowner Escrow Receivable

During the fiscal year 2014, DHFH outsourced its mortgage loan and escrow management to the Habitat for Humanity Michigan Fund (HFHMF). HFHMF is a full-service licensed lending entity, providing loan origination, loan servicing, collections, loan restructuring, foreclosure mitigation advice, and delinquency management services. As a part of this service agreement, DHFH transferred all escrow balances to the HFHMF. At such time, that escrow account has a deficit balance. DHFH remits payment to HFHMF to assume the deficit balance. As of June 30, 2018 and 2017, the receivables from homeowners for deficit escrows accounts was \$5,579 and \$8,702.

Note 4 – Promises to Give

Promises to give consist of amounts due from private donors, based on the terms of their pledge agreements. Management periodically reviews the status of all promises to give for collectability. Each balance is assessed based on management's knowledge of and relationship with the donor and the age of the pledge balance. As a result of these reviews, balances deemed to be uncollectible are charged directly to uncollected receivable expense. Management believes that the use of the direct write-off method approximates the results that would be presented if an allowance for doubtful accounts were recorded.

Promises to give were \$0 as of fiscal years ended June 30, 2018 and 2017.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2018 and 2017

Note 5 – Mortgage Note Receivable

DHFH directly finances all of the homes that it sells. Each mortgage is issued as a zero-interest mortgage to the buyer. During fiscal years 2018 and 2017, five (5) homes and four (4) homes, respectively, were sold to qualifying homebuyers. Mortgages receivable consist of non-interest bearing promissory in amounts ranging from \$3,855 to \$160,478. Monthly principal payments range from \$108 and \$448, and maturities range from 2021 to 2048. The resulting mortgages are non-interest bearing, and the presentation of their book value has been discounted based upon the prevailing market rates for low-income housing at the inception of the mortgages. For fiscal years 2018 and 2017, discount rates were 7.47% and 7.47%, respectively.

Because the mortgages are secured by the deeds of trust on the respective properties, management believes no allowance for doubtful mortgages is necessary. Sales to homeowners for the fiscal years ended June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Gross Sales to Homeowners	\$ 761,225	\$ 561,790
Less Discount on Sales to Homeowners	(449,152)	(330,202)
Net Sales to Homeowners	<u>\$ 312,073</u>	<u>\$ 231,588</u>

DHFH discounts the mortgages using the prevailing market rates for low-income housing at the time the homes are sold. The discount is amortized using the effective interest method. Mortgages receivable as of June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Mortgage Note Receivable at Face Value	\$2,821,487	\$2,254,308
Less: Unamortized Discount	(1,527,120)	(1,169,594)
Total	\$1,294,367	\$1,084,714
Less: Current Portion	(76,576)	(67,836)
Mortgage Receivable, Long Term	<u>\$1,217,791</u>	<u>\$1,016,878</u>

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2018 and 2017

Note 5 – Mortgages Receivable – (continued)

Future collections on these mortgages will be received over the next five years and thereafter as follows:

2019	\$ 146,924
2020	161,023
2021	159,508
2022	159,508
2023	157,305
Thereafter	<u>2,037,219</u>
Total	<u>\$2,821,487</u>

Note 6 – Construction in Progress

Costs associated with the acquisition, development, and construction of a project are capitalized. Such costs may include (1) pre-acquisition cost such as land acquisition or improvement; (2) infrastructure development or construction costs such as equipment rental, construction materials or subcontractors; and (3) other costs such as interest, insurance or construction benefits. Most of the projects included in construction in progress are currently expected to be completed and sold in the year ending June 30, 2019.

Construction in progress consists of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
318 Rambo Drive	\$ -	\$ 55,571
322 Rambo Drive	-	20,908
334 Rambo Drive	51,849	-
338 Rambo Drive	43,668	-
Total	<u>\$ 95,517</u>	<u>\$ 76,479</u>

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2018 and 2017

Note 7 – Land Held for Development

The following lots were held for development as of June 30, 2018 and 2017:

	Number of Lots Remaining	2018	2017
Clarks Hill Drive, St. George	7	\$ 43,911	\$ 43,911
Duke Corner Lot	1	-	-
Duke Street	8	-	-
Half Street, Summerville	1	24,900	24,900
Rambo Drive, Summerville	2	28,000	84,000
Renau Boulevard, Summerville	1	50,900	50,900
Weber Road, Summerville	1	27,126	27,126
Lake Dr, Summerville	2	76,000	-
Cady Dr, Summerville	1	30,000	-
Total		<u>\$ 280,837</u>	<u>\$ 230,837</u>

Note 8 – Property and Equipment

Acquisitions of property and equipment greater than \$2,500 and all expenditures for repairs, maintenance, and betterments that materially prolong the useful lives of assets are capitalized at cost. Property and equipment, other than donated property, is stated at cost. Donated property is valued at fair market value at the date of the gift.

Depreciation is calculated using the straight-line method over the following estimated useful lives of the assets:

Buildings	40 years
Furniture and Equipment	3 to 5 years
Software	5 years
Vehicles	3 to 7 years

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2018 and 2017

Note 8 – Property and Equipment – (continued)

Property and Equipment consist of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Land	\$ 241,770	\$ 241,770
Office and ReStore Building	1,578,998	1,553,713
Furniture and Equipment	8,966	8,966
Vehicles	54,916	54,916
	<u>\$ 1,884,650</u>	<u>\$ 1,859,365</u>
Less Accumulated Depreciation	<u>(403,910)</u>	<u>(353,509)</u>
Property and Equipment, Net	<u>\$ 1,480,740</u>	<u>\$ 1,505,856</u>

Depreciation charged to operation in fiscal years ended June 30, 2018 and 2017, was \$50,400 and \$47,220, respectively.

Note 9 – Homeowner Escrow

Beginning in the fiscal year 2014, the Habitat for Humanity Michigan Fund (HFHMF), serving as the escrow agent for DHFH, collects monthly payments from the homeowners for homeowners' insurance, termite bond, and real property taxes. The escrow account balances and offsetting liability are not recorded in the financial statements. The homeowner escrow balances held by HFHMF as of June 30, 2018 and 2017, were \$40,780 and \$29,024, respectively.

Note 10 – In-Kind Contributions

Donated materials and professional construction services are reflected as contributions in the accompanying financial statements at their estimated fair market values on the date of receipt. Recorded in-kind contributions consisted of the following for the fiscal years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Construction Materials	\$ 21,176	\$ 18,150
Construction Services	<u>18,750</u>	<u>18,071</u>
Total	<u>\$ 39,926</u>	<u>\$ 36,221</u>

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2018 and 2017

Note 10 – In-Kind Contributions – (continued)

Many individuals volunteer their time and perform a variety of tasks that assist DHFH with specific programs, campaign solicitations, and various team assignments. These amounts are not recorded.

Note 11 – Notes Payable

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

	<u>2018</u>	<u>2017</u>
SunTrust mortgage is due in monthly principal and interest installments of \$6,418 with interest at 3.75% through January 2019 when a balloon payment for all remaining principal becomes due; secured by office and ReStore building	\$ 655,036	\$ 719,484
Less Current Maturities	<u>(655,036)</u>	<u>(50,898)</u>
Total Long Term Debt	<u>\$ -</u>	<u>\$ 668,586</u>

The Board of Directors has approved the renewal of the building loan with SunTrust Bank. The loan will renew in January 2019. The principal payment of the long-term debt is as follows for the fiscal year ended June 30, 2018:

2019	\$ 655,036
2020	-
2021	-
2022	-
2023	-
Thereafter	<u>-</u>
Total	<u>\$ 655,036</u>

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2018 and 2017

Note 12 – Temporarily Restricted Net Assets

Temporarily restricted net assets include those net assets whose use by DHFH has been donor-restricted by specified purpose or time limitations. Restricted net assets received and expended in the same year are classified as unrestricted. Temporarily restricted net assets consist of the following as of fiscal years ended June 30, 2018 and 2017:

2018

<u>Purpose</u>	<u>Beginning Balance</u>	<u>Contributions</u>	<u>Distributions</u>	<u>Ending Balance</u>
Land Capital Campaign:				
Rambo Drive	\$ 12,000	\$ -	\$ (8,000)	\$ 4,000
Weber Drive	26,800	-	-	26,800
Material In-kind Donations	825	-	(825)	-
Grant Revenue	-	56,000	(56,000)	
Build Donation	4,100	2,000	(4,100)	2,000
Total	<u>\$ 43,725</u>	<u>\$ 58,000</u>	<u>\$ (68,925)</u>	<u>\$ 32,800</u>

2017

<u>Purpose</u>	<u>Beginning Balance</u>	<u>Contributions</u>	<u>Distributions</u>	<u>Ending Balance</u>
Land Capital Campaign:				
Rambo Drive	\$ 20,000	\$ -	\$ (8,000)	\$ 12,000
Weber Drive	26,800	-	-	26,800
Material In-kind Donations	6,541	-	(5,716)	825
Program Donations	-	-	-	-
Women Build Donation	9,300	-	(9,300)	-
Family Services	5,000	-	(5,000)	-
Grant Revenue	28,068	-	(28,068)	-
Build Donation	-	4,100	-	4,100
Total	<u>\$ 95,709</u>	<u>\$ 4,100</u>	<u>\$ (56,084)</u>	<u>\$ 43,725</u>

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2018 and 2017

Note 13 – Related Party Transactions

Dorchester Habitat for Humanity is an affiliate of Habitat for Humanity International, Inc. (HFHI). Although HFHI assists with information resources, training, publications and flows through contributions, DHFH is primarily and directly responsible for its operations. DHFH tithed and paid membership fees for the fiscal year ended June 30, 2018 and 2017, of \$8,000 and \$7,900, respectively. During the fiscal year 2017, DHFH received \$17,500 in a grant from Thrivent Financial through the Thrivent Builds Program. HFHI administers the program.

Dorchester Habitat for Humanity (DHFH) participated in the local Trident Habitat for Humanity (THFH) joint fundraising and development initiative. During fiscal years ended 2018 and 2017, DHFH paid THFH \$4,204 and \$4,323 as their share of joint development and received \$400 and \$0 in grants or income.

Contributions from DHFH board members and employees for June 30, 2018 and 2017, totaled \$16,781 and \$19,556, respectively.

Note 14 – Concentration of Credit Risk

DHFH places its cash with reputable financial institutions. Accounts held by banking institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. DHFH balance in a money market account with SunTrust Bank is \$357,818. This balance exceeds the FDIC insured limit by \$107,818.

DHFH's programs are concentrated in Dorchester County, South Carolina. The level of contributions, home sales, and collections of mortgages receivable may be affected by changes in this local economy. In addition to geographic concentration risk, management also notes the following risk factors that may affect DHFH's future ability to carry out its mission, including: DHFH's ongoing dependency on contributions as a significant portion of total operating revenue; the rate at which DHFH collects its long-term mortgages receivable versus the obligations presented by DHFH's short-term liabilities; risk of loss due to loan defaults; and the limited marketability of the mortgages receivable for resale.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2018 and 2017

Note 15 – Commitments and Contingencies

Collection of Second Mortgages

In addition to the non-interest bearing mortgage received from the sale of each home, DHFH may issue a contingent second mortgage. The second mortgages, issued by DHFH, represent the excess of the market value of the home over the original loan at the date the second mortgage is executed. A mortgage default resulting in foreclosure will trigger the collection of the second mortgage. Except in the case of resale or refinance, early satisfaction of the first mortgage of homes in good standing will not usually result in the collection of the second mortgage obligation. DHFH retains the right to waive the option to accelerate the second mortgage and release mortgagor from the obligation. Any second mortgage repayment is considered remote by DHFH, and therefore no receivable has been recorded in the current year financial statements. During the fiscal years 2018 and 2017, \$16,799 and \$0 respectively was recognized in income. The total amount of second mortgages recorded as of June 30, 2018, is \$1,900,086.

South Carolina Housing Trust

Sixteen contingent second mortgages are held by the South Carolina Housing Trust as a condition of grants provided to construct the homes and are amortized over up to twenty years.

Note 16 – Subsequent Events

Management has evaluated subsequent events through August 10, 2018, and has concluded no significant subsequent events meet the criteria of professional accounting standards to be recognized or not recognized, but disclosed, in the financial statements.