

**DORCHESTER HABITAT FOR
HUMANITY, INC.**

**INDEPENDENT AUDITORS' REPORT
AND AUDITED FINANCIAL STATEMENTS**

**AS OF AND FOR THE YEAR ENDED
JUNE 30, 2019**

Dorchester Habitat for Humanity, Inc.
Audited Financial Statements
As of and for the Year Ended June 30, 2019

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JARDARD, NOWELL & RUSSELL, LLC
CERTIFIED PUBLIC ACCOUNTANTS

W. Kirk E. Dennis, CPA
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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, 2019 and 2018, 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, 2019 and 2018, 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.

Jarvis, Howell, & Russell, LLC

Charleston, SC
September 25, 2019

DORCHESTER HABITAT FOR HUMANITY, INC.
STATEMENTS OF FINANCIAL POSITION
As of June 30, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash	\$ 420,999	\$ 406,628
Accounts Receivable	13,251	12,075
Other Current Assets	13,783	14,854
Construction In Progress	64,325	55,517
Mortgage Receivables, net, current	81,762	76,576
Total Current Assets	\$ 607,623	\$ 606,050
Property and Equipment, net	\$ 1,441,273	\$ 1,493,740
Other Assets		
Land Held for Development	225,937	200,837
Mortgages Receivables, net, long term	1,425,087	1,217,791
Land Held for Investment	1	5,175
Total Other Assets	\$ 1,646,025	\$ 1,523,804
Total Assets	\$ 3,694,921	\$ 3,580,594
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable	\$ 35,023	\$ 31,124
Compensated Absences	4,403	5,401
Accrued Expenses	11,735	9,105
Note Payable	41,305	555,266
Total Current Liabilities	\$ 92,586	\$ 700,896
Long Term Liabilities		
Note Payable	571,823	-
Total Long Term Liabilities	\$ 571,823	\$ -
Total Liabilities	\$ 664,409	\$ 700,896
Net Assets		
Without Donor Restrictions	\$ 3,503,712	\$ 2,857,125
With Donor Restrictions	28,800	92,890
Total Net Assets	\$ 3,030,512	\$ 2,880,925
Total Liabilities and Net Assets	\$ 3,694,921	\$ 3,580,594

DORCHESTER HABITAT FOR HUMANITY, INC.
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support:			
Contributions:	\$ 86,878	\$ 7,039	\$ 49,408
Contributions In-Kind	49,630	5,003	51,630
Grant Revenue	-	58,010	58,010
Home Sales, net	236,756	-	236,756
Mortgage Discount Amortization	115,794	-	115,794
Special Events	101,314	-	101,314
Resale Sales	1,189,377	-	1,189,377
Interest Income	2,291	-	2,291
Other Income	13,284	-	13,284
Net Assets Released from Restrictions	76,240	(76,240)	-
Total Revenues and Other Support	\$ 1,606,364	\$ (8,900)	\$ 1,074,564
Expenses:			
Program:			
Construction	801,845	-	801,845
Resale	754,499	-	754,499
Total Program Expenses	\$ 1,556,344	\$ -	\$ 1,556,344
Support Services:			
Management and General	37,779	-	37,779
Fundraising	61,376	-	61,376
Special Events	59,379	-	59,379
Total Support Services	\$ 158,534	\$ -	\$ 158,534
Total Expenses	\$ 1,734,377	\$ -	\$ 1,734,377
Change in Net Assets	\$ 146,507	\$ (8,900)	\$ 140,507
Net Assets at Beginning of Year	2,857,125	32,001	2,889,966
Net Assets at End of Year	\$ 3,003,712	\$ 26,900	\$ 3,000,512

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and Other Support			
Contributions	\$ 41,717	\$ 2,000	\$ 43,717
Contributions In-Kind	50,926	-	50,926
Grant Revenue	3,589	56,000	59,589
Home Sales, net	312,373	-	312,373
Mortgage Discount Amortization	91,628	-	91,628
Special Events	67,290	-	67,290
ReStore Sales	962,212	-	962,212
Interest Income	209	-	209
Other Income	25,355	-	25,355
Net Assets Released from Restrictions	60,925	(69,925)	-
Total Revenue and Other Support	<u>\$ 1,003,512</u>	<u>\$ (10,925)</u>	<u>\$ 992,587</u>
Expenses			
Program			
Construction	725,210	-	725,210
ReStore	562,670	-	562,670
Total Program Expenses	<u>\$ 1,287,880</u>	<u>\$ -</u>	<u>\$ 1,287,880</u>
Support Services			
Management and General	34,353	-	34,353
Fundraising	74,239	-	74,239
Special Events	50,808	-	50,808
Total Support Services	<u>\$ 159,400</u>	<u>\$ -</u>	<u>\$ 159,400</u>
Total Expenses	<u>\$ 1,447,280</u>	<u>\$ -</u>	<u>\$ 1,447,280</u>
Change in Net Assets	<u>\$ 206,172</u>	<u>\$ (10,925)</u>	<u>\$ 195,247</u>
Net Assets at Beginning of Year	2,690,353	43,725	2,634,578
Net Assets at End of Year	<u>\$ 2,896,525</u>	<u>\$ 32,800</u>	<u>\$ 2,868,925</u>

DORCHESTER HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Fiscal Year Ended June 30, 2019

	Program		Total	Support Services			Total Expenses
	Construction	Admin		Transferring and Receiving	Purchasing	Special Events	
Salaries	\$ 188,958	\$ 54,314	\$ 243,272	\$ 46,202	\$ 4,569	\$ 51,771	\$ 510,993
Payroll Taxes	9,471	25,370	34,841	8,451	-	-	39,810
Employee Benefits	5,856	17,702	23,558	1,442	-	2,408	29,311
Total Salaries and Benefits	\$ 204,285	\$ 97,386	\$ 301,671	\$ 56,095	\$ 4,569	\$ 63,125	\$ 369,365
Cost of Homes Sold	\$ 532,750	-	\$ 532,750	-	-	-	\$ 532,750
Supplies	2,510	68,075	70,585	1,122	745	1,867	73,319
Vehicle Expense	-	10,118	10,118	-	-	-	10,118
Telephone	1,436	5,241	6,677	750	-	1,032	7,959
Advertising	1,644	7,178	8,822	9,130	8,772	17,902	34,634
Postage and Shipping	322	755	1,077	250	-	440	1,515
Copy	4,312	27,463	31,775	2,256	2	5,006	39,041
Insurance	3,331	4,296	7,627	86	-	1,611	9,324
Professional Fees	33,258	24,268	57,526	7,262	258	21,914	79,968
Senior Travel Needs	6,315	5,974	12,289	2,190	572	937	19,988
Printing and Publications	2,110	4,747	6,857	1,900	2,781	5,064	14,642
Hardware and Volunteer Expenses	11,503	2,283	13,786	115	-	115	13,916
Fundraising Expenses	-	-	-	226	45,722	45,948	46,174
Interest	4,003	72,167	76,170	2,526	-	4,720	83,423
Bank and Processing Charges	477	16,729	17,206	956	-	1,722	19,933
Dues and Memberships	4,791	7,116	11,907	1,352	1,175	2,527	15,965
Repairs and Maintenance	3,070	81,744	84,814	2,082	-	5,670	92,566
Hotel Accommodations	500	-	500	-	-	-	500
Total Expenses Other Than Depreciation	\$ 791,152	\$ 717,011	\$ 1,508,163	\$ 73,331	\$ 51,978	\$ 125,309	\$ 1,685,471
Depreciation	5,611	27,450	33,061	2,489	-	6,355	41,905
Total Expenses	\$ 801,245	\$ 754,461	\$ 1,555,706	\$ 75,820	\$ 51,978	\$ 131,664	\$ 1,733,371

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The accompanying notes and independent auditors' report should be read with this financial statement.

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

	Program		Support Services			Total Expenses	
	Construction	Rentals	Total	Management and Payroll	Administration		Special Events
Salaries	\$ 131,310	\$ 282,855	\$ 414,165	\$ 8,416	\$ 422,581	\$ -	\$ 422,581
Payroll Taxes	7,247	15,547	22,794	66	22,860	-	22,860
Employee Benefits	4,291	18,428	22,719	540	23,259	-	23,259
Total Salaries and Benefits	\$ 142,848	\$ 316,830	\$ 459,678	\$ 9,022	\$ 468,700	\$ -	\$ 468,700
Cost of Goods Sold	\$ 518,430	-	\$ 518,430	\$ -	\$ -	\$ -	\$ 518,430
Supplies	2,127	58,207	60,334	415	60,749	147	60,896
Vehicle Expense	-	7,810	7,810	-	-	-	7,810
Telephone	1,412	4,906	6,318	276	6,594	-	6,594
Advertising	4,700	21,180	25,880	-	25,880	3,805	29,685
Postage and Shipping	501	373	874	175	1,049	-	1,049
Occupancy	2,019	23,117	25,136	1,559	26,695	-	26,695
Insurance	3,407	13,159	16,566	1,115	17,681	-	17,681
Professional Fees	46,822	18,970	65,792	10,421	76,213	-	76,213
Senior Travel & Meals	3,052	9,178	12,230	110	12,340	507	12,847
Printing and Publications	1,731	2,361	4,092	239	4,331	506	4,837
Hardware and Volunteer Expenses	3,529	5,355	8,884	1	8,885	1,468	10,353
Fundraising Expense	-	-	-	-	-	-	-
Interest	3,385	19,520	22,905	-	22,905	43,445	66,350
Bank and Processing Charges	517	13,567	14,084	556	14,640	2,326	16,966
Dues and Memberships	4,934	5,281	10,215	166	10,381	906	11,287
Repairs and Maintenance	8,232	18,162	26,394	1,430	27,824	-	27,824
Relational International	600	-	600	-	600	-	600
Total Expenses Before Depreciation	\$ 775,563	\$ 504,417	\$ 1,279,980	\$ 31,251	\$ 1,311,231	\$ 50,283	\$ 1,361,514
Depreciation	5,647	38,213	43,860	3,230	47,090	-	47,090
Total Expenses	\$ 781,210	\$ 542,630	\$ 1,323,840	\$ 34,481	\$ 1,358,321	\$ 50,283	\$ 1,408,604

DORCHESTER HABITAT FOR HUMANITY, INC.
STATEMENTS OF CASH FLOWS
For the Fiscal Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Increase in net assets	\$ 140,537	\$ 155,747
Adjustments to reconcile change in net assets to net cash provided/(used) by operating activities:		
Depreciation	49,448	50,100
Amortization of discount on mortgages	(115,794)	(97,626)
Discounts on mortgages issued	457,157	449,152
(Increase)/Decrease in:		
Construction in progress	30,302	(19,035)
Other current assets	(4,192)	6,332
Increase/(Decrease) in:		
Accounts payable	3,897	5,459
Payroll taxes and benefits payable	1,692	4,132
Net Cash Provided (Used) By Operating Activities	<u>\$ 563,545</u>	<u>\$ 600,072</u>
Cash Flows From Investing Activities		
Lots used in development and closed	\$ 151,900	\$ 58,000
Purchase of land for inventory	(100,000)	(108,000)
Land held for investment	5,175	-
Property held for resale	-	104,725
Building improvements	(9,980)	(25,235)
Principal balances of foreclosed/paid off properties	-	-
Collection of mortgage receivable	251,699	150,489
Issuance of mortgage receivable	(261,114)	(740,797)
Net Cash (Used)/Provided By Investing Activities	<u>\$ (499,326)</u>	<u>\$ (529,809)</u>
Cash Flows From Financing Activities		
Proceeds from issuance of note payable	-	-
Principal payments on note payable	(41,945)	(51,148)
Net Cash (Used)/Provided By Financing Activities	<u>\$ (41,945)</u>	<u>\$ (51,148)</u>
Increase in Cash and Cash Equivalents	<u>\$ 22,371</u>	<u>\$ (4,124)</u>
Cash and Cash Equivalents At Beginning Of Year	<u>406,026</u>	<u>410,212</u>
Cash and Cash Equivalents At End Of Year	<u>\$ 428,397</u>	<u>\$ 406,088</u>
Supplemental Disclosures		
Noncash investing and financing activities:		
Assets donated for use	-	-
Interest paid	31,704	28,162
Income taxes paid	-	-

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2019 and 2018

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 (HHI). 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 for Dorchester County 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-six (66) 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 operations 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 is dedicated to addressing Dorchester County's need for decent and affordable housing.

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 earn between 35%-60% of the Median income for Dorchester County, South Carolina; have a debt-to-income ratio at or below 40% for fiscal year 2019 and 2018, respectively; have a housing expenses-to-income ratio at or below 32% for fiscal year 2019 and

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2019 and 2018

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

Organizational and Program Values – (continued)

2018, respectively; have an established and good 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) and the Financial Transformation. Origin SC and the Financial Transformation provide 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 customers, creating DIY projects and displays, repairing furniture, and organizing donations.

Basis of Accounting

The financial statements of DHFH have been prepared on the accrual basis of accounting. Revenue, other than contributions, is recognized when earned and expenses are recorded when the obligations are 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, 2019 and 2018

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 FASB ASC 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 with 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.

- **Net assets without donor restrictions** are those currently available at the discretion of the Board of Directors (the "Board") for use in DHFH's operations and those resources invested in property and equipment.
- **Net assets with donor restrictions** are assets restricted by donors for any of the following: certain time periods, certain purposes, or assets that must be maintained permanently by DHFH as required by the donor but DHFH is permitted to use or expend part or all of any income derived from those assets.

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, 2019 and 2018

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 at fair market value as determined by an independent third party appraisal. Prior to July 1, 2016 the homes were sold at cost. All related costs of construction are recognized on the "completed contract" method, which recognizes when a contract (home) is substantially or entirely completed.

When a home is sold, DHFH issues a non interest bearing mortgage to the homeowner for the fair market value of the home. This is referred to as the first mortgage. DHFH will issue a second mortgage on a home when the value of the first mortgage is less than the fair market value of the home on the date of sale. Prior to July 1, 2016, all homes were issued a second mortgage to reflect the difference between cost and fair market value.

Currently DHFH may issue a first mortgage to a homeowner for below the fair market value of the home on date of sale in the event that the fair market value exceeds the previously prescribed affordability standards set by DHFH's policies. In this event, a second mortgage is issued for the difference between the first mortgage and the fair market value of the home.

No payments are due on the second mortgage except in the case of a sale to a third party, foreclosure, and/or a third party refinancing. The second mortgage is forgiven based on the individual terms of the second mortgage when issued. Typically, the second mortgage is forgiven when the first mortgage is satisfied in full (except in the case of refinancing). DHFH does not generally collect on the second mortgage and thus does not reflect the value of the second mortgages in its financial statements.

On October 27, 2016, the board of directors approved increasing the length of future mortgages from twenty five years to thirty years. 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.

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, 2019 and 2018, DHFH did not have any cash equivalents.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2019 and 2018

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

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.

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 estimated fair market value. Land is recorded and tracked in the land held for development account. Overhead and administration expenses of DHFH's home construction are included in other program expenses of DHFH or under construction program expenses.

Donated Assets

DHFH receives donated goods for various purposes, including items to be resold in the ReStore and items to be used for the construction of homes. Donated items to the ReStore include building materials, home goods, and furniture. Items donated to the ReStore are deemed to be of value only when 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. Revenue is recognized at the time of sale and reflected in the statement of activities. The values for ReStore donated goods as of June 30, 2019 and 2018 were zero. Donated materials for construction and not inventory are recorded at their estimated fair market values at the date of the donation. The values of donated goods for construction projects are allocated to their specific construction-in-progress accounts. Merchandise purchased for resale is recorded at cost.

Property and Equipment

Purchased property and equipment for construction and the ReStore are recorded at cost. Donated property and equipment are recorded at the approximate fair market value on the date of donation. Expenditures for major additions and improvements, generally in excess of \$5,000 are capitalized and minor replacements, maintenance, and repairs are expensed as incurred. When property and equipment are retired or otherwise disposed,

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2019 and 2018

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

Property and Equipment (continued)

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.

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 2019 and five (5) homes in 2018. 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, 2018, 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 fair market value. The fair market value is determined 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 2019 and 2018, all homes were sold at FMV as determined by appraisal.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2019 and 2018

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

Effect of Change in Policy

Prior to adoption, Policy 29 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 home 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 notes receivable.

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.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2019 and 2018

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

Revenue Recognition

In accordance with Standards FASB ASC 958-605-25, Accounting or Contributions Received and Contributions Made, contributions received are recorded as with or without donor restrictions depending on the existence and/or nature of any donor restrictions. DHFH reports contributions as restricted if they are received with donor stipulations that limit the use of the donation. Donor restrictions expire when either the stipulated time restriction ends or the purpose restriction is accomplished. When a donor restriction expires the asset with donor restrictions is reclassified to an asset without donor restrictions and reported in the statement of activities as a net asset without 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 had \$26,800 and \$32,500 in assets with donor restrictions at the end of the 2018 and 2017 fiscal years respectively.

Advertising

Cost of promotions and advertising are expensed as incurred. Advertising and promotion expenses total \$80,480 and \$54,909 for the fiscal years ended June 30, 2019 and 2018.

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 construction or ReStore, or 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 for the fiscal years ended June 30, 2019 and 2018.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2019 and 2018

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

Income Taxes (continued)

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, 2019 and 2018. 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, 2016.

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, 2019 and 2018 is 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), now Affiliate Mortgage Services (AMS). AMS 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 AMS. As of June 30, 2019 the escrow account has a deficit balance. DHFH remits payment to AMS to assume the deficit balance. As of June 30, 2019 and 2018, the receivables from homeowners for delinquent escrows accounts was \$5,266 and \$5,579 respectively.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2019 and 2018

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 and relationship with the donor along with 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.

There were no promises to give as of fiscal years ended June 30, 2019 and 2018.

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 2019 and 2018, five (5) homes were sold each year to qualifying homebuyers. Mortgages receivable consist of non-interest bearing promissory in amounts ranging from \$7,205 to \$173,943. Monthly principal payments range from \$108 and \$469, and maturities range from 2021 to 2049. The resulting mortgages are non-interest bearing, and the presentation of their book value is discounted based upon the prevailing market rates for low-income housing at the inception of the mortgages. For fiscal years 2019 and 2018, 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, 2019 and 2018 are as follows:

	2019	2018
Gross Sales to Homeowners	\$ 753,914	\$ 761,225
Less Discount on Sales to Homeowners	(457,157)	(449,152)
Net Sales to Homeowners	\$ 296,756	\$ 312,073

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2019 and 2018

Note 5 – Mortgage Note Receivable - (continued)

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, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Mortgage Note Receivable at Face Value	\$ 3,370,332	\$ 2,821,187
Less: Unamortized Discount	<u>(1,868,483)</u>	<u>(1,527,120)</u>
Total	\$ 1,501,850	\$ 1,294,067
Less: Current Portion	<u>(81,762)</u>	<u>(78,576)</u>
Mortgage Receivable, Long Term	<u>\$ 1,420,087</u>	<u>\$ 1,217,791</u>

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

2020	\$ 181,650
2021	181,650
2022	181,650
2023	179,634
2024	178,702
Thereafter	<u>2,469,046</u>
Total	<u>\$ 3,370,332</u>

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2019 and 2018

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, 2020.

Construction in progress consists of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
334 Rambo Drive	\$ -	\$ 51,919
336 Rambo Drive	-	43,658
188 Cady Drive	53,215	-
Half Street Lot 4	5,805	-
Half Street Lot 5	5,805	-
Total	<u>\$ 64,825</u>	<u>\$ 95,517</u>

Note 7 – Land Held for Development

The following lots were held for development as of June 30, 2019 and 2018:

	<u>Number of Lots Remaining</u>	<u>2019</u>	<u>2018</u>
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	0	-	28,000
Ronau Boulevard, Summerville	0	-	50,900
Weber Road, Summerville	1	27,126	27,126
Lake Dr, Summerville	0	-	76,000
Cady Dr, Summerville	1	30,000	30,000
N. Hickory Street, Summerville	4	100,000	-
Total		<u>\$ 225,937</u>	<u>\$ 280,837</u>

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2019 and 2018

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

Property and Equipment consist of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Land	\$ 241,770	\$ 241,770
Office and ReStore Building	1,588,978	1,578,998
Furniture and Equipment	8,966	8,966
Vehicles	54,916	54,916
	<u>\$ 1,894,630</u>	<u>\$ 1,894,650</u>
Loss Accumulated Depreciation	<u>(453,357)</u>	<u>(413,910)</u>
Property and Equipment, Net	<u>\$ 1,441,273</u>	<u>\$ 1,480,740</u>

Depreciation charged to operation in fiscal years ended June 30, 2019 and 2018, was \$49,448 and \$50,400, respectively.

Note 9 – Homeowner Escrow

Beginning in the fiscal year 2014, the Habitat for Humanity Michigan Fund (HFHMF), now Affiliate Mortgage Services (AMS), serving as the escrow agent for DHFH, collects monthly payments from the homeowners for homeowners' insurance, termite bonds, and real property taxes. The escrow account balances and offsetting liability are not recorded in the financial statements. The homeowner escrow balances held by AMS as of June 30, 2019 and 2018, were \$43,417 and \$40,780, respectively.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2019 and 2018

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, 2019 and 2018:

	2019	2018
Construction Materials	\$ 34,380	\$ 21,176
Construction Services	20,250	18,750
Total	\$ 54,630	\$ 39,926

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, 2019 and 2018:

	2019	2018
SunTrust mortgage is due in monthly principal and interest installments of \$6,053 with interest at 5.18% through August 2030, when any remaining interest and principal amounts are due in full; secured by office and ReStore building	\$ 619,188	\$ 655,036
Less Current Maturities	(41,365)	(655,036)
Total Long Term Debt	\$ 571,823	\$ -

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2019 and 2018

Note 11 – Notes Payable - (continued)

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

2020	\$	41,565
2021		43,676
2022		46,025
2023		48,502
2024		51,054
Thereafter		<u>382,565</u>
 Total	 \$	 <u>613,188</u>

Note 12 – Assets with Donor Restrictions

Assets with donor restrictions 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. Assets with donor restrictions consist of the following as of fiscal years ended June 30, 2019 and 2018:

	<u>2019</u>			
<u>Purpose</u>	<u>Beginning Balance</u>	<u>Contributions</u>	<u>Distributions</u>	<u>Ending Balance</u>
Land Capital Campaign:				
Ramble Drive	\$ 4,000	\$ -	\$ (4,000)	\$ -
Weaver Drive	26,800	-	-	26,800
Material In Kind Donations	-	5,000	(3,000)	-
Grant Revenue	-	58,010	(50,010)	-
Build Donation	<u>2,000</u>	<u>7,030</u>	<u>(9,030)</u>	<u>-</u>
Total	<u>\$ 32,800</u>	<u>\$ 70,040</u>	<u>\$ (75,040)</u>	<u>\$ 26,800</u>

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2019 and 2018

Note 12 – Assets with Donor Restrictions - (continued)

<u>2018</u>				
<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	23,800	-	-	23,800
Material In-kind Donations	525	-	(525)	-
Grant Revenue	-	56,000	(56,000)	-
Build Donation	4,100	2,000	(6,100)	2,000
Total	<u>\$ 43,725</u>	<u>\$ 58,000</u>	<u>\$ (66,025)</u>	<u>\$ 35,700</u>

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 flow through contributions, DHFH is primarily and directly responsible for its operations. DHFH withheld and paid membership fees for the fiscal year ended June 30, 2019 and 2018, of \$8,000 and \$8,000, respectively. During the fiscal year ended June 30, 2019 and 2018, DHFH received \$0 and \$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 2019 and 2018, DHFH paid THFH \$0 and \$4,204 as their share of joint development and received \$0 and \$400 in grants or income.

Contributions from DHFH board members and employees for June 30, 2019 and 2018, totaled \$12,918 and \$16,781, respectively.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2019 and 2018

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's balance in a money market account with SunTrust Bank was \$337,264 as of June 30, 2019. This balance exceeds the FDIC insured limit by \$87,264. Management does not consider this a significant credit risk.

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.

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. The conditions for release from a second mortgage are stated separately in the terms of the second mortgage, signed by the homeowner. 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 2019 and 2018, \$0 and \$16,799 respectively was recognized in income. The total amount of second mortgages recorded as of June 30, 2019, is \$1,762,888.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2019 and 2018

Note 15 – Commitments and Contingencies - (continued)

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 a period up to twenty years.

Note 16 – Subsequent Events

Management has evaluated subsequent events through September 25, 2019, 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.