

***GREATER MATTHEWS
HABITAT FOR HUMANITY, INC.***

***FINANCIAL STATEMENTS
JUNE 30, 2019***

Greater Matthews Habitat for Humanity, Inc.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Greater Matthews Habitat For Humanity, Inc.
Matthews, North Carolina

We have audited the accompanying financial statements of Greater Matthews Habitat For Humanity, Inc. ("Habitat" - a nonprofit corporation), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Greater Matthews Habitat For Humanity, Inc., as of June 30, 2019 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.

Report on Summarized Comparative Information

We have previously audited Habitat's 2018 financial statements, and our report dated September 11, 2018, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

C. Dewitt Foard & Company, P.A.
October 3, 2019

Greater Matthews Habitat For Humanity, Inc.**Statement of Financial Position****June 30, 2019, with prior year comparative totals**

	June 30,	
	2019	2018
ASSETS		
Current Assets:		
Cash	\$ 497,556	\$ 529,556
Receivables:		
Amounts paid on behalf of homeowners	15,034	9,872
Sales tax and other	5,186	2,719
Mortgages, current portion	205,384	200,516
Inventories:		
Land held for development	60,882	61,634
Construction in process	86,897	130,525
Store	44,864	43,340
Total Current Assets	915,803	978,162
Long-Term Assets:		
Property and equipment (net of depreciation)	101,149	119,646
Mortgages receivable (net of present value discount)	1,598,199	1,536,217
Deposits	33,091	32,616
Total Long-Term Assets	1,732,439	1,688,479
TOTAL ASSETS	\$ 2,648,242	\$ 2,666,641
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 32,220	\$ 19,183
Payroll liabilities	2,017	3,148
Notes payable, current portion	64,775	63,412
Total Current Liabilities	99,012	85,743
Long-Term Liabilities:		
Notes payable (net of present value discount and current portion)	509,559	531,832
Net Assets Without Donor Restrictions	2,039,671	2,049,066
TOTAL LIABILITIES AND NET ASSETS	\$ 2,648,242	\$ 2,666,641

Greater Matthews Habitat For Humanity, Inc.
Statement of Activities
Year Ended June 30, 2019, with prior year comparative totals

	For the Year Ended June 30,	
	2019	2018
<u>SUPPORT AND REVENUE</u>		
Contributions	\$ 113,786	\$ 110,882
Grants	105,025	144,830
Sale of homes	330,000	566,000
Resale store	570,390	520,720
Mortgage amortization	131,700	200,337
Other income	2,302	35,499
<i>TOTAL</i>	<i>1,253,203</i>	<i>1,578,268</i>
<u>EXPENSES</u>		
Program Services:		
Construction	746,005	890,455
Resale store	361,587	379,865
Management and general	94,222	97,529
Fundraising	60,784	69,858
<i>TOTAL</i>	<i>1,262,598</i>	<i>1,437,707</i>
<i>CHANGE IN NET ASSETS</i>	<i>(9,395)</i>	<i>140,561</i>
<i>NET ASSETS, BEGINNING</i>	<i>2,049,066</i>	<i>1,908,505</i>
<i>NET ASSETS, ENDING</i>	<i>\$ 2,039,671</i>	<i>\$ 2,049,066</i>

Greater Matthews Habitat For Humanity, Inc.**Statement of Functional Expenses****Year Ended June 30, 2019, with prior year comparative totals**

	Program Services			Management and General	Fund Raising	TOTAL	Prior Year Comparative Totals
	Construction	Resale Store	TOTAL				
Cost of homes	\$ 298,798	\$ -	\$ 298,798	\$ -	\$ -	\$ 298,798	\$ 478,217
Discount on mortgages	181,338	-	181,338	-	-	181,338	141,643
Salaries	124,743	165,602	290,345	48,265	46,378	384,988	384,064
Payroll taxes, benefits	16,414	25,127	41,541	6,351	6,103	53,995	58,777
Contracted services	49,053	12,622	61,675	29,764	2,294	93,733	81,084
Cost of goods sold	-	11,730	11,730	-	-	11,730	26,875
Occupancy	24,921	93,456	118,377	3,738	2,492	124,607	131,730
Technology, equipment	5,276	11,611	16,887	2,042	969	19,898	18,138
Insurance	3,373	12,647	16,020	506	337	16,863	16,668
Dues and subscriptions	3,861	1,305	5,166	333	158	5,657	15,737
Vehicle and travel	2,483	4,951	7,434	961	923	9,318	12,026
Supplies	6,111	3,088	9,199	1,510	629	11,338	15,276
Interest expense	23,468	5,575	29,043	197	131	29,371	35,133
Property taxes	2,467	-	2,467	-	-	2,467	3,619
Depreciation	3,699	13,873	17,572	555	370	18,497	18,720
TOTAL	\$ 746,005	\$ 361,587	\$ 1,107,592	\$ 94,222	\$ 60,784	\$ 1,262,598	\$ 1,437,707

Greater Matthews Habitat For Humanity, Inc.**Statement of Cash Flows****Year Ended June 30, 2019, with prior year comparative totals**

	For the Year Ended June 30,	
	2019	2018
<u>OPERATING ACTIVITIES</u>		
Change in net assets	\$ (9,395)	\$ 140,561
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Depreciation	18,497	18,720
Amortization of loan fees	300	300
Realized loss on disposal of assets	-	7,265
Loan discount on non-interest bearing loans	(16,990)	(38,605)
Imputed interest on non-interest bearing loans	23,814	28,274
Recovery of bad debt	-	(40,880)
(Increase) decrease in operating assets:		
Receivables	(7,629)	11,106
Inventories	42,856	221,414
Deposits	(475)	(17,500)
Increase (decrease) in operating liabilities:		
Accounts payable	13,037	(25,104)
Payroll liabilities	(1,131)	629
<i>Cash Flows from Operating Activities</i>	62,884	306,180
<u>INVESTING ACTIVITIES</u>		
Mortgages made to homeowners, net of discounts	(148,662)	(91,357)
Principal payments received from homeowners	196,622	296,079
Discounts on mortgages to homeowners	(114,810)	(161,733)
<i>Cash Flows from Investing Activities</i>	(66,850)	42,989
<u>FINANCING ACTIVITIES</u>		
Proceeds from note payable	35,000	80,000
Principal paid on note payable	(63,034)	(73,903)
<i>Cash Flows from Financing Activities</i>	(28,034)	6,097
CHANGE IN CASH	(32,000)	355,266
CASH, BEGINNING	529,556	174,290
CASH, ENDING	\$ 497,556	\$ 529,556

Greater Matthews Habitat for Humanity, Inc.

Notes to Financial Statements

June 30, 2019

NOTE 1 – NATURE OF OPERATIONS

Organization

Greater Matthews Habitat for Humanity, Inc., (Habitat) is a North Carolina not-for-profit corporation that was established to encourage, promote and assist development, building, renovation, rehabilitation and maintenance of housing for low-income persons in the general area inclusive of, but not limited to, the Town of Matthews, County of Mecklenburg, North Carolina. Habitat is an affiliate of Habitat for Humanity International (HFH International).

Activities

Habitat builds homes that are sold to individuals at no profit, utilizing non-interest bearing mortgages. The families are required to contribute 400 hours of “sweat equity” towards the construction of their home and other projects.

Funding sources

Habitat is supported primarily through contributions, grants, and homeowner mortgage payments. In addition, Habitat operates a resale store, which sells donated furniture and goods.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets without donor restrictions can be both undesignated and designated in nature. Undesignated net assets without donor restrictions are those currently available for use in day-to-day operations of Habitat and those resources invested in property and equipment. From time to time, the Board of Directors may designate certain amounts to be utilized or invested to meet specific objectives. Such amounts, if any, are reflected as designated net assets without donor restrictions in the accompanying statement of financial position.

Net Assets With Donor Restrictions - Net assets with donor restrictions consist of temporarily restricted net assets and permanently restricted net assets. Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met, either by actions of the Organization or the passage of time. 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. Temporarily restricted contributions whose restrictions are accomplished in the period received are reported as unrestricted. Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Organization. During the year ended June 30, 2019, the Organization had no permanently restricted net assets and no remaining temporarily restricted net assets.

Greater Matthews Habitat for Humanity, Inc.

Notes to Financial Statements

June 30, 2019

Resale store inventory

Purchased inventory is recorded at cost, utilizing a first-in, first-out flow assumption. Habitat receives a large amount of furniture and other goods which are sold in its resale store. Management has estimated the value of this inventory at any given time approximates one month's sales.

Other inventory

Inventories also include land and construction in process, which are expected to be sold to homeowners, and are carried on the books at cost or the fair value when donated. Donated land is recorded at appraised value; however, if an appraisal was not available at the date of the contribution, it is recorded at the value used for assessing local property taxes. Costs benefiting all lots, including lots to be used in construction, are allocated between lots. Construction in progress consists of costs related to construction, donated goods and services capitalized in construction and an overhead allocation based on construction expenses and salaries and wages.

Property and equipment

Property is recorded at cost if purchased or fair value if donated, subject to a \$2,500 capitalization policy. Costs that improve or extend the useful lives of assets are capitalized. Amounts paid for maintenance and repairs are expensed as incurred. Depreciation expense is recorded using the straight-line method of depreciation over the estimated useful lives of the assets, which range from five to ten years for furniture and equipment, five years for vehicles and ten years for leasehold improvements.

Donated services

Habitat pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist Habitat with program services, management and general support, and fundraising efforts. Habitat depends on volunteers to construct homes and the resale store utilizes a large number of volunteers for related functions. In accordance with accounting standards, the value of such services is not recorded in the financial statements unless the services require specialized skills or enhance the value of the Organization's assets. During the year, Habitat recorded no donated services.

Escrows

Escrows consists primarily of amounts received from new homeowners which will be used to pay for closing costs.

Federal income tax status

Habitat is exempt from Federal income tax on its exempt function income under Internal Revenue Code Section 501(c)(3) under a group exemption letter granted to HFH International, which is classified as other than a private foundation as defined by Section 509(a) of the Internal Revenue Code.

Cash flows

Interest expense actually paid during the year ended June 30, 2019 amounted to \$5,557.

Greater Matthews Habitat for Humanity, Inc.

Notes to Financial Statements

June 30, 2019

Use of estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of support, revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional allocation of expenses

Expenses that are inherently program, management and general, or fundraising, are charged directly to those functions. Facility costs are allocated based on the estimated square footage utilized by that function. All other expenses are allocated to program services, management and general, and fundraising based on management's estimates of time spent.

NOTE 3 – PROPERTY AND EQUIPMENT

Balance at June 30, 2019

Property and equipment which are used by Habitat in its operations consists of the following at June 30, 2019:

Leasehold improvements	\$	145,976
Furniture and equipment		16,688
Vehicles		45,498
<hr/>		
Total		208,162
Less – accumulated depreciation		107,013
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<i>PROPERTY AND EQUIPMENT, net</i>	\$	<i>101,149</i>

NOTE 4 – MORTGAGES RECEIVABLE

Balances at June 30, 2019

Mortgages receivable from homeowners do not bear interest. Therefore, these mortgages are carried on the books net of a discount for the present value of future payments. The rate of interest used to determine this discount is established annually by HFH International and was 7.66 percent for the current fiscal year. All mortgages are revalued each year based on this discount rate. Mortgage activity for the year ended June 30, 2019 was as follows

	<u>Mortgages</u>	<u>Discount</u>
Mortgages receivable, beginning	\$ 3,403,966	\$ 1,667,233
Add – new mortgages	330,000	181,338
<hr/>		
Subtotal	3,733,966	1,848,571
Deduct:		
Payments received and amortization of discount	196,622	114,810
<hr/>		
<i>MORTGAGES RECEIVABLE, ending</i>	\$ 3,537,344	\$ 1,733,761

Greater Matthews Habitat for Humanity, Inc.**Notes to Financial Statements****June 30, 2019**

Management reviews the outstanding balances regularly for collectability to determine if an allowance for doubtful accounts is needed and has frequent communication with the homeowners and is able to identify collection problems. Because the mortgages are collateralized by the related homes, which are worth more than the discounted mortgage, management feels no allowance for uncollectible accounts is required at June 30, 2019.

Net mortgages receivable of \$1,803,583 are classified as current of \$205,384 and long-term of \$1,598,199 in the accompanying statement of financial position.

NOTE 5 – DEBT

Notes payable as of June 30, 2019, consist of the following obligations:

A note payable with a balance of \$92,999 due to HFH International and is secured by fifteen mortgages owned by Habitat. The note requires monthly payments of \$2,787, applied first to interest at 4.75 percent and then to principal, with all remaining balance due when the loan matures in June 2022. Loan origination fees are being amortized over the life of the loan and \$300 of amortization expense was incurred during the year.

Forty-two notes with original balances of \$25,000 - \$45,000 due to North Carolina Housing Finance Agency. These notes had a total balance of \$815,833, do not bear interest and will be repaid as the mortgage payments are collected from the related homeowners. These non-interest bearing notes payable are presented on the financial statements net of a present value discount of \$333,598, utilizing a rate of five percent.

Maturities of long term debt occur during the year ending June 30:

2020		\$	64,775
2021			66,203
2022			67,701
2023			35,227
2024			35,227
Thereafter			639,699
Total			908,832
Less:			
Present value discount	\$	333,598	
Loan origination fees		900	334,498
<i>LONG-TERM DEBT, net of discounts</i>		\$	574,334

Greater Matthews Habitat for Humanity, Inc.**Notes to Financial Statements****June 30, 2019**

NOTE 6 – LEASES

Habitat leases warehouse space and office equipment under operating lease agreements. Lease expense for the current fiscal year was \$83,132. Future minimum payments under these leases are due during the year ended June 30:

2020	\$ 85,304
2021	85,711
2022	8,024
<i>TOTAL</i>	<i>\$ 179,039</i>

NOTE 7 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Habitat has \$723,160 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditure consisting of cash of \$497,556 and pledges, grants and other receivables of \$20,220, which are expected to be collected during the year, and \$205,384 of mortgage payments due from homeowners within the next year. None of these assets are subject to donor restrictions that they be utilized for a specific purpose. Habitat has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due and maintains a line of credit of up to \$200,000 in case of emergency needs. In addition, as part of its liquidity Habitat invests cash in excess of daily requirements in short-term investments, primarily money market funds.

NOTE 8 – CONCENTRATIONS OF RISK***Geographic area***

Habitat operates in a small geographic area, and is therefore sensitive to changes in the local economy.

NOTE 9 – RELATED PARTY TRANSACTIONS

Habitat annually remits a portion of its contributions (excluding any in-kind contributions) to HFH International. These funds are used to construct houses in economically depressed areas around the world. During the year, Habitat contributed \$3,000 to HFH International and received a grant from Habitat International of \$55,000.

NOTE 10 – SUBSEQUENT EVENTS

Habitat has evaluated subsequent events from the date of the statement of financial position through the date of the audit report, which is the date the financial statements were available to be issued. During this period, no material recognizable subsequent events were identified.