

DORCHESTER HABITAT FOR HUMANITY, INC.

FINANCIAL STATEMENTS

JUNE 30, 2014

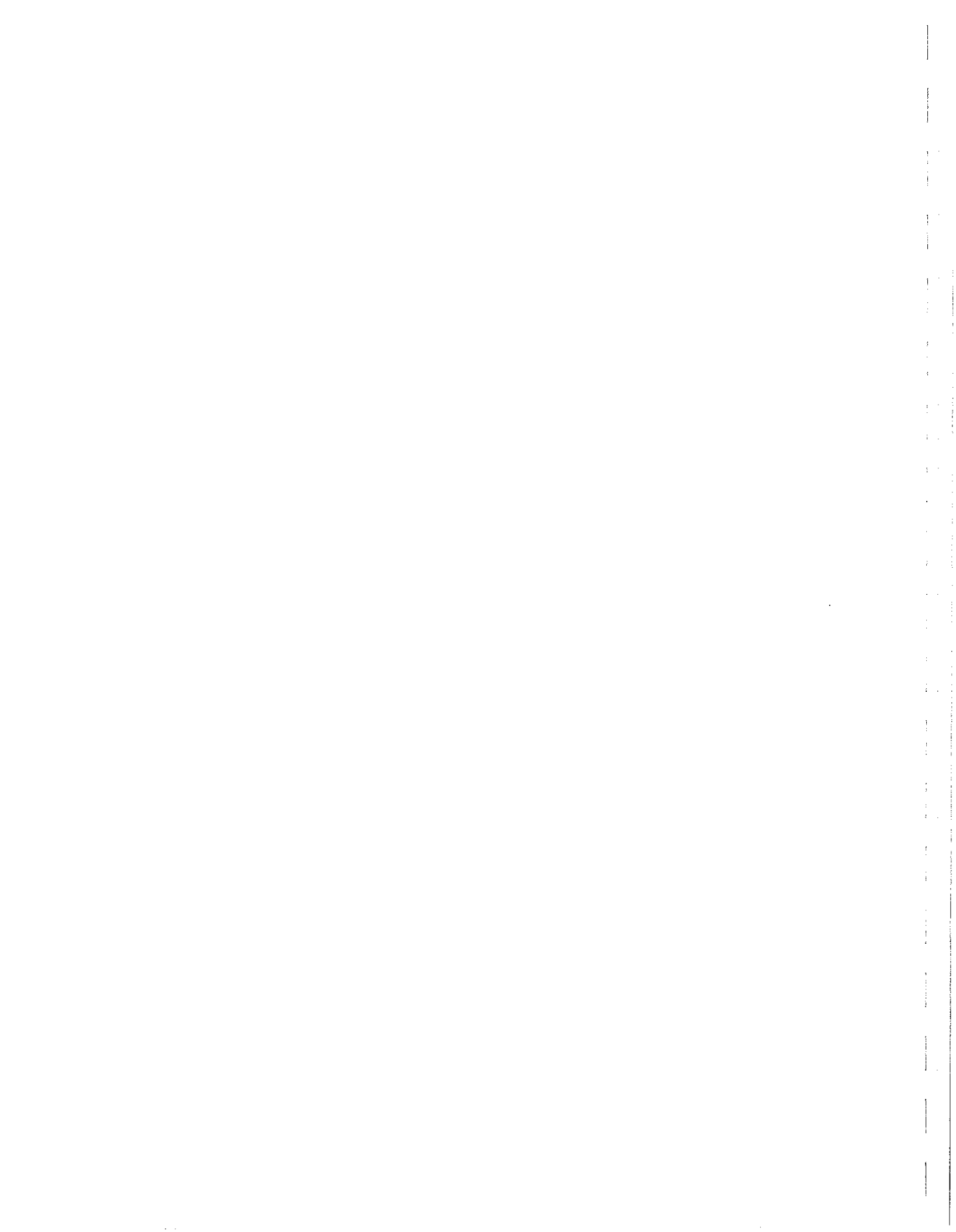


DORCHESTER HABITAT FOR HUMANITY, INC.

FINANCIAL REPORT

JUNE 30, 2014

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Dorchester Habitat for Humanity, Inc., which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expense 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.

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 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 above present fairly, in all material respects, the financial position of Dorchester Habitat for Humanity, Inc. as of June 30, 2014, and the changes in its net assets, functional expense and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Habib D Davis CPAs, LLP

Mount Pleasant, South Carolina
August 12, 2014

DORCHESTER HABITAT FOR HUMANITY, INC.
STATEMENTS OF FINANCIAL POSITION

	As of June 30,	
	2014	2013
Assets		
Current Assets		
Cash	\$ 111,505	\$ 96,318
Accounts receivable	7,665	-
Homeowner escrow receivable	13,150	-
Grant receivables	-	7,604
Mortgage receivables, net, current	59,136	56,400
Construction in progress	78,793	59,191
Total Current Assets	270,249	219,513
Property and Equipment, net	1,581,409	1,622,101
Other Assets		
Cash - restricted	561	22,382
Property held for resale	39,470	-
Land held for development	292,449	343,526
Mortgage receivables, net, long term	887,515	842,608
Total Other Assets	1,219,995	1,208,516
Total Assets	\$ 3,071,653	\$ 3,050,130
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 23,494	\$ 6,888
Compensated absences	5,736	5,307
Note payable, current	53,840	83,722
Total Current Liabilities	83,070	95,917
Long Term Liabilities		
Homeowner escrow	-	21,980
Note payable, long term	990,713	1,023,026
Total Long Term Liabilities	990,713	1,045,006
Total Liabilities	1,073,783	1,140,923
Net Assets		
Unrestricted	1,804,515	1,777,399
Temporarily restricted	193,355	131,808
Total Net Assets	1,997,870	1,909,207
Total Liabilities and Net Assets	\$ 3,071,653	\$ 3,050,130

See Accompanying Notes and Independent Auditors' Report

DORCHESTER HABITAT FOR HUMANITY, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and Other Support			
Contributions	\$ 64,473	\$ 28,782	\$ 93,255
Contributions in-kind	-	38,735	38,735
Grant revenue	10,460	75,189	85,649
House sales, net	137,990	-	137,990
Mortgage discount amortization	97,408	-	97,408
Special events, net of expense \$24,813	11,268	-	11,268
ReStore sales	437,450	-	437,450
Interest income	2,989	-	2,989
Other income	2,908	-	2,908
	<u>764,946</u>	<u>142,706</u>	<u>907,652</u>
Net assets released from restrictions	<u>81,159</u>	<u>(81,159)</u>	<u>-</u>
Total Revenues Other Support	<u>846,105</u>	<u>61,547</u>	<u>907,652</u>
 Expenses			
Program			
Construction	430,997	-	430,997
ReStore	304,946	-	304,946
	<u>735,943</u>	<u>-</u>	<u>735,943</u>
Support Service			
Management and general	45,139	-	45,139
Fund raising	37,907	-	37,907
Total Support Service	<u>83,046</u>	<u>-</u>	<u>83,046</u>
Total Expenses	<u>818,989</u>	<u>-</u>	<u>818,989</u>
 Change in Net Assets	 27,116	 61,547	 88,663
Net assets at beginning of year	<u>1,777,399</u>	<u>131,808</u>	<u>1,909,207</u>
 Net Assets at End of Year	 <u>\$ 1,804,515</u>	 <u>\$ 193,355</u>	 <u>\$ 1,997,870</u>

See Accompanying Notes and Independent Auditors' Report

DORCHESTER HABITAT FOR HUMANITY, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and Other Support			
Contributions	\$ 16,123	\$ 65,135	\$ 81,258
Contributions in-kind	-	141,526	141,526
Grant revenue	-	31,503	31,503
House sales, net	94,379	-	94,379
Mortgage discount amortization	57,570	-	57,570
Special events, net of expense \$11,329	15,943	-	15,943
ReStore sales	418,971	-	418,971
Interest income	4,822	-	4,822
Other income	30,897	-	30,897
	<u>638,705</u>	<u>238,164</u>	<u>876,869</u>
Net assets released from restrictions	<u>154,456</u>	<u>(154,456)</u>	<u>-</u>
Total Revenues Other Support	793,161	83,708	876,869
Expenses			
Program			
Construction	312,461	-	312,461
ReStore	316,529	-	316,529
	<u>628,990</u>	<u>-</u>	<u>628,990</u>
Support Service			
Management and general	48,320	-	48,320
Fund raising	61,925	-	61,925
Total Support Service	<u>110,245</u>	<u>-</u>	<u>110,245</u>
Total Expenses	739,235	-	739,235
Change in Net Assets	53,926	83,708	137,634
Net assets at beginning of year	<u>1,723,473</u>	<u>48,100</u>	<u>1,771,573</u>
Net Assets at End of Year	\$ <u>1,777,399</u>	\$ <u>131,808</u>	\$ <u>1,909,207</u>

See Accompanying Notes and Independent Auditors' Report

DORCHESTER HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSE

For the Year Ended June 30, 2014

	Program		Support Service		Total Expenses
	Construction	ReStore	Management and General	Fund-raising	
Salaries	\$ 85,844	\$ 125,242	\$ 26,511	\$ 19,544	\$ 257,141
Payroll taxes	6,422	10,602	2,067	1,438	20,529
Employee benefits	9,529	4,600	-	124	14,253
Total salaries and benefits	<u>101,795</u>	<u>140,444</u>	<u>28,578</u>	<u>21,106</u>	<u>291,923</u>
Cost of houses sold	279,727	-	-	-	279,727
Vehicle expense	-	6,254	-	-	6,254
Supplies	297	2,538	601	238	3,674
Telephone	9,427	6,304	941	626	17,298
Advertising	1,518	4,031	-	1,430	6,979
Postage and shipping	328	-	518	282	1,128
Occupancy	3,040	27,193	732	732	31,697
Insurance	6,055	14,499	705	228	21,487
Professional fees	9,844	4,523	6,716	6,017	27,100
Travel and meals	1,953	1,661	1,020	1,441	6,075
Printing and publications	698	479	479	547	2,203
Homeowner and volunteer expense	463	575	-	50	1,088
Miscellaneous	553	401	128	-	1,082
Interest	4,711	39,534	32	-	44,277
Bank charges	-	9,941	196	-	10,137
Dues	4,157	316	328	599	5,400
Repairs and maintenance	6,181	4,020	3,844	4,611	18,656
Habitat International	250	-	-	-	250
Total Expenses Before Depreciation	<u>430,997</u>	<u>262,713</u>	<u>44,818</u>	<u>37,907</u>	<u>776,435</u>
Depreciation	-	42,233	321	-	42,554
Total Expenses	<u>\$ 430,997</u>	<u>\$ 304,946</u>	<u>\$ 45,139</u>	<u>\$ 37,907</u>	<u>\$ 818,989</u>

See Accompanying Notes and Independent Auditors' Report

DORCHESTER HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSE

For the Year Ended June 30, 2013

	Program			Support Service		Total Expenses
	Construction	ReStore	Total	Management and General	Fund-raising	
Salaries	\$ 66,723	\$ 136,663	\$ 203,386	\$ 28,877	\$ 33,969	\$ 266,232
Payroll taxes	5,458	12,054	17,512	2,451	2,847	22,810
Employee benefits	5,858	2,843	8,701	1,610	-	10,311
Total salaries and benefits	<u>78,039</u>	<u>151,560</u>	<u>229,599</u>	<u>32,938</u>	<u>36,816</u>	<u>299,353</u>
Cost of houses sold	194,138	-	194,138	-	-	194,138
Vehicle expense	-	12,052	12,052	-	-	12,052
Supplies	848	2,356	3,204	1,756	487	5,447
Telephone	1,067	6,316	7,383	1,067	717	9,167
Advertising	1,342	9,103	10,445	172	13,070	23,687
Postage and shipping	394	-	394	865	315	1,574
Occupancy	997	24,681	25,678	692	692	27,062
Insurance	3,296	9,247	12,543	-	-	12,543
Professional fees	4,705	1,740	6,445	963	2,913	10,321
Travel and meals	1,895	1,715	3,610	2,386	953	6,949
Printing and publications	507	426	933	1,177	525	2,635
Homeowner and volunteer expense	16,792	65	16,857	516	381	17,754
Miscellaneous	1,768	737	2,505	-	15	2,520
Interest	-	34,879	34,879	2,606	2,606	40,091
Bank charges	-	8,167	8,167	68	-	8,235
Dues	1,131	485	1,616	431	383	2,430
Repairs and maintenance	2,492	13,654	16,146	2,389	2,052	20,587
Habitat International	3,050	-	3,050	-	-	3,050
Total Expenses Before Depreciation	<u>312,461</u>	<u>277,183</u>	<u>589,644</u>	<u>48,026</u>	<u>61,925</u>	<u>699,595</u>
Depreciation	-	39,346	39,346	294	-	39,640
Total Expenses	<u>\$ 312,461</u>	<u>\$ 316,529</u>	<u>\$ 628,990</u>	<u>\$ 48,320</u>	<u>\$ 61,925</u>	<u>\$ 739,235</u>

See Accompanying Notes and Independent Auditors' Report

DORCHESTER HABITAT FOR HUMANITY, INC.
STATEMENTS OF CASH FLOWS

	As of June 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 88,663	\$ 137,634
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	42,554	39,640
Amortization of discount on mortgages	(97,408)	(57,570)
Discounts on mortgages issued	166,690	85,621
Gain on sale of truck	-	(5,300)
In-kind contributions for capital assets	-	(92,175)
(Increase) Decrease in:		
Restricted cash	21,822	2,546
Grant receivables	(4,519)	25,796
Construction in progress	(19,602)	(53,631)
Property held for resale	(39,470)	-
Increase (Decrease) in:		
Accounts payable	16,606	4,222
Payroll taxes and benefits payable	429	2,646
Homeowner escrow	(21,980)	(2,905)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	153,785	86,524
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of lots held for development	-	(145,039)
Lots used in development and closed	51,077	43,885
Proceeds from sale of truck	-	5,300
Purchase of phone system	(1,862)	(19,416)
Principal balances of foreclosed properties	83,056	
Collection of mortgage receivable	94,807	111,569
Issuance of mortgage receivable	(303,480)	(180,000)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(76,402)	(183,701)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of note payable	1,862	92,000
Principal payments on note payable	(64,058)	(74,597)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(62,196)	17,403
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	15,187	(79,774)
CASH AND EQUIVALENTS AT BEGINNING OF YEAR	96,318	176,092
CASH AND EQUIVALENTS AT END OF YEAR	\$ 111,505	\$ 96,318
SUPPLEMENTAL DISCLOSURES		
Noncash investing and financing activities:		
Assets donated for use	\$ 38,735	\$ 92,175
Interest paid	\$ 44,277	\$ 37,485
Income taxes paid	\$ -	\$ -

See Accompanying Notes and Independent Auditors' Report

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A - 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 of 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) to twenty-five (25) years. Since 1993, DHFH has helped build fifty-one (51) 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 upon the generosity of volunteers to keep the costs of construction of Habitat homes low. Volunteers donate approximately 2000 hours to build a 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, or 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 35%; have a housing expenses-to-income ratio at or below 31%; 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 partner families' 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 save homeowners living expenses and promotes environmental stewardship.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Organizational and Program Values - Continued

DHFH works to strengthen the financial stability and credit worthiness of low-wealth families by partnering with Family Services, Inc. (a HUD-approved counseling agency and non-profit corporation) to provide financial, budgeting, and credit counseling and education before the application process, during the application process, and after homeownership.

Partner families pay back to DHFH a small, interest-free mortgage over twenty years or twenty-five years. The principal amount of the mortgage payments will go into a revolving fund ("seed money") used to build additional Habitat Homes in partnership with other partner families.

The ReStore is DHFH's largest fundraiser accepting and selling donated items from and to the public five 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 condition, changes in net assets and cash flows. References to GAAP issued by the FASB in the accompanying footnotes are to the FASB Accounting Standards Codification ("ASC").

DHFH's financial statements have been prepared in accordance with standards of accounting and financial reporting under 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 to 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.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of presentation – Continued

- **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 operations 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.

Basic program

DHFH builds homes with donated funds, ReStore income and mostly volunteer labor. The homes are sold to working families for the approximate cost of the building materials, land and land development costs. DHFH holds an interest free first mortgage collectible in monthly installments. Beginning in fiscal year 2014, the length of the mortgage increased from twenty to twenty-five 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, Interest on Receivables and Payables. 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 forgives the second mortgage upon payment in full of the first 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. 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.

Construction in progress

Construction in Progress represents those homes that are currently under construction for qualified partner families. Purchased materials and land for the construction of these homes is recorded at cost. Donated materials, labor and land, if applicable, are recorded at 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.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Donated assets

DHFH's inventory for the ReStore is stated at cost. The inventory is donated and turns over at a high rate. No value is recorded at the date of donation; the values at June 30, 2014 and 2013 were zero. Donated materials for construction and lot inventory are recorded at their estimated fair market values at the date of the donation.

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 \$1,000, 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. Major long-term improvements are not budgeted.

Compensated absences

Full time and part-time employees of DHFH are entitled to paid vacations, paid sick days and personal days off, depending on job classification and length of service. Each part-time employee is allowed vacation each year based on the percentage of forty (40) hours worked each week and otherwise accruing according to the provisions regarding full-time employees, or equivalent weeks.

<u>Length of Service</u>	<u>Equivalent Weeks</u>
0 - 3 years	2
3 - 8 years	3
Over 8 years	4

Change in net assets

The change in net assets is affected by, and dependent upon, home sales. In particular, DHFH sold four (4) homes in 2014 and three (3) homes in 2013. When home sales occur, the revenue is recorded and the related previously capitalized construction in progress is recognized in expense in the year of the sale. Furthermore, by design, home sales revenue is lower than the costs of construction and, therefore, DHFH subsidizes this difference through contributions and grants.

Home sales

Revenue related to home sales is recognized when properties are sold to home buyers. Due to the volunteer labor provided, the sale price of a home typically approximates 70% of the home's fair market value.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 that 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, 2014 and 2013.

Advertising

Cost of promotions and advertising are expensed as incurred. Advertising and promotion expenses total \$6,979 and \$23,687 for the years ended June 30, 2014 and 2013.

Expense allocation

The cost of providing various programs and other activities has been summarized on a functional basis in the Statements of Activities and in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and support services benefited by DHFH.

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. The Organization had no tax liability on unrelated business income during the years ended June 30, 2014 and 2013.

Management has evaluated the tax positions of the Organization and does not believe that any uncertain tax positions or unrecognized tax benefits exist for the years ended June 30, 2014 and 2013. The Organization's policy is to report accrued interest related to unrecognized tax benefits, when applicable, as interest expense and to report penalties as other expense.

The Organization currently has no unrelated business income. Accordingly, no provision for income taxes has been recorded. With few exceptions, the Organization is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2010.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A - 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 B - RESTRICTED CASH

The \$561 of restricted cash at June 30, 2014 is related to specific home builds.

For the fiscal year ended June 30, 2013 restricted cash of \$22,382 represents escrow, held by DHFH for homeowner mortgages. Escrow payments are made as a part of homeowner regular monthly mortgage payments, and DHFH, as escrow agent, is responsible for timely payment of homeowners' insurance, termite bonds, and real property taxes from the escrow funds for all homeowners.

Refer to Note C for the escrow balances at June 30, 2014.

NOTE C - HOMEOWNER ESCROW RECEIVABLE

During 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 servicing agreement, DHFH transferred all escrow balances to the HFHMF. At such time that an escrow account has a deficit balance, DHFH remits payment to HFHMF to assume the deficit balance.

At June 30, 2014, the receivable from homeowners for deficit escrow accounts was \$13,150.

NOTE D - GRANTS RECEIVABLE

Grants receivable consist of amounts due from government agencies or private donors, based on the terms of the related grant agreements or corporate sponsorship. Management periodically reviews the status of all grants receivable for collectability. Each balance is assessed based on management's knowledge of and relationship with the government agency or the donor and the age of the receivable balance. As a result of these reviews, balances deemed to be uncollectible are charged directly to uncollected grants 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 was recorded.

Grants receivable were \$-0- and \$7,604 as of fiscal years ended June 30, 2014 and 2013, respectively.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE E - MORTGAGES 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 2014 and 2013, four (4) homes and three (3), respectively, were sold to qualifying applicants. Mortgages receivable consist of non-interest bearing promissory notes ranging in amounts ranging from \$8,930 to \$82,500. Monthly principle payments range from \$76 to \$291, and maturities range from 2017 to 2039. 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 (fiscal years 2014 and 2013 discount rates were 7.58% and 7.39%, 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 years ended June 30 are as follows:

	2014	2013
Gross sales to homeowners	\$ 304,680	\$ 180,000
Less discount on sales to homeowners	(166,690)	(85,621)
Net sales to homeowners	\$ 137,990	\$ 94,379

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 are as follows:

	2014	2013
Mortgage note receivable at face value	\$ 1,844,921	\$ 1,727,996
Less: unamortized discount	(898,270)	(828,988)
Total	946,651	899,008
Less: Current portion	(59,136)	(56,400)
Mortgage receivable, long term	\$ 887,515	\$ 842,608

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

	2015	\$	122,664
	2016		128,136
	2017		128,136
	2018		126,204
	2019		125,521
	Thereafter		1,214,260
	Total	\$	1,844,921

NOTE F - FORECLOSURES

During fiscal year 2014, DHFH foreclosed on two properties, 22 Craig Court and 31 Craig Court. The properties were recorded as properties held for sale at the remaining net receivable amount, \$39,470 and \$40,597, respectively. The remaining unamortized mortgage discount was written off. One property, 31 Craig Court, was refurbished and subsequently sold for \$80,880. The remaining property will be listed for sale once it has been refurbished.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE G - CONSTRUCTION IN PROGRESS

Costs associated with the acquisition, development, and construction of a project is capitalized. Such costs may include (1) pre-acquisition costs 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 by the year ending June 30, 2015.

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

	<u>2014</u>	<u>2013</u>
Corey Woods #11	\$ -	\$ 44,261
Corey Woods #12	-	14,930
Weber #2	60,904	
Weber #3	12,699	
22 Craig Court	5,190	
	<u>\$ 78,793</u>	<u>\$ 59,191</u>

NOTE H - LAND HELD FOR DEVELOPMENT

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

	Number of <u>Lots</u>	<u>2014</u>	<u>2013</u>
Clarks Hill Drive, St. George	7	\$ 43,911	\$ 43,911
Bethany United Methodist Church	1	24,901	24,901
Corey Woods, Summerville	0/2	-	37,500
Rambo Drive, Summerville	9	140,000	140,014
Parsons Road, Summerville	1	5,175	5,175
N. Palmetto Street, Summerville	2	24,210	24,210
Weber Road, Summerville	4/5	54,252	67,815
		<u>\$ 292,449</u>	<u>\$ 343,526</u>

NOTE I - PROPERTY AND EQUIPMENT

Acquisitions of property and equipment greater than \$1,000 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 FINANCIAL STATEMENTS

NOTE I - PROPERTY AND EQUIPMENT - Continued

Property and equipment consists of the following at June 30,:

	2014	2013
Land	\$ 241,770	\$ 241,770
Office and ReStore building	1,534,004	1,534,004
Furniture and equipment	6,566	4,704
Vehicles	19,416	19,416
	1,801,756	1,799,894
Less accumulated depreciation	(220,347)	(177,793)
	\$ 1,581,409	\$ 1,622,101

Depreciation charged to operations in fiscal years ended June 30, 2014 and 2013 was \$42,554 and \$39,640, respectively.

NOTE J - HOMEOWNER ESCROW

Beginning in fiscal year 2014, the Habitat for Humanity Michigan Fund, 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 on the financial statements.

Prior to fiscal year 2014, DHFH collected monthly payments from the homeowners for homeowners' insurance, termite bond, and real property taxes. These recorded amounts appeared on the Statement of Position as a liability until paid. The balance at June 30, 2013 was \$21,980.

NOTE K - 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 years ended June 30,:

	2014	2013
Construction services	\$ 38,735	\$ 36,078
Computers for home owners	-	11,750
Lots for home builds	-	93,698
	\$ 38,735	\$ 141,526

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.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE L - NOTES PAYABLE

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

	<u>2014</u>	<u>2013</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.	\$ 951,001	\$ -
SunTrust mortgage is due in monthly principal and interest installments of \$7,249 with interest at 4.25% through April 2017 when a balloon payment for all remaining principal becomes due; secured by office and ReStore building.	-	987,048
Tidelands Bank mortgage is due as collateralized lots sell, 6% interest; secured by Corey Woods lots.	-	27,700
Tidelands Bank mortgage is due as collateralized lots sell, 5% interest, secured by Rambo Drive	92,000	92,000
Equipment financing, 1 year term, interest free	1,552	-
	<u>1,044,553</u>	<u>1,106,748</u>
Less current maturities	<u>(53,840)</u>	<u>(83,722)</u>
Total Long Term Debt	<u>\$ 990,713</u>	<u>\$ 1,023,026</u>

The principal payment of the long-term debt is as follows the fiscal years ended June 30,:

2015	\$ 53,839
2016	125,449
2017	45,337
2018	47,066
2019	48,862
Thereafter	<u>724,000</u>
	<u>\$ 1,044,553</u>

Interest expense charged in fiscal years ended June 30, 2014 and 2013 was \$44,277 and \$40,091 respectively.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE M - 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. Temporarily restricted net assets consist of the following as of fiscal years ended June 30,:

Purpose	2014			
	Beginning Balance	Contributions	Distributions	Ending Balance
Land capital campaign:				
Corey Woods - 2 lots	\$ 7,000	\$ -	\$ (7,000)	\$ -
Rambo Drive - 9 lots	20,000	-	-	20,000
Weber Drive - 5 lots	67,000	-	(13,400)	53,600
Other land activity	-	50	(50)	-
Material in kind donations	-	29,106	(26,782)	2,324
Program donations	-	9,250	(3,086)	6,164
Women build donation	28,308	23,550	-	51,858
Homeowners application fees	4,500	-	-	4,500
Grant revenue	5,000	75,189	(25,280)	54,909
Family Services	-	5,561	(5,561)	-
Total	\$ 131,808	\$ 142,706	\$ (81,159)	\$ 193,355

Purpose	2013			
	Beginning Balance	Contributions	Distributions	Ending Balance
Land capital campaign:				
Corey Woods - 2 lots	\$ 14,000	\$ -	\$ (7,000)	\$ 7,000
Rambo Drive - 9 lots	-	20,000	-	20,000
Weber Drive - 5 lots	-	67,000	-	67,000
Other land activity	-	6,698	(6,698)	-
Veteran build donations	5,000	11,363	(16,363)	-
Program donations	-	10,253	(10,253)	-
Women build donation	2,500	25,808	-	28,308
Homeowners application fees	-	4,500	-	4,500
Grant revenue	26,600	80,792	(102,392)	5,000
Computer grant	-	11,750	(11,750)	-
Total	\$ 48,100	\$ 238,164	\$ (154,456)	\$ 131,808

NOTE N - 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 own operations. DHFH tithed for the fiscal years ended June 30, 2014 and 2013 the following amounts respectively, \$250 and \$3,050. DHFH received \$113 and \$2,100 in grants from HFHI in fiscal years 2014 and 2013, respectively.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE N - RELATED PARTY TRANSACTIONS - continued

Dorchester Habitat for Humanity participated in the local Trident Habitat for Humanity, THFH, joint fundraising and development initiative. During fiscal years ended 2014 and 2013, DHFH paid THFH \$4,893 and \$13,200 as their share of joint development and received \$5,460 and \$1,761 in grants or income.

Contributions from DHFH board members and employees for June 30, 2014 and 2013 totaled \$11,103 and \$3,569, respectively.

A member of the Board of Directors acted as DHFH's real estate agent and received a commission commensurate with industry standards for \$6,000 during fiscal year 2014.

NOTE O - CONCENTRATION OF CREDIT RISK

DHFH places its cash with reputable financial institutions and limits the amount of credit exposure for cash to any one financial institution. Accounts held by banking institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000. DHFH had no uninsured cash balances as of June 30, 2014 and 2013.

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 P - 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. Should the homeowner pay off the primary mortgage early or default on the mortgage, the second mortgage would be triggered. The second mortgage payoff is considered remote by DHFH, and therefore no receivable has been recorded in the current year financial statements. During the years ended June 30, 2014 and 2013, no second mortgages were paid off early.

South Carolina Housing Trust

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

NOTE Q - SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 12, 2014 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.