WASHINGTON COUNTY VIRGINIA
HABITAT FOR HUMANITY

Financial Report

June 30, 2013

CONTENTS

Hicok, Fern, Brown & Garcia

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Washington County Virginia Habitat for Humanity
Abingdon, Virginia

We have audited the accompanying financial statements of the Washington County Virginia Habitat for Humanity (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013 and the related statements of activities 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 above present fairly, in all material respects, the financial position of the Washington County Virginia Habitat for Humanity as of June 30, 2013 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Hicok Fern Brown & Garcia

HICOK, FERN, BROWN & GARCIA
CERTIFIED PUBLIC ACCOUNTANTS

May 22, 2014

WASHINGTON COUNTY VIRGINIA HABITAT FOR HUMANITY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	15,349
Grants receivable		20,000
Pledges receivable		150,000
Other receivables		2,300
Mortgages Receivable, net of discount, due within one year		17,107
Inventories		139,276
Prepaid Expenses		3,932
Total current assets		347,964
PROPERTY, PLANT, AND EQUIPMENT, NET		14,620
MORTGAGES RECEIVABLE, NET OF DISCOUNT		196,388
Total assets	$	558,972
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$	9,552
Accrued compensation and payroll taxes		2,088
Accrued interest		82
Line of Credit		24,811
Escrow Accounts		1,089
Other		6,892
Total current liabilities		44,514
Total liabilities		44,514
NET ASSETS		
Unrestricted		359,458
Temporarily restricted		155,000
Total net assets		514,458
Total liabilities and net assets	$	558,972

The Notes to Financial Statements are an integral part of this statement.

WASHINGTON COUNTY VIRGINIA HABITAT FOR HUMANITY
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2013

	Unrestricted	Temporarily Restricted	Total
Revenues:			
Contributions	$ 53,562	$ 155,000	$ 208,562
In-Kind	40,351	-	40,351
Grants	15,387	38,000	53,387
Net Sales to Homeowners	137,143	-	137,143
ReStore Sales	19,019	-	19,019
Other	5,800		5,800
Interest	41	-	41
Net assets released from restrictions	38,000	(38,000)	-
Total revenues and other support	309,303	155,000	464,303
Expenses:			
Program Services:			
Homebuilding	157,274	-	157,274
ReStore	10,698	-	10,698
Support Services:			
General & Administrative	51,258	-	51,258
Fundraising	2,446	-	2,446
Total Expenses	221,676	-	221,676
Change in Net Assets	87,627	155,000	242,627
Net Assets At Beginning of Year	271,831	-	271,831
Net Assets At End of Year	$ 359,458	$ 155,000	$ 514,458

The Notes to Financial Statements are an integral part of this statement.

WASHINGTON COUNTY VIRGINIA HABITAT FOR HUMANITY
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 242,627
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	7,410
Amortization of mortgages	(25,117)
Proceeds from home sales	(94,538)
(Increase) decrease in assets:	
Other receivables	(172,300)
Mortgage receivables	45,946
Inventories	(14,951)
Prepaid expenses and supplies	(3,932)
(Decrease) increase in liabilities:	
Accounts payable	1,764
Accrued compensation and payroll taxes	708
Other current liabilities	(1,443)
Net cash used by operating activities	(13,826)
CASH FLOWS FROM INVESTING ACTIVITIES	
Acquisition of property, plant, and equipment	(1,092)
Net cash used by investing activities	(1,092)
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on debt	(20,000)
Proceeds from debt	34,811
Net cash provided by financing activities	14,811
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(107)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	15,456
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 15,349
Interest paid for the year	$ 501

The Notes to Financial Statements are an integral part of this statement.

Note 1. Organization

An independent and locally-governed affiliate of Habitat for Humanity International, Washington County Virginia Habitat for Humanity ("Habitat" or the "Organization") was incorporated as a tax exempt non-profit organization in the state of Virginia in January 1998 and is primarily and directly responsible for its own operations. Habitat works to end poverty housing in Washington County by creating opportunities for home ownership in partnership with low-income families, and by making safe, decent, affordable housing a matter of community conscience and action. Habitat builds market-quality homes utilizing volunteer labor and sells homes to qualified low-income families utilizing non-interest bearing mortgages. Habitat requires each of its home buyers to provide "sweat equity" by participating in a significant amount of labor in its home construction program, and/or in some other form of community service. In addition, each buyer is provided pre-purchase and post-purchase homeowner education and counseling.

In addition to home building activities, Habitat also operated a retail thrift operation (d.b.a. the ReStore) from July 2012 to March 2013. The ReStore specialized in selling new and used building and home improvement materials, appliances, and furniture to the public. The ReStore received donated usable materials from individuals and businesses. Costs associated with operation of the ReStore are expensed in Program – ReStore in the accompanying statement of activities and changes in net assets. All net proceeds from the operation of the ReStore helped support and enhance Habitat's non-profit mission-related activities.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The Organization follows accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB sets generally accepted accounting principles ("GAAP") that the Organization 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 FAS Accounting Standards Codification ("ASC").

The Organization'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 Organizations.* Under this authoritative guidance, the Organization is required to provide financial statements which are prepared to focus on the Organization 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. Restricted net assets received and expended in the same year are classified as unrestricted.

- **Temporarily Restricted** – Net assets whose use by the Organization is subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire through the passage of time.

- **Permanently Restricted** – Net assets that are subject to donor-imposed stipulations that assets be maintained permanently by the Organization. The donors of these assets permit the Organization to use all or part of the investment return on these assets for continuing operations or may be subject to certain restrictions.

Note 2. Summary of Significant Accounting Policies (Continued)

Expenses are generally reported as decreases in 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.

Use of estimates:

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

Cash and cash equivalents:

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents are stated at cost plus accrued interest, which approximates fair value, and are classified as Level 1 assets.

Grants and pledges receivable:

Grants and pledges receivable are stated at the amount the Organization expects to collect. Habitat maintains allowances for doubtful accounts for estimated losses resulting from the inability of its grantors and donors to make required payments. Management considers the following factors when determining the collectability of specific grants and pledges: creditworthiness, past transactions history with the grantor or donor, current economic industry trends, and changes in payment terms. If the financial condition of the Organization's grantors or donors were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. At June 30, 2013, all grants and pledges receivable are considered fully collectible by management; therefore, no allowance for doubtful accounts has been provided.

Mortgages Receivable:

Mortgages receivable consist of non-interest bearing mortgages, which are secured by real estate and payable in monthly installments. The majority of the mortgages have an original maturity of 15 to 20 years. These mortgages have been discounted at various rates ranging from 7.39% to 8.48% based on the prevailing market rates for low-income housing at the inception of the mortgages. Interest income (mortgage discount amortization) is recorded using the effective interest method over the lives of the mortgages. Receivables related to the mortgages are considered past due or delinquent by the Organization when they are 30 days late.

Habitat's estimate for allowance for loan losses is based on historical collection experience and a review of the status of the mortgages receivable. The Organization has historically experienced favorable outcomes in educating delinquent homeowners and structuring payment plans to cure delinquencies within a minimal amount of time. Due to the historical success experienced by the Organization in regards to collecting mortgages receivable, management has determined that all receivables are collectible as of June 30, 2013. Accordingly, no allowance for loan losses is reported as of June 30, 2013 in the accompanying financial statements.

Note 2. **Summary of Significant Accounting Policies (Continued)**

Inventories:

ReStore inventories are not recorded by the Organization. Revenue is recognized by the Organization at the time the goods are sold.

The Organization's building materials inventory are stated at the lower of cost or market.

All direct material and equipment costs related to home construction are recorded as construction-in-process inventory on the statement of financial position as they are incurred. Land costs included in construction-in-process are stated at the lower of cost or market value. When revenue from the sale of a home is recognized, the corresponding costs of construction are then expensed in the statement of activities and changes in net assets as program services.

Property and equipment:

Property and equipment are stated at cost, if purchased, or fair value, if donated. Donated items are recorded at fair market value at the date of contribution. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. The cost of maintenance repairs is charged against operations when incurred, whereas significant renewals or betterments are capitalized. The general range of estimated lives is five to seven years for property and equipment.

The Organization's policy is to capitalize expenditures for property and equipment and donated property and equipment received that exceed $500 and have a useful life greater than one year. When items are retired or disposed of, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the statement of activities and changes in net assets.

In accordance with ASC 360-10, *Property, Plant and Equipment,* the Organization periodically reviews the carrying value of long-lived assets for possible impairment when events and circumstances warrant such a review. For the year ended June 30, 2013, the Organization had not experienced impairment losses on its long-lived assets.

Income taxes:

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, as confirmed by a determination letter issued by the Internal Revenue Service and is classified as other than a private foundation under IRC Section 509(a)(1). Accordingly, no provision for income taxes has been made in the accompanying financial statements.

The Organization has adopted the accounting standard on accounting for uncertainty in income taxes. Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of the accounting standard. In addition, Management is not aware of any matters which would cause the Organization to lose its tax-exempt status.

The Organization recognizes interest and penalties related to unrecognized tax benefits as accrued expenses in its accompanying financial statements. During the year ended June 30, 2013, the Organization did not recognize any interest and penalties.

Note 2. **Summary of Significant Accounting Policies (Continued)**

Advertising and Marketing Costs:

Habitat expenses advertising and marketing costs as they are incurred. Advertising and marketing expenses totaled $389 for the year ended June 30, 2013.

Revenue Recognition:

- **Contributions** – Unconditional promises to give are recognized as revenue when the gifts' underlying promises are received by Habitat. The Organization reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets to a specific time period or a specific purpose. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statement of activities and changes in net assets as assets released from restrictions.

- **Sale to Homeowners** – Sales to homeowners represent the sale of homes built by Habitat. The resulting mortgages are non-interest bearing and have been discounted based upon prevailing market rates for low-income housing at the inception of the mortgages. The sales to homeowners in the statement of activities and changes in net assets are presented net of the applicable discount. Habitat recognizes the income from the sales to homeowners on the completed contract method when home closings occur.

- **Grant Revenues** – Grant funds that are restricted for use in home construction are reflected as revenue when Habitat has incurred expenses in compliance with the specific restrictions on the grant agreement.

- **In-Kind Contributions** – Support arising from donated goods, property, and services is recognized in the financial statements at its fair value. Donated services are recognized when the services are received if they create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

  The Organization utilizes the services of outside volunteers to perform a variety of tasks that assist the Organization. The fair value of these services is not recognized in the accompanying financial statements since they do not meet the criteria for recognition under accounting principles generally accepted in the United States of America.

  Habitat receives in-kind contributions of materials and supplies used in the construction and furnishing of its homes. Total amounts of contributed supplies and materials for the year ended June 30, 2013 was $40,351.

  Habitat also received non-cash donations of furniture, household items, and other materials used for resale in the ReStore. The total value of items donated to the ReStore for the year ended June 30, 2013 was $19,155.

Recent Accounting Pronouncements:

In October 2012, the FASB issued Accounting Standards Update 2012-05, Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows, (ASU 2012-05). ASU 2012-05 amended ASC 230-10 to clarify how cash received from the sale of donated securities should be presented in the statement of cash flows. The ASU requires a not-for-profit to classify cash receipts from the sale of donated securities in a manner consistent with cash donations received. The provisions of ASU 2012-05 will be effective for annual periods beginning after June 15,

2013. The Organization will incorporate the provisions of ASU 2012-05 in its financial statements for the year ended June 30, 2014 and does not anticipate a significant impact from this change.

In February 2013, the FASB issued Accounting Standards Update 2013-03, Financial Instruments (Topic 825): Clarifying the Scope and Applicability of a Particular Disclosure to Nonpublic Entities, (ASU 2013-03). ASU 2013-03 clarified that the intended scope of the fair value disclosures required by ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRSs), applies to nonpublic entities that have total assets of $100 million or more or that have one or more derivative instruments. ASU 2013-03 was effective upon issuance. This update has no impact on the Organization.

In April 2013, the FASB issued Accounting Standards Update 2013-06, Not-for-Profit Entities (Topic 958): Services Received from Personnel of an Affiliate, (ASU 2013-06). ASU 2013-06 specifies the guidance that not-for-profit entities apply for recognizing and measuring services received from personnel of an affiliate. The provisions of ASU 2013-06 will be effective for annual periods beginning after June 15, 2014 and does not anticipate a significant impact from this change

Note 3. Inventories

Inventories consist of the following as of June 30, 2013:

Construction-in-process	$ 74,815
Completed home	63,350
Supplies and materials	1,111
	$139,276

Note 4. Property and Equipment

Property and equipment consists of the following at June 30:

Vehicles and trailers	$ 44,211
Office and construction equipment and furniture	6,966
Total Cost	51,177
Less accumulated depreciation	36,557
Net property and equipment	$ 14,620

Depreciation for fixed assets has been provided over the following estimated useful lives using the straight-line method. Depreciation for the period ending June 30, 2013 amounted to $7,410.

Vehicles and trailers	7 years
Office and construction equipment and furniture	3-7 years

Note 5. Mortgages Receivable

During the year ended June 30, 2013, two homes were sold to qualifying applicants. The resulting mortgages were 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 (7.39% for the year ended June 30, 2013).

Habitat directly finances all of the homes that it sells. Each mortgage is issued as a zero-interest mortgage to the buyer. Habitat discounts the mortgages using the prevailing market rates for low-income housing at the time the home is sold. The discount is amortized using the effective interest method. Mortgages receivable as of June 30, 2013 are as follows:

Mortgages receivable at face value	$ 409,029
Less unamortized discounts on mortgages	198,129
	$ 210,900

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

2014	$ 28,852
2015	28,852
2016	28,852
2017	28,852
2018	28,852
Thereafter	264,769
Total	$ 409,029

Effective December 1, 2012, the Organization contracted with a service provider to service the loans and to collect the payments and pay the escrow.

As of June 30, 2013, one partner family no longer had a willingness to partner with the Organization and abandoned the property. The Organization began foreclosure proceedings, which were in process at June 30, 2013. The Organization's recorded investment in the associated mortgage receivable on the property at June 30, 2013 was $65,300. The fair market value of the property exceeds the Organization's investment and will partner with another partner family; therefore, the Organization does not believe an allowance is necessary.

Note 6. Line of Credit

The Organization has an available line of credit with a bank, which permits short-term borrowings up to $30,000 with interest at the New York Prime Rate plus 2%. The line of credit is secured by the Organization's vehicles and trailers. The agreement is subject to renewal each June 7. Borrowings under this agreement were $24,811 at June 30, 2013. Interest paid on the line of credit during the year ended June 30, 2013 was $501.

Note 7. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at June 30 are available for the following purposes:

Contributions for home construction	$ 155,000
	$ 155,000

Habitat had no permanently restricted assets at June 30, 2013.

Note 8. Commitments and Contingencies

Collection of second mortgages

In addition to the non-interest bearing mortgages received from the sale of each home, Habitat may issue a contingent second mortgage. The second mortgages 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 within the first ten years of the primary mortgage, the second mortgage becomes due. No receivable has been recorded in the current financial statements for second mortgages.

Note 9. Subsequent Events

Subsequent events have been evaluated as of May 22, 2014, which is the date the financial statements were issued.

Subsequent events include the following:

As noted above, the Organization began foreclosing procedures on a home in June 2013. The Deed of Foreclosure was filed July 29, 2013 and therefore the related loan and discount were written off as of June 30 and at the same time the home was recorded as inventory. The home was sold to another family in December 2013.

In March 2014, the Organization obtained a bridge loan from Habitat for Humanity Virginia in the amount of $25,000. The loan is due within one year or upon receipt of an expected VHDA loan, if sooner. Interest accrues at 5.5% and is due monthly. There is no security pledged for the loan.

Supplemental Information

June 30, 2013

WASHINGTON COUNTY VIRGINIA HABITAT FOR HUMANITY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	Program Services	ReStore	Management & General	Fundraising	Totals
Expenses					
Construction Costs	$ 114,318	$ -	$ -	$ -	$ 114,318
Salaries and Wages	30,577	4,780	22,707	1,000	59,064
Payroll taxes and other benefits	3,142	-	1,737	-	4,879
Office Expense	-	2,885	9,140	31	12,056
Legal and Professional	-	-	-	-	-
Depreciation	4,136	-	3,274	-	7,410
Repairs and maintenance	-	567	2,967	-	3,534
Printing and publication	-	-	199	-	199
Interest Expense	-	-	501	-	501
Taxes and Insurance	4,216	-	601	-	4,817
Conferences, training and travel	317	480	2,102	500	3,399
Tithe to Habitat International	-	-	6,812	-	6,812
Advertising	-	-	262	127	389
Other	568	1,986	956	788	4,298
Total Expenses	$ 157,274	$ 10,698	$ 51,258	$ 2,446	$ 221,676

The Notes to Financial Statements are an integral part of this statement.