

SOUTHERN CRESCENT HABITAT FOR HUMANITY, INC.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

With Independent Auditors' Report Thereon

SOUTHERN CRESCENT HABITAT FOR HUMANITY, INC.
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JUNE 30, 2013

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whaley hammonds tomasello, p.c.
CERTIFIED PUBLIC ACCOUNTANTS + ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Southern Crescent Habitat for Humanity, Inc.
Jonesboro, Georgia

We have audited the accompanying financial statements of Southern Crescent Habitat for Humanity, Inc. (a nonprofit organization) which comprise the statement of financial position as of June 30, 2013, 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.

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 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 Southern Crescent Habitat for Humanity, Inc. as of June 30, 2013, 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.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of state contractual assistance (Schedule I) 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.

A handwritten signature in blue ink that reads "Whaley & Jansello, P.C." The signature is written in a cursive style with a large, stylized initial 'W'.

November 25, 2013

SOUTHERN CRESCENT HABITAT FOR HUMANITY, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013

Assets

Assets:

Cash and cash equivalents	\$	393,846
Investments		1,113
Accounts receivable		83,022
Grant receivable		1,749
Mortgages receivable, net		3,248,188
Housing under construction		540,974
Other assets		16,108
Land and lots		42,286
Property and equipment, net		<u>1,102,521</u>
Total assets	\$	<u>5,429,807</u>

Liabilities and Net Assets

Liabilities:

Accounts payable	\$	58,278
Deposits on house purchases		3,781
Accrued expenses		10,763
Due to Clayton County, net		692,631
Unearned revenue		<u>382,278</u>
Total liabilities		<u>1,147,731</u>

Net assets:

Unrestricted		4,152,076
Temporarily restricted		<u>130,000</u>
Total net assets		<u>4,282,076</u>
Total liabilities and net assets	\$	<u>5,429,807</u>

The accompanying notes are an integral part of these financial statements.

SOUTHERN CRESCENT HABITAT FOR HUMANITY, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Operating revenues and support:			
Sales of completed homes	\$ 1,811,264	\$ -	\$ 1,811,264
Contributions - in-kind	559,849	-	559,849
Government grant revenue	453,107	-	453,107
Grant revenue	406,502	-	406,502
Development and management fees	335,872	-	335,872
House sponsorships	172,000	-	172,000
Donations	101,203	-	101,203
Other income	<u>34,418</u>	<u>-</u>	<u>34,418</u>
Total operating revenues and support	<u>3,874,215</u>	<u>-</u>	<u>3,874,215</u>
Net assets released from restrictions	<u>50,343</u>	<u>(50,343)</u>	<u>-</u>
Operating expenses:			
Administration	317,669	-	317,669
Construction	2,735,850	-	2,735,850
Development and fundraising	136,208	-	136,208
Program family services	<u>93,543</u>	<u>-</u>	<u>93,543</u>
Total operating expenses	<u>3,283,270</u>	<u>-</u>	<u>3,283,270</u>
Operating change in net assets	<u>641,288</u>	<u>(50,343)</u>	<u>590,945</u>
Nonoperating activities:			
Discount on notes payable	346,887	-	346,887
Amortization of mortgage discount	215,168	-	215,168
Mortgage discounts on homes sold	<u>(843,892)</u>	<u>-</u>	<u>(843,892)</u>
Total nonoperating activities	<u>(281,837)</u>	<u>-</u>	<u>(281,837)</u>
Change in net assets	359,451	(50,343)	309,108
Net assets - beginning of year (as restated)	<u>3,792,625</u>	<u>180,343</u>	<u>3,972,968</u>
Net assets - end of year	<u>\$ 4,152,076</u>	<u>\$ 130,000</u>	<u>\$ 4,282,076</u>

The accompanying notes are an integral part of these financial statements.

SOUTHERN CRESCENT HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Administration</u>	<u>Construction</u>	<u>Development and fundraising</u>	<u>Program family services</u>	<u>Total</u>
Cost of homes sold	\$ -	\$ 2,735,850	\$ -	\$ -	\$ 2,735,850
Wages	57,481	170,650	109,212	72,826	410,169
Professional fees	93,284	-	-	6,512	99,796
Homeowner services	-	-	-	82,831	82,831
Insurance	32,912	32,913	-	-	65,825
Depreciation	35,485	7,533	-	-	43,018
Payroll taxes	3,829	14,566	9,331	6,133	33,859
Office expense	23,194	-	223	5	23,422
Facility expenses	17,059	-	-	3,993	21,052
Staff costs	17,726	330	859	-	18,915
Tithe to Habitat International	15,580	-	-	-	15,580
Advertising and marketing	1,111	-	12,266	-	13,377
Payroll administrative costs	13,345	-	-	-	13,345
Construction - general	-	11,362	-	-	11,362
Vehicle expense	2,600	5,123	-	-	7,723
Volunteer appreciation	2,278	143	3,927	202	6,550
Taxes and licenses	855	-	-	-	855
Interest	683	-	-	-	683
Fundraising supplies	-	-	390	-	390
Other expenses	247	-	-	-	247
Overhead allocated to cost of homes sold and family services	-	(57,404)	-	-	(57,404)
Wages and payroll taxes allocated to cost of homes sold and family services	-	(185,216)	-	(78,959)	(264,175)
Total	<u>\$ 317,669</u>	<u>\$ 2,735,850</u>	<u>\$ 136,208</u>	<u>\$ 93,543</u>	<u>\$ 3,283,270</u>

The accompanying notes are an integral part of these financial statements.

SOUTHERN CRESCENT HABITAT FOR HUMANITY, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

Cash flows from operating activities:

Sources for operations:

Mortgage payments received	\$ 306,665
Government grant revenue received	582,185
Grant revenue received	86,502
Federal Home Loan Bank funds received	320,000
Sale of completed homes	324,427
Development and management fees received	303,900
House sponsorships received	202,000
Donations received	100,953
Other income received	<u>29,851</u>

Total sources for operations 2,256,483

Uses for operations:

Payments for administrative services	(253,793)
Payments for construction program	(1,367,860)
Payments for development and fundraising	(136,208)
Payments for family services	<u>(93,543)</u>

Total uses for operations (1,851,404)

Net cash provided by operating activities 405,079

Cash flows from financing activities:

Proceeds from notes payable to Clayton County	822,627
Principal payments on notes payable to Clayton County	(887,296)
Principal payments on line of credit and notes	<u>(56,298)</u>

Net cash used in financing activities (120,967)

Net increase in cash 284,112

Cash - Beginning of year 109,734

Cash - End of year \$ 393,846

The accompanying notes are an integral part of these financial statements.

SOUTHERN CRESCENT HABITAT FOR HUMANITY, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

Reconciliation of change in net assets to net cash provided by operating activities:

Change in net assets	\$ 309,108
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	43,018
Discount on notes	(346,887)
Amortization of mortgage discount	(215,168)
Mortgage discounts on homes sold	843,892
(Increase) decrease in assets:	
Investments	(329)
Accounts receivable	(571)
Grants receivable	129,078
Mortgages receivable	(1,215,647)
Housing under construction	871,421
Prepaid expenses	(5,646)
Land and lots	(7,300)
Earnest money	1,500
Increase (decrease) in liabilities:	
Accounts payable	7,482
Deposits on house purchases	(7,919)
Accrued expenses	(953)
Net cash provided by operating activities	<u>\$ 405,079</u>

The accompanying notes are an integral part of these financial statements.

SOUTHERN CRESCENT HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. Summary of Significant Accounting Policies

Nature of Activities

Southern Crescent Habitat for Humanity, Inc. (the "Organization") is an affiliate of Habitat for Humanity International, Inc. ("Habitat International"). The Organization is a nondenominational Christian organization dedicated to eliminating poverty housing by building modest but adequate housing in partnership with responsible, low-income families. By having volunteers and the families work together in partnership, the Organization builds new hope, new relationships, and a new sense of community, as well as new houses. Although Habitat International assists with information resources, training, publications, prayer support, and in other ways, the Organization is primarily and directly responsible for its own operations.

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. Under this basis, revenues and expenses are recognized as they are incurred, whether or not cash is received or paid out at the time.

Cash and Cash Equivalents

For financial statement purposes, highly liquid investments with original maturities of three months or less are reported as cash and cash equivalents. The Organization did not hold any such investments at June 30, 2013.

Mortgages Receivable

Mortgages receivable consist of noninterest-bearing mortgages which are secured by real estate and payable in monthly installments. Most of the mortgages receivable have an original maturity of 20 to 30 years and arose in connection with the Organization's homebuilding initiative in the Clayton, Henry and Fayette Counties of Georgia. Consistent with Habitat for Humanity International, these receivables have been discounted using discount rates ranging between 6% and 9%. Interest income is recorded under the guidance of ASC Topic 835-30, *Imputation of Interest*.

SOUTHERN CRESCENT HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. Summary of Significant Accounting Policies (Continued):

Investments

Investments in marketable securities with readily determinable fair values are reported at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets. Short-term investments consist of debt securities with original maturities of twelve months or less. Long-term investments consist of debt securities with original maturities greater than twelve months.

Construction in Progress

Construction in progress represents those houses which are currently under construction for families. Purchased materials for the construction of these houses are recorded at cost. Donated materials and labor, if applicable, are recorded at the fair market value of such.

Property and Equipment

Property and equipment is recorded at acquisition cost, including costs necessary to get the asset ready for its intended use. Donated items are recorded at fair market value at the time of the gift. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

<u>Description</u>	<u>Life</u>
Buildings and improvements	29.5 years
Furniture and equipment	5 - 7 years
Vehicles	5 years

Functional Expense Allocations

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

SOUTHERN CRESCENT HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. Summary of Significant Accounting Policies (Continued):

Revenue Recognition

In accordance with U.S. generally accepted accounting principles, the Organization's net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. The Organization records contributions of cash and other assets as unrestricted income unless specifically restricted by the donor. Restricted contributions are recorded as restricted income. When the donor stipulation expires, the temporarily restricted assets are reclassified to unrestricted net assets and are reported as net assets released from restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that are required to be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes. The Organization does not have any permanently restricted net assets.

Government Grants

Grant revenue is deemed to be a fee-for-services transaction and is not considered contribution income. Therefore, grant revenue is recognized during the period in which the related grant expenses are incurred. Accordingly, grant revenue is accrued or deferred, as needed, to match grant revenue with the related grant expenses.

Contributions

In accordance with the provisions of FASB ASC 958-3 10-25, contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Gifts of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. 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 statements of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are reported.

SOUTHERN CRESCENT HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. Summary of Significant Accounting Policies (Continued):

Transfer to Homeowners

Transfers to homeowners represent the sale of houses built. The resulting mortgages are noninterest bearing and have been discounted based upon the prevailing market rates. The transfers to homeowners presented in the Statement of Activities are net of this discount.

Contributed Materials and Services

Materials donated to the Organization are reflected in the financial statements at the fair value of the materials received. In addition, a substantial number of volunteers have made significant contributions of their time to the Organizations program and supporting services. The value of this contributed time is not reflected in these financial statements since it does not require a specialized skill. However, from time to time certain other contributed services that require specialized skills are provided by individuals possessing those skills that would otherwise need to be purchased if not provided by donation, are recognized as revenue.

Total contributed materials and services for the year ended June 30, 2013 are as follows:

Donated property	\$ 436,411
Donated materials and equipment	95,931
Donated services	<u>27,507</u>
Total contributed materials and services	<u>\$ 559,849</u>

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of 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 and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

SOUTHERN CRESCENT HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

2. Mortgages Receivable

Consistent with Habitat for Humanity International, imputed interest is calculated with mortgage discount rates ranging from 6% to 9%. The receivable and related discount are as follows as of June 30, 2013:

Face value	\$ 6,854,703
Less unamortized discount	<u>3,606,515</u>
Mortgages receivable, net of discount	<u>\$ 3,248,188</u>

Projected five year maturities are as follows for the years ended June 30:

	<u>Face</u>	<u>Net</u>
2013	\$ 343,432	\$ 94,066
2014	341,706	100,063
2015	339,600	106,210
2016	337,005	112,312
2017	334,484	133,925
Thereafter	<u>5,158,476</u>	<u>2,701,612</u>
Total	<u>\$ 6,854,703</u>	<u>\$ 3,248,188</u>

3. Property and Equipment

Property and equipment at June 30, 2013 consists of the following:

Buildings and improvements	\$ 983,917
Land	133,565
Equipment	71,092
Vehicles	<u>39,568</u>
Subtotal	1,228,142
Less accumulated depreciation	<u>125,621</u>
Total	<u>\$ 1,102,521</u>

Depreciation expense was \$43,018 for the year ended June 30, 2013.

SOUTHERN CRESCENT HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

4. Line of Credit

As of June 30, 2013, the Organization has a \$200,000 line of credit to be drawn upon as needed. The line of credit is collateralized by the real property of the Organization with interest at 5%. The line of credit matures on December 31, 2014 and had a zero balance as of June 30, 2013.

5. Due to Clayton County

The amounts due to Clayton County at June 30, 2012 consisted of notes payable obtained through the Neighborhood Stabilization Program (“NSP”). As a qualified vendor under the program, the Organization receives reimbursement for the purchase and rehabilitation costs for approved homes.

Homes that are sold to qualified homeowners are financed with non-interest bearing notes through NSP. The following table sets forth the face value of the Due to Clayton County - NSP Homes Sold and the unamortized discount. Consistent with Habitat for Humanity International, the note payable was discounted at rates ranging between 6% and 9% to calculate imputed interest:

Due to Clayton County - NSP Homes Sold

Face value	\$ 758,833
Less unamortized discount	<u>376,555</u>
 Total	 <u>\$ 382,278</u>

During the rehabilitation period all amounts are considered short-term loans and as such have not been discounted.

Future principal payments over the next five years for funds Due to Clayton County are as follows:

	<u>NSP homes sold</u>	<u>NSP CIP</u>	<u>NSP collected</u>	<u>Total</u>
2014	\$ 12,581	\$ 252,159	\$ 58,194	\$ 322,934
2015	13,551	-	-	13,551
2016	8,775	-	-	8,775
2017	14,242	-	-	14,242
2018	15,341	-	-	15,341
2019 and after	<u>317,788</u>	<u>-</u>	<u>-</u>	<u>317,788</u>
 Total	 <u>\$ 382,278</u>	 <u>\$ 252,159</u>	 <u>\$ 58,194</u>	 <u>\$ 692,631</u>

SOUTHERN CRESCENT HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

6. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2013 are available for the following purposes:

ReStore	\$ 50,000
Mortgage down payment assistance	<u>80,000</u>
Total	<u>\$ 130,000</u>

7. Transactions with Affiliate

In addition to the other transactions described herein, the Organization annually remits a portion of its contributions (excluding in-kind contributions) to Habitat International. These funds are used to construct homes in economically depressed areas around the world. For the year ended June 30, 2013, the Organization contributed \$15,580 to Habitat International. This amount is included in program services expense in the Statement of Functional Expenses.

8. Income Taxes

The Organization is tax-exempt under Section 501(c)(3) of the internal Revenue Code. Accordingly, gifts to the Organization are tax deductible. The Organization is required to pay Federal and state income taxes only on its net unrelated business income. The Organization is subject to examinations of its returns by the federal, state and local authorities for three years after the returns are filed. Currently, the 2010, 2011 and 2012 tax returns are open and subject to examination. However, the Organization is not currently under audit nor has the Organization been contacted by any of these jurisdictions.

9. Related Parties

During the year ended June 30, 2013, the Organization paid \$68,424 to a company owned by a member of its board of directors. The payments were made for construction costs required to complete homes.

During the year ended June 30, 2013 an employee of the Organization lived in one of the completed homes at a reduced rent.

In addition, expenses were incurred of \$31,162 for legal services performed in conjunction with operations of the Organization. Certain members of management are related to individuals within the firms.

SOUTHERN CRESCENT HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

10. Net Assets

Beginning of year unrestricted net assets have been reclassified to temporarily restricted net assets to reflect restrictions from donors.

11. Subsequent Events

Subsequent to year end, the Organization paid \$50,000 to Habitat for Humanity International under an agreement to operate Habitat for Humanity ReStore in the Organization's service area. No liability was recorded as of June 30, 2013, as the agreement was conditional based on a lease for the ReStore. Subsequent to year end, the lease was obtained and the payment was made to Habitat for Humanity International.

Management has evaluated subsequent events through November 25, 2013, the date on which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

SOUTHERN CRESCENT HABITAT FOR HUMANITY, INC.
SCHEDULE I - STATE CONTRACTUAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2013

<u>State grantor/Program title</u>	<u>Grant/ contract number</u>	<u>CFDA number</u>	<u>Expenditure amount</u>
Georgia Department of Housing and Urban Development			
CHDO - HOME program	FFY 2011	14.239	\$ 190,053
CDBG - HOME Investment Partnership	M12-13-0209	14.239	214,859
Georgia Department of Housing and Urban Development			
CDBG	B-12-UC-13-0005	14.218	27,500
CDBG - Rehabilitation and Preservation			1,749
Habitat for Humanity International			
HUD - Capacity			18,946
Total			\$ 453,107

See independent auditor's report.