

**HABITAT FOR HUMANITY  
OF ST. CHARLES COUNTY**

**FINANCIAL STATEMENTS**

**JUNE 30, 2016**

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Habitat for Humanity of St. Charles County

We have audited the accompanying financial statements of Habitat for Humanity of St. Charles County (a not-for-profit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Habitat for Humanity of St. Charles County as of June 30, 2016, and the change 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.

*SFW Partners, LLC*

September 26, 2016

SFW Partners, LLC

# HABITAT FOR HUMANITY OF ST. CHARLES COUNTY

## STATEMENT OF FINANCIAL POSITION

As of June 30, 2016

### ASSETS

Current assets:		
Cash	\$	234,960
Escrow		98,042
Current maturities of mortgages receivable, net of unamortized discount		71,982
Other receivables		18,617
Home construction in progress		149,467
Foreclosed home available for sale		132,040
Prepaid expenses		5,509
Total current assets		<u>710,617</u>
Property and equipment, net of accumulated depreciation and amortization		131,316
Mortgages receivable, net of unamortized discount, less current maturities		1,450,908
Security deposit		<u>3,858</u>
	\$	<u><u>2,296,699</u></u>

### LIABILITIES AND NET ASSETS

Current liabilities:		
Current maturities of long-term debt	\$	40,829
Accounts payable		13,391
Accrued expenses		170,432
Escrow liability		96,750
Total current liabilities		<u>321,402</u>
Long-term debt, less current maturities		<u>269,373</u>
Total liabilities		<u>590,775</u>
Net assets:		
Unrestricted		1,650,584
Temporarily restricted		55,340
Total net assets		<u>1,705,924</u>
	\$	<u><u>2,296,699</u></u>

The accompanying notes to the financial statements  
are an integral part of this statement.

## HABITAT FOR HUMANITY OF ST. CHARLES COUNTY

### STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

**For the Year Ended June 30, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Program revenue:				
ReStore sales	\$ 645,563	\$ -	\$ -	\$ 645,563
Sale of homes, less mortgage discount expense	172,229	-	-	172,229
Amortization of mortgages receivable discount	128,735	-	-	128,735
Gain on home foreclosure	93,343	-	-	93,343
Total program revenue	1,039,870	-	-	1,039,870
Support and other revenue:				
Contributions	188,314	55,340	-	243,654
Grants	119,857	-	-	119,857
Special event revenue	119,446	-	-	119,446
In-kind donations	27,642	-	-	27,642
Miscellaneous income	2,273	-	-	2,273
Interest income	78	-	-	78
Total support and other revenue	457,610	55,340	-	512,950
Total revenue and support	1,497,480	55,340	-	1,552,820
Net assets released from restrictions	20,000	(20,000)	-	-
Functional expenses:				
Program services:				
Construction	617,921	-	-	617,921
Homeowners	65,337	-	-	65,337
ReStore	463,986	-	-	463,986
Supporting services:				
Management and general	89,564	-	-	89,564
Fundraising	160,556	-	-	160,556
Total functional expenses	1,397,364	-	-	1,397,364
Change in net assets	120,116	35,340	-	155,456
Net assets, beginning of the year	1,560,468	20,000	-	1,580,468
Prior period adjustment (see Note 11)	(30,000)	-	-	(30,000)
Net assets, beginning of the year, restated	1,530,468	20,000	-	1,550,468
Net assets, end of the year	\$ 1,650,584	\$ 55,340	\$ -	\$ 1,705,924

The accompanying notes to the financial statements  
are an integral part of this statement.

## HABITAT FOR HUMANITY OF ST. CHARLES COUNTY

### STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2016

	Program Services				Supporting Services		
	Construction	Homeowners	ReStore	Total	Management and General	Fundraising	Total
Salaries	\$ 84,863	\$ 46,659	\$ 171,222	\$ 302,744	\$ 46,550	\$ 98,486	\$ 447,780
Home construction costs	444,833	-	-	444,833	-	-	444,833
Rent	2,801	944	130,902	134,647	6,533	1,860	143,040
Insurance	18,547	209	16,717	35,473	2,207	4,536	42,216
Payroll taxes	6,419	3,551	13,914	23,884	5,477	7,386	36,747
Dues and subscriptions	18,152	-	9,065	27,217	2,478	1,431	31,126
Events	-	-	-	-	-	30,544	30,544
Utilities	624	268	22,779	23,671	1,044	479	25,194
Repair and maintenance	2,713	27	17,395	20,135	3,270	153	23,558
Depreciation	3,198	191	16,326	19,715	852	501	21,068
Advertising	-	639	16,696	17,335	24	2,635	19,994
Professional fees	4,794	950	-	5,744	12,600	-	18,344
Office expense	2,257	1,144	4,701	8,102	2,265	3,549	13,916
Tithe to Habitat International	13,500	-	-	13,500	-	-	13,500
Supplies	2,202	-	9,800	12,002	-	-	12,002
Bank fees	22	-	9,079	9,101	928	1,389	11,418
Interest	6,818	-	3,701	10,519	-	-	10,519
Mortgage servicing	-	9,545	-	9,545	-	-	9,545
Tools	1,253	-	3,599	4,852	735	831	6,418
Leased equipment	677	344	4,154	5,175	488	677	6,340
Fuel	2,238	-	4,092	6,330	-	-	6,330
Telephone	1,060	409	1,922	3,391	410	819	4,620
Conference and travel	-	-	2,608	2,608	-	1,274	3,882
Education and seminars	359	344	1,125	1,828	1,250	450	3,528
Merchandise	-	-	2,289	2,289	-	1,023	3,312
Meals and entertainment	406	-	570	976	552	1,433	2,961
Miscellaneous	160	113	-	273	834	1,100	2,207
Recruitment and awards	25	-	651	676	1,067	-	1,743
Shipping	-	-	679	679	-	-	679
	\$ 617,921	\$ 65,337	\$ 463,986	\$ 1,147,244	\$ 89,564	\$ 160,556	\$ 1,397,364

The accompanying notes to the financial statements  
are an integral part of this statement.

## HABITAT FOR HUMANITY OF ST. CHARLES COUNTY

### STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2016

Cash flows from operating activities:	
Change in net assets	\$ 155,456
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	21,068
Imputed discount interest expense	6,677
Sale of homes, less mortgage discount expense	(172,229)
Amortization of mortgages receivable discount	(128,735)
Gain on home foreclosure	(93,343)
Changes in operating assets and liabilities:	
(Increase) decrease in assets:	
Escrow	9,398
Other receivables	(10,606)
Home construction in progress	143,369
Prepaid expenses	(4,723)
Security deposit	75
Increase (decrease) in liabilities:	
Accounts payable	(17,856)
Accrued expenses	60,868
Escrow liability	(16,102)
Net cash used in operating activities	<u>(46,683)</u>
Cash flows from investing activities:	
Payments from mortgages receivable	199,913
Purchases of property and equipment	(8,608)
Net cash provided by investing activities	<u>191,305</u>
Cash flows from financing activities:	
Principal payments on long-term debt	<u>(51,866)</u>
Net increase in cash	92,756
Cash, beginning of the year	<u>142,204</u>
Cash, end of the year	<u>\$ 234,960</u>
Supplemental disclosure of cash flow information:	
Cash paid during the period for interest	\$ 10,519

The accompanying notes to the financial statements  
are an integral part of this statement.

# HABITAT FOR HUMANITY OF ST. CHARLES COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

### (1) Operations

Habitat for Humanity of St. Charles County (the “Organization”) was incorporated in 1997 and is a non-denominational, Christian not-for-profit organization organized under the laws of the State of Missouri. The Organization is affiliated with Habitat for Humanity International, Inc. (“HFHI”). The Organization’s mission is seeking to put God’s love into action to bring people together to build homes, communities and hope. The Organization is dedicated to building and renovating homes in St. Charles County in partnership with hard-working, low-income families. The Organization also operates a retail hardware store (“ReStore”) with sales to the general public. Inventory is primarily donated, with the sale proceeds used to carry out the Organization’s mission.

### (2) Summary of Significant Accounting Policies

#### *Basis of Accounting*

The Organization’s financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

#### *Financial Statement Presentation*

Pursuant to the Not-for-Profit Entities topic of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”), the Organization is required to report information regarding its financial position and activities according to the three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by the topic, the Organization does not use fund accounting.

#### *Restricted and Unrestricted Support and Revenue*

Contributions are recognized when the donor makes an unconditional promise to give to the Organization. Gifts of cash and other assets received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Unrestricted contributions include resources available for the support of operations, which have no donor imposed restrictions.

Contributions that are temporarily 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 recognized. All other donor restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction has been accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

#### *Use of 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

## HABITAT FOR HUMANITY OF ST. CHARLES COUNTY

### NOTES TO THE FINANCIAL STATEMENTS

#### (2) Summary of Significant Accounting Policies (Continued)

##### *Revenue Recognition*

Sales to homeowners represent the sale of homes built or rehabilitated by the Organization. The resulting mortgages are non-interest bearing and have been discounted based upon the mortgage discount rate provided by HFHI at the inception of the mortgages. The Organization recognizes income from the sales to homeowners on the completed contract method when home closings occur.

##### *Contributions*

All contributions are considered to be available for the general programs of the Organization unless specifically restricted by the donor. The Organization reports gifts of cash and other assets as 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 a purpose restriction has been accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

##### *Contributed Services*

Many individuals volunteer their time and perform a variety of tasks that assist the Organization in its mission. These services are not recognized in the financial statements.

##### *Mortgages Receivable*

Mortgages receivable represent the amount charged to homeowners for Habitat-built houses and secured with loans that are to be paid back over an established period of time of 20 to 30 years. The mortgages are non-interest bearing and require monthly payments. Each mortgage receivable is discounted based on the mortgage discount rate established by HFHI in the year the mortgage is originated.

The Organization obtains a second deed of trust for any difference between the agreed-upon purchase price and the current fair value of the property. This difference, referred to as a "second mortgage," is payable to the Organization should the homeowner sell the property before the mortgage is paid off. The Organization does not record the second mortgage on the statement of financial position as the likelihood of collection is remote.

##### *Donated ReStore Inventory*

Items donated to be sold by the Organization's ReStore have not been reflected in the statement of financial position. Since uncertainty about the value of these items exists until the items are sold, no value is assigned to these items until the time of sale.

##### *Home Construction in Progress*

Land acquired for homes along with materials, labor, supplies, services, and other costs are recorded as home construction in progress assets until expensed at the time of sale of a property.



# HABITAT FOR HUMANITY OF ST. CHARLES COUNTY

## NOTES TO THE FINANCIAL STATEMENTS

### (2) Summary of Significant Accounting Policies (Continued)

#### *Property and Equipment*

Property and equipment are stated at cost if purchased or fair value if contributed, less an allowance for depreciation and amortization. Material expenditures for property acquisitions and those expenditures which substantially increase useful lives are capitalized. Expenditures for maintenance, repairs, and minor replacements are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income.

#### *Depreciation and amortization*

The Organization provides for depreciation and amortization using both straight-line and accelerated methods based upon the estimated useful lives of the assets as follows: leasehold improvements, 10 years; office furniture and equipment, 3 to 10 years; vehicles, 5 years.

#### *Program Services*

Program services include those expenses for programs and other items that enable the Organization to provide home construction, financing and support for homeowners.

#### *Supporting Services*

Supporting services include the functions necessary to administer the employment program, provide coordination and articulation of the Organization's program strategy, secure proper administrative function of the Board of Directors, and manage the financial and budgetary responsibilities of the Organization.

#### *Functional Allocation of Expenses*

The costs associated with providing the Organization's activities have been summarized on the functional basis. Certain expenses represent costs associated with multiple activities and require allocation among the program and supporting services benefited. Such allocations are based on relevant factors that represent management's best estimate of the costs of providing such activities.

#### *Income Taxes*

The Internal Revenue Service has advised the Organization that it is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization's management does not believe that its exempt status has been significantly affected by any changes in its activities since the date of the most recent determination letter received. Accordingly, no provision for income taxes has been included in these financial statements.

The Organization accounts for any uncertain tax positions in accordance with the Income Taxes topic of the FASB ASC. The topic prescribes a recognition threshold and measurement process for financial statement recognition of uncertain tax positions taken or expected to be taken in a tax return. In evaluating the Organization's exempt status, interpretations and tax planning strategies are considered. The Organization believes it is not exposed to any current or future tax liability based on its current operations.

## HABITAT FOR HUMANITY OF ST. CHARLES COUNTY

### NOTES TO THE FINANCIAL STATEMENTS

#### (2) Summary of Significant Accounting Policies (Continued)

The Organization's income tax filings are subject to audit by various taxing authorities. The Organization's open audit periods are primarily the years ended June 30, 2013 through June 30, 2016.

##### *Concentration of Credit Risk*

The Organization, on occasion, maintains cash deposits with banks that include funds greater than the insured limit by the FDIC. The Organization has not experienced any losses in such accounts. The Board believes the Organization is not exposed to any significant credit risk related to cash. There were no amounts on deposit at June 30, 2016 that exceeded the insured limits.

##### *Subsequent Events*

The Organization evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through the date of the independent auditor's report, which is the date the financial statements were available to be issued.

#### (3) Escrow

Pursuant to the mortgage promissory notes described in Note 4, the Organization is required to deposit monthly payments into an escrow account to pay for real estate taxes and homeowners' insurance. This account is restricted in nature and the Organization cannot use the account for operating activities.

#### (4) Mortgages Receivable

Mortgages receivable consists of the following at June 30, 2016:

Mortgages receivable	\$ 3,607,305
Unamortized discount at rates ranging from 7.39% to 8.48%	(2,084,415)
	<u>1,522,890</u>
Less current maturities	(71,982)
	<u>\$ 1,450,908</u>

Amortization of mortgages receivable discount income for the year ended June 30, 2016 was \$128,735.

Included in mortgages receivable are 10 mortgages sold with recourse to a bank (See Note 7).

## HABITAT FOR HUMANITY OF ST. CHARLES COUNTY

### NOTES TO THE FINANCIAL STATEMENTS

#### (5) Home Construction in Progress

Home construction in progress consists of the following at June 30, 2016:

201 Diekamp Lane, St. Charles, MO	\$	55,845
211 Diekamp Lane, St. Charles, MO		22,333
221 Diekamp Lane, St. Charles, MO		18,940
231 Diekamp Lane, St. Charles, MO		18,745
Land for development		<u>33,604</u>
	\$	<u>149,467</u>

#### (6) Property and Equipment

Property and equipment consists of the following at June 30, 2016:

Leasehold improvements	\$	110,283
Office furniture and equipment		59,619
Vehicles		<u>29,496</u>
		199,398
Accumulated depreciation and amortization		<u>(68,082)</u>
	\$	<u>131,316</u>

Depreciation and amortization expense for the year ended June 30, 2016 was \$21,068.

#### (7) Long-Term Debt

Long-term debt outstanding consists of the following at June 30, 2016:

Non-interest bearing note payable with a bank, due in quarterly installments of \$7,344, with final payment due on April 1, 2026. 10 mortgages receivable are pledged as collateral.	\$	287,857
Less imputed interest		(45,316)
Note payable, due in monthly installments of \$1,876, including interest at 4.75% per annum, with final payment due on September 1, 2019. Equipment and ReStore inventory are pledged as collateral.		<u>67,661</u>
		310,202
Less current maturities		<u>(40,829)</u>
	\$	<u>269,373</u>

**HABITAT FOR HUMANITY OF ST. CHARLES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS**

**(7) Long-Term Debt (Continued)**

Maturities on the long-term debt are as follows:

Year ending June 30:	
2017	\$ 40,829
2018	42,539
2019	44,323
2020	29,033
2021	24,287
Later years	<u>129,191</u>
	<u>\$ 310,202</u>

In November 2008, the Organization sold 10 mortgages receivable with recourse at a 25% discount rate to a bank. A note payable was established to reflect the funds received by the Organization. The Organization continues to service the mortgages. On a quarterly basis, the Organization remits payments collected to the bank. If any mortgage is 90 days past due or in default, the Organization must substitute the mortgage with a comparable mortgage receivable in good standing or repurchase the mortgage at 75%. Since there is no stated interest rate, the Organization is discounting the note payable at 5.22%.

**(8) Temporarily Restricted Net Assets**

Temporarily restricted net assets consist of the following at June 30, 2016:

Funds for construction in progress	<u>\$ 55,340</u>
------------------------------------	------------------

Net assets released from restrictions consist of the following at June 30, 2016:

Funds for construction in progress	<u>\$ 20,000</u>
------------------------------------	------------------

Donations received for the construction of building and rehabilitating the homes are kept in a separate bank account. These funds are restricted for the costs of building and rehabilitating the homes.

## HABITAT FOR HUMANITY OF ST. CHARLES COUNTY

### NOTES TO THE FINANCIAL STATEMENTS

#### (9) Leases

The Organization conducts part of its operations from a leased facility which includes the ReStore and office space. The lease is classified as an operating lease and will expire in May 2024 with one, five year renewal option. Additionally, the Organization leases certain office equipment under an operating lease. Total lease expense for the year ended June 30, 2016 was \$146,695.

Future minimum lease payments required under the leases that have remaining noncancellable lease terms in excess of one year as of June 30, 2016 are as follows:

Year ending June 30:	
2017	\$ 114,800
2018	135,317
2019	145,000
2020	164,933
2021	167,383
Later years	<u>554,747</u>
	<u>\$ 1,282,180</u>

#### (10) Related Party Transactions

The Organization remitted a portion of its contributions as a tithe to HFHI in the amount of \$13,500 for the year ended June 30, 2016. These funds are used to construct homes in economically depressed areas around the world. During the year ended June 30, 2016, the Organization also paid \$15,000 to HFHI for Stewardship and Organizational Sustainability Initiative (“SOSI”) fees. Additionally, the Organization paid \$3,079 to HFHI for other miscellaneous fees.

#### (11) Prior Period Adjustments

During the year ended June 30, 2016, the Organization identified that it was incorrectly adjusting its unamortized mortgage discounts for delinquent and prepaid mortgage payments received. The Organization recalculated the unamortized mortgage discount based on the original terms of the loan at the discount rates in effect at the time the mortgage was created and determined a prior period adjustment of \$66,073 was necessary to increase beginning net assets.

The lease facility described in Note 9 contains escalating rental payments in its original lease terms. In accordance with general accepted accounting principles, the total rental payments should be expensed on a straight-line basis over the life of the lease. In the prior year, the Organization only expensed the actual first years lease payments. The difference between the rent expense and payments should be recorded as deferred lease expenses. As a result, the Organization recorded a prior period adjustment to increase deferred rent expense and decrease net assets by \$96,073.