

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

**FINANCIAL STATEMENTS**

**JUNE 30, 2017 AND 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 statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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, 2017 and 2016, 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.

*SFW Partners, LLC*

September 15, 2017

SFW Partners, LLC

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

**STATEMENTS OF FINANCIAL POSITION**

**As of June 30, 2017 and 2016**

	2017	2016
<b>ASSETS</b>		
Current assets:		
Cash	\$ 62,953	\$ 234,960
Certificate of deposit	30,000	-
Escrow	108,235	98,042
Current maturities of mortgages receivable, net of unamortized discount	75,960	71,982
Other receivables	14,073	18,617
Home construction in progress	440,143	149,467
Foreclosed home available for sale	-	132,040
Prepaid expenses	495	5,509
Total current assets	731,859	710,617
Property and equipment, net of accumulated depreciation and amortization	114,741	131,316
Mortgages receivable, net of unamortized discount, less current maturities	1,563,114	1,450,908
Security deposit	4,408	3,858
	\$ 2,414,122	\$ 2,296,699
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 36,131	\$ 40,829
Accounts payable	25,351	13,391
Accrued expenses	22,430	24,702
Escrow liability	104,041	96,750
Total current liabilities	187,953	175,672
Deferred lease obligation	173,970	145,730
Long-term debt, less current maturities	288,520	269,373
Total liabilities	650,443	590,775
Net assets:		
Unrestricted	1,742,983	1,650,584
Temporarily restricted	20,696	55,340
Total net assets	1,763,679	1,705,924
	\$ 2,414,122	\$ 2,296,699

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

## HABITAT FOR HUMANITY OF ST. CHARLES COUNTY

### STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS For the Years Ended June 30, 2017 and 2016

	2017			2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Program revenue:								
ReStore sales	\$ 750,995	\$ -	\$ -	\$ 750,995	\$ 645,563	\$ -	\$ -	\$ 645,563
Sale of homes, less mortgage discount expense	223,388	-	-	223,388	172,229	-	-	172,229
Amortization of mortgages receivable discount	156,531	-	-	156,531	128,735	-	-	128,735
Gain on home foreclosure	-	-	-	-	93,343	-	-	93,343
Total program revenue	<u>1,130,914</u>	<u>-</u>	<u>-</u>	<u>1,130,914</u>	<u>1,039,870</u>	<u>-</u>	<u>-</u>	<u>1,039,870</u>
Support and other revenue:								
Contributions	285,427	20,696	-	306,123	188,314	55,340	-	243,654
Grants	209,355	-	-	209,355	119,857	-	-	119,857
Special event revenue	97,854	-	-	97,854	119,446	-	-	119,446
In-kind donations	46,119	-	-	46,119	27,642	-	-	27,642
Miscellaneous income	7,697	-	-	7,697	2,273	-	-	2,273
Interest income	127	-	-	127	78	-	-	78
Total support and other revenue	<u>646,579</u>	<u>20,696</u>	<u>-</u>	<u>667,275</u>	<u>457,610</u>	<u>55,340</u>	<u>-</u>	<u>512,950</u>
Total revenue and support	<u>1,777,493</u>	<u>20,696</u>	<u>-</u>	<u>1,798,189</u>	<u>1,497,480</u>	<u>55,340</u>	<u>-</u>	<u>1,552,820</u>
Net assets released from restrictions	55,340	(55,340)	-	-	20,000	(20,000)	-	-
Functional expenses:								
Program services:								
Mission	840,151	-	-	840,151	683,258	-	-	683,258
ReStore	590,221	-	-	590,221	463,986	-	-	463,986
Supporting services:								
Management and general	117,993	-	-	117,993	89,564	-	-	89,564
Fundraising	192,069	-	-	192,069	160,556	-	-	160,556
Total functional expenses	<u>1,740,434</u>	<u>-</u>	<u>-</u>	<u>1,740,434</u>	<u>1,397,364</u>	<u>-</u>	<u>-</u>	<u>1,397,364</u>
Change in net assets	92,399	(34,644)	-	57,755	120,116	35,340	-	155,456
Net assets, beginning of the year	1,650,584	55,340	-	1,705,924	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	<u>1,650,584</u>	<u>55,340</u>	<u>-</u>	<u>1,705,924</u>	<u>1,530,468</u>	<u>20,000</u>	<u>-</u>	<u>1,550,468</u>
Net assets, end of the year	<u>\$ 1,742,983</u>	<u>\$ 20,696</u>	<u>\$ -</u>	<u>\$ 1,763,679</u>	<u>\$ 1,650,584</u>	<u>\$ 55,340</u>	<u>\$ -</u>	<u>\$ 1,705,924</u>

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

## HABITAT FOR HUMANITY OF ST. CHARLES COUNTY

### STATEMENT OF FUNCTIONAL EXPENSES For the Year Ended June 30, 2017

	Program Services			Supporting Services		Total
	Mission	ReStore	Total	Management and General	Fundraising	
Home construction costs	\$ 569,296	\$ -	\$ 569,296	\$ -	\$ -	\$ 569,296
Salaries	144,771	254,793	399,564	49,109	117,480	566,153
Rent	5,722	124,444	130,166	10,013	2,861	143,040
Insurance	17,061	25,846	42,907	2,947	8,998	54,852
Payroll taxes	11,516	21,048	32,564	4,753	8,975	46,292
Advertising	3,415	20,992	24,407	17,010	1,714	43,131
Utilities	1,474	32,066	33,540	2,580	737	36,857
Events	306	-	306	-	30,299	30,605
Dues and subscriptions	16,758	7,790	24,548	2,907	1,759	29,214
Depreciation	3,198	17,941	21,139	854	600	22,593
Tithe to Habitat International	18,000	-	18,000	-	340	18,340
Bank fees	90	15,332	15,422	947	941	17,310
Professional fees	4,738	-	4,738	12,156	-	16,894
Repair and maintenance	3,196	11,969	15,165	249	54	15,468
Interest	11,757	2,788	14,545	-	-	14,545
Office expense	2,162	8,674	10,836	1,286	2,162	14,284
Education and seminars	2,191	2,415	4,606	4,441	3,891	12,938
Mortgage servicing	11,551	-	11,551	-	-	11,551
Tools	1,059	8,414	9,473	1,453	-	10,926
Supplies	2,779	6,852	9,631	-	-	9,631
Fuel	3,384	5,756	9,140	25	-	9,165
Leased equipment	1,267	5,509	6,776	485	856	8,117
Telephone	2,112	2,552	4,664	1,309	1,203	7,176
Merchandise	-	2,505	2,505	3,904	-	6,409
Conference and travel	275	1,560	1,835	307	4,222	6,364
Shipping	-	5,806	5,806	-	-	5,806
Miscellaneous	1,236	2,941	4,177	379	-	4,556
Recruitment and awards	453	786	1,239	330	2,201	3,770
Meals and entertainment	101	734	835	407	2,493	3,735
Printing and postage	283	708	991	142	283	1,416
	<u>\$ 840,151</u>	<u>\$ 590,221</u>	<u>\$ 1,430,372</u>	<u>\$ 117,993</u>	<u>\$ 192,069</u>	<u>\$ 1,740,434</u>

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		
	Mission	ReStore	Total	Management and General	Fundraising	Total
Home construction costs	\$ 444,833	\$ -	\$ 444,833	\$ -	\$ -	\$ 444,833
Salaries	131,522	171,222	302,744	46,550	98,486	447,780
Rent	3,745	130,902	134,647	6,533	1,860	143,040
Insurance	18,756	16,717	35,473	2,207	4,536	42,216
Payroll taxes	9,970	13,914	23,884	5,477	7,386	36,747
Advertising	639	16,696	17,335	24	2,635	19,994
Utilities	892	22,779	23,671	1,044	479	25,194
Events	-	-	-	-	30,544	30,544
Dues and subscriptions	18,152	9,065	27,217	2,478	1,431	31,126
Depreciation	3,389	16,326	19,715	852	501	21,068
Tithe to Habitat International	13,500	-	13,500	-	-	13,500
Bank fees	22	9,079	9,101	928	1,389	11,418
Professional fees	5,744	-	5,744	12,600	-	18,344
Repair and maintenance	2,740	17,395	20,135	3,270	153	23,558
Interest	6,818	3,701	10,519	-	-	10,519
Office expense	3,401	4,701	8,102	2,265	3,549	13,916
Education and seminars	703	1,125	1,828	1,250	450	3,528
Mortgage servicing	9,545	-	9,545	-	-	9,545
Tools	1,253	3,599	4,852	735	831	6,418
Supplies	2,202	9,800	12,002	-	-	12,002
Fuel	2,238	4,092	6,330	-	-	6,330
Leased equipment	1,021	4,154	5,175	488	677	6,340
Telephone	1,469	1,922	3,391	410	819	4,620
Merchandise	-	2,289	2,289	-	1,023	3,312
Conference and travel	-	2,608	2,608	-	1,274	3,882
Shipping	-	679	679	-	-	679
Miscellaneous	273	-	273	834	1,100	2,207
Recruitment and awards	25	651	676	1,067	-	1,743
Meals and entertainment	406	570	976	552	1,433	2,961
	<u>\$ 683,258</u>	<u>\$ 463,986</u>	<u>\$ 1,147,244</u>	<u>\$ 89,564</u>	<u>\$ 160,556</u>	<u>\$ 1,397,364</u>

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

## HABITAT FOR HUMANITY OF ST. CHARLES COUNTY

### STATEMENTS OF CASH FLOWS For the Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 57,755	\$ 155,456
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	22,593	21,068
Imputed discount interest expense	11,757	6,677
Sale of homes, less mortgage discount expense	(223,388)	(172,229)
Amortization of mortgages receivable discount	(156,531)	(128,735)
Gain on home foreclosure	-	(93,343)
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Escrow	(10,193)	9,398
Other receivables	4,544	(10,606)
Home construction in progress	(158,636)	143,369
Prepaid expenses	5,014	(4,723)
Security deposit	(550)	75
Increase (decrease) in liabilities:		
Accounts payable	11,960	(17,856)
Accrued expenses	(2,272)	(84,862)
Escrow liability	7,291	(16,102)
Deferred lease obligation	28,240	145,730
Net cash used in operating activities	(402,416)	(46,683)
Cash flows from investing activities:		
Purchase of certificate of deposit	(30,000)	-
Payments received from mortgages receivable	263,735	199,913
Purchases of property and equipment	(6,018)	(8,608)
Net cash provided by investing activities	227,717	191,305
Cash flows from financing activities:		
Borrowings on long-term debt	122,859	-
Principal payments on long-term debt	(120,167)	(51,866)
Net cash provided by (used in) financing activities	2,692	(51,866)
Net (decrease) increase in cash	(172,007)	92,756
Cash, beginning of the year	234,960	142,204
Cash, end of the year	\$ 62,953	\$ 234,960
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 2,788	\$ 3,842

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

# 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*

Revenue from ReStore sales are recognized at the point of sale. Revenue from the sale of homes is recognized when the home closing occurs and the deed to the property is transferred to the buyer. Sale of home revenue represents the sale price, less a discount for the non-interest bearing mortgage calculated using a discount rate provided by HFHI at the inception of the mortgage. Sales of homes are made to families selected by an independent selection committee and approved by the Organization's board of directors. Revenue from the amortization of mortgage discount is recognized using the effective interest method over the life of the mortgage at the discount rate used at the inception of the respective mortgage.

#### *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 statements 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. Major 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, 5 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 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, 2014 through June 30, 2017.

##### *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, 2017 and 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) Home Construction in Progress

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

	2017	2016
2001 N. Fifth	\$ 45,178	\$ -
2003 N. Fifth	48,271	-
2290 N. Village B	22,962	-
2292 N. Village A	22,126	-
2296 N. Village	36,687	-
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	264,919	33,604
	<u>\$ 440,143</u>	<u>\$ 149,467</u>

## HABITAT FOR HUMANITY OF ST. CHARLES COUNTY

### NOTES TO THE FINANCIAL STATEMENTS

**(5) Property and Equipment**

Property and equipment consists of the following at June 30:

	2017	2016
Leasehold improvements	\$ 113,668	\$ 110,283
Office furniture and equipment	62,252	59,619
Vehicles	29,496	29,496
	205,416	199,398
Accumulated depreciation and amortization	(90,675)	(68,082)
	\$ 114,741	\$ 131,316

Depreciation and amortization expense for the years ended June 30, 2017 and 2016 was \$22,593 and \$21,068, respectively.

**(6) Mortgage Receivable**

Mortgages receivable consists of the following at June 30:

	2017	2016
Mortgages receivable	\$ 3,903,125	\$ 3,607,305
Unamortized discount at rates ranging from 7.39% to 8.48%	(2,264,051)	(2,084,415)
	1,639,074	1,522,890
Less current maturities	(75,960)	(71,982)
	\$ 1,563,114	\$ 1,450,908

Amortization of mortgages receivable discount income for the years ended June 30, 2017 and 2016 was \$156,531 and \$128,735, respectively.

Included in mortgages receivable as of June 30, 2017 and 2016 are seven and ten mortgages, respectively, sold with recourse to a bank (see Note 7). During the year ended June 30, 2017, three mortgages were paid in full that were previously sold with recourse to a bank.

## HABITAT FOR HUMANITY OF ST. CHARLES COUNTY

### NOTES TO THE FINANCIAL STATEMENTS

**(7) Long-Term Debt**

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

	2017	2016
Non-interest bearing note payable with a bank, due in quarterly installments of \$5,132, with final payment due on April 1, 2026. Seven mortgages receivable are pledged as collateral.	\$ 187,410	\$ 287,857
Less imputed interest	(33,559)	(45,316)
 Note payable with interest only payments due monthly, with interest at 6.375% per annum. Beginning February 1, 2020, principal and interest is due in monthly installments of \$13,347, with final payment due on January 1, 2022. The note is unsecured.	 122,859	 -
 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.	 47,941	 67,661
Less current maturities	(36,131)	(40,829)
	\$ 288,520	\$ 269,373

Maturities on the long-term debt are as follows:

Year ending June 30:	
2018	\$ 36,131
2019	36,038
2020	87,353
2021	71,868
2022	16,486
Later years	76,775
	\$ 324,651

In November 2008, the Organization sold ten 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%. During the year ended June 30, 2017, three of the mortgages that were previously sold were paid in full. The Organization was required to remit the payment to the bank, which reduced the quarterly installment payment beginning July 1, 2017 from \$7,344 to \$5,132. Since there is no stated interest rate, the Organization discounted the note payable at 4.62% and 5.22% during the years ending June 30, 2017 and 2016, respectively.

## HABITAT FOR HUMANITY OF ST. CHARLES COUNTY

### NOTES TO THE FINANCIAL STATEMENTS

**(8) Temporarily Restricted Net Assets**

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

	2017	2016
Funds for construction in progress	\$ 20,696	\$ 55,340

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

	2017	2016
Funds for construction in progress	\$ 55,340	\$ 20,000

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.

**(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. Lease expense is recognized on a straight line basis over the non-cancellable lease term. The deferred lease obligations in the accompanying statements of financial position represents the difference between actual rents paid and the straight line expense. Additionally, the Organization leases certain office equipment under an operating lease. Total lease expense for the years ended June 30, 2017 and 2016 was \$151,157 and \$149,380, respectively.

Future minimum lease payments required under the leases that have remaining non-cancellable lease terms in excess of one year as of June 30, 2017 are as follows:

Year ending June 30:	
2018	\$ 135,317
2019	145,000
2020	164,933
2021	167,383
2022	179,167
Later years	375,580
	\$ 1,167,380

**(10) Related Party Transactions**

The Organization remitted a portion of its contributions as a tithe to HFHI in the amount of \$18,340 and \$13,500 for the years ended June 30, 2017 and 2016, respectively. These funds are used to construct homes in economically depressed areas around the world. During the years ended June 30, 2017 and 2016, the Organization also paid \$15,000 to HFHI for Stewardship and Organizational Sustainability Initiative (“SOSI”) fees. Additionally, during the years ended June 30, 2017 and 2016, the Organization paid \$8,206 and \$3,079, respectively, to HFHI for other miscellaneous fees.

## HABITAT FOR HUMANITY OF ST. CHARLES COUNTY

### NOTES TO THE FINANCIAL STATEMENTS

#### **(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 leased facility described in Note 9 contains escalating rental payments in its original lease term. In accordance with generally 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 year 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.

#### **(12) Reclassifications**

Certain accounts relating to the prior year have been restated to conform to current year's presentation. These reclassifications have no effect on previously reported income.