

**HABITAT FOR HUMANITY
OF ST. CHARLES COUNTY AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Habitat for Humanity of St. Charles County and Subsidiaries

We have audited the accompanying consolidated financial statements of Habitat for Humanity of St. Charles County and Subsidiaries (a not-for-profit organization), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of St. Charles County and Subsidiaries as of June 30, 2018 and 2017, 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.



October 10, 2018

SFW Partners, LLC

HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30, 2018 and 2017

	2018	2017
ASSETS		
Current assets:		
Cash	\$ 290,528	\$ 62,953
Certificate of deposit	-	30,000
Escrow	117,052	108,235
Current maturities of mortgages receivable, net of unamortized discount	81,924	75,960
Grants receivable	193,761	-
Other receivables	15,004	14,073
Home construction in progress	470,308	440,143
Prepaid expenses	-	495
Total current assets	1,168,577	731,859
Property and equipment, net of accumulated depreciation and amortization	175,928	114,741
Mortgages receivable, net of unamortized discount, less current maturities	1,665,755	1,563,114
Security deposit	9,408	4,408
	\$ 3,019,668	\$ 2,414,122
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities of long-term debt	\$ 53,939	\$ 36,131
Accounts payable	70,617	25,351
Accrued expenses	32,513	22,430
Escrow liability	106,039	104,041
Total current liabilities	263,108	187,953
Deferred lease obligation	181,315	173,970
Long-term debt, less current maturities	360,386	288,520
Total liabilities	804,809	650,443
Net assets:		
Unrestricted	1,945,077	1,742,983
Temporarily restricted	269,782	20,696
Total net assets	2,214,859	1,763,679
	\$ 3,019,668	\$ 2,414,122

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

HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2018 and 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Program revenue:								
ReStore sales	\$ 800,391	\$ -	\$ -	\$ 800,391	\$ 750,995	\$ -	\$ -	\$ 750,995
Sale of homes, less mortgage discount expense	215,636	-	-	215,636	223,388	-	-	223,388
Amortization of mortgages receivable discount	180,419	-	-	180,419	156,531	-	-	156,531
Total program revenue	<u>1,196,446</u>	<u>-</u>	<u>-</u>	<u>1,196,446</u>	<u>1,130,914</u>	<u>-</u>	<u>-</u>	<u>1,130,914</u>
Support and other revenue:								
Grants	310,462	192,048	-	502,510	209,355	-	-	209,355
Contributions	230,136	77,734	-	307,870	285,427	20,696	-	306,123
Special event revenue	119,434	-	-	119,434	97,854	-	-	97,854
In-kind donations	45,213	-	-	45,213	46,119	-	-	46,119
Miscellaneous income	24,242	-	-	24,242	7,697	-	-	7,697
Loss on disposal of equipment	(4,558)	-	-	(4,558)	-	-	-	-
Interest income	351	-	-	351	127	-	-	127
Total support and other revenue	<u>725,280</u>	<u>269,782</u>	<u>-</u>	<u>995,062</u>	<u>646,579</u>	<u>20,696</u>	<u>-</u>	<u>667,275</u>
Total revenue and support	<u>1,921,726</u>	<u>269,782</u>	<u>-</u>	<u>2,191,508</u>	<u>1,777,493</u>	<u>20,696</u>	<u>-</u>	<u>1,798,189</u>
Net assets released from restrictions	20,696	(20,696)	-	-	55,340	(55,340)	-	-
Functional expenses:								
Program services:								
Mission	680,572	-	-	680,572	840,151	-	-	840,151
ReStore	684,058	-	-	684,058	590,221	-	-	590,221
Supporting services:								
Management and general	135,544	-	-	135,544	117,993	-	-	117,993
Fundraising	240,154	-	-	240,154	192,069	-	-	192,069
Total functional expenses	<u>1,740,328</u>	<u>-</u>	<u>-</u>	<u>1,740,328</u>	<u>1,740,434</u>	<u>-</u>	<u>-</u>	<u>1,740,434</u>
Change in net assets	202,094	249,086	-	451,180	92,399	(34,644)	-	57,755
Net assets, beginning 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>
Net assets, end of the year	<u>\$ 1,945,077</u>	<u>\$ 269,782</u>	<u>\$ -</u>	<u>\$ 2,214,859</u>	<u>\$ 1,742,983</u>	<u>\$ 20,696</u>	<u>\$ -</u>	<u>\$ 1,763,679</u>

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

HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2018

	Program Services			Supporting Services		
	Mission	ReStore	Total	Management and General	Fundraising	Total
Salaries	\$ 101,112	\$ 321,906	\$ 423,018	\$ 88,400	\$ 142,945	\$ 654,363
Home construction costs	466,580	-	466,580	-	-	466,580
Rent	8,674	135,760	144,434	7,553	8,675	160,662
Insurance	19,325	32,535	51,860	4,542	6,664	63,066
Utilities	639	50,252	50,891	1,330	639	52,860
Payroll taxes	8,090	26,200	34,290	6,926	10,931	52,147
Events	-	-	-	-	34,148	34,148
Dues and subscriptions	16,824	6,042	22,866	1,745	4,227	28,838
Leased equipment	603	22,302	22,905	1,014	649	24,568
Depreciation and amortization	3,916	16,990	20,906	830	598	22,334
Bank fees	379	17,159	17,538	795	3,348	21,681
Repair and maintenance	2,982	14,341	17,323	756	60	18,139
Tithe to Habitat International	18,000	-	18,000	-	-	18,000
Professional fees	1,649	600	2,249	13,244	-	15,493
Office expense	939	8,489	9,428	2,057	3,324	14,809
Fuel	3,675	8,773	12,448	602	741	13,791
Mortgage servicing	11,594	-	11,594	-	-	11,594
Merchandise	801	-	801	-	9,812	10,613
Supplies	2,736	7,865	10,601	-	-	10,601
Interest	5,375	2,868	8,243	-	-	8,243
Telephone	830	1,707	2,537	2,875	840	6,252
Advertising	1,096	1,832	2,928	-	3,127	6,055
Shipping	-	5,823	5,823	-	-	5,823
Education and seminars	1,480	374	1,854	469	3,170	5,493
Meals and entertainment	515	237	752	253	3,520	4,525
Miscellaneous	1,026	566	1,592	1,061	12	2,665
Conference and travel	680	407	1,087	10	1,292	2,389
Tools	722	745	1,467	572	-	2,039
Printing and postage	257	257	514	329	1,112	1,955
Recruitment and awards	73	28	101	181	320	602
	\$ 680,572	\$ 684,058	\$ 1,364,630	\$ 135,544	\$ 240,154	\$ 1,740,328

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

HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2017

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

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

HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 451,180	\$ 57,755
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	22,334	22,593
Imputed discount interest expense	5,072	11,757
Sale of homes, less mortgage discount expense	(215,636)	(223,388)
Amortization of mortgages receivable discount	(180,419)	(156,531)
Loss on disposal of equipment	4,558	-
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Escrow	(8,817)	(10,193)
Grants receivable	(193,761)	-
Other receivables	(931)	4,544
Home construction in progress	(30,165)	(158,636)
Prepaid expenses	495	5,014
Security deposit	(5,000)	(550)
Increase (decrease) in liabilities:		
Accounts payable	45,266	11,960
Accrued expenses	10,083	(2,272)
Escrow liability	1,998	7,291
Deferred lease obligation	7,345	28,240
Net cash used in operating activities	(86,398)	(402,416)
Cash flows from investing activities:		
Proceeds (purchase) of certificate of deposit	30,000	(30,000)
Payments received from mortgages receivable	287,450	263,735
Proceeds from disposal of equipment	9,000	-
Purchases of property and equipment	(97,079)	(6,018)
Net cash provided by investing activities	229,371	227,717
Cash flows from financing activities:		
Borrowings on long-term debt	128,688	122,859
Principal payments on long-term debt	(44,086)	(120,167)
Net cash provided by financing activities	84,602	2,692
Net increase (decrease) in cash	227,575	(172,007)
Cash, beginning of the year	62,953	234,960
Cash, end of the year	\$ 290,528	\$ 62,953
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 3,171	\$ 2,788

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

HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Operations

Habitat for Humanity of St. Charles County and Subsidiaries (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.

On July 27, 2017, St. Charles Habitat Community Based Development Organization (“CBDO”) and on January 11, 2018, St. Charles Habitat Community Housing Development Organization (“CHDO”), were formed in the State of Missouri. CBDO and CHDO were established to apply and obtain additional federal funding from the U.S. Department of Housing and Urban Development (“HUD”) for new construction projects. CBDO and CHDO had no activity during the year ended June 30, 2018.

(2) Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of Habitat for Humanity of St. Charles County and its wholly-owned subsidiaries, CBDO and CHDO.

Basis of Accounting

The Organization’s consolidated 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.

HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) Summary of Significant Accounting Policies (Continued)

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 consolidated 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.

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 consolidated 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 consolidated financial statements.

HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) Summary of Significant Accounting Policies (Continued)

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 consolidated statements 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 consolidated 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.

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 or amortization 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.

HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) Summary of Significant Accounting Policies (Continued)

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 consolidated 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.

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, 2015 through June 30, 2018.

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, 2018 and 2017 that exceeded the insured limits.

Subsequent Events

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

HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(3) Escrow

Pursuant to the mortgage promissory notes described in Note 6, 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:

	2018	2017
2001 N. Fifth	\$ 101,727	\$ 45,178
508 Wall Street	80,098	-
510 Wall Street	65,169	-
31 Laura Drive A	17,992	-
33 Laura Dr	17,962	-
2003 N. Fifth	-	48,271
2290 N. Village B	-	22,962
2292 N. Village A	-	22,126
2296 N. Village	-	36,687
Land for development	187,360	264,919
	\$ 470,308	\$ 440,143

(5) Property and Equipment

Property and equipment consists of the following at June 30:

	2018	2017
Leasehold improvements	\$ 163,706	\$ 113,668
Office furniture and equipment	88,293	62,252
Vehicles	29,496	29,496
	281,495	205,416
Accumulated depreciation and amortization	(105,567)	(90,675)
	\$ 175,928	\$ 114,741

Depreciation and amortization expense for the years ended June 30, 2018 and 2017 was \$22,334 and \$22,593, respectively.

HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(6) Mortgage Receivable

Mortgages receivable consists of the following at June 30:

	2018	2017
Mortgages receivable	\$ 4,158,767	\$ 3,903,125
Unamortized discount at rates ranging from 7.39% to 8.48%	(2,411,088)	(2,264,051)
	1,747,679	1,639,074
Less current maturities	(81,924)	(75,960)
	\$ 1,665,755	\$ 1,563,114

Amortization of mortgages receivable discount income for the years ended June 30, 2018 and 2017 was \$180,419 and \$156,531, respectively.

Included in mortgages receivable as of June 30, 2018 and 2017 are seven mortgages sold with recourse to a bank (see Note 8). During the year ended June 30, 2017, three mortgages were paid in full that were previously sold with recourse to a bank.

(7) Note Payable

The Company has a revolving line-of-credit agreement with a bank for up to \$50,000, with interest at 4.75%, payable monthly. Any outstanding amounts borrowed under this agreement are due on demand, or October 22, 2019, whichever occurs earlier. At June 30, 2018 and 2017, there were no amounts outstanding under this note.

(8) Long-Term Debt

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

	2018	2017
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.	\$ 166,884	\$ 187,410
Less imputed interest	(28,487)	(33,559)
 Note payable with a maximum borrowing of \$300,000. 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 a maximum amount of \$13,347, but may be reduced if the full \$300,000 is not borrowed, with final payment due on January 1, 2022. The note is unsecured.	151,547	122,859
 Note payable, due in monthly installments of \$1,927, including interest at 5.875% per annum, with the final payment due on April 1, 2023. Equipment and ReStore inventory are pledged as collateral.	97,117	-

HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(8) Long-Term Debt (Continued)

	<u>2018</u>	<u>2017</u>
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.	27,264	47,941
	<u>414,325</u>	<u>324,651</u>
Less current maturities	<u>(53,939)</u>	<u>(36,131)</u>
	<u>\$ 360,386</u>	<u>\$ 288,520</u>

Maturities on the long-term debt are as follows:

Year ending June 30:	
2019	\$ 53,939
2020	106,334
2021	120,683
2022	37,828
2023	36,030
Later years	<u>59,511</u>
	<u>\$ 414,325</u>

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% during the years ending June 30, 2018 and 2017.

(9) Temporarily Restricted Net Assets

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

	<u>2018</u>	<u>2017</u>
Funds for home construction in progress	<u>\$ 269,782</u>	<u>\$ 20,696</u>

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

	<u>2018</u>	<u>2017</u>
Funds for home construction in progress	<u>\$ 20,696</u>	<u>\$ 55,340</u>

HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(9) Temporarily Restricted Net Assets (Continued)

Certain donations and grants recognized have been temporarily restricted by the donors for the construction of building and rehabilitating the homes.

(10) Leases

The Organization conducts its operations from leased facilities which include the ReStore and office space. The leases are classified as operating leases and will expire on various dates through May 2024. The ReStore has one, five year renewal option, and the office has one, three 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 consolidated 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, 2018 and 2017 was \$185,230 and \$151,157, 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, 2018 are as follows:

Year ending June 30:	
2019	\$ 181,000
2020	200,933
2021	203,383
2022	215,167
2023	227,380
Later years	<u>206,500</u>
	<u>\$ 1,234,363</u>

(11) Related Party Transactions

The Organization remitted a portion of its contributions as a tithe to HFHI in the amount of \$18,000 and \$18,340 for the years ended June 30, 2018 and 2017, respectively. These funds are used to construct homes in economically depressed areas around the world. During the years ended June 30, 2018 and 2017, the Organization also paid \$15,000 to HFHI for Stewardship and Organizational Sustainability Initiative ("SOSI") fees. Additionally, during the years ended June 30, 2018 and 2017, the Organization paid \$8,223 and \$8,206, respectively, to HFHI for other miscellaneous fees.

(12) Accounting Standard Update

The Financial Accounting Standard Board issued Accounting Standard Update No. 2016-14 "Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities". ASU 2016-14 requires a number of changes to the financial statements of the Organization. These changes will be effective for the fiscal year ending June 30, 2019.