

**HABITAT FOR HUMANITY
OF ST. CHARLES COUNTY AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

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, 2019 and 2018, 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, 2019 and 2018, and the changes in its net assets, functional expenses and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

October 23, 2019

SFW Partners, LLC

SFW Partners, LLC

HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30, 2019 and 2018

	2019	2018
ASSETS		
Current assets:		
Cash	\$ 291,893	\$ 290,528
Escrow	99,368	116,122
Current maturities of mortgage receivables, net of unamortized discount	83,323	81,924
Grant receivables	53,776	193,761
Other receivables	26,729	15,934
Home construction in progress	511,073	470,308
Total current assets	1,066,162	1,168,577
Property and equipment, net of accumulated depreciation and amortization	165,348	175,928
Mortgage receivables, net of unamortized discount, less current maturities	1,656,004	1,665,755
Security deposit	11,408	9,408
	\$ 2,898,922	\$ 3,019,668
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities of long-term debt	\$ 91,080	\$ 53,939
Accounts payable	21,671	70,617
Accrued expenses	46,475	32,513
Escrow liability	99,368	106,039
Total current liabilities	258,594	263,108
Deferred lease obligation	178,603	181,315
Long-term debt, less current maturities	169,239	360,386
Secured obligations from sale of mortgage receivables	150,416	-
Total liabilities	756,852	804,809
Net assets:		
Without donor restrictions	2,022,039	1,945,077
With donor restrictions (Note 10)	120,031	269,782
Total net assets	2,142,070	2,214,859
	\$ 2,898,922	\$ 3,019,668

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, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Program revenue:						
ReStore sales	\$ 832,931	\$ -	\$ 832,931	\$ 800,391	\$ -	\$ 800,391
Sale of homes, less mortgage discount expense	325,623	-	325,623	215,636	-	215,636
Amortization of mortgages receivable discount	166,208	-	166,208	180,419	-	180,419
Gain on home repurchased	72,402	-	72,402	-	-	-
Total program revenue	<u>1,397,164</u>	<u>-</u>	<u>1,397,164</u>	<u>1,196,446</u>	<u>-</u>	<u>1,196,446</u>
Support and other revenue:						
Contributions	144,036	89,731	233,767	230,136	77,734	307,870
Special event revenue	190,639	-	190,639	119,434	-	119,434
Grants	69,107	30,095	99,202	310,462	192,048	502,510
In-kind donations	18,579	-	18,579	45,213	-	45,213
Miscellaneous income	5,199	-	5,199	24,242	-	24,242
Interest income	163	-	163	351	-	351
Loss on disposal of equipment	-	-	-	(4,558)	-	(4,558)
Total support and other revenue	<u>427,723</u>	<u>119,826</u>	<u>547,549</u>	<u>725,280</u>	<u>269,782</u>	<u>995,062</u>
Total revenue and support	<u>1,824,887</u>	<u>119,826</u>	<u>1,944,713</u>	<u>1,921,726</u>	<u>269,782</u>	<u>2,191,508</u>
Net assets released from restrictions	269,577	(269,577)	-	20,696	(20,696)	-
Functional expenses:						
Program services:						
Mission	896,902	-	896,902	680,572	-	680,572
ReStore	679,286	-	679,286	684,058	-	684,058
Supporting services:						
Management and general	128,140	-	128,140	135,544	-	135,544
Fundraising	313,174	-	313,174	240,154	-	240,154
Total functional expenses	<u>2,017,502</u>	<u>-</u>	<u>2,017,502</u>	<u>1,740,328</u>	<u>-</u>	<u>1,740,328</u>
Change in net assets	76,962	(149,751)	(72,789)	202,094	249,086	451,180
Net assets, beginning of the year	<u>1,945,077</u>	<u>269,782</u>	<u>2,214,859</u>	<u>1,742,983</u>	<u>20,696</u>	<u>1,763,679</u>
Net assets, end of the year	<u>\$ 2,022,039</u>	<u>\$ 120,031</u>	<u>\$ 2,142,070</u>	<u>\$ 1,945,077</u>	<u>\$ 269,782</u>	<u>\$ 2,214,859</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, 2019

	Program Services			Supporting Services		
	Mission	ReStore	Total	Management and General	Fundraising	Total
Salaries	\$ 114,007	\$ 289,522	\$ 403,529	\$ 80,787	\$ 193,984	\$ 678,300
Home construction costs	658,521	-	658,521	-	-	658,521
Rent	12,251	141,535	153,786	12,251	12,251	178,288
Insurance	16,707	41,580	58,287	4,936	6,045	69,268
Utilities	1,509	52,311	53,820	1,509	1,509	56,838
Payroll taxes	8,913	25,520	34,433	7,058	15,319	56,810
Events	-	-	-	-	48,136	48,136
Dues and subscriptions	16,885	6,408	23,293	1,329	13,280	37,902
Depreciation	5,671	22,477	28,148	1,257	2,228	31,633
Leased equipment	601	27,569	28,170	596	1,291	30,057
Bank fees	124	16,352	16,476	1,096	4,849	22,421
Repair and maintenance	2,390	18,079	20,469	639	335	21,443
Professional fees	8,201	-	8,201	13,168	-	21,369
Tithe to Habitat International	18,000	-	18,000	-	-	18,000
Fuel	4,452	10,004	14,456	651	877	15,984
Interest	7,046	6,056	13,102	-	-	13,102
Mortgage servicing	12,415	-	12,415	-	-	12,415
Office expense	701	6,741	7,442	615	2,751	10,808
Supplies	2,630	5,514	8,144	36	473	8,653
Telephone	1,243	5,174	6,417	707	1,194	8,318
Advertising	912	845	1,757	-	3,559	5,316
Education and seminars	2,640	1,000	3,640	-	775	4,415
Meals and entertainment	311	40	351	420	2,253	3,024
Printing and postage	150	283	433	476	1,108	2,017
Tools	388	1,000	1,388	-	-	1,388
Miscellaneous	54	183	237	609	38	884
Recruitment and awards	14	593	607	-	272	879
Merchandise	-	-	-	-	602	602
Shipping	-	492	492	-	-	492
Conference and travel	166	8	174	-	45	219
	\$ 896,902	\$ 679,286	\$ 1,576,188	\$ 128,140	\$ 313,174	\$ 2,017,502

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, 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
Depreciation and amortization	3,916	16,990	20,906	830	598	22,334
Leased equipment	603	22,302	22,905	1,014	649	24,568
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
Professional fees	1,649	600	2,249	13,244	-	15,493
Tithe to Habitat International	18,000	-	18,000	-	-	18,000
Fuel	3,675	8,773	12,448	602	741	13,791
Interest	5,375	2,868	8,243	-	-	8,243
Mortgage servicing	11,594	-	11,594	-	-	11,594
Office expense	939	8,489	9,428	2,057	3,324	14,809
Supplies	2,736	7,865	10,601	-	-	10,601
Telephone	830	1,707	2,537	2,875	840	6,252
Advertising	1,096	1,832	2,928	-	3,127	6,055
Education and seminars	1,480	374	1,854	469	3,170	5,493
Meals and entertainment	515	237	752	253	3,520	4,525
Printing and postage	257	257	514	329	1,112	1,955
Tools	722	745	1,467	572	-	2,039
Miscellaneous	1,026	566	1,592	1,061	12	2,665
Recruitment and awards	73	28	101	181	320	602
Merchandise	801	-	801	-	9,812	10,613
Shipping	-	5,823	5,823	-	-	5,823
Conference and travel	680	407	1,087	10	1,292	2,389
	<u>\$ 680,572</u>	<u>\$ 684,058</u>	<u>\$ 1,364,630</u>	<u>\$ 135,544</u>	<u>\$ 240,154</u>	<u>\$ 1,740,328</u>

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, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ (72,789)	\$ 451,180
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	31,633	22,334
Imputed discount interest expense	7,333	5,072
Sale of homes, less mortgage discount expense	(224,466)	(215,636)
Amortization of mortgages receivable discount	(166,208)	(180,419)
Comparable sales value adjustment on repurchased home	132,200	-
Gain on home repurchased	(72,402)	-
Loss on disposal of equipment	-	4,558
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Escrow	16,754	(7,887)
Grant receivables	139,985	(193,761)
Other receivables	(10,795)	(1,861)
Home construction in progress	(40,765)	(30,165)
Prepaid expenses	-	495
Security deposit	(2,000)	(5,000)
Increase (decrease) in liabilities:		
Accounts payable	(48,946)	45,266
Accrued expenses	13,962	10,083
Escrow liability	(6,671)	1,998
Deferred lease obligation	(2,712)	7,345
Net cash used in operating activities	(305,887)	(86,398)
Cash flows from investing activities:		
Proceeds of certificate of deposit	-	30,000
Payments received from mortgage receivables	197,008	287,450
Payments received from mortgage receivables sold	291,471	-
Proceeds from disposal of equipment	-	9,000
Purchases of property and equipment	(21,053)	(97,079)
Net cash provided by investing activities	467,426	229,371
Cash flows from financing activities:		
Borrowings on long-term debt	100,000	128,688
Principal payments on long-term debt	(260,174)	(44,086)
Net cash (used in) provided by financing activities	(160,174)	84,602
Net increase in cash	1,365	227,575
Cash, beginning of the year	290,528	62,953
Cash, end of the year	\$ 291,893	\$ 290,528
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 5,769	\$ 3,171

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 years ended June 30, 2019 and 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.

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 with or without donor restricted support depending on the existence or nature of any donor restrictions.

Net Assets

Net assets without donor restrictions include resources available for the support of general operations and are not subject to donor (or certain grantor) restrictions.

HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) Summary of Significant Accounting Policies (Continued)

Net assets with donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor restricted contributions are reported as increases in net assets with donor restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction has been accomplished, donor restricted net assets are reclassified to net assets without donor restrictions 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. Homes repurchased or foreclosed on are recorded in home construction in progress at a comparable sales value, the mortgage receivable is written off and the resulting gain or loss is included in program revenue.

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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Contributed Services and In-Kind Contributions

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. Contributed goods are recorded at fair value at the date of donation.

HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) Summary of Significant Accounting Policies (Continued)

Mortgage Receivables

Mortgage receivables 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 the straight-line method 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 management's estimate of time and effort which include salaries and related payroll expenses. Certain other expenses are allocated based on square footage which include rent, depreciation, utilities and insurance. All other expenses are allocated based on usage.

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.

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, 2019 and 2018 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

(2) Summary of Significant Accounting Policies (Continued)

Change in Accounting Principle

In 2018, the Organization adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the change includes the combination of temporarily restricted and permanently restricted net assets into one net asset class, net assets with donor restrictions. The consolidated statement of activities and changes in net assets has combined the temporarily restricted and permanently restricted activities into one class, with donor restrictions. Also, the enhanced quantitative and qualitative disclosures provide additional information in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the consolidated statement of financial position. These changes had no impact on previously reported total change in net assets.

(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:

	2019	2018
111 Clinton Court (repurchased home)	\$ 150,000	\$ -
33 Laura Dr	116,407	17,962
1201 Cunningham	104,443	-
2001 N. Fifth	-	101,727
508 Wall Street	-	80,098
510 Wall Street	-	65,169
31 Laura Drive A	-	17,992
Land for development	140,223	187,360
	<u>\$ 511,073</u>	<u>\$ 470,308</u>

HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(5) Property and Equipment

Property and equipment consists of the following at June 30:

	2019	2018
Leasehold improvements	\$ 173,467	\$ 163,706
Office furniture and equipment	90,243	88,293
Vehicles	38,838	29,496
	302,548	281,495
Accumulated depreciation and amortization	(137,200)	(105,567)
	\$ 165,348	\$ 175,928

Depreciation and amortization expense for the years ended June 30, 2019 and 2018 was \$31,633 and \$22,334, respectively.

(6) Mortgage Receivables

Mortgage receivables consist of the following at June 30:

	2019	2018
Mortgage receivables	\$ 4,467,514	\$ 4,158,767
Reserve for mortgage receivables sold (see Note 9)	(142,220)	-
Unamortized discount at rates ranging from 7.39% to 8.48%	(2,585,967)	(2,411,088)
	1,739,327	1,747,679
Less current maturities	(83,323)	(81,924)
	\$ 1,656,004	\$ 1,665,755

Amortization of mortgages receivable discount income for the years ended June 30, 2019 and 2018 was \$166,208 and \$180,419, respectively.

At June 30, 2019, the Organization has 68 loans outstanding. The following schedule summarizes the payment status of the mortgage loans at June 30, 2019:

	Number of Loans	Loan Amount
Current	49	\$ 3,364,243
31-60 days past due	6	409,894
61-90 days past due	4	233,353
Payment plans pending	9	460,024
	68	\$ 4,467,514

HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(6) Mortgage Receivables (Continued)

Included in mortgage receivables as of June 30, 2019 and 2018 are seven mortgages sold with recourse to a bank (see Note 8).

During the year ended June 30, 2019, the Organization sold seven additional mortgages with limited recourse to a private equity firm (see Note 9).

(7) Note Payable

The Organization 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, 2019 and 2018, there were no amounts outstanding under this note.

(8) Long-Term Debt

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

	2019	2018
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.	\$ 146,358	\$ 166,884
Less imputed interest	(22,319)	(28,487)
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 payments are due in monthly installments of a maximum amount of \$13,347 depending on the borrowings at that time, but may be reduced if the full \$300,000 is not borrowed, with final payment due on January 1, 2022. The note is unsecured.	51,547	151,547
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.	79,216	97,117
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.	5,517	27,264
	260,319	414,325
Less current maturities	(91,080)	(53,939)
	\$ 169,239	\$ 360,386

HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(8) Long-Term Debt (Continued)

Maturities on the long-term debt are as follows:

Year ending June 30:	
2020	\$ 91,080
2021	35,871
2022	37,828
2023	36,030
2024	18,079
Later years	<u>41,431</u>
	<u>\$ 260,319</u>

In November 2008, the Organization sold ten mortgage receivables 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 discounted the note payable at 4.62% during the years ending June 30, 2019 and 2018.

(9) Secured Obligations from Sale of Mortgage Receivables

During the year ended June 30, 2019, the Organization sold seven noninterest bearing mortgage receivables to a third party private equity firm discounted at 7.25% for \$291,471. In accordance with ASC 860, *Transfers and Servicing*, the Organization treats the sale of mortgage receivables in which it retains an interest as a secured obligation. The mortgage receivables for the notes sold continued to be included as assets in the consolidated statements of financial position with a corresponding liability in the form of secured obligations from the sale of mortgage receivables. At June 30, 2019, the balance of the mortgage receivables sold was \$650,628 with an unamortized discount remaining of \$390,278. The Organization services these mortgages by collecting the monthly payments and remitting the principal portion of these payments to the private equity firm. If a mortgage were to default, the Organization may be required to re-purchase a maximum of three mortgages at its discounted value and would in turn reacquire all of the rights and obligations as the note holder. Due to the Organization only being required to re-purchase a maximum of three of the seven mortgages in the event of default, the Organization has recorded a reserve of \$142,220 against the mortgage receivables and the corresponding liability for the four smallest loan balances net of unamortized discounts. As of June 30, 2019, the balance of the corresponding liability to the private equity firm net of the reserve was \$150,416.

HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(10) Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at June 30:

	2019	2018
Funds for home construction in progress	\$ 120,031	\$ 269,782

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

	2019	2018
Funds for home construction in progress	\$ 269,577	\$ 20,696

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

(11) Liquidity and Availability

Financial assets available for general expenditures within one year of the consolidated statement of financial position date comprise of the following at June 30, 2019:

Cash	\$ 202,162
Current maturities of mortgage receivables	203,608
Grant receivables	23,476
Other receivables	26,729
	\$ 455,975

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Organization has a committed line-of-credit in the amount of \$50,000, which it could draw upon. Additionally, the Organization formed their wholly-owned subsidiaries, CBDO and CHDO, to have access to additional grants to help fund the Organization's mission.

HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(12) 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, 2019 and 2018 was \$208,345 and \$185,230, 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, 2019 are as follows:

Year ending June 30:	
2020	\$ 200,933
2021	203,383
2022	215,167
2023	227,380
2024	<u>206,500</u>
	<u>\$ 1,053,363</u>

(13) Related Party Transactions

The Organization remitted a portion of its contributions as a tithe to HFHI in the amount of \$18,000 for the years ended June 30, 2019 and 2018. These funds are used to construct homes in economically depressed areas around the world. During the years ended June 30, 2019 and 2018, the Organization also paid \$15,000 to HFHI for Stewardship and Organizational Sustainability Initiative (“SOSI”) fees. Additionally, during the years ended June 30, 2019 and 2018, the Organization paid \$2,892 and \$8,223, respectively, to HFHI for other miscellaneous fees.

(14) 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.