

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

**CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2020 AND 2019**

## 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, 2020 and 2019, 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, 2020 and 2019, 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.

December 18, 2020

*SFW Partners, LLC*  
SFW Partners, LLC

## HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30, 2020 and 2019

	2020	2019
<b>ASSETS</b>		
Current assets:		
Cash	\$ 361,095	\$ 291,893
Investments	5,079	-
Inventory	3,672	-
Escrow	97,796	99,368
Current maturities of mortgage receivables, net of unamortized discount	83,960	83,323
Grant receivables	5,013	53,776
Other receivables	9,904	26,729
Home construction in progress	461,769	511,073
Total current assets	1,028,288	1,066,162
Property and equipment, net of accumulated depreciation and amortization	155,037	165,348
Mortgage receivables, net of unamortized discount, less current maturities	1,674,663	1,656,004
Security deposits	9,058	11,408
	\$ 2,867,046	\$ 2,898,922
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 35,871	\$ 91,080
Accounts payable	10,570	21,671
Accrued expenses	56,097	46,475
Escrow liability	49,479	99,368
Total current liabilities	152,017	258,594
Deferred lease obligation	155,958	178,603
Long-term debt, less current maturities	133,495	169,239
Paycheck protection program loan	147,600	-
Secured obligations from sale of mortgage receivables	152,164	150,416
Total liabilities	741,234	756,852
Net assets:		
Without donor restrictions	2,031,702	2,022,039
With donor restrictions (Note 11)	94,110	120,031
Total net assets	2,125,812	2,142,070
	\$ 2,867,046	\$ 2,898,922

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, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Program revenue:						
ReStore sales	\$ 799,767	\$ -	\$ 799,767	\$ 832,931	\$ -	\$ 832,931
Amortization of mortgages receivable discount	174,615	-	174,615	166,208	-	166,208
Sale of homes, less mortgage discount expense	120,299	-	120,299	325,623	-	325,623
Gain on homeowner sale of home	29,568	-	29,568	-	-	-
Gain on home repurchased	-	-	-	72,402	-	72,402
Total program revenue	<u>1,124,249</u>	<u>-</u>	<u>1,124,249</u>	<u>1,397,164</u>	<u>-</u>	<u>1,397,164</u>
Support and other revenue:						
Contributions	189,938	94,110	284,048	144,036	89,731	233,767
Special event revenue	169,986	-	169,986	190,639	-	190,639
Grants	27,789	-	27,789	69,107	30,095	99,202
Miscellaneous income	5,285	-	5,285	5,199	-	5,199
Interest income	85	-	85	163	-	163
In-kind donations	-	-	-	18,579	-	18,579
Total support and other revenue	<u>393,083</u>	<u>94,110</u>	<u>487,193</u>	<u>427,723</u>	<u>119,826</u>	<u>547,549</u>
Total revenue and support	<u>1,517,332</u>	<u>94,110</u>	<u>1,611,442</u>	<u>1,824,887</u>	<u>119,826</u>	<u>1,944,713</u>
Net assets released from restrictions	120,031	(120,031)	-	269,577	(269,577)	-
Functional expenses:						
Program services:						
Mission	429,513	-	429,513	896,902	-	896,902
ReStore	778,908	-	778,908	679,286	-	679,286
Supporting services:						
Management and general	138,124	-	138,124	128,140	-	128,140
Fundraising	281,155	-	281,155	313,174	-	313,174
Total functional expenses	<u>1,627,700</u>	<u>-</u>	<u>1,627,700</u>	<u>2,017,502</u>	<u>-</u>	<u>2,017,502</u>
Change in net assets	9,663	(25,921)	(16,258)	76,962	(149,751)	(72,789)
Net assets, beginning 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>
Net assets, end of the year	<u>\$ 2,031,702</u>	<u>\$ 94,110</u>	<u>\$ 2,125,812</u>	<u>\$ 2,022,039</u>	<u>\$ 120,031</u>	<u>\$ 2,142,070</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, 2020

	Program Services			Supporting Services		
	Mission	ReStore	Total	Management and General	Fundraising	Total
Salaries	\$ 96,375	\$ 316,675	\$ 413,050	\$ 91,137	\$ 171,038	\$ 675,225
Home construction costs	210,067	-	210,067	-	-	210,067
Rent	11,749	150,431	162,180	11,749	11,749	185,678
Insurance	23,207	63,230	86,437	4,781	8,529	99,747
Utilities	1,685	61,664	63,349	1,684	1,684	66,717
Payroll taxes	7,510	36,889	44,399	7,227	13,253	64,879
Events	-	-	-	-	40,320	40,320
Dues and subscriptions	15,707	5,104	20,811	991	13,088	34,890
Depreciation	6,439	20,532	26,971	1,283	2,571	30,825
Cost of ReStore inventory sold	-	29,539	29,539	-	-	29,539
Leased equipment	662	27,440	28,102	220	661	28,983
Bank fees	74	14,782	14,856	2,145	5,352	22,353
Interest	11,814	4,863	16,677	-	95	16,772
Professional fees	42	-	42	14,200	-	14,242
Miscellaneous	12,257	117	12,374	187	349	12,910
Fuel	3,544	6,935	10,479	329	745	11,553
Mortgage servicing	11,259	-	11,259	-	-	11,259
Repair and maintenance	1,146	9,454	10,600	548	56	11,204
Supplies	1,717	8,501	10,218	-	507	10,725
Office expense	884	8,550	9,434	294	883	10,611
Tithe to Habitat International	9,000	-	9,000	-	-	9,000
Telephone	1,260	5,461	6,721	420	1,260	8,401
Education and seminars	1,701	6,000	7,701	49	(64)	7,686
Advertising	117	530	647	300	3,811	4,758
Merchandise	179	-	179	-	2,925	3,104
Meals and entertainment	24	-	24	93	1,704	1,821
Printing and postage	230	730	960	311	310	1,581
Recruitment and awards	140	759	899	176	251	1,326
Tools	719	338	1,057	-	-	1,057
Shipping	-	363	363	-	-	363
Conference and travel	5	21	26	-	78	104
	\$ 429,513	\$ 778,908	\$ 1,208,421	\$ 138,124	\$ 281,155	\$ 1,627,700

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, 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
Interest	7,046	6,056	13,102	-	-	13,102
Professional fees	8,201	-	8,201	13,168	-	21,369
Miscellaneous	54	183	237	609	38	884
Fuel	4,452	10,004	14,456	651	877	15,984
Mortgage servicing	12,415	-	12,415	-	-	12,415
Repair and maintenance	2,390	18,079	20,469	639	335	21,443
Supplies	2,630	5,514	8,144	36	473	8,653
Office expense	701	6,741	7,442	615	2,751	10,808
Tithe to Habitat International	18,000	-	18,000	-	-	18,000
Telephone	1,243	5,174	6,417	707	1,194	8,318
Education and seminars	2,640	1,000	3,640	-	775	4,415
Advertising	912	845	1,757	-	3,559	5,316
Merchandise	-	-	-	-	602	602
Meals and entertainment	311	40	351	420	2,253	3,024
Printing and postage	150	283	433	476	1,108	2,017
Recruitment and awards	14	593	607	-	272	879
Tools	388	1,000	1,388	-	-	1,388
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 STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (16,258)	\$ (72,789)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	30,825	31,633
Imputed discount interest expense	5,491	7,333
In-kind donations	(5,079)	-
Sale of homes, less mortgage discount expense	(120,299)	(224,466)
Amortization of mortgages receivable discount	(174,615)	(166,208)
Amortization of secured obligations from sale of mortgage receivables discount	(18,684)	-
Gain on homeowner sale of home	(29,568)	-
Comparable sales value adjustment on repurchased home	-	132,200
Gain on home repurchased	-	(72,402)
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Inventory	(3,672)	-
Escrow	1,572	16,754
Grant receivables	48,763	139,985
Other receivables	16,825	(10,795)
Home construction in progress	49,304	(40,765)
Security deposits	2,350	(2,000)
Increase (decrease) in liabilities:		
Accounts payable	(11,101)	(48,946)
Accrued expenses	9,622	13,962
Escrow liability	(49,889)	(6,671)
Deferred lease obligation	(22,645)	(2,712)
Net cash used in operating activities	(287,058)	(305,887)
Cash flows from investing activities:		
Payments received from mortgage receivables	223,724	197,008
Payments received from homeowner sale of home	101,894	-
Payments received from mortgage receivables sold	-	291,471
Purchases of property and equipment	(20,514)	(21,053)
Net cash provided by investing activities	305,104	467,426
Cash flows from financing activities:		
Borrowings on long-term debt	-	100,000
Principal payments on long-term debt	(96,444)	(260,174)
Borrowings on paycheck protection program loan	147,600	-
Net cash provided by (used in) financing activities	51,156	(160,174)
Net increase in cash	69,202	1,365
Cash, beginning of the year	291,893	290,528
Cash, end of the year	\$ 361,095	\$ 291,893
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 5,369	\$ 5,769

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.

St. Charles Habitat Community Based Development Organization (“CBDO”) and St. Charles Habitat Community Housing Development Organization (“CHDO”) were formed in the State of Missouri on July 27, 2017 and January 11, 2018, respectively. 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, 2020 and 2019.

#### (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.

##### *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.

##### *Purchased Inventory*

Purchased inventory consists of purchased paint and flooring to be sold by the Organization's ReStore and is stated at cost, which is determined using the weighted-average method.

##### *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.

# HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

#### *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.

#### *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.

#### *Paycheck Protection Program Loan*

The Organization has elected to account for the Paycheck Protection Program ("PPP") Loan, which is a forgivable loan program established under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, in accordance with Accounting Standards Codification ("ASC") Topic 470, *Debt*. Once the loan is forgiven, in part or wholly, and legal release is received, the Organization will reduce the liability by the amount forgiven and record a gain on extinguishment (see Note 9).

#### *Net Assets*

*Net assets without donor restrictions:* Net assets available for use in 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:* Net assets subject to donor (or certain grantor) imposed restrictions. Some donor imposed 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 (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, 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.

#### *Revenue and 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 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.

#### *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.

#### *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, 2020 and 2019 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 (see Note 15), 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:

	<u>2020</u>	<u>2019</u>
1201 Cunningham	\$ 163,173	\$ 104,443
111 Clinton Court (repurchased home)	153,561	150,000
33 Laura Dr	-	116,407
Land for development	145,035	140,223
	<u>\$ 461,769</u>	<u>\$ 511,073</u>

#### (5) Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2020</u>	<u>2019</u>
Leasehold improvements	\$ 178,332	\$ 173,467
Office furniture and equipment	94,060	90,243
Vehicles	38,838	38,838
	311,230	302,548
Accumulated depreciation and amortization	<u>(156,193)</u>	<u>(137,200)</u>
	<u>\$ 155,037</u>	<u>\$ 165,348</u>

Depreciation and amortization expense for the years ended June 30, 2020 and 2019 was \$30,825 and \$31,633, respectively.

## HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### (6) Mortgage Receivables

Mortgage receivables consist of the following at June 30:

	2020	2019
Mortgage receivables	\$ 4,468,897	\$ 4,467,514
Reserve for mortgage receivables sold (see Note 10)	(136,688)	(142,220)
Unamortized discount at rates ranging from 7.38% to 8.48%	(2,573,586)	(2,585,967)
	1,758,623	1,739,327
Less current maturities	(83,960)	(83,323)
	\$ 1,674,663	\$ 1,656,004

Amortization of mortgage receivable discount income for the years ended June 30, 2020 and 2019 was \$174,615 and \$166,208, respectively.

At June 30, 2020, the Organization has 58 loans outstanding. The following schedule summarizes the payment status of the mortgage loans at June 30, 2020:

	Number of Loans	Loan Amount
Current	44	\$ 3,673,198
31-60 days past due	2	161,609
61-90 days past due	3	205,843
Payment plans pending	9	428,247
	58	\$ 4,468,897

Included in mortgage receivables as of June 30, 2020 and 2019 are seven mortgages sold with recourse to a bank (see Note 8).

Included in mortgage receivables as of June 30, 2020 and 2019 are seven additional mortgages with limited recourse to a private equity firm (see Note 10).

#### (7) Note Payable

The Organization has a revolving line-of-credit agreement with a bank for up to \$50,000, with interest at 5.50%, payable monthly. Any outstanding amounts borrowed under this agreement were due on demand, or October 22, 2020, whichever occurred earlier. At June 30, 2020 and 2019, there were no amounts outstanding under this note.

Subsequent to year-end, the revolving line-of-credit was renewed with a bank for up to \$100,000, with interest at 3.25%, payable monthly. Any outstanding amounts borrowed under this agreement are due on demand, or December 10, 2021, whichever occurs earlier.

## HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### (8) Long-Term Debt

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

	2020	2019
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.	\$ 125,832	\$ 146,358
Less imputed interest	(16,828)	(22,319)
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.	60,362	79,216
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 were 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 was unsecured.	-	51,547
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 were pledged as collateral.	-	5,517
	169,366	260,319
Less current maturities	(35,871)	(91,080)
	\$ 133,495	\$ 169,239

Maturities on the long-term debt are as follows:

Year ending June 30:	
2021	\$ 35,871
2022	37,828
2023	36,156
2024	18,079
2025	18,932
Later years	22,500
	\$ 169,366

## HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### (8) Long-Term Debt (Continued)

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, 2020 and 2019.

#### (9) Paycheck Protection Program Loan

On April 17, 2020, the Organization received a PPP loan in the amount of \$147,600. The PPP loan program was created by the United States federal government in response to the economic impact of COVID-19 (see Note 15) and is administered by the Small Business Administration in conjunction with the banking industry. Up to 100% of the loan may be forgiven if the Organization meets certain criteria as defined in Section 1106 of the CARES Act. Any loan proceeds not forgiven are payable over two years plus interest at 1% per annum, with payments deferred up to 10 months after the end of the covered period as defined in the CARES Act, starting September 2021 for the Organization. There is no stated collateral or guarantees per the loan agreement. Accrued interest on the loan at June 30, 2020 was immaterial.

Maturities on the PPP loan are as follows:

Year ending June 30:	
2021	\$ -
2022	61,760
2023	<u>85,840</u>
	<u>\$ 147,600</u>

## HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### (10) 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, 2020 and 2019, the balance of the mortgage receivables sold was \$626,035 and \$650,628 with an unamortized discount remaining of \$375,379 and \$390,278, respectively. Imputed interest on the seven mortgages was \$5,911 for the year ended June 30, 2020. 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 at June 30, 2020 and 2019 of \$136,688 and \$142,220, respectively, against the mortgage receivables and the corresponding liability for the four smallest loan balances net of unamortized discounts. As of June 30, 2020 and 2019, the balance of the corresponding liability to the private equity firm net of the reserve was \$152,164 and \$150,416, respectively.

#### (11) Net Assets With Donor Restrictions

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

	<u>2020</u>	<u>2019</u>
Funds for home construction in progress	<u>\$ 94,110</u>	<u>\$ 120,031</u>

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

	<u>2020</u>	<u>2019</u>
Funds for home construction in progress	<u>\$ 120,031</u>	<u>\$ 269,577</u>

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

## HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### (12) 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, 2020:

	<u>2020</u>	<u>2019</u>
Cash	\$ 272,064	\$ 202,162
Inventory	3,672	-
Current gross payments of mortgage receivables	197,940	203,608
Grant receivables	5,013	23,476
Other receivables	<u>9,904</u>	<u>26,729</u>
	<u>\$ 488,593</u>	<u>\$ 455,975</u>

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.

#### (13) 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, 2020 and 2019 was \$214,661 and \$208,345, 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, 2020 are as follows:

Year ending June 30:	
2021	\$ 203,383
2022	215,167
2023	227,380
2024	<u>206,500</u>
	<u>\$ 852,430</u>

## **HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

#### **(14) Related Party Transactions**

The Organization remitted a portion of its contributions as a tithing to HFHI in the amount of \$9,000 and \$18,000 for the years ended June 30, 2020 and 2019, respectively. These funds are used to construct homes in economically depressed areas around the world. During the years ended June 30, 2020 and 2019, the Organization also paid \$15,000 to HFHI for Stewardship and Organizational Sustainability Initiative (“SOSI”) fees. Additionally, during the years ended June 30, 2020 and 2019, the Organization paid \$1,963 and \$2,892, respectively, to HFHI for other miscellaneous fees.

#### **(15) Risk and Uncertainty Due to COVID-19**

On March 11, 2020, the World Health Organization declared the COVID-19 virus a worldwide pandemic as the spread of the virus has reached most countries, including the United States. Federal, state, and local governments have taken actions to limit the transmission of this virus, which includes restrictions on travel, dining, and many other non-essential business and consumer activities. The impact of this virus and the government mandated restrictions could have a significant impact on the Organization's future operations. The United States federal government, as well as many state and local governments, are passing stimulus bills to combat the economic impact of the virus. The potential effectiveness of these stimulus bills are currently not known. As of the date of the independent auditor's report, management cannot reasonably estimate the duration and severity of the COVID-19 pandemic, nor the overall impact to the Organization's operations. The accompanying consolidated financial statements do not include any adjustments for the risk and uncertainty of COVID-19.

#### **(16) Subsequent Event**

In July 2020, the Organization entered into a new note payable with a bank for up to \$295,000, with interest at 5.25%, payable monthly. Any outstanding amounts borrowed under this agreement are due on August 2, 2025. The Organization will receive the funds on the note payable as needed when they buy additional property for construction. As of the date the consolidated financial statements were available to be issued, the Organization has drawn a total of \$28,277 on the note payable.