

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

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2023

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 statement of financial position as of June 30, 2023, and the related consolidated statement of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Habitat for Humanity of St. Charles County and Subsidiaries as of June 30 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Habitat for Humanity of St. Charles County and Subsidiaries and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Habitat for Humanity of St. Charles County and Subsidiaries' ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Habitat for Humanity of St. Charles County and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Habitat for Humanity of St. Charles County and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

November 28, 2023

SFW Partners, LLC
SFW Partners, LLC

HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of June 30, 2023

ASSETS

Current assets:	
Cash	\$ 435,155
Inventory	12,680
Escrow	171,985
Current maturities of mortgage receivables, net of unamortized discount	112,488
Grant receivables	60,210
Other receivables	348
Prepaid expenses	27,201
Home construction in progress	1,567,411
Total current assets	<u>2,387,478</u>
Property and equipment, net of accumulated depreciation and amortization	86,590
Operating lease right-of-use assets	209,060
Mortgage receivables, net of unamortized discount, less current maturities	1,656,947
Security deposits	9,096
	<u>\$ 4,349,171</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Current maturities of long-term debt	\$ 8,730
Current maturities of obligations under operating leases	244,407
Accounts payable	21,147
Accrued expenses	52,316
Escrow liability	84,512
Total current liabilities	<u>411,112</u>
Long-term debt, less current maturities	1,046,029
Obligations under operating leases, less current maturities	17,834
Secured obligations from sale of mortgage receivables	156,445
Total liabilities	<u>1,631,420</u>
Net assets:	
Without donor restrictions	2,600,707
With donor restrictions (Note 11)	117,044
Total net assets	<u>2,717,751</u>
	<u>\$ 4,349,171</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 STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Program revenue:			
ReStore sales	\$ 914,742	\$ -	\$ 914,742
Sale of homes, less mortgage discount expense	276,383	-	276,383
Amortization of mortgages receivable discount	241,033	-	241,033
Gain on repurchase of home	67,673	-	67,673
Gain on foreclosure of home	61,505	-	61,505
Total program revenue	1,561,336	-	1,561,336
Support and other revenue:			
Contributions	174,832	88,759	263,591
Grants	201,717	28,285	230,002
Special event revenue	151,919	-	151,919
Miscellaneous income	23,376	-	23,376
In-kind donations	11,685	-	11,685
Gain on sale of property and equipment	10,897	-	10,897
Interest income	1,245	-	1,245
Total support and other revenue	575,671	117,044	692,715
Total revenue and support	2,137,007	117,044	2,254,051
Net assets released from restrictions	144,748	(144,748)	-
Functional expenses:			
Program services:			
Mission	1,048,706	-	1,048,706
ReStore	769,317	-	769,317
Supporting services:			
Management and general	217,071	-	217,071
Fundraising	252,695	-	252,695
Total functional expenses	2,287,789	-	2,287,789
Changes in net assets	(6,034)	(27,704)	(33,738)
Net assets, beginning of the year	2,606,741	144,748	2,751,489
Net assets, end of the year	\$ 2,600,707	\$ 117,044	\$ 2,717,751

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, 2023

	Program Services			Supporting Services		
	Mission	ReStore	Total	Management and General	Fundraising	Total
Salaries	\$ 186,590	\$ 336,292	\$ 522,882	\$ 76,086	\$ 119,618	\$ 718,586
Home construction costs	666,770	-	666,770	-	-	666,770
Rent	12,000	142,285	154,285	12,000	12,000	178,285
Professional fees	16,575	100	16,675	80,470	14,402	111,547
Insurance	24,322	48,132	72,454	5,284	7,986	85,724
Utilities	638	61,986	62,624	6,491	-	69,115
Payroll taxes	14,683	27,666	42,349	6,348	10,276	58,973
Events	-	-	-	5	56,951	56,956
Leased equipment	565	48,870	49,435	3,186	565	53,186
Dues and subscriptions	16,280	5,077	21,357	4,076	15,615	41,048
Interest	34,592	2,333	36,925	1,396	-	38,321
Depreciation	13,531	16,936	30,467	1,552	2,714	34,733
Cost of ReStore inventory sold	-	27,264	27,264	-	-	27,264
Repair and maintenance	9,669	8,749	18,418	953	-	19,371
Tithe to Habitat International	18,000	-	18,000	-	-	18,000
Mortgage servicing	17,188	-	17,188	-	-	17,188
Bank fees	3	12,541	12,544	1,811	2,224	16,579
Fuel	7,709	6,260	13,969	-	-	13,969
Advertising	244	9,152	9,396	1,338	1,814	12,548
Supplies	2,224	6,851	9,075	265	1,239	10,579
Telephone	-	1,806	1,806	5,560	282	7,648
Office expense	333	1,549	1,882	4,371	717	6,970
Tools	2,916	-	2,916	-	786	3,702
Education and seminars	1,269	-	1,269	1,480	854	3,603
Taxes & licenses	1,300	210	1,510	1,299	674	3,483
Merchandise	-	84	84	-	2,965	3,049
Printing and postage	10	858	868	1,528	12	2,408
Shipping	-	2,306	2,306	-	-	2,306
Recruitment and awards	226	749	975	537	274	1,786
Meals and entertainment	75	160	235	745	612	1,592
Uniforms	219	1,101	1,320	25	-	1,345
Homeowners fees	775	-	775	-	15	790
Miscellaneous	-	-	-	256	100	356
Conference and travel	-	-	-	9	-	9
	\$ 1,048,706	\$ 769,317	\$ 1,818,023	\$ 217,071	\$ 252,695	\$ 2,287,789

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 CASH FLOWS

For the Year Ended June 30, 2023

Cash flows from operating activities:	
Changes in net assets	\$ (33,738)
Adjustments to reconcile changes in net assets to net cash used in operating activities:	
Depreciation and amortization	34,733
Imputed discount interest expense	11,184
Sale of homes, less mortgage discount expense	(245,526)
Amortization of mortgages receivable discount	(241,033)
Amortization of secured obligations from sale of mortgage receivables discount	(20,153)
Gain on repurchase of home	(67,673)
Gain on foreclosure of home	(61,505)
Noncash in-kind donation	(11,685)
Gain on sale of property and equipment	(10,897)
Noncash portion of operating lease expense	(40,802)
Changes in operating assets and liabilities:	
(Increase) decrease in assets:	
Inventory	(9,766)
Escrow	(53,033)
Grant receivables	(28,256)
Other receivables	43,535
Prepaid expenses	(11,090)
Home construction in progress	68,528
Increase in liabilities:	
Accounts payable	7,095
Accrued expenses	6,164
Escrow liability	56,289
Net cash used in operating activities	<u>(607,629)</u>
Cash flows from investing activities:	
Payments received from mortgage receivables	483,500
Proceeds from foreclosure of home	185,000
Repurchase of home	(18,000)
Proceeds from sale of property and equipment	21,106
Purchases of property and equipment	(24,000)
Net cash provided by investing activities	<u>647,606</u>
Cash flows from financing activities:	
Principal payments on long-term debt	<u>(73,838)</u>
Net decrease in cash	(33,861)
Cash, beginning of the year	<u>469,016</u>
Cash, end of the year	<u><u>\$ 435,155</u></u>
Supplemental disclosure of cash flow information:	
Cash paid during the year for interest	\$ 21,661

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

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 for 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, 2023.

(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 consolidated 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 statement of financial position. Since uncertainty about the value of these items exists until the items are sold, no value is assigned to these items until the time of sale.

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

(2) Summary of Significant Accounting Policies (Continued)

Grants Receivable

Grants receivable is recognized as revenue when the grant is awarded, and any measurable performance or other barriers are met. Grants receivable expected to be collected in less than one year are reported at net realizable value. Grants to be collected in future years are recorded at fair value when the grant is made based on a discounted cash flow model. Management does not believe an allowance for uncollectible amounts is necessary based on historical experience with the grantors, and accordingly, has made no allowance for doubtful accounts.

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.

Leases

Effective July 1, 2022, the Organization adopted Accounting Standards Update (“ASU”) 2016-02, *Leases*, and other related ASUs (collectively, Accounting Standards Codification (“ASC”) Topic 842) which requires lease assets and liabilities to be recorded on the consolidated statement of financial position. The Organization used the modified retrospective transition approach and elected certain practical expedients permitted under the transition guidance. Under the transition option elected, ASC Topic 842 is applied as of July 1, 2022.

As part of the adoption of ASC 842, the Organization elected the practical expedient that allows lessees to choose to not separate lease and non-lease components by class of underlying asset and are applying this expedient to all relevant asset classes. The Organization also elected the practical expedient package to not reassess at adoption (i) expired or existing contracts whether they are a lease or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial indirect costs for existing leases.

HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) Summary of Significant Accounting Policies (Continued)

The Organization, at the inception of the contract, determines whether a contract is or contains a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The right to control the use of an asset includes the right to obtain substantially all of the economic benefits of the underlying asset and the right to direct how and for what purpose the asset is used. The Organization's right-of-use ("ROU") assets represent the Organization's right to use the underlying assets for the lease term and the lease liabilities represent the Organization's obligation to make lease payments arising from the leases. ROU assets and lease obligations are recognized at the commencement date based on the present value of lease payments over the lease term. Lease term is defined as the non-cancelable period of the lease plus any options to extend or terminate the lease when it is reasonably certain that the Organization will exercise the option. The Organization has elected to use a risk-free interest rate for all asset classes to calculate the present value of the sum of the lease payments.

The Organization has elected not to recognize ROU assets and lease obligations for its short-term leases, which are defined as leases with an initial term of 12 months or less.

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 statement of financial position as the likelihood of collection is remote.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions: Net assets available for use in general operations and not subject to donor (or grantor) restrictions.

Net assets with donor restrictions: Net assets subject to donor (or 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 statement of activities as net assets released from restrictions.

HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) Summary of Significant Accounting Policies (Continued)

Support 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.

In-kind Contributions

Effective July 1, 2022, the Organization adopted ASU 2020-07, Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets ASC Topic 958). No line items in the consolidated statement of financial position or the consolidated statement of activities and changes in net assets have been materially impacted.

In-kind contributions include services provided which create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donations. These services are recognized in the consolidated financial statements at the fair value of the service provided. Goods and other items are valued at retail value, which approximates fair market value. In-kind contributions are recorded as support without donor restrictions unless specifically restricted by the donor.

In addition, 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.

Program Services Expenses

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 Expenses

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 Financial Accounting Standards Board ("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, 2023 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 7, 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, 2023:

Haven Point	\$ 1,029,074
111 Clinton Court (rehab)	192,940
2296 N. Village (repurchased home)	190,000
7 Spring Fawn	37,869
Lorene Drive	34,709
Wilson Street	29,247
5 Eastview	27,238
1443 Kathleen Wentzville	26,334
	<hr/>
	\$ 1,567,411

(5) Property and Equipment

Property and equipment consist of the following at June 30, 2023:

Leasehold improvements	\$ 178,332
Office furniture and equipment	83,447
Vehicles	62,838
	<hr/>
	324,617
Accumulated depreciation and amortization	(238,027)
	<hr/>
	\$ 86,590

Depreciation and amortization expense for the year ended June 30, 2023 was \$34,733.

(6) Leases

The Organization leases the ReStore, office space, office equipment, and trucks under noncancelable operating lease agreements. The lease agreements typically have initial terms of 3 to 5 years and may include one or more options to renew, with renewals that can extend the lease term 3 or 5 years. The Organization considers renewal options reasonably likely to be exercised; therefore, renewal options are recognized as part of the ROU assets and lease liabilities. Certain lease agreements contain payments for mileage usage. These variable lease payments are recognized in operating expenses but are not included in the ROU asset or liability. The Organization's lease agreements do not contain any material residual value guarantees, restrictions, or covenants.

HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(6) Leases (Continued)

Components of lease expense and the classification in the consolidated statement of activities are as follows for the year ending June 30, 2023:

Component of Lease Expense	Classification on Consolidated Statement of Activities	
Operating lease expense	Rent expense	\$ 172,604
Operating lease expense	Leased equipment expense	46,703
Variable lease expense	Rent expense	5,681
Short-term lease expense	Leased equipment expense	6,483
Total lease expense		\$ 231,471

Weighted-average lease terms and discount rates for operating leases are as follows as of June 30, 2023:

Weighted-average remaining lease term (years)	1.04
Weighted-average discount rate	3.03%

Cash flow and other lease information are as follows as of June 30, 2023:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 260,109
Right-of-use assets obtained in noncash exchange for lease liabilities:	
Operating leases	\$ 416,932

Future maturities of operating lease liabilities are as follows as of June 30, 2023:

2024	\$ 248,720
2025	18,246
Total lease payments	266,966
Less imputed interest	(4,725)
Total lease obligations	262,241
Less current obligations	(244,407)
Long-term lease obligations	\$ 17,834

HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(7) Mortgage Receivables

Mortgage receivables consist of the following at June 30, 2023:

Mortgage receivables	\$ 4,663,218
Reserve for mortgage receivables sold (see Note 10)	(117,502)
Unamortized discount at rates ranging from 7.23% to 8.48%	<u>(2,776,281)</u>
	1,769,435
Less current maturities	<u>(112,488)</u>
	<u>\$ 1,656,947</u>

Amortization of mortgages receivable discount income for the year ended June 30, 2023 was \$241,033.

At June 30, 2023, the Organization has 64 loans outstanding. The following schedule summarizes the payment status of the mortgage loans at June 30, 2023:

	Number of Loans	Loan Amount
Current	60	\$ 4,404,734
31-60 days past due	2	107,975
61-90 days past due	-	-
Over 90 days past due	1	125,239
Payment plans pending	<u>1</u>	<u>14,248</u>
	<u>64</u>	<u>\$ 4,663,218</u>

Included in mortgage receivables as of June 30, 2023 are three mortgages sold with recourse to a bank (see Note 9).

Included in mortgage receivables as of June 30, 2023 are seven additional mortgages sold with limited recourse to a private equity firm (see Note 10).

(8) Note Payable

The Organization has a revolving line-of-credit agreement with a bank for up to \$100,000, with interest at 10.34%, payable monthly. This agreement auto renews annually on December 31. At June 30, 2023, there was no amount outstanding under this note.

HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(9) Long-Term Debt

Long-term debt outstanding consists of the following at June 30, 2023:

Note payable with a maximum borrowing of \$1,500,000, due in monthly interest only payments at 6.25%. Beginning April 1, 2026, principal and interest payments are due in monthly installments of \$12,861, with interest at 6.25%, with the final payment due on March 1, 2033. Real estate purchased with loan proceeds are pledged as collateral.	\$ 984,500			
Non-interest-bearing note payable with a bank, due in quarterly installments of \$5,132, with final payment due on April 1, 2026. Three mortgages receivable are pledged as collateral.	<table style="margin-left: auto; margin-right: 0;"> <tr><td style="text-align: right;">70,259</td></tr> <tr><td style="text-align: right; border-top: 1px solid black;">1,054,759</td></tr> <tr><td style="text-align: right; border-top: 1px solid black;">(8,730)</td></tr> </table>	70,259	1,054,759	(8,730)
70,259				
1,054,759				
(8,730)				
Less current maturities	<table style="margin-left: auto; margin-right: 0;"> <tr><td style="text-align: right; border-top: 1px solid black;">\$ 1,046,029</td></tr> </table>	\$ 1,046,029		
\$ 1,046,029				

Maturities on the long-term debt are as follows:

Year ending June 30:	
2024	\$ 8,730
2025	8,730
2026	34,338
2027	105,887
2028	112,136
Later years	784,938
	\$ 1,054,759

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%. Seven of the ten mortgages were paid in full prior to June 30, 2023. The bank changed the quarterly remittance amount to reflect the payoff of the seven mortgages decreasing the amount the Organization remits for the remaining three mortgage payments quarterly until the note payable is paid off.

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 continue to be included as assets in the consolidated statement of financial position with a corresponding liability in the form of secured obligations from the sale of mortgage receivables. At June 30, 2023, the balance of the mortgage receivables sold was \$548,707, with an unamortized discount remaining of \$330,682. 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, 2023 of \$117,502, against the mortgage receivables and the corresponding liability for the four smallest loan balances net of unamortized discounts. As of June 30, 2023, the balance of the corresponding liability to the private equity firm net of the reserve was \$156,445.

(11) Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at June 30, 2023:

Funds for home construction in progress	\$ 117,044
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Net assets released from donor restrictions consist of the following at June 30, 2023:

Funds for home construction in progress	\$ 144,748
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Certain donations and grants recognized have been restricted by the donors for the construction of building and rehabilitating the homes.

(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, 2023:

Cash	\$ 346,396
Inventory	12,680
Current gross payments of mortgage receivables	222,109
Grant receivables	20,871
Other receivables	348
	<hr/>
	\$ 602,404
	<hr/> <hr/>

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 \$100,000 which it could draw upon.

HABITAT FOR HUMANITY OF ST. CHARLES COUNTY AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(12) Liquidity and Availability (Continued)

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) Disaggregation of Revenue

The Organization disaggregates revenue from contracts with customers by type of revenue as noted in the consolidated statement of activities and changes in net assets, which depicts how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. Disaggregation of revenue for the year ended June 30, 2023 consists of:

Timing of revenue recognition:	
Transferred at a point in time	\$ 914,742
Transferred over time	<u>649,194</u>
 Total net contract revenue	 <u>\$ 1,563,936</u>

(14) Employee Benefit Plan

The Organization maintains a SIMPLE IRA Plan for all eligible employees. Under the terms of the plan, employees may contribute up to the maximum allowed by law. The Organization contributes 2% of employees' salaries to the plan regardless of employee participation elections up to the maximum allowed by law. The Board may elect to contribute additional amounts to the plan. Employees are immediately vested in all contributions to the plan. The Organization's matching contributions to the plan for the year ended June 30, 2023 was \$8,436 included in salaries on the statement of functional expenses.

(15) Related Party Transactions

The Organization remitted a portion of its contributions as a tithe to HFHI in the amount of \$18,000 for the year ended June 30, 2023. These funds are used to construct homes in economically depressed areas around the world. During the year ended June 30, 2023, the Organization also paid \$15,000 to HFHI for Stewardship and Organizational Sustainability Initiative ("SOSI") fees included in dues and subscriptions expense on the statement of functional expenses. Additionally, during the year ended June 30, 2023, the Organization paid \$2,306 to HFHI for shipping expenses.