

**NORTH ST. LOUIS COUNTY  
HABITAT FOR HUMANITY  
FINANCIAL STATEMENTS AS OF  
JUNE 30, 2016 AND 2015**

**NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY**

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ESTERBROOKS · SCOTT · SIGNORELLI  
PETERSON · SMITHSON, LTD.  
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
North St. Louis County Habitat for Humanity  
Virginia, Minnesota

We have audited the accompanying financial statements of North St. Louis County Habitat for Humanity (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North St. Louis County Habitat for Humanity as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Enterbrooke Scott Signorelli Peterson Smithson, Ltd.*

Duluth, Minnesota

December 6, 2016

**NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2016 AND 2015**

<u><b>ASSETS</b></u>	2016	2015
<b>CURRENT ASSETS:</b>		
Cash – Checking	\$ 144,331	\$ 176,331
Cash – Savings	818	818
Promises to give	148,104	48,714
Prepaid expenses	320	180
Deposits	300	-
Mortgages receivable, current portion	43,944	37,067
Inventory – Building lots, materials, and home construction	158,923	586,205
Total current assets	496,740	849,315
<b>PROPERTY AND EQUIPMENT:</b>		
Land and building	331,778	324,932
Equipment and furniture	15,698	15,683
Truck and construction trailer	41,152	38,107
Construction equipment and tools	39,356	22,131
Total	427,984	400,853
Less: Accumulated depreciation	(64,440)	(47,988)
Net property and equipment	363,544	352,865
<b>OTHER ASSETS:</b>		
Non-interest mortgage loans -		
Mortgages receivable	3,565,380	2,986,944
Less: Unamortized discounts	(1,821,310)	(1,580,415)
Current portion	(43,944)	(37,067)
Net non-interest bearing mortgage loans	1,700,126	1,369,462
Inventory – Building lots	45,444	59,264
Prepaid financing fees (less accumulated amortization as of June 30, 2016 and 2015 of \$30,400 and \$24,741)	96,419	87,678
Total other assets	1,841,989	1,516,404
Total Assets	\$ 2,702,273	\$ 2,718,584

See Notes to Financial Statements.

<b><u>LIABILITIES AND NET ASSETS</u></b>	<u>2016</u>	<u>2015</u>
<b>CURRENT LIABILITIES:</b>		
Notes payable – Current portion	\$ 56,344	\$ 45,061
Accounts payable	49,852	87,167
Accrued expenses	1,429	1,885
Payroll liabilities	6,907	2,875
Refundable deposits	8,664	4,219
Refundable advances	<u>11,555</u>	<u>-</u>
Total current liabilities	<u>134,751</u>	<u>141,207</u>
<b>LONG-TERM DEBT:</b>		
Note payable – The Northland Foundation	86,408	95,086
Notes payable – Minnesota Habitat	1,457,068	1,343,523
Less: Current portion	(56,344)	(45,061)
Unamortized discounts	<u>(232,583)</u>	<u>(241,432)</u>
Net long-term debt	<u>1,254,549</u>	<u>1,152,116</u>
Total liabilities	<u>1,389,300</u>	<u>1,293,323</u>
<b>NET ASSETS:</b>		
Unrestricted	975,250	1,036,756
Temporarily restricted	<u>337,723</u>	<u>388,505</u>
Total net assets	<u>1,312,973</u>	<u>1,425,261</u>
Total Liabilities and Net Assets	<u>\$ 2,702,273</u>	<u>\$ 2,718,584</u>

**NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	2016		
	Temporarily		
	Unrestricted	Restricted	Total
<b>OPERATING REVENUES AND SUPPORT:</b>			
Contributions	\$ 118,790	\$ -	\$ 118,790
Contributed building lots and materials	7,400	45,937	53,337
Contributed services	3,872	18,000	21,872
Grants	213,900	75,777	289,677
Sale of homes – Constructed and resale	785,763	-	785,763
Sale of donated homes and lot	-	-	-
Sale of inventory	2,070	-	2,070
Gain on foreclosure	-	-	-
Recognition second mortgage	15,670	-	15,670
Net assets released from restrictions:	181,647	(181,647)	-
Total revenue and other support	1,329,112	(41,933)	1,287,179
<b>OPERATING EXPENSES:</b>			
Program services –			
Home construction and resale	928,475	-	928,475
Community awareness	65,586	-	65,586
Family selection and support	33,014	-	33,014
Total program services	1,027,075	-	1,027,075
Supporting services –			
Management and general	82,622	-	82,622
Fundraising	40,025	-	40,025
Total supporting services	122,647	-	122,647
Total expenses	1,149,722	-	1,149,722
Change in net assets - Operating	179,390	(41,933)	137,457
<b>NONOPERATING:</b>			
Restricted to debt amortization	-	15,632	15,632
Mortgage discounts realized	126,680	-	126,680
Mortgage discount amortized	(367,576)	-	(367,576)
Loan discount amortized	(24,481)	-	(24,481)
Net assets released from restrictions:	24,481	(24,481)	-
Change in net assets - Nonoperating	(240,896)	(8,849)	(249,745)
Total Change in Net Assets	(61,506)	(50,782)	(112,288)
Net assets, beginning of year, previously reported	1,036,756	388,505	1,425,261
Prior period adjustment - Change in accounting method	-	-	-
Net assets, beginning of year, restated	1,036,756	388,505	1,425,261
Net assets, end of year	\$ 975,250	\$ 337,723	\$ 1,312,973

See Notes to Financial Statements.

## 2015

Temporarily		
Unrestricted	Restricted	Total
\$ 86,941	\$ -	\$ 86,941
102,903	55,388	158,291
36,292	26,200	62,492
120,524	62,196	182,720
472,982	-	472,982
101,000	-	101,000
2,387	-	2,387
31,190	-	31,190
21,538	-	21,538
<u>194,462</u>	<u>(194,462)</u>	<u>-</u>
<u>1,170,219</u>	<u>(50,678)</u>	<u>1,119,541</u>
679,862	-	679,862
70,232	-	70,232
<u>32,484</u>	<u>-</u>	<u>32,484</u>
<u>782,578</u>	<u>-</u>	<u>782,578</u>
93,588	-	93,588
<u>39,560</u>	<u>-</u>	<u>39,560</u>
<u>133,148</u>	<u>-</u>	<u>133,148</u>
<u>915,726</u>	<u>-</u>	<u>915,726</u>
254,493	(50,678)	203,815
-	55,332	55,332
185,212	-	185,212
(285,470)	-	(285,470)
(21,598)	-	(21,598)
<u>21,598</u>	<u>(21,598)</u>	<u>-</u>
<u>(100,258)</u>	<u>33,734</u>	<u>(66,524)</u>
<u>154,235</u>	<u>(16,944)</u>	<u>137,291</u>
882,521	480,824	1,363,345
<u>-</u>	<u>(75,375)</u>	<u>(75,375)</u>
<u>882,521</u>	<u>405,449</u>	<u>1,287,970</u>
<u>\$ 1,036,756</u>	<u>\$ 388,505</u>	<u>\$ 1,425,261</u>

**NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	Program Expenses			Support Expenses			Total Support Expenses	Total Functional Expenses
	Home Construction	Community Awareness	Family Selection & Support	Total Program Expenses	Management & General	Fundraising		
<b>OPERATING EXPENSES</b>								
Construction	\$ 788,850	\$ -	\$ -	\$ 788,850	\$ -	\$ -	\$ -	\$ 788,850
Land acquisition	4,839	-	-	4,839	-	-	-	4,839
Closing costs	6,650	-	-	6,650	-	-	-	6,650
Amortization – Loan fees	5,659	-	-	5,659	-	-	-	5,659
Service fees	10,672	-	-	10,672	5,000	-	5,000	15,672
Truck expense	3,837	-	-	3,837	-	-	-	3,837
Salaries, benefits & mileage	53,058	50,641	26,549	130,248	9,313	23,153	32,466	162,714
Insurance	1,081	-	-	1,081	14,149	-	14,149	15,230
Newsletter	-	6,387	-	6,387	-	-	-	6,387
Office equipment	-	-	-	-	1,414	-	1,414	1,414
Other mission specific costs	13,553	8,558	6,465	28,576	-	-	-	28,576
Postage	-	-	-	-	2,289	-	2,289	2,289
Supplies	-	-	-	-	414	-	414	414
Travel and conferences	873	-	-	873	-	-	-	873
Habitat International – Tithe	19,876	-	-	19,876	-	-	-	19,876
Depreciation	7,491	-	-	7,491	10,310	-	10,310	17,801
Habitat 500 bike ride	-	-	-	-	-	2,727	2,727	2,727
Occupancy	-	-	-	-	9,658	-	9,658	9,658
Telephone and Internet	-	-	-	-	2,613	-	2,613	2,613
Software	-	-	-	-	5,001	-	5,001	5,001
Professional fees	-	-	-	-	10,703	-	10,703	10,703
Anniversary dinner	-	-	-	-	-	5,049	5,049	5,049
Other fundraising events	-	-	-	-	-	1,223	1,223	1,223
Fundraising mailer	-	-	-	-	-	7,873	7,873	7,873
Site supervisors	12,036	-	-	12,036	-	-	-	12,036
Interest	-	-	-	-	9,256	-	9,256	9,256
Other	-	-	-	-	2,502	-	2,502	2,502
Total Operating Expenses	<u>928,475</u>	<u>65,586</u>	<u>33,014</u>	<u>1,027,075</u>	<u>82,622</u>	<u>40,025</u>	<u>122,647</u>	<u>1,149,722</u>
<b>NONOPERATING EXPENSES</b>								
Mortgage discount amortized	367,576	-	-	367,576	-	-	-	367,576
Loan discount amortized	24,481	-	-	24,481	-	-	-	24,481
Total Nonoperating Expenses	<u>392,057</u>	<u>-</u>	<u>-</u>	<u>392,057</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>392,057</u>
<b>Total Expenses</b>	<u>\$ 1,320,532</u>	<u>\$ 65,586</u>	<u>\$ 33,014</u>	<u>\$ 1,419,132</u>	<u>\$ 82,622</u>	<u>\$ 40,025</u>	<u>\$ 122,647</u>	<u>\$ 1,541,779</u>

See Notes to Financial Statements.

**NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	Program Expenses			Support Expenses			Total Support Expenses	Total Functional Expenses
	Home Construction	Community Awareness	Family Selection & Support	Total Program Expenses	Management & General	Fundraising		
<b>OPERATING EXPENSES</b>								
Construction	\$ 456,561	\$ -	\$ -	\$ 456,561	\$ -	\$ -	\$ -	\$ 456,561
Cost of home resold	105,738	-	-	105,738	-	-	-	105,738
Land acquisition	2,801	-	-	2,801	-	-	-	2,801
Closing costs	5,384	-	-	5,384	-	-	-	5,384
Amortization – Loan fees	4,811	-	-	4,811	-	-	-	4,811
Service fees	2,603	-	-	2,603	3,400	-	3,400	6,003
Truck expense	4,407	-	-	4,407	-	-	-	4,407
Salaries, benefits & mileage	60,920	61,743	30,158	152,821	17,135	22,202	39,337	192,158
Insurance	1,537	-	-	1,537	17,564	-	17,564	19,101
Newsletter	-	6,325	-	6,325	-	-	-	6,325
Office equipment	-	-	-	-	387	-	387	387
Other mission specific costs	-	2,164	2,326	4,490	-	-	-	4,490
Postage	-	-	-	-	765	-	765	765
Supplies	-	-	-	-	2,995	-	2,995	2,995
Advertising	-	-	-	-	3,916	-	3,916	3,916
Travel and conferences	135	-	-	135	482	-	482	617
Habitat International – Tithe	24,829	-	-	24,829	-	-	-	24,829
Depreciation	9,805	-	-	9,805	6,803	-	6,803	16,608
Habitat 500 bike ride	-	-	-	-	-	3,217	3,217	3,217
Office rent	-	-	-	-	11,793	-	11,793	11,793
Telephone and Internet	-	-	-	-	4,446	-	4,446	4,446
Software	-	-	-	-	3,191	-	3,191	3,191
Professional fees	-	-	-	-	10,723	-	10,723	10,723
Anniversary dinner	-	-	-	-	-	5,933	5,933	5,933
Fundraising mailer	-	-	-	-	-	7,708	7,708	7,708
Interest	-	-	-	-	9,838	-	9,838	9,838
Other	331	-	-	331	150	500	650	981
Total Operating Expenses	679,862	70,232	32,484	782,578	93,588	39,560	133,148	915,726
<b>NONOPERATING EXPENSES</b>								
Mortgage discount amortized	285,470	-	-	285,470	-	-	-	285,470
Loan discount amortized	21,598	-	-	21,598	-	-	-	21,598
Total Nonoperating Expenses	307,068	-	-	307,068	-	-	-	307,068
Total Expenses	\$ 986,930	\$ 70,232	\$ 32,484	\$ 1,089,646	\$ 93,588	\$ 39,560	\$ 133,148	\$ 1,222,794

See Notes to Financial Statements.

**NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (112,288)	\$ 137,291
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Non cash contributions - Debt discounts, net	(15,632)	(55,332)
Depreciation and amortization	23,460	21,419
(Increase) decrease in promises to give	(99,390)	122,999
(Increase) decrease in deposits	(300)	-
(Increase) decrease in prepaid expenses	(140)	(180)
(Increase) decrease in inventory	446,002	(199,880)
Increase in payroll liabilities	4,033	1,025
Increase in refundable deposits	4,445	3,532
Increase in refundable advances	11,555	-
(Decrease) in accrued expenses	(456)	(2,920)
(Decrease) increase in accounts payable	(37,315)	43,217
Net cash provided by (used by) operating activities	223,974	71,171
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(28,483)	(45,795)
Acquisition of buildings and building lots	(4,900)	(19,500)
Mortgages issued (net of unamortized discount)	(402,538)	(184,598)
Mortgage repaid (net of amortized discount)	29,057	84,250
Payments collected (net of amortized discount)	35,940	27,297
Net cash used by investing activities	(370,924)	(138,346)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from long-term borrowing	180,000	270,010
Payment of financing fees	(14,400)	(16,518)
Payments on long-term debt (net of amortized discount)	(50,650)	(44,858)
Net cash provided by financing activities	114,950	208,634
Net increase (decrease) in cash	(32,000)	141,459
Cash – Beginning of Year	177,149	35,690
Cash – End of Year	\$ 145,149	\$ 177,149
<b>SUPPLEMENTAL DISCLOSURES:</b>		
Cash payments for interest	\$ 9,256	\$ 9,838

See Notes to Financial Statements.

**NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES:**

***Nature of Activities*** –

North St. Louis County Habitat for Humanity is a nonprofit organization whose purpose is to build or renovate simple, decent, affordable houses and sell them to qualifying families without profit through zero-interest mortgages.

The following significant accounting policies have been followed in the preparation of the financial statements:

***Basis of Accounting*** –

The financial statements of North St. Louis County Habitat for Humanity have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

***Basis of Presentation*** –

The Organization is required to report information regarding its financial position, and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. At June 30, 2016 and 2015 the Organization had no permanently restricted net assets.

Nonoperating activities include all noncash activities relating to discounting mortgages receivable and debt.

***Cash*** –

For the purpose of the Statement of Cash Flows, cash is composed of bank checking and savings accounts.

***Inventory*** –

Inventory consists of materials and services for houses in progress at year-end. It also includes materials, building lots, and houses to be used in the future for building and/or renovating. Inventory is carried at cost for those items purchased and fair value at the date of donation for contributed materials, services, houses, and building lots.

***Promises to Give*** –

Unconditional promises to give are recognized as receivables and as revenues in the period in which the Organization is notified by the donor of his or her commitment to make a contribution. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

***Property and Equipment*** –

Property and equipment is recorded at cost if purchased, or at the fair value at the date of the gift, if donated. Depreciation is computed using the straight-line method, with an estimated useful life of five years. It is the Organization's policy to capitalize all acquisitions of equipment over \$500. Lesser amounts are expensed.

**NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

***Contributions –***

Contributions received are recorded as unrestricted, temporarily restricted and permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends, a purpose restriction is accomplished, or a restriction is withdrawn by the donor) temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. It is the policy of the Organization to consider resources contributed for a specific house to be temporarily restricted if specified by the donor. The temporarily restricted contributions become a part of unrestricted net assets and their restriction is considered to expire when the house is sold.

***House Sales –***

House Sales are recorded at an amount which does not include a discount factor. The Organization follows the suggested policy of Habitat International and presents the discount in a separate account on the Statement of Functional Expenses, "Mortgage discount". Non-interest-bearing mortgages are discounted based upon prevailing market rates at the inception of each mortgage. Utilizing the effective interest method, the discount is recognized as income over the term of the mortgage.

***Donated Property and Equipment –***

Donations of property and equipment are recorded as support at their fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

***Donated Services –***

A substantial number of volunteers have donated significant amounts of nonprofessional services to the Organization's program. Although significant, these services were not recognized in the financial statements because they did not meet the criteria for recognition. Services from professional contractors and other professionals are recorded as donations at fair value at the date of donation (see Note 8).

***Compensated Absences –***

Employees of the Organization are entitled to paid vacation, paid sick days, and personal days off, depending on job classification, length of service, and other factors. Liability for accrued vacation expense has been recorded in the accompanying financial statements. Unused sick days and personal days are not carried forward.

**NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

***Allocated Expenses –***

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services based on estimates made by management. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

***Income Tax –***

North St. Louis County Habitat for Humanity is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3); therefore, no provision for income taxes has been made in these financial statements. The Organization has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi).

***Uncertain Tax Positions –***

North St. Louis County Habitat for Humanity follows the recognition requirements of uncertain tax positions as required by generally accepted accounting principles. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization is no longer subject to U.S. federal, state and local income tax examinations by tax authorities generally before 2013.

***Allowance for Loan Losses –***

The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, economic conditions, and other risks inherent in the portfolio. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged or credited to the provision for loan losses. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the loan portfolio and the related allowance may change in the near term. However, the amount of the change that is reasonably possible cannot be estimated. At June 30, 2016 and 2015 there was no allowance for loan losses.

***Use of Estimates –***

In preparing the financial statements in conformity with accounting principles generally accepted in the United States, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

**1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

***Reclassification*** –

Certain amounts in the 2015 financial statements have been reclassified for comparative purposes to conform with the current-year financial statements. Such reclassification had no effect on net earnings or net assets as previously reported.

**2. INVENTORIES :**

At June 30, 2016 and 2015 inventories consisted of the following items:

	2016	2015
Construction in progress - Program	\$ 116,568	\$ 525,383
Building materials and appliances	37,856	36,085
Building lots	49,943	69,001
House held for renovation	-	15,000
Total Inventory	\$ 204,367	\$ 645,469

At June 30, 2016, construction in progress consists of three home projects. One project is a rehabilitation of a donated house, and two are new home builds. At June 30, 2015, construction in progress consists of seven home projects.

**3. PREPAID FINANCING FEES:**

During the years ending June 30, 2016 and 2015 the Organization incurred loan fees of \$14,400 and \$16,518 respectively. The loan fees were assessed based on the collateralized mortgages used to secure new borrowings. The loan fees are being amortized on a straight-line basis, over the life of the loan. Loan fees charged to program expense for the years ending June 30, 2016 and 2015 were \$5,659 and \$4,811 respectively.

**4. HOME PROGRAM:**

North St. Louis County Habitat for Humanity builds and renovates homes with families who meet the program's family selection criteria in North St. Louis County. The family is required to make a \$400 down payment toward the house. The family is also required to contribute a specific number of hours (sweat equity) by working on homes and in other capacities within the Organization. The family signs a first mortgage for the approximate cost of the house and is required to make monthly mortgage payments as required by the terms of the mortgage, typically twenty to thirty years.

These mortgages are discounted and the unamortized discount is subtracted from the total amount due over the life of the mortgage to reflect current estimated economic value. For the year ended June 30, 2016, eight new mortgages were recorded with a total discount expense of \$367,576. For the year ended June 30, 2015, five new mortgage were recorded with a total discount expense of \$285,470. Mortgage amortization income is recognized over the life of the mortgage using the interest method.

**NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY**  
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**4. HOME PROGRAM (CONTINUED):**

Mortgage discounts realized for the years ending June 30, 2016 and 2015 were as follows:

	2016	2015
Mortgage discount amortization	\$ 115,341	\$ 103,304
Unamortized discount recognized due to:		
Payoff of mortgage	11,339	-
Buyback of homes	-	44,570
Deed in lieu of foreclosure	-	37,338
Total Mortgage Discount Realized	\$ 126,680	\$ 185,212

The family also signs a second mortgage for the difference between the selling price (first mortgage) and the fair market value of the home at the time of the sale. For mortgages written through 2008, if the family is in compliance with the terms of the mortgage contract, the Organization forgives an equal portion of the second mortgage over the duration of the mortgage. For mortgages written after 2008, the second mortgage is forgiven at the end of the mortgage term. In the event of a sale or foreclosure, the balance of the second mortgage will be recorded as an asset and the resulting revenue recognized. The Organization does not include a valuation of the second mortgage in its financial statements.

Construction material of the houses along with other costs attributed to the houses, including any contributed materials and services, are recorded at cost or at fair value at the date of donation if donated, and reflected as inventory until the houses are sold. In the year of the sale, costs relative to house sold are reclassified to construction costs and reflected in the statement of activities; the mortgage receivable is recognized along with the selling price and mortgage discount; and contributions (if any) donated specifically for the house sold are reclassified from temporarily restricted net assets to unrestricted net assets.

The Organization typically builds or renovates five homes per year. During the year ending and as of June 30, 2016, eight homes were completed and sold. During the year ending and as of June 30, 2015, five houses were completed and sold. Total homes built or renovated as of June 30, 2016 and 2015 were 66 and 61 respectively.

**5. MORTGAGES RECEIVABLE:**

The Organization builds or renovates houses, which are sold to qualifying families at cost. The family signs a non-interest bearing mortgage, which is subject to discounting in order to reflect its economic value. The interest rates used to determine the discount range from 7.50% to 9.00% based on the prevailing market rate in the year the mortgage originated. Interest is recognized annually based on the interest method.

**NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY**  
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**5. MORTGAGES RECEIVABLE (CONTINUED):**

<u>Schedule of Mortgage Loan Receivable</u>	<u>2016</u>	<u>2015</u>
Mortgage balances before discounts	\$ 3,565,380	\$ 2,986,944
Less: Unamortized discounts	(1,821,310)	(1,580,415)
Net Mortgage Loan Receivable	<u>\$ 1,744,070</u>	<u>\$ 1,406,529</u>

***Loan Delinquency Status –***

	<u>2016</u>		<u>2015</u>	
	<u>Number of Loans</u>	<u>Loan Amount</u>	<u>Number of Loans</u>	<u>Loan Amount</u>
Current	52	\$ 3,311,320	48	\$ 2,791,632
31-60 days past due	2	86,463	1	86,624
More than 60 days past due	3	167,597	2	108,688
Total	<u>57</u>	<u>\$ 3,565,380</u>	<u>51</u>	<u>\$ 2,986,944</u>

At June 30, 2016 and 2015 there was no impairment of loans that needed recognition in accordance with generally accepted accounting principles (GAAP).

***Schedule of Collateralized Mortgages –***

At June 30, 2016 and 2015 there were twenty-one and twenty-four specific mortgages serving as collateral for long-term debt with total required monthly payments of \$6,176 and \$5,865, respectively.

	<u>2016</u>	<u>2015</u>
Mortgage balances before unamortized discounts	\$ 1,504,029	\$ 1,464,112
Less: Unamortized discounts	(820,075)	(747,157)
Net Collateralized Mortgages	<u>\$ 683,954</u>	<u>\$ 716,955</u>

**6. PROMISES TO GIVE:**

As of June 30, 2016 and 2015, unconditional promises to give consist of the following:

	<u>2016</u>	<u>2015</u>
Amounts due in less than one year:		
NE Minnesota United Way	\$ 11,250	\$ 26,354
The Cliffs Foundation	10,000	20,000
AEOA	5,000	-
FAIM	13,800	-
Federal Home Loan Bank	38,400	-
Community Revitalization Grant	45,000	-
Community Development Block Grant	22,332	-
Other	2,322	2,360
	<u>\$ 148,104</u>	<u>\$ 48,714</u>

**NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY**  
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**6. PROMISES TO GIVE (CONTINUED):**

***Conditional Grants to be Received –***

At June 30, 2016 the Organization had \$45,000 in grant commitments from grantors which management anticipates receiving during 2017. These funds are potential reimbursements for qualified costs to be incurred, and as such, are not included in these financial statements.

**7. CONTRIBUTED MATERIALS, LOTS, AND SERVICES:**

Contributed materials, building lots, and services represent the estimated fair value of materials and general corporate services provided. Contributed services are reflected in the financial statements at the fair value of the services received. The contributions of services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by entities or individuals possessing those skills, and would typically need to be purchased if they were not donated. Contributed materials, building lots and construction services are included as inventory until the applicable housing project is sold; at which time they are reclassified to construction costs and changed to unrestricted net assets. Revenues from such transactions are included in temporarily restricted net assets and reclassified to unrestricted net assets when the housing project is sold.

Contributed materials, lots, and services recorded in these financial statements are as follows:

	2016	2015
Construction related materials	\$ 30,937	\$ 28,791
Homes and building lots	22,400	129,500
Professional services	21,872	62,492
Total Contributed Materials, Lots and Services	\$ 75,209	\$ 220,783

**8. NOTES PAYABLE:**

As of June 30, notes payable consists of the following:

	2016	2015
<b>Note Payable – The Northland Foundation</b>		
Installment note payable in 52 remaining monthly payments of \$988.95 and 1 final payment of \$55,351.91, bearing interest of 3.5%. The note is secured by a mortgage on the Organization's office/warehouse.	86,408	95,086

**NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY**  
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**8. NOTES PAYABLE (CONTINUED):**

	<u>2016</u>	<u>2015</u>
<b>Notes Payable - Habitat for Humanity Minnesota</b>		
Note payable in 232 remaining monthly payments of \$4,600.75 and 1 final payment of \$2,377.50, bearing interest at 0%. The note is collateralized by 20 mortgage receivables, of which all are current except one. This note was replaced in fiscal year 2016.	-	1,069,752
Note payable in 244 remaining monthly payments of \$4,911.75 and 1 final payment of \$3,755, bearing interest at 0%. The note is collateralized by 21 mortgage receivables, of which all are current.	1,192,399	-
Note payable in 246 remaining monthly payments of \$252, bearing interest at 2.25%, collateralized by a specific mortgage receivable, which is current.	49,625	51,509
Note payable in 283 remaining monthly payments of \$512, bearing interest at 2.25%, collateralized by a specific mortgage receivable, which is current.	104,969	108,705
Note payable in 329 remaining monthly payments of \$247, bearing interest at 2.25%, collateralized by a specific mortgage receivable, which is current.	58,988	60,605
Note payable in 266 remaining monthly payments of \$253, bearing interest at 2.25%, collateralized by a specific mortgage receivable, which is current.	<u>51,087</u>	<u>52,952</u>
Total Notes Payable - Habitat for Humanity Minnesota	<u>1,457,068</u>	<u>1,343,523</u>
Total Long-Term Debt	1,543,476	1,438,609
Less – Unamortized discount	(232,583)	(241,432)
Subtotal	<u>1,310,893</u>	<u>1,197,177</u>
Current maturities	(56,344)	(45,061)
Net Long-Term Debt	<u>\$ 1,254,549</u>	<u>\$ 1,152,116</u>

**NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY**  
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**8. NOTES PAYABLE (CONTINUED):**

The maturities of notes payable for the year ended June 30, 2016 are as follows:

Year Ending June 30,	Amount
2017.....	\$ 56,344
2018.....	57,723
2019.....	59,137
2020.....	109,087
2021.....	51,741
Subsequent to 2020.....	976,861
Total Long-Term Debt	\$ 1,310,893

**Notes Payable – Unamortized Discount -**

The non-interest bearing notes due to Habitat for Humanity – Minnesota have been discounted at 2.25% with the discounts reflected as increases in temporarily restricted net assets. The discount is amortized using the interest method and charged to amortization, loan discount. A similar amount is released from temporarily restricted net assets to unrestricted net assets to reflect the lapse of the restriction.

**9. LINE OF CREDIT:**

As of June 30, 2015 and 2014, pursuant to an agreement with Wells Fargo Bank, the Organization had available a \$70,000 unsecured line of credit, none of which was outstanding at that date.

**10. GRANT REVENUE:**

Grant revenue for the years ended June 30, 2016 and 2015 was:

	2016	2015
<b>Unrestricted grants -</b>		
NE Minnesota United Way	\$ 15,000	\$ 35,141
AEOA Homeowner Assistance Program	40,000	27,033
Federal Home Loan Bank Grants	58,400	19,000
Community Revitalization Grants	75,000	29,000
FAIM	-	9,600
Wells Fargo Foundation	15,000	-
Other	10,500	750
Total unrestricted grants	213,900	120,524
<b>Temporarily restricted grants -</b>		
Community Development Block Grant	22,332	13,653
OSHA	10,000	-
Wells Fargo Bank	30,000	45,000
AgStar	10,000	-
Other	3,445	3,543
Total temporarily restricted grants	75,777	62,196
Total grant revenue	\$ 289,677	\$ 182,720

**NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**11. NET ASSET CLASSIFICATION:**

Net assets temporarily restricted as to purpose are reported in these financial statements as follows:

	2016	2015
Inventory – Building lots and materials	\$ 105,140	\$ 147,073
Long-term debt unamortized discounts	232,583	241,432
Total Net Assets – Temporarily Restricted	<u>\$ 337,723</u>	<u>\$ 388,505</u>

**12. PRIOR PERIOD ADJUSTMENT – CHANGE IN ACCOUNTING METHOD**

During the year ended June 30, 2016 the Organization changed the amortization of discounts from amortizing as payments are made to amortizing as time lapses. Additionally the Organization changed the computation of debt discounts from computing the discount on each draw to computing the total loan after each draw. These changes make for a more practical amortization of the discounts along with minimizing the effect of changing discounts rates.

The effect of the restatement on the change in net assets and financial position as of and for the year ended June 30, 2015 are as follows:

	As previously reported	Restated
Restricted to debt amortization	\$ 94,043	\$ 55,332
Loan discount amortization	(27,265)	(21,598)
Total change in net assets	170,335	137,291
Long-term debt – Unamortized discounts	(349,852)	(241,432)

**13. SIGNIFICANT CONCENTRATIONS:**

The Organization provides its services to clients based in part on income qualifications and within an area of Northern Minnesota. Each loan is secured by a mortgage.

**14. SUBSEQUENT EVENTS:**

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 6, 2016, which is the date the financial statements were issued.

***Debt: Habitat for Humanity Minnesota -***

The Organization obtained an additional draw from Habitat for Humanity Minnesota for \$90,523 in October 2016. After this additional draw the note now requires monthly payments of \$5,244.75, bearing interest at 0%. The note is secured by specific mortgage receivables.