

**NORTH ST. LOUIS COUNTY  
HABITAT FOR HUMANITY  
FINANCIAL STATEMENTS AS OF  
JUNE 30, 2018 AND 2017**

**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, 2018 and 2017, 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Enterbrooks Scott Signorelli Peterson Smithson, PA*

Duluth, Minnesota

March 9, 2019

**NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2018 AND 2017**

<u><b>ASSETS</b></u>	2018	2017
<b>CURRENT ASSETS:</b>		
Cash	\$ 160,614	\$ 254,060
Promises to give	87,859	11,250
Accounts receivable	7,074	-
Prepaid expenses	480	150
Home held for sale	-	14,000
Deposits	200	200
Mortgages receivable, current portion	56,668	47,674
Inventory – Building lots, materials, and home construction	527,619	524,518
Total current assets	840,514	851,852
<b>PROPERTY AND EQUIPMENT:</b>		
Land and building	335,888	335,888
Equipment and furniture	16,260	16,260
Truck and construction trailer	44,625	41,152
Construction equipment and tools	43,589	43,589
Total	440,362	436,889
Less: Accumulated depreciation	(105,305)	(85,219)
Net property and equipment	335,057	351,670
<b>OTHER ASSETS:</b>		
Non-interest mortgage loans -		
Mortgages receivable	3,750,942	3,530,752
Less: Unamortized discounts	(1,831,293)	(1,773,421)
Current portion	(56,668)	(47,674)
Net non-interest bearing mortgage loans	1,862,981	1,709,657
Inventory – Building lots	38,342	37,511
Cash – Endowment	7,101	2,000
Total other assets	1,908,424	1,749,168
Total Assets	\$ 3,083,995	\$ 2,952,690

See Notes to Financial Statements.

<b><u>LIABILITIES AND NET ASSETS</u></b>	<u>2018</u>	<u>2017</u>
<b>CURRENT LIABILITIES:</b>		
Notes payable – Current portion	\$ 95,067	\$ 58,707
Accounts payable	23,532	79,024
Accrued expenses	9,763	9,408
Payroll liabilities	5,692	6,063
Refundable deposits	<u>1,000</u>	<u>520</u>
Total current liabilities	<u>135,054</u>	<u>153,722</u>
<b>LONG-TERM DEBT:</b>		
Note payable – The Northland Foundation	68,116	77,419
Notes payable – Minnesota Habitat	1,700,366	1,566,141
Less: Current portion	(95,067)	(58,707)
Financing fees, net amortization	(114,806)	(104,602)
Unamortized discounts	<u>(352,704)</u>	<u>(310,335)</u>
Net long-term debt	<u>1,205,905</u>	<u>1,169,916</u>
Total liabilities	<u>1,340,959</u>	<u>1,323,638</u>
<b>NET ASSETS:</b>		
Unrestricted	1,235,486	1,148,142
Temporarily restricted	500,450	478,910
Permanently restricted	<u>7,100</u>	<u>2,000</u>
Total net assets	<u>1,743,036</u>	<u>1,629,052</u>
Total Liabilities and Net Assets	<u>\$ 3,083,995</u>	<u>\$ 2,952,690</u>

**NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>OPERATING REVENUES AND SUPPORT:</b>				
Revenue and other support:				
Contributions	\$ 119,886	\$ -	\$ 5,100	\$ 124,986
Contributed building lots and materials	23,285	34,288	-	57,573
Contributed services	11,249	29,515	-	40,764
Grants	238,706	139,000	-	377,706
Sale of homes – Constructed and resale	693,775	-	-	693,775
Sale of inventory	5,235	-	-	5,235
Gain on foreclosures and buybacks	13,440	-	-	13,440
Recognition second mortgage	-	-	-	-
Gain on sale of equipment	354	-	-	354
Other program revenue	-	-	-	-
Net assets released from restrictions	223,633	(223,633)	-	-
Total revenue and other support	<u>1,329,563</u>	<u>(20,830)</u>	<u>5,100</u>	<u>1,313,833</u>
<b>OPERATING EXPENSES:</b>				
Program services –				
Home construction and resale	899,984	-	-	899,984
Community awareness	54,355	-	-	54,355
Volunteer recruitment & support	24,485	-	-	24,485
Family selection and support	57,518	-	-	57,518
Total program services	<u>1,036,342</u>	<u>-</u>	<u>-</u>	<u>1,036,342</u>
Supporting services –				
Management and general	100,349	-	-	100,349
Fundraising	47,657	-	-	47,657
Total supporting services	<u>148,006</u>	<u>-</u>	<u>-</u>	<u>148,006</u>
Total expenses	<u>1,184,348</u>	<u>-</u>	<u>-</u>	<u>1,184,348</u>
Change in net assets - Operating	145,215	(20,830)	5,100	129,485
<b>NONOPERATING ACTIVITIES:</b>				
Restricted to debt amortization	-	71,580	-	71,580
Mortgage discounts realized	231,499	-	-	231,499
Mortgage discount amortized	(289,370)	-	-	(289,370)
Loan discount amortized	(29,210)	-	-	(29,210)
Net assets released from restrictions	29,210	(29,210)	-	-
Change in net assets - Nonoperating	<u>(57,871)</u>	<u>42,370</u>	<u>-</u>	<u>(15,501)</u>
Total Change in Net Assets	87,344	21,540	5,100	113,984
Net assets, beginning of year	<u>1,148,142</u>	<u>478,910</u>	<u>2,000</u>	<u>1,629,052</u>
Net assets, end of year	<u>\$ 1,235,486</u>	<u>\$ 500,450</u>	<u>\$ 7,100</u>	<u>\$ 1,743,036</u>

See Notes to Financial Statements.

2017

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 155,238	\$ -	\$ 2,000	\$ 157,238
32,846	63,986	-	96,832
9,960	7,988	-	17,948
50,000	147,055	-	197,055
334,560	-	-	334,560
2,801	-	-	2,801
57,676	-	-	57,676
21,824	-	-	21,824
-	-	-	-
6,190	-	-	6,190
<u>155,594</u>	<u>(155,594)</u>	<u>-</u>	<u>-</u>
<u>826,689</u>	<u>63,435</u>	<u>2,000</u>	<u>892,124</u>
439,513	-	-	439,513
87,845	-	-	87,845
-	-	-	-
<u>50,804</u>	<u>-</u>	<u>-</u>	<u>50,804</u>
<u>578,162</u>	<u>-</u>	<u>-</u>	<u>578,162</u>
82,295	-	-	82,295
<u>41,229</u>	<u>-</u>	<u>-</u>	<u>41,229</u>
<u>123,524</u>	<u>-</u>	<u>-</u>	<u>123,524</u>
<u>701,686</u>	<u>-</u>	<u>-</u>	<u>701,686</u>
125,003	63,435	2,000	190,438
-	100,227	-	100,227
165,260	-	-	165,260
(117,371)	-	-	(117,371)
(22,475)	-	-	(22,475)
<u>22,475</u>	<u>(22,475)</u>	<u>-</u>	<u>-</u>
<u>47,889</u>	<u>77,752</u>	<u>-</u>	<u>125,641</u>
172,892	141,187	2,000	316,079
<u>975,250</u>	<u>337,723</u>	<u>-</u>	<u>1,312,973</u>
<u>\$ 1,148,142</u>	<u>\$ 478,910</u>	<u>\$ 2,000</u>	<u>\$ 1,629,052</u>

**NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	Program Expenses				Support Expenses			Total Support Expenses	Total Functional Expenses
	Home Construction	Community Awareness	Volunteer Recruitment & Support	Family Selection & Support	Total Program Expenses	Management & General	Fundraising		
<b>OPERATING EXPENSES</b>									
Construction	\$ 746,556	\$ -		\$ -	\$ 746,556	\$ -	\$ -	\$ -	\$ 746,556
Land acquisition	5,966	-		-	5,966	-	-	-	5,966
Closing costs	2,965	-		-	2,965	-	-	-	2,965
Amortization – Loan fees	6,916	-		-	6,916	-	-	-	6,916
Service fees	400	-		-	400	5,000	-	5,000	5,400
Truck expense	8,282	-		-	8,282	-	-	-	8,282
Salaries, benefits & mileage	81,496	47,957	20,019	43,723	193,195	22,427	27,412	49,839	243,034
Insurance	1,310	-		-	1,310	15,511	-	15,511	16,821
Newsletter	-	4,517		-	4,517	3,116	-	3,116	7,633
Office equipment	-	-		-	-	801	-	801	801
Other mission specific costs	5,986	1,881	4,466	13,795	26,128	-	-	-	26,128
Postage	-	-		-	-	359	-	359	359
Supplies	-	-		-	-	1,277	-	1,277	1,277
Travel and conferences	965	-		-	965	115	-	115	1,080
Habitat International – Tith	28,057	-		-	28,057	-	-	-	28,057
Depreciation	10,674	-		-	10,674	10,494	-	10,494	21,168
Habitat 500 bike ride	-	-		-	-	-	2,814	2,814	2,814
Occupancy	-	-		-	-	5,941	-	5,941	5,941
Telephone and Internet	-	-		-	-	3,086	-	3,086	3,086
Software	-	-		-	-	8,460	-	8,460	8,460
Professional fees	-	-		-	-	15,158	-	15,158	15,158
Anniversary dinner	-	-		-	-	-	4,061	4,061	4,061
Other fundraising events	-	-		-	-	-	845	845	845
Fundraising mailer	-	-		-	-	-	12,525	12,525	12,525
Interest	-	-		-	-	8,212	-	8,212	8,212
Other	411	-	-	-	411	392	-	392	803
Total Operating Expenses	899,984	54,355	24,485	57,518	1,036,342	100,349	47,657	148,006	1,184,348
<b>NONOPERATING EXPENSES</b>									
Mortgage discount amortized	289,370	-	-	-	289,370	-	-	-	289,370
Loan discount amortized	29,210	-	-	-	29,210	-	-	-	29,210
Total Nonoperating Expenses	318,580	-	-	-	318,580	-	-	-	318,580
Total Expenses	\$ 1,218,564	\$ 54,355	\$ 24,485	\$ 57,518	\$ 1,354,922	\$ 100,349	\$ 47,657	\$ 148,006	\$ 1,502,928

See Notes to Financial Statements.

**NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	<b>Program Expenses</b>			<b>Support Expenses</b>			<b>Total Support Expenses</b>	<b>Total Functional Expenses</b>
	<b>Home Construction</b>	<b>Community Awareness</b>	<b>Family Selection &amp; Support</b>	<b>Total Program Expenses</b>	<b>Management &amp; General</b>	<b>Fundraising</b>		
<b>OPERATING EXPENSES</b>								
Construction	\$ 289,439	\$ -	\$ -	\$ 289,439	\$ -	\$ -	\$ -	\$ 289,439
Land acquisition	1,638	-	-	1,638	-	-	-	1,638
Closing costs	2,487	-	-	2,487	-	-	-	2,487
Amortization – Loan fees	6,258	-	-	6,258	-	-	-	6,258
Service fees	1,045	-	-	1,045	5,000	-	5,000	6,045
Truck expense	6,756	-	-	6,756	-	-	-	6,756
Salaries, benefits & mileage	83,570	68,650	41,722	193,942	11,564	20,483	32,047	225,989
Insurance	988	-	-	988	10,858	-	10,858	11,846
Newsletter	-	9,083	-	9,083	-	-	-	9,083
Office equipment	-	-	-	-	528	-	528	528
Other mission specific costs	6,234	10,112	9,082	25,428	-	-	-	25,428
Postage	-	-	-	-	1,117	-	1,117	1,117
Travel and conferences	2,716	-	-	2,716	3,261	-	3,261	5,977
Habitat International – Tithes	27,914	-	-	27,914	-	-	-	27,914
Depreciation	10,468	-	-	10,468	10,310	-	10,310	20,778
Habitat 500 bike ride	-	-	-	-	-	4,898	4,898	4,898
Office rent	-	-	-	-	10,026	-	10,026	10,026
Telephone and Internet	-	-	-	-	2,894	-	2,894	2,894
Software	-	-	-	-	4,390	-	4,390	4,390
Professional fees	-	-	-	-	11,786	-	11,786	11,786
Anniversary dinner	-	-	-	-	-	4,107	4,107	4,107
Other fundraising events	-	-	-	-	-	1,130	1,130	1,130
Fundraising mailer	-	-	-	-	-	10,611	10,611	10,611
Interest	-	-	-	-	8,738	-	8,738	8,738
Other	-	-	-	-	1,823	-	1,823	1,823
<b>Total Operating Expenses</b>	<b>439,513</b>	<b>87,845</b>	<b>50,804</b>	<b>578,162</b>	<b>82,295</b>	<b>41,229</b>	<b>123,524</b>	<b>701,686</b>
<b>NONOPERATING EXPENSES</b>								
Mortgage discount amortized	117,371	-	-	117,371	-	-	-	117,371
Loan discount amortized	22,475	-	-	22,475	-	-	-	22,475
<b>Total Nonoperating Expenses</b>	<b>139,846</b>	<b>-</b>	<b>-</b>	<b>139,846</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>139,846</b>
<b>Total Expenses</b>	<b>\$ 579,359</b>	<b>\$ 87,845</b>	<b>\$ 50,804</b>	<b>\$ 718,008</b>	<b>\$ 82,295</b>	<b>\$ 41,229</b>	<b>\$ 123,524</b>	<b>\$ 841,532</b>

See Notes to Financial Statements.

**NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 113,984	\$ 316,079
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Non cash contributions - Debt discounts	(71,580)	(100,227)
Gain on disposal of assets	(354)	-
Contributions for investment in endowment	(5,100)	(2,000)
Depreciation and amortization	28,084	27,036
Changes in assets and liabilities:		
Promises to give	(76,609)	136,854
Accounts receivable	(7,074)	-
Deposits	-	100
Homes held for sale	14,000	(14,000)
Prepaid expenses	(330)	170
Inventory	(3,932)	(357,662)
Payroll liabilities	(371)	(843)
Refundable deposits	480	(8,144)
Refundable advances	-	(11,555)
Accrued expenses	355	7,979
Accounts payable	(55,492)	29,172
Net cash provided (used) by operating activities	(63,939)	22,959
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(4,573)	(8,905)
Proceeds from sale of property and equipment	372	-
Mortgages issued (net of unamortized discount)	(288,985)	(107,267)
Mortgage repaid (net of amortized discount)	77,296	50,530
Payments collected (net of amortized discount)	49,371	43,477
Net cash used by investing activities	(166,519)	(22,165)
 <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Contributions received for investment in endowment	5,100	2,000
Proceeds from long-term borrowing	214,000	180,523
Payment of financing fees	(17,120)	(14,442)
Payments on long-term debt (net of amortized discount)	(59,867)	(57,964)
Net cash provided by financing activities	142,113	110,117
Net increase (decrease) in cash	(88,345)	110,911
Cash – Beginning of Year	256,060	145,149
Cash – End of Year	\$ 167,715	\$ 256,060
 <b>SUPPLEMENTAL DISCLOSURES:</b>		
Cash payments for interest	\$ 8,212	\$ 8,738

See Notes to Financial Statements.

**NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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

***Nature of Activities*** –

North St. Louis County Habitat for Humanity (NSLCHFH or Organization) 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.

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 \$1,000. Lesser amounts are expensed.

**NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**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 6).

***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, 2018 AND 2017**

**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 2015.

***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, 2018 and 2017 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, 2018 AND 2017**

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

***Reclassification –***

Certain amounts in the 2017 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.

***Pending Accounting Standards –***

The Financial Accounting Standards Board (FASB) has issued several accounting standards updates not yet implemented by the Organization. Listed below are the accounting standards updates which may impact future financial statements of the Organization.

Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU, issued August 2016, will be effective for the Organization beginning with its year ending June 30, 2019. This Update will make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB’s improvements to net asset classification requirements and the information presented about a not-for-profit entity’s liquidity, financial performance, and cash flows.

ASU No. 2014-09, *Revenue from Contracts with Customers*. This new accounting guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. The ASU is effective for fiscal years beginning after December 15, 2018. Early application is permitted for fiscal years beginning after December 15, 2016. The Organization is assessing the impact this new standard will have on its financial statements.

**2. INVENTORIES:**

At June 30, 2018 and 2017 inventories consisted of the following items:

	2018	2017
Construction in progress - Program	\$ 352,949	\$ 444,141
Building materials and appliances	53,675	68,998
Building lots and rehab houses	159,337	48,890
Total Inventory	\$ 565,961	\$ 562,029

At June 30, 2018, construction in progress consists of five home projects. Two projects are rehabilitating NSLCHFH homes, repurchased from former owners, and three are new home builds. At June 30, 2017, construction in progress consists of six home projects. One project is a rehabilitation of a foreclosed house, and five are new home builds.

**NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY**  
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**3. 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 \$1,000 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, 2018, six new mortgages were recorded with a total discount expense of \$289,370. For the year ended June 30, 2017, two new mortgage were recorded with a total discount expense of \$117,371. Mortgage amortization income is recognized over the life of the mortgage using the interest method.

Mortgage discounts realized for the years ending June 30, 2018 and 2017 were as follows:

	2018	2017
Mortgage discount amortization	\$ 133,249	\$ 132,337
Unamortized discount recognized due to:		
Payoff of mortgage	-	18,011
Foreclosures and buybacks	98,250	14,912
Total Mortgage Discount Realized	\$ 231,499	\$ 165,260

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.

**NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**3. HOME PROGRAM (CONTINUED):**

The Organization also participates in the USDA Section 502 rural housing direct loan program, whereby the United States Department of Agriculture provides a construction loan to a qualified homeowner family. Draws on the construction loan by the Organization are recorded as income, and expenditures for materials recorded as construction costs. Families meet the same criteria and contribute sweat equity as families participating in the traditional home program do.

The Organization typically builds or renovates five homes per year. During the year ending and as of June 30, 2018, six homes were completed and sold. During the year ending and as of June 30, 2017, two houses were completed and sold. In addition one home was completed under the USDA 502 program during each year respectively. Total homes built or renovated as of June 30, 2018 and 2017 were 76 and 69 respectively.

**4. 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.

<u>Schedule of Mortgage Loan Receivable</u>	<u>2018</u>	<u>2017</u>
Mortgage balances before discounts	\$ 3,750,942	\$ 3,530,752
Less: Unamortized discounts	(1,831,293)	(1,773,421)
Net Mortgage Loan Receivable	<u>\$ 1,919,649</u>	<u>\$ 1,757,331</u>

***Loan Delinquency Status –***

	<u>2018</u>		<u>2017</u>	
	<u>Number of Loans</u>	<u>Loan Amount</u>	<u>Number of Loans</u>	<u>Loan Amount</u>
Current	56	\$ 3,603,768	53	\$ 3,327,690
31-60 days past due	3	107,522	1	41,230
More than 60 days past due	1	39,652	2	161,832
Total	<u>60</u>	<u>\$ 3,750,942</u>	<u>56</u>	<u>\$ 3,530,752</u>

At June 30, 2018 and 2017 there was no impairment of loans that needed recognition in accordance with generally accepted accounting principles (GAAP).

**NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**4. MORTGAGES RECEIVABLE (CONTINUED):**

*Schedule of Collateralized Mortgages –*

At June 30, 2018 and 2017 there were thirty and twenty-eight specific mortgages serving as collateral for long-term debt with total required monthly payments of \$7,572 and \$6,777, respectively.

	2018	2017
Mortgage balances before unamortized discounts	\$ 1,809,402	\$ 1,685,934
Less: Unamortized discounts	(883,828)	(857,656)
Net Collateralized Mortgages	\$ 925,574	\$ 828,278

**5. PROMISES TO GIVE:**

As of June 30, 2018 and 2017, unconditional promises to give consist of the following:

	2018	2017
Amounts due in less than one year:		
NE Minnesota United Way	\$ 18,750	\$ 11,250
FAIM	3,840	-
Federal Home Loan Bank	19,200	-
Habitat for Humanity – Minnesota – Impact Fund	30,000	-
Women Build Grant	5,000	-
Community Development Block Grant	11,069	-
	\$ 87,859	\$ 11,250

*Conditional Grants to be Received –*

At June 30, 2018 the Organization had \$25,000 in grant commitments from grantors which management anticipates receiving during 2019. These funds are potential reimbursements for qualified costs to be incurred, and as such, are not included in these financial statements.

**6. 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.

**NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY**  
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**6. CONTRIBUTED MATERIALS, LOTS, AND SERVICES (CONTINUED):**

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

	2018	2017
Construction related materials	\$ 43,673	\$ 48,482
Homes and building lots	13,900	48,350
Professional services	40,764	17,948
Total Contributed Materials, Lots and Services	\$ 98,337	\$ 114,780

**7. NOTES PAYABLE:**

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

	2018	2017
<b>Note Payable – The Northland Foundation</b>		
Installment note payable in 40 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.	68,116	77,419
<b>Notes Payable - Habitat for Humanity Minnesota</b>		
Note payable in 237 remaining monthly payments of \$5,512.75 and 1 final payment of \$4,258.75, bearing interest at 0%. The note is collateralized by 23 mortgage receivables, of which all are current. This note was replaced in fiscal year 2018.	-	1,310,781
Note payable in 230 remaining monthly payments of \$6,307.83 and 1 final payment of \$3,724.31, bearing interest at 0%. The note is collateralized by 25 mortgage receivables, of which 24 are current and one is 31 – 60 days past due.	1,454,525	
Note payable in 222 remaining monthly payments of \$252, bearing interest at 2.25%, collateralized by a specific mortgage receivable, which is current.	45,727	47,698
Note payable in 259 remaining monthly payments of \$512, bearing interest at 2.25%, collateralized by a specific mortgage receivable, which is current.	97,239	101,147
Note payable in 305 remaining monthly payments of \$247, bearing interest at 2.25%, collateralized by a specific mortgage receivable, which is current.	55,643	57,334

**NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**7. NOTES PAYABLE (CONTINUED):**

	2018	2017
Note payable in 242 remaining monthly payments of \$253, bearing interest at 2.25%, collateralized by a specific mortgage receivable, which is current.	47,232	49,181
Total Notes Payable - Habitat for Humanity Minnesota	1,700,366	1,566,141
Total Long-Term Debt	1,768,482	1,643,560
Less – Unamortized discount	(352,704)	(310,335)
Less – Financing fees, net amortization	(114,806)	(104,602)
Less – Current maturities	(95,067)	(58,707)
Net Long-Term Debt	\$ 1,205,905	\$ 1,169,916

The maturities of notes payable for the year ended June 30, 2018 are as follows:

Year Ending June 30,	Amount
2019.....	\$ 95,067
2020.....	144,131
2021.....	85,878
2022.....	86,110
2023.....	86,347
Subsequent to 2023.....	1,270,949
Total Long-Term Debt	\$ 1,768,482

***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.

***Notes Payable – Financing Fees, Net Amortization -***

During the years ending June 30, 2018 and 2017 the Organization incurred loan fees of \$17,120 and \$14,400 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, 2018 and 2017 were \$6,916 and \$6,258 respectively.

**8. LINE OF CREDIT:**

As of June 30, 2018 and 2017, 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.

**NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**9. GRANT REVENUE:**

Grant revenue for the years ended June 30, 2018 and 2017 was:

	2018	2017
<i>Unrestricted grants -</i>		
NE Minnesota United Way	\$ 25,000	\$ 15,000
AEOA Homeowner Assistance Program	30,000	10,000
Federal Home Loan Bank Grants	48,000	-
Habitat for Humanity – Minnesota – Impact Fund	75,000	-
Owens Family Charitable Foundation	10,000	12,000
The Cliffs Foundation	10,000	10,000
Essentia Health	20,000	-
Mardag Foundation	15,000	-
Other	5,706	3,000
Total unrestricted grants	238,706	50,000
<i>Temporarily restricted grants -</i>		
Community Development Block Grant	35,000	30,000
Essentia Health	-	20,000
Kiewit	-	30,000
NE Minnesota United Way	-	7,500
Northland Foundation	20,000	26,555
Thrivent Financial	32,500	-
Wells Fargo Foundation	45,000	30,000
Women Build Grant	5,000	-
Other	1,500	3,000
Total temporarily restricted grants	139,000	147,055
Total grant revenue	\$ 377,706	\$ 197,055

**10. NET ASSET CLASSIFICATION:**

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

	2018	2017
Cash	\$ 1,500	\$ 23,266
Promises to give	5,000	-
Inventory – Building lots and materials	141,246	145,309
Long-term debt unamortized discounts	352,704	310,335
Total Net Assets – Temporarily Restricted	\$ 500,450	\$ 478,910

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

	2018	2017
Cash - Endowment	\$ 7,100	\$ 2,000

**NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY**  
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**11. RETIREMENT PLAN:**

In January 2018 the Organization started a Simple IRA retirement plan covering qualified employees. The Organization matches the employee's contribution up to a maximum of three percent of the eligible employee's compensation. The Organization's matching contributions was \$2,286 for the year ended June 30, 2018.

**12. 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.

**13. SUBSEQUENT EVENTS:**

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 9, 2019, 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 \$109,000 in October 2018. After this additional draw the note now requires monthly payments of \$6,619.83, bearing interest at 0%. The note is secured by specific mortgage receivables.