

**NORTH ST. LOUIS COUNTY
HABITAT FOR HUMANITY
FINANCIAL STATEMENTS AS OF
JUNE 30, 2019 AND 2018**

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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2018 the Organization adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit-Entities*. Our opinion is not modified with respect to this matter.

Estebrooke Scott Signorelli Petrus Smithson, CPA

Duluth, Minnesota
November 11, 2019

NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
CURRENT ASSETS:		
Cash	\$ 121,037	\$ 160,614
Promises to give	58,000	87,859
Accounts receivable	731	7,074
Prepaid expenses	150	480
Deposits	-	200
Mortgages receivable, current portion	103,924	104,767
Inventory – Building lots, materials, and home construction	489,158	527,619
Total current assets	<u>773,000</u>	<u>888,613</u>
PROPERTY AND EQUIPMENT:		
Land and building	335,888	335,888
Equipment and furniture	16,260	16,260
Truck and construction trailer	44,625	44,625
Construction equipment and tools	43,589	43,589
Total	440,362	440,362
Less: Accumulated depreciation	<u>(125,424)</u>	<u>(105,305)</u>
Net property and equipment	<u>314,938</u>	<u>335,057</u>
OTHER ASSETS:		
Non-interest mortgage loans -		
Mortgages receivable	3,951,997	3,750,942
Less: Unamortized discounts	(2,138,619)	(2,053,785)
Current portion	<u>(103,924)</u>	<u>(104,767)</u>
Net non-interest bearing mortgage loans	1,709,454	1,592,390
Inventory – Building lots	81,473	38,342
Cash – Endowment	7,103	7,101
Total other assets	<u>1,798,030</u>	<u>1,637,833</u>
Total Assets	<u>\$ 2,885,968</u>	<u>\$ 2,861,503</u>

See Notes to Financial Statements.

LIABILITIES AND NET ASSETS

	<u>2019</u>	<u>2018</u>
CURRENT LIABILITIES:		
Notes payable -- Current portion	\$ 156,085	\$ 95,067
Accounts payable	13,384	23,536
Accrued expenses	2,489	9,763
Payroll liabilities	5,277	5,692
Refundable deposits	-	1,000
Total current liabilities	<u>177,235</u>	<u>135,058</u>
LONG-TERM DEBT:		
Note payable -- The Northland Foundation	58,479	68,116
Notes payable -- Minnesota Habitat	1,830,387	1,700,366
Less: Current portion	(156,085)	(95,067)
Financing fees, net amortization	(125,174)	(114,806)
Unamortized discounts	<u>(345,289)</u>	<u>(352,704)</u>
Net long-term debt	<u>1,262,318</u>	<u>1,205,905</u>
Total liabilities	<u>1,439,553</u>	<u>1,340,963</u>
NET ASSETS:		
Without donor restrictions	969,462	1,012,990
With donor restrictions	<u>476,953</u>	<u>507,550</u>
Total net assets	<u>1,446,415</u>	<u>1,520,540</u>
Total Liabilities and Net Assets	<u>\$ 2,885,968</u>	<u>\$ 2,861,503</u>

NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019		
	Without donor restrictions	With donor restrictions	Total
OPERATING REVENUES AND SUPPORT:			
Revenue and other support:			
Contributions	\$ 132,286	\$ -	\$ 132,286
Contributed building lots and materials	59,306	28,144	87,450
Contributed services	2,498	6,050	8,548
Grants	162,274	88,700	250,974
Sale of homes – Constructed and resale	481,620	-	481,620
Sale of inventory	7,128	-	7,128
Gain on foreclosures and buybacks	-	-	-
Gain on sale of equipment	-	-	-
Other program revenue	5,841	-	5,841
Interest	-	2	2
Net assets released from restrictions	146,077	(146,077)	-
Total revenue and other support	<u>997,030</u>	<u>(23,181)</u>	<u>973,849</u>
OPERATING EXPENSES:			
Program services –			
Home construction and resale	688,963	-	688,963
Community awareness	47,792	-	47,792
Volunteer recruitment & support	26,116	-	26,116
Family selection and support	38,451	-	38,451
Total program services	<u>801,322</u>	<u>-</u>	<u>801,322</u>
Supporting services –			
Management and general	108,570	-	108,570
Fundraising	45,833	-	45,833
Total supporting services	<u>154,403</u>	<u>-</u>	<u>154,403</u>
Total expenses	<u>955,725</u>	<u>-</u>	<u>955,725</u>
Change in net assets - Operating	41,305	(23,181)	18,124
NONOPERATING ACTIVITIES:			
Loan discount revenue - new loans	-	27,763	27,763
Mortgage discounts amortization	150,330	-	150,330
Mortgage discount expense - new mortgages issued	(235,163)	-	(235,163)
Loan discount amortization	(35,179)	-	(35,179)
Net assets released from restrictions	35,179	(35,179)	-
Change in net assets - Nonoperating	<u>(84,833)</u>	<u>(7,416)</u>	<u>(92,249)</u>
Total Change in Net Assets	<u>(43,528)</u>	<u>(30,597)</u>	<u>(74,125)</u>
Net assets, beginning of year, previously reported	1,012,990	507,550	-
Prior period adjustment - Change in accounting method	-	-	-
Net assets, beginning of year	<u>1,012,990</u>	<u>507,550</u>	<u>1,520,540</u>
Net assets, end of year	<u>\$ 969,462</u>	<u>\$ 476,953</u>	<u>\$ 1,446,415</u>

See Notes to Financial Statements.

2018

Without donor restrictions	With donor restrictions	Total
\$ 119,886	\$ 5,100	\$ 124,986
23,285	34,288	57,573
11,249	29,515	40,764
238,706	139,000	377,706
693,775	-	693,775
5,235	-	5,235
13,440	-	13,440
354	-	354
-	-	-
-	-	-
223,633	(223,633)	-
<u>1,329,563</u>	<u>(15,730)</u>	<u>1,313,833</u>
899,984	-	899,984
54,355	-	54,355
24,485	-	24,485
57,518	-	57,518
<u>1,036,342</u>	<u>-</u>	<u>1,036,342</u>
100,349	-	100,349
47,657	-	47,657
<u>148,006</u>	<u>-</u>	<u>148,006</u>
<u>1,184,348</u>	<u>-</u>	<u>1,184,348</u>
145,215	(15,730)	129,485
-	71,580	71,580
200,575	-	200,575
(289,370)	-	(289,370)
(29,210)	-	(29,210)
29,210	(29,210)	-
<u>(88,795)</u>	<u>42,370</u>	<u>(46,425)</u>
56,420	26,640	83,060
1,148,142	480,910	1,629,052
(191,572)	-	(191,572)
<u>956,570</u>	<u>480,910</u>	<u>1,437,480</u>
<u>\$ 1,012,990</u>	<u>\$ 507,550</u>	<u>\$ 1,520,540</u>

NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	Program Expenses				Support Expenses				Total Functional Expenses
	Home Construction	Community Awareness	Volunteer Recruitment & Support	Family Selection & Support	Total Program Expenses	Management & General	Fundraising	Total Support Expenses	
OPERATING EXPENSES									
Construction	\$ 552,463	\$ -	\$ -	\$ -	\$ 552,463	\$ -	\$ -	\$ -	\$ 552,463
Land acquisition	4,484	-	-	-	4,484	-	-	-	4,484
Closing costs	4,413	-	-	-	4,413	-	-	-	4,413
Amortization – Loan fees	7,231	-	-	-	7,231	-	-	-	7,231
Service fees	7,960	-	-	-	7,960	5,000	-	5,000	12,960
Truck expense	7,716	-	-	-	7,716	-	-	-	7,716
Salaries, benefits & mileage	67,292	39,026	23,092	36,489	165,899	29,110	29,493	58,603	224,502
Insurance	-	-	-	-	-	14,562	-	14,562	14,562
Newsletter	-	5,616	-	-	5,616	6,004	-	6,004	11,620
Office equipment	-	-	-	-	-	419	-	419	419
Other mission specific costs	740	3,150	3,024	1,962	8,876	-	-	-	8,876
Postage	-	-	-	-	-	1,853	-	1,853	1,853
Supplies	-	-	-	-	-	426	-	426	426
Travel and conferences	1,391	-	-	-	1,391	1,637	-	1,637	3,028
Habitat International – Tithe	25,474	-	-	-	25,474	-	-	-	25,474
Depreciation	9,799	-	-	-	9,799	10,320	-	10,320	20,119
Habitat 500 bike ride	-	-	-	-	-	-	2,860	2,860	2,860
Occupancy	-	-	-	-	-	6,650	-	6,650	6,650
Telephone and Internet	-	-	-	-	-	3,078	-	3,078	3,078
Software	-	-	-	-	-	4,378	-	4,378	4,378
Professional fees	-	-	-	-	-	16,783	-	16,783	16,783
Other fundraising events	-	-	-	-	-	-	4,591	4,591	4,591
Fundraising mailer	-	-	-	-	-	-	8,739	8,739	8,739
Interest	-	-	-	-	-	7,662	-	7,662	7,662
Other	-	-	-	-	-	688	150	838	838
Total Operating Expenses	688,963	47,792	26,116	38,451	801,322	108,570	45,833	154,403	955,725
NONOPERATING EXPENSES									
Mortgage discount amortized	235,163	-	-	-	235,163	-	-	-	235,163
Loan discount amortized	35,179	-	-	-	35,179	-	-	-	35,179
Total Nonoperating Expenses	270,342	-	-	-	270,342	-	-	-	270,342
Total Expenses	\$ 959,305	\$ 47,792	\$ 26,116	\$ 38,451	\$ 1,071,664	\$ 108,570	\$ 45,833	\$ 154,403	\$ 1,226,067

See Notes to Financial Statements.

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

	Program Expenses				Support Expenses				Total Functional Expenses
	Home Construction	Community Awareness	Volunteer Recruitment & Support	Family Selection & Support	Program Expenses	Management & General	Fundraising	Total Support Expenses	
OPERATING EXPENSES									
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 – Tithe	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
Office rent	-	-	-	-	-	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
NONOPERATING EXPENSES									
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
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (74,125)	\$ 83,060
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Loan discount revenue	(27,763)	(71,580)
Mortgage discounts amortization	(150,330)	(200,575)
Mortgage discount expense - new mortgages issued	235,163	289,370
Loan discount amortization	35,179	29,210
Gain on disposal of assets	-	(354)
Contributions for investment in endowment	-	(5,100)
Depreciation and amortization	27,350	28,084
Changes in assets and liabilities:		
Promises to give	29,859	(76,609)
Accounts receivable	6,343	(7,074)
Deposits	200	-
Homes held for sale	-	14,000
Prepaid expenses	330	(330)
Inventory	(4,670)	(3,932)
Payroll liabilities	(415)	(371)
Refundable deposits	(1,000)	480
Accrued expenses	(7,274)	355
Accounts payable	(10,152)	(55,492)
Net cash provided by operating activities	58,695	23,142
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	-	(4,573)
Proceeds from sale of property and equipment	-	372
Mortgages issued	(480,620)	(578,355)
Payments collected	279,565	358,165
Net cash used by investing activities	(201,055)	(224,391)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions received for investment in endowment	-	5,100
Proceeds from long-term borrowing	220,000	214,000
Payment of financing fees	(17,600)	(17,120)
Payments on long-term debt	(99,615)	(89,076)
Net cash provided by financing activities	102,785	112,904
Net decrease in cash	(39,575)	(88,345)
Cash -- Beginning of Year	167,715	256,060
Cash -- End of Year	\$ 128,140	\$ 167,715
SUPPLEMENTAL DISCLOSURES:		
Cash payments for interest	\$ 7,662	\$ 8,212

See Notes to Financial Statements.

NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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 two classes of net assets: without donor restrictions and with donor restrictions.

A description of the two net asset categories follows:

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

Net assets with donor restrictions: Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met either 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. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted for has been fulfilled, or both.

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.

NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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

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.

Contributions –

Contributions received are recorded as without donor restrictions and with donor restrictions support, depending on the existence and/or nature of any donor restrictions.

Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions, 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) net assets with donor restrictions are reclassified to net assets without donor restrictions 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 with donor restrictions if specified by the donor. The with donor restrictions contributions become a part of net assets without donor restrictions 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 expense – new mortgages issued". Non-interest-bearing mortgages are discounted based upon prevailing market rates at the inception of each mortgage. Utilizing the straight-line 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 net assets without donor restrictions 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 net assets with donor restrictions to net assets without donor restrictions at that time.

NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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

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 7).

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.

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 2016.

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, 2019 and 2018 there was no allowance for loan losses.

NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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

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.

Reclassification –

Certain amounts in the 2018 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.

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.

Change in Presentation –

During 2019, the Organization adopted ASU No. 2016-14, *Not-for-Profit-Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; whereas the temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions and the unrestricted net asset class has been renamed net assets without donor restrictions. The financial statements include a new disclosure about liquidity and availability of resources (Note 2).

The changes have the following effect on net assets at June 30, 2018:

	ASU 2016-14 Classifications		
	Without donor restrictions	With donor restriction	Total Net Assets
<u>Net Asset Classifications</u>			
As previously presented:			
Unrestricted net assets	\$ 1,012,990	\$ -	\$ 1,012,990
Temporarily restricted net assets	-	507,550	507,550
Total net assets	<u>\$ 1,012,990</u>	<u>\$ 507,550</u>	<u>\$ 1,520,540</u>

NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY
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2. FINANCIAL ASSETS AND LIQUIDITY RESOURCES:

As of June 30, 2019, financial assets due within one year of the balance sheet date for general expenditures are as follows:

	2019
Financial assets:	
Cash	\$ 128,140
Accounts receivable	731
Contributions receivable	58,000
Mortgages receivable, current portion	103,924
Total financial assets available within one year	290,795
Less amounts unavailable for general expenditures within one year	
Donor-imposed restrictions	(7,103)
Financial assets available to meet cash needs for general expenditures within one year	\$ 283,692

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.

3. INVENTORIES:

At June 30, 2019 and 2018 inventories consisted of the following items:

	2019	2018
Construction in progress - Program	\$ 441,069	\$ 352,949
Building materials and appliances	37,782	53,675
Building lots and rehab houses	91,780	159,337
Total Inventory	\$ 570,631	\$ 565,961

At June 30, 2019, construction in progress consists of six home projects. One project is rehabilitating a NSLCHFH home, repurchased from former owners, one project is a major remodel of a donated home, and four are new home builds. At June 30, 2018, construction in progress consists of five home projects. Two projects are rehabilitating NSLCHFH homes, repurchased from former owners, one project is a major remodel of a donated home, and two are new home builds.

NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY
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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 \$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, 2019, five new mortgages were recorded with a total discount expense of \$235,163. For the year ended June 30, 2018, six new mortgage were recorded with a total discount expense of \$289,370. Mortgage amortization income is recognized over the life of the mortgage using the straight-line method.

Mortgage discounts realized for the years ending June 30, 2019 and 2018 were as follows:

	2019	2018
Mortgage discount amortization	\$ 106,019	\$ 98,800
Unamortized discount recognized due to:		
Payoff of mortgage	44,311	-
Foreclosures and buybacks	-	101,775
Total Mortgage Discount Realized	<u>\$ 150,330</u>	<u>\$ 200,575</u>

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 net assets with donor restrictions to net assets without donor restrictions.

NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY
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4. 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, 2019, five homes were completed and sold. During the year ending and as of June 30, 2018, six houses were completed and sold. In addition one home was completed under the USDA 502 program. Total homes built or renovated as of June 30, 2019 and 2018 were 81 and 76 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 straight-line method.

Schedule of Mortgage Loan Receivable

	2019	2018
Mortgage balances before discounts	\$ 3,951,997	\$ 3,750,942
Less: Unamortized discounts	(2,138,619)	(2,053,785)
Net Mortgage Loan Receivable	\$ 1,813,378	\$ 1,697,157

Loan Delinquency Status –

	2019		2018	
	Number of Loans	Loan Amount	Number of Loans	Loan Amount
Current	61	\$ 3,904,173	56	\$ 3,603,768
31-60 days past due	1	33,788	3	107,522
More than 60 days past due	1	14,036	1	39,652
Total	63	\$ 3,951,997	60	\$ 3,750,942

At June 30, 2019 and 2018 there was no impairment of loans that needed recognition in accordance with generally accepted accounting principles (GAAP).

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

Schedule of Collateralized Mortgages –

At June 30, 2019 and 2018 there were thirty-three and thirty specific mortgages serving as collateral for long-term debt with total required monthly payments of \$6,308 and \$7,572, respectively.

	2019	2018
Mortgage balances before unamortized discounts	\$ 1,981,653	\$ 1,809,402
Less: Unamortized discounts	(1,116,242)	(1,019,242)
Net Collateralized Mortgages	\$ 865,411	\$ 790,160

6. PROMISES TO GIVE:

As of June 30, 2019 and 2018, unconditional promises to give consist of the following:

	2019	2018
Amounts due in less than one year:		
NE Minnesota United Way	\$ 18,000	\$ 18,750
FAIM	-	3,840
Federal Home Loan Bank	-	19,200
Habitat for Humanity – Minnesota – Impact Fund	15,000	30,000
Owens Foundation	10,000	-
Wells Fargo Housing Foundation	15,000	-
Women Build Grant	-	5,000
Community Development Block Grant	-	11,069
	\$ 58,000	\$ 87,859

Conditional Grants to be Received –

At June 30, 2019 the Organization had \$25,000 in grant commitments from grantors which management anticipates receiving during 2020. 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 net assets without donor restrictions. Revenues from such transactions are included in net assets with donor restrictions and reclassified to net assets without donor restrictions when the housing project is sold.

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7. CONTRIBUTED MATERIALS, LOTS, AND SERVICES: (CONTINUED):

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

	2019	2018
Construction related materials	\$ 26,950	\$ 43,673
Homes and building lots	60,500	13,900
Professional services	8,548	40,764
Total Contributed Materials, Lots and Services	\$ 95,998	\$ 98,337

8. NOTES PAYABLE:

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

	2019	2018
Note Payable – The Northland Foundation		
Installment note payable in 4 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.	58,479	68,116
Notes Payable - Habitat for Humanity Minnesota		
This note was replaced in fiscal year 2019.	-	1,454,525
Note payable in 218 remaining monthly payments of \$7,304.01 and 1 final payment of \$2,008.53, bearing interest at 0%. The note is collateralized by 33 mortgage receivables, of which 32 are current and one is 31 – 60 days past due.	1,594,283	-
Note payable in 210 remaining monthly payments of \$252, bearing interest at 2.25%, collateralized by a specific mortgage receivable, which is current.	43,711	45,727
Note payable in 223 remaining monthly payments of \$512, bearing interest at 2.25%, collateralized by a specific mortgage receivable, which is current.	93,242	97,239
Note payable in 247 remaining monthly payments of \$247, bearing interest at 2.25%, collateralized by a specific mortgage receivable, which is current.	53,913	55,643

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8. NOTES PAYABLE (CONTINUED):

	2019	2018
Note payable in 217 remaining monthly payments of \$253, bearing interest at 2.25%, collateralized by a specific mortgage receivable, which is current.	45,238	47,232
Total Notes Payable - Habitat for Humanity Minnesota	1,830,387	1,700,366
Total Long-Term Debt	1,888,866	1,768,482
Less – Unamortized discount	(345,289)	(352,704)
Less – Financing fees, net amortization	(125,174)	(114,806)
Less – Current maturities	(156,085)	(95,067)
Net Long-Term Debt	\$ 1,262,318	\$ 1,205,905

The maturities of notes payable for the year ended June 30, 2019 are as follows:

Year Ending June 30,	Amount
2020.....	\$ 156,085
2021.....	97,832
2022.....	98,064
2023.....	98,301
2024.....	98,543
Subsequent to 2024.....	1,340,041
Total Long-Term Debt	\$ 1,888,866

Notes Payable – Unamortized Discount -

The non-interest bearing notes due to Habitat for Humanity – Minnesota have been discounted at 2.78% with the discounts reflected as increases in net assets with donor restrictions. The discount is amortized using the interest method and charged to amortization, loan discount. A similar amount is released from net assets with donor restrictions to net assets without donor restrictions assets to reflect the lapse of the restriction.

Notes Payable – Financing Fees, Net Amortization -

During the years ending June 30, 2019 and 2018 the Organization incurred loan fees of \$17,600 and \$17,120 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, 2019 and 2018 were \$7,231 and \$6,916 respectively.

9. LINE OF CREDIT:

As of June 30, 2019 and 2018, 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
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10. GRANT REVENUE:

Grant revenue for the years ended June 30, 2019 and 2018 was:

	2019	2018
<i>Without Donor Restriction -</i>		
NE Minnesota United Way	\$ 24,000	\$ 25,000
AEOA Homeowner Assistance Program	15,000	30,000
Federal Home Loan Bank Grants	9,600	48,000
Habitat for Humanity – Minnesota – Impact Fund	35,800	75,000
Owens Family Charitable Foundation	10,000	10,000
The Cliffs Foundation	-	10,000
Essentia Health	40,000	20,000
Mardag Foundation	10,000	15,000
Thrivent Matching Grant	8,300	-
Other	9,574	5,706
Total without donor restriction	162,274	238,706
<i>With Donor Restriction -</i>		
Community Development Block Grant	25,000	35,000
Northland Foundation	-	20,000
Thrivent Financial	32,500	32,500
Wells Fargo Foundation	30,000	45,000
Women Build Grant	-	5,000
Other	1,200	1,500
Total with donor restriction	88,700	139,000
Total grant revenue	\$ 250,974	\$ 377,706

11. NET ASSET CLASSIFICATION:

As of June 30, net assets with donor restriction in these financial statements are as follows:

	2019	2018
Subject to expenditure for specific purpose:		
Cash	\$ -	\$ 1,500
Promises to give	-	5,000
Inventory – Building lots and materials	124,561	141,246
Long-term debt unamortized discounts	345,289	352,704
Total	469,850	500,450
Subject to spending policy and appropriation		
Cash – Endowment, Unspecified	7,103	7,100
Total Net Assets with Donor Restriction	\$ 476,953	\$ 507,550

NORTH ST. LOUIS COUNTY HABITAT FOR HUMANITY
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12. 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 were \$4,617 and \$2,286 for the years ended June 30, 2019 and 2018, respectively.

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. PRIOR PERIOD ADJUSTMENT – CHANGE IN ACCOUNTING PRINCIPLE:

In 2019 the Organization changed its method of accounting for amortization of the discounts associated with the mortgage receivables from the interest method to the straight-line method. The Organization believes this is a more appropriate presentation and is the suggested method by Habitat for Humanity International. The financial statements for 2018 have been restated to apply the new method retroactively. Net assets without donor restriction as of the beginning of 2018 have been decreased by \$191,572 for the effect of retroactive application of the new accounting method. The following financial statement line items for 2018 were affected by the change in accounting principle.

	As computed under the interest method	As computed under the straight-line method	Effect of Change
Statement of Financial Position			
Unamortized discounts	\$ (1,831,293)	\$ (2,053,785)	(222,492)
Net assets without donor restriction	1,235,486	1,012,990	(222,496)
Statement of Activities			
Mortgage discounts realized	231,499	200,575	(30,924)

15. SUBSEQUENT EVENTS:

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 11, 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 \$120,000 in September 2019. After this additional draw the note now requires monthly payments of \$7,666.09, bearing interest at 0%. The note is secured by specific mortgage receivables.

Debt: Northland Foundation –

The Organization amended the note with the Northland Foundation extending the maturity date to November 2024 and changing the interest rate to 5.25%.