DuPage Habitat for Humanity®

AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2018

Selden Fox
Accounting for your future

DuPage Habitat for Humanity, Inc. and Subsidiary
Audit Report
For the Year Ended June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
DuPage Habitat for Humanity, Inc.
and Subsidiary
Wheaton, Illinois

We have audited the accompanying consolidated financial statements of **DuPage Habitat for Humanity, Inc. and Subsidiary**, which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **DuPage Habitat for Humanity, Inc. and Subsidiary** as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited DuPage Habitat for Humanity, Inc. and Subsidiary's 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 24, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Selden Fox, Ltd.

January 24, 2019

DuPage Habitat For Humanity, Inc. and Subsidiary
Consolidated Statement of Financial Position
June 30, 2018
(With Comparative Totals for 2017)

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	**$ 521,320**	$ 579,919
Accounts receivable	**37,248**	47,107
Government grants receivable	**213,511**	348,423
Other grants receivable	**143,750**	123,365
Contributions receivable	**108,135**	96,085
Mortgages receivable, current	**122,056**	95,698
Inventories - land and construction in progress	**2,488,290**	1,676,530
Inventory - ReStore	**69,346**	107,093
Prepaid expenses	**37,038**	20,835
Deposits and other assets	**51,541**	50,344
Total current assets	**3,792,235**	3,145,399
Property and equipment:		
Office equipment and furniture	**12,932**	12,932
ReStore equipment	**73,211**	70,041
Software	**57,840**	57,840
Vehicle	**19,619**	17,884
	163,602	158,697
Less accumulated depreciation	**(147,677)**	(142,725)
Total property and equipment, net	**15,925**	15,972
Other assets:		
Investment in limited liability company	**2,291**	8,777
Mortgages receivable, noncurrent, net of present value discount	**1,599,671**	1,613,318
Total other assets	**1,601,962**	1,622,095
Total assets	**$ 5,410,122**	$ 4,783,466

See accompanying notes and independent auditor's report.

Liabilities and Net Assets	2018	2017
Liabilities:		
Current liabilities:		
Accounts payable	**$ 225,412**	$ 121,058
Accrued expenses	**56,283**	85,409
Escrow and closing funds held	**40,739**	46,958
Deferred rent	**9,279**	7,163
Notes payable, current	**195,248**	193,622
Total current liabilities	**526,961**	454,210
Long-term liabilities - notes payable, net of current portion	**649,393**	334,607
Total liabilities	**1,176,354**	788,817
Net assets:		
Temporarily restricted	**398,679**	259,552
Unrestricted	**3,835,089**	3,735,097
Total net assets	**4,233,768**	3,994,649
Total liabilities and net assets	**$ 5,410,122**	$ 4,783,466

DuPage Habitat For Humanity, Inc. and Subsidiary
Consolidated Statement of Activities
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)

	2018	
	Unrestricted	Temporarily Restricted
Changes in net assets:		
Public support and revenue:		
Federal and local government grants	$ 319,365	$ -
Illinois affordable housing tax credits	-	-
Contributions	747,612	320,321
Net revenue from home sales	381,082	-
Mortgage loan discount amortization	205,311	-
ReStore operations	1,217,044	-
In-kind contributions and donated services	224,215	-
Special events:		
Contributions	124,913	16,410
Ticket sales	17,005	-
In-kind contributions and donated services	38,958	61,948
Less cost of direct benefit to donors	(18,422)	-
Miscellaneous income	57,642	-
Equity in income of limited liability company	(6,486)	-
Net assets released from restrictions	259,552	(259,552)
Total public support and revenue	3,567,791	139,127
Expenses:		
Program services:		
Homebuilding	1,927,675	-
ReStore	789,652	-
Management and general	329,855	-
Fund-raising	420,617	-
Total expenses	3,467,799	-
Change in net assets	99,992	139,127
Net assets, beginning of the year	3,735,097	259,552
Net assets, end of the year	$ 3,835,089	$ 398,679

See accompanying notes and independent auditor's report.

Total	2017 Total
$ 319,365	$ 183,162
-	(72)
1,067,933	785,225
381,082	-
205,311	149,674
1,217,044	1,084,536
224,215	53,501
141,323	103,939
17,005	14,425
100,906	52,029
(18,422)	(17,130)
57,642	12,828
(6,486)	729
-	-
3,706,918	2,422,846
1,927,675	789,992
789,652	654,361
329,855	257,323
420,617	313,590
3,467,799	2,015,266
239,119	407,580
3,994,649	3,587,069
$ 4,233,768	$ 3,994,649

DuPage Habitat For Humanity, Inc. and Subsidiary
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)

	2018	
	Program Services	
	Homebuilding	ReStore
Construction costs - houses sold	$ 750,150	$ -
Salaries and wages	432,628	364,744
Payroll taxes and benefits	90,499	67,513
Professional fees	111,231	-
Home building related expenses	55,403	-
Tithing to Habitat International	56,000	-
Printing and publications	-	538
Postage and shipping	1,185	-
Supplies and software purchases	3,072	42,835
Repairs and maintenance	170,990	12,579
Rent	6,778	233,407
Telephone	53	3,717
Donor development	14,434	59
Insurance	120,967	20,162
Travel and entertainment	44,437	14,405
Bank charges and other fees	240	16,167
Education and conferences	4,770	-
Office equipment purchases	14,256	4,909
Real estate tax	15,017	-
Interest expense	22,528	-
Reduction of donations	-	-
Miscellaneous	8,387	8,315
Depreciation	4,650	302
	$ 1,927,675	$ 789,652

See accompanying notes and independent auditor's report.

Management and General	Fund-raising	**Total**	2017 Total
$ -	$ -	**$ 750,150**	$ -
108,382	177,903	**1,083,657**	853,800
22,966	24,853	**205,831**	166,029
61,349	7,809	**180,389**	82,816
515	4,750	**60,668**	79,468
-	-	**56,000**	-
6,436	1,602	**8,576**	8,901
3,287	17,555	**22,027**	33,229
8,093	3,406	**57,406**	43,086
1,994	-	**185,563**	94,655
25,500	-	**265,685**	249,312
6,796	-	**10,566**	9,195
-	133,494	**147,987**	95,510
36,771	2,921	**180,821**	88,623
5,036	5,659	**69,537**	71,639
32,025	-	**48,432**	46,587
4,577	-	**9,347**	11,769
-	-	**19,165**	15,392
-	-	**15,017**	23,286
-	-	**22,528**	25,851
-	40,071	**40,071**	-
6,128	594	**23,424**	10,653
-	-	**4,952**	5,465
$ 329,855	$ 420,617	**$ 3,467,799**	$ 2,015,266

DuPage Habitat For Humanity, Inc. and Subsidiary
Consolidated Statement of Cash Flows
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)

	2018	2017
Cash flows from operating activities:		
Change in net assets	**$ 239,119**	$ 407,580
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	**4,952**	5,465
Gain on disposal of equipment	**-**	(2,941)
Mortgage loan discount amortization	**(205,311)**	(149,674)
Change in discount on pledges receivable	**(588)**	-
Reduction of donations - bad debt	**40,071**	-
Changes in ReStore inventory for sale	**37,747**	(48,755)
Equity in income of limited liability company	**6,486**	(729)
Present value on mortgages issued for home sales	**(54,707)**	-
Changes in operating assets and liabilities:		
Accounts receivable	**9,859**	(17,448)
Grants receivable	**114,527**	333,996
Contributions receivable	**(51,533)**	87,000
Home building related inventory	**(811,760)**	(598,368)
Prepaids and other current assets	**(17,400)**	(22,152)
Accounts payable and accrued expenses	**75,228**	(125,382)
Escrow and closing funds held	**(6,219)**	31,188
Deferred rent	**2,116**	5,124
Deferred income	**-**	(3,099)
Net cash from operating activities	**(617,413)**	(98,195)
Cash flows from investing activities:		
Purchase of property and equipment	**(4,905)**	(17,884)
Proceeds on disposal of equipment	**-**	14,029
Principal repayments on mortgage receivables	**247,307**	220,911
Net cash from investing activities	**242,402**	217,056
Cash flows from financing activities:		
Proceeds from notes payable	**350,000**	-
Payments on notes payable	**(33,588)**	(134,995)
Net cash from financing activities	**316,412**	(134,995)
Net change in cash and cash equivalents	**(58,599)**	(16,134)
Cash and cash equivalents, beginning of the year	**579,919**	596,053
Cash and cash equivalents, end of the year	**$ 521,320**	$ 579,919

See accompanying notes and independent auditor's report.

1. **Organization and Purpose**

The accompanying financial statements reflect the consolidated operations of DuPage Habitat for Humanity, Inc. and DuPage Habitat for Humanity Neighborhood Revitalization Council (collectively referred to as the Organization). All significant intercompany transactions and balances have been eliminated in consolidation.

DuPage Habitat for Humanity, Inc. (Habitat), a not-for-profit corporation, was incorporated on February 3, 1995. The Organization is an affiliate of Habitat for Humanity International, Inc., a nondenominational Christian non-profit organization whose purpose is to provide home ownership opportunities to limited income families or individuals, and to put the reality of substandard housing in the minds and hearts of DuPage residents in such a powerful way that unattainable home ownership for these families or individuals becomes politically, socially and religiously unacceptable. Although Habitat for Humanity International, Inc. (HFHI) assists with informational resources, training, publications, prayer support, and in other ways, the Organization is primarily and directly responsible for its own operation.

During the year ended June 30, 2012, the Organization launched a new ReStore program. This program recycles used and surplus household and construction materials to reduce the tonnage of waste going into landfills and provide building supplies to the general public at greatly reduced prices. All profits from the sales go to funding the mission of the Organization.

During the year ended June 30, 2015, the Organization established the DuPage Habitat for Humanity Neighborhood Revitalization Council (NRC), a single member wholly-owned subsidiary. The NRC was established for the purpose of developing a Community Housing Development Organization (CHDO), a community-based organization with staff and the capacity to develop affordable housing for the community it serves.

On October 1, 2018, the Organization entered into a Memorandum of Understanding with ReStore of Fox Valley Habitat for Humanity to establish an affiliate relationship whereby the Organization assumed control, through majority voting interest on the Board of Directors, of Restore Fox Valley Habitat for Humanity.

2. **Summary of Significant Accounting Policies**

General – The accounts and consolidated financial statements are maintained on the accrual basis of accounting and, accordingly, reflect all significant accounts receivable, payable, and other liabilities.

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted (when applicable) net assets, as required by Generally Accepted Accounting Principles (GAAP).

2. **Summary of Significant Accounting Policies** (cont'd)

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenues, expenses, gains, losses and other changes in net assets during the reporting period. Accordingly, actual results could differ from those estimates.

Income Tax Status – DuPage Habitat for Humanity, Inc. was granted an exemption from federal income taxes by the Internal Revenue Service pursuant to the provisions of Internal Revenue Code Section 501(c)(3). Habitat qualifies for the charitable construction deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private foundation under Section 509(a)(1). The tax-exempt purpose of Habitat and the nature in which it operates is described above. The Organization continues to operate in compliance with its tax-exempt purpose.

The NRC is a wholly owned corporation with Habitat being the sole shareholder. For tax purposes, this entity is treated as a disregarded entity. Its activities are included in Habitat's tax reporting.

The Organization's tax returns for the years ended June 30, 2015, 2016, and 2017, are open for purposes of Internal Revenue Service or Illinois Department of Revenue examinations.

Cash and Cash Equivalents – Cash and cash equivalents consist of bank deposits in federally insured accounts.

For purposes of the consolidated statement of cash flows, the Organization considers all highly liquid instruments, if any, purchased with an original maturity of three months or less to be cash equivalents.

Inventories – Land and Construction-in-Progress – Inventory is valued at the lower of cost or fair value. Inventory primarily consists of purchased and donated houses, construction materials, land and homes under construction issued in the Organization's programs. Inventory is initially capitalized at cost or fair value if donated. This includes all direct and indirect costs incurred to prepare it for sale or use. If it is determined that the capitalized costs of inventory exceed its fair value, the inventory is written down to its fair value. Construction materials are valued at cost using the first-in, first-out (FIFO) method.

Inventory ReStore – ReStore inventory is recognized as an asset at its estimated fair value determined at the time it is received. Changes in the Restore inventory balance at year end are recognized as an adjustment of ReStore operations revenue.

2. **Summary of Significant Accounting Policies** (cont'd)

Inventory – Real Estate Owned – Reclaimed homes are recorded as real estate owned at the lesser of fair value or the outstanding mortgage balance at the date of reclamation. Added to these amounts are closing costs and additional costs necessary to ready the homes for resale. Any write-down based on the home's fair value at the date of foreclosure is charged to the allowance for loan losses. No homes were reclaimed for the years ended June 30, 2018 and 2017. Subsequent to year end, the Organization reclaimed two homes with one property being sold at a sheriff sale and the second property returned to the Organization by the owner.

Property and Equipment – Expenditures for property and equipment and items which substantially increase the useful lives of existing assets are capitalized at cost or fair value if donated. The Organization provides for depreciation on the straight-line method at rates designed to depreciate the costs of assets over estimated useful lives of 5 or 7 years.

Investment in Limited Liability Company – The Organization is one of two equal members in Home Together, LLC, a non-profit organization formed in 2010, to purchase and share the building used for operations (see Note 13). Due to the Organization's lack of a controlling interest in the subsidiary, its investment is accounted for under the equity method and consolidated financial statements are not presented. The investment account is increased for cash contributions made to the LLC and for the Organization's proportionate share of the LLC's other increase in net assets and decreased for the cash distributions received from the LLC and the Organization's proportionate share of the LLC's other decreases in net assets.

Support and Revenue – The Organization reports gifts of cash and other assets as restricted support, if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations regarding how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

2. **Summary of Significant Accounting Policies** (cont'd)

Government Contributions – Support funded by government contracts, which qualify as conditional promises to give, are recognized when the condition of performing the contracted services is met. Revenue is therefore recognized as earned as the condition of eligible expenses is incurred. These expenditures are subject to audit and acceptance by the respective granting agency and, because of such audit, adjustments could be required.

In-Kind Contributions and Donated Services – In addition to receiving cash contributions, the Organization receives in-kind contributions and donated services from various donors. In accordance with generally accepted accounting principles, contribution of services are required to be recognized if the services received (a) create or enhance non-financial assets, or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. In-kind contributions are also required to be recorded at fair value. The Organization recognizes the estimated fair value of these in-kind donations and donated services as an expense or asset if appropriate in its consolidated financial statements, and similarly records a corresponding donation by a like amount.

During the years ended June 30, 2018 and 2017, the Organization received the following unconditional in-kind contributions and donated services:

	2018	2017
Land and building	**$ 175,000**	$ -
Building materials and labor	**33,030**	47,866
Mortgage services	**11,185**	4,220
Miscellaneous	**5,000**	1,415
	$ 224,215	$ 53,501

Changes in the year-end ReStore inventory balance are recognized as an adjustment of ReStore operations revenue. ReStore inventory is recognized as an asset at its estimated fair value for the inventory remaining at June 30, 2018 and 2017.

During the year ended June 30, 2018, the Organization received $100,906 of donated supplies for special events and fund-raisers, including $61,948 related to an event held in the next fiscal year reported as temporarily restricted at June 30, 2018, of which $18,422 was included in direct benefits to donors. During the year ended June 30, 2017, the Organization received $52,029 of donated supplies for special events and fund-raisers, including $28,618 related to an event held in the 2018 fiscal year reported as temporarily restricted at June 30, 2017, of which $17,130 was included in direct benefits to donors.

2. **Summary of Significant Accounting Policies** (cont'd)

In-Kind Contributions and Donated Services (cont'd) – There were also a substantial number of volunteers who donated a significant amount of their time towards the activities of the Organization for the years ended June 30, 2018 and 2017, the value of which has not been recognized in the consolidated financial statements as they do not meet the criteria for recognition.

Functional Allocation of Expenses – The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of activities, and the consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Warranties – The Organization provides a limited one-year warranty in the deed of trust on the sale of a home which is generally for defects in materials and workmanship. Warranty costs are accrued when obligations under the warranty period become probable and can be reasonably estimated. The Organization incurred warranty costs of $4,452 during the fiscal year 2018, and $2,025 during fiscal year 2017. There were no warranty costs accrued at June 30, 2018 and 2017.

Advertising and Promotion – The Organization maintains a small supply of promotional books, pamphlets and other merchandise available for public distribution and ministry purposes. Costs related to these materials, including advertising and promotion, are expensed as incurred.

Compensated Absences – The Organization's vacation policy allows employees to accumulate and carry forward a maximum of ten vacation days. As of June 30, 2018 and 2017, the Organization has recognized a liability of $20,416 and $36,505, respectively, for compensated absences.

Comparative Information – The consolidated financial statements include certain prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Subsequent Events – Subsequent events have been evaluated through January 24, 2019, which is the date the consolidated financial statements were available to be issued.

3. **Federal and Local Government Grants**

Neighborhood Stabilization Program – The Organization had been selected by the County of DuPage (County) to act as a developer to acquire and rehabilitate eligible abandoned and foreclosed single family homes under a Neighborhood Stabilization Program (NSP) funded by the Department of Housing and Urban Development (HUD). Homes acquired and rehabilitated under the NSP are then sold by the Organization to qualifying low income individuals under the Organization's normal terms and conditions. The Organization received NSP funds from the County as it incurred eligible costs. The Organization executes notes to the County as the NSP funds are received from the County. The County releases the Organization from these notes when the related homes are sold by the Organization to eligible individuals. The homeowners execute non-interest-bearing first mortgages to the Organization at the time they purchase the homes. The amount of the first mortgage is determined by the Organization such that, when considering real estate taxes and insurance, the required mortgage payment is affordable to the homeowners in accordance with the Organization's mission. The homeowners also execute a second mortgage to the Organization that equals the difference between the actual costs of the home and the sum of the first mortgage. The homeowners may have a third mortgage if assistance from the County is received. The second and third mortgages are also non-interest-bearing and are payable only if certain events occur in the future.

Revenue recognized upon the sale of homes is considered unrestricted income based on an amended agreement entered into with the County in the year ended June 30, 2014.

The Organization receives a developer fee of ten percent of eligible costs for its services under the NSP. The developer fee was recognized as unrestricted revenue as the eligible costs were incurred. Revenues were also recognized for direct construction and rehabilitation costs incurred. Total grant revenues recognized under the NSP were $103,626 and $41,997 for the years ended June 30, 2018 and 2017, respectively.

Community Development Block Grants – The Organization had been awarded grants by the County from its Housing Development Fund to be used to fund, in part, the Organization's development of 11 homes in its Pioneer Prairie subdivision. These grants were funded through Community Development Block Grants (CDBG) from HUD. The Organization received CDBG funds from the County as it incurred eligible costs. For the portion of the funds used to build homes, the Organization executed notes to the County as the CDBG funds were received from the County. The homeowners executed non-interest-bearing first mortgages to the Organization at the time they purchased the homes. The amount of the first mortgage was determined by the Organization such that, when considering real estate taxes and insurance, the required mortgage payment was affordable to the homeowner in accordance with the Organization's policies.

3. **Federal and Local Government Grants** (cont'd)

Community Development Block Grants (cont'd)

In addition, the homeowners assumed a pro rata portion of the Organization's note to the County in the form of a third mortgage. The homeowners also executed a second mortgage to the Organization that equaled the difference between (a) the market value of the home and (b) the sum of the sales price (which is the sum of the first mortgage and the down payment) and the third mortgage. The second and third mortgages were also non-interest-bearing and are payable only if certain events occur in the future.

The Organization recognized the portion of the CDBG grant designated to fund a portion of the infrastructure costs as unrestricted revenue in the period it incurred the eligible infrastructure costs. The Organization recognized the portion of the CDBG grant designated to fund a portion of the cost of building the homes as temporarily restricted revenue in the period it incurred the eligible costs and released the restriction at the time of the sale of the home. The Organization does not receive a developer's fee under the CDBG grant agreement. No revenue was recognized as it relates to the CDBG grant during the years ended June 30, 2018 and 2017.

HOME – The Organization was awarded grants by the County from its Housing Development Fund to be used to fund, in part, the Organization's development of 12 townhomes in its Prairie Green subdivision. These grants are funded through HOME Investment Partnerships Act Funds (HOME) from HUD. The Organization received HOME funds from the County as it incurred eligible costs. The Organization executed notes to the County when the HOME grant was executed with the County. The future homeowners then executed non-interest-bearing first mortgages to the Organization at the time they purchased the townhomes. The amount of the first mortgage was determined by the Organization such that, when considering real estate taxes and insurance, the required mortgage payment is affordable to the homeowner in accordance with the Organization's policies. The homeowners also executed a second mortgage to the Organization that equals the difference between (a) the market value of the townhome and (b) the sum of the sale price (which is the sum of the first mortgage and the down payment) not to exceed \$275,200. The second mortgage is also non-interest-bearing and payable only if certain events occur in the future.

The County released the Organization from 1/12th of the County's mortgage at the time each townhouse was sold to an eligible homeowner. Each townhouse is subject to a Regulatory Land Use Restriction Agreement (RLURA) that will impose resale restrictions on the townhomes for a period of 15 years. The RLURA is intended to ensure that any townhomes resold during that 15-year period will be sold to individuals whose income does not exceed specified levels at a price affordable to such individuals.

3. **Federal and Local Government Grants** (cont'd)

HOME – (cont'd)

The Organization recognized the HOME grant as temporarily restricted revenue in the period it incurred the eligible costs. A portion of the HOME grant, equal to costs incurred for the construction of the home plus a pro rata share of land and general infrastructure costs, was transferred to unrestricted net assets at the time of the sale of the home. All revenue related to the HOME grant award for the Prairie Green subdivision has been recognized prior to June 30, 2016.

The Organization received a developer fee of fifteen percent of eligible costs for its services under the HOME agreement. The developer fee was recognized as restricted revenue as the eligible costs were incurred with a pro rata portion being transferred to unrestricted net assets at the time of the sale of the home.

During fiscal year 2015, the Organization received an additional HOME grant of $225,000 to fund eligible costs related to the construction of one vacant single-family home. The remaining portion of eligible costs were incurred during the year ended June 30, 2017. Total unrestricted revenue recognized under the grant was $91,383 for the year ended June 30, 2017.

During fiscal year 2018, the Organization received an additional HOME grant of $500,000 to fund eligible costs related to the acquisition, rehabilitation and resale of at least five residential properties in the Greenbrook Tanglewood area of Hanover Park, Illinois. A portion of eligible costs were incurred during the current year. Total unrestricted revenue recognized under the grant was $115,910 for the year ended June 30, 2018.

Capacity Building for Community Development and Affordable Housing – The Organization was awarded a $100,000 conditional grant by Habitat for Humanity International, which is a re-granting entity for HUD for the Section 4 Capacity Building for Community Development and Affordable Housing Grant (CB grant) for the period of April 1, 2015 to March 31, 2018. The funds are to be used to increase the home building capacity of the Organization through additional staffing positions. The Organization is required to demonstrate a five-to-one match for the grant funds as they are received and progress towards its housing goals until they are met. The Organization is also required to demonstrate a ten-to-one leverage ratio to perform eligible activities and sustain the project. Total revenue recognized related to the CB grant was $31,667 and $41,740 for the years ended June 30, 2018 and 2017, respectively.

3. **Federal and Local Government Grants** (cont'd)

Federal and local government grants recognized as revenue as of June 30, are as follows:

	2018	2017
NSP	**$ 103,626**	$ 41,997
HOME	**115,910**	91,383
CB	**31,667**	41,740
Other	**68,162**	8,042
	$ 319,365	$ 183,162

4. **Home Sales**

Beginning in the year ended June 30, 2018, a financial institution assumes the first mortgage on homes sold by the Organization. The first mortgage amount is based on a front-end ratio of 30%. The front-end ratio is calculated by dividing mortgage-related costs (principal, interest, property taxes and insurance) by gross monthly household income. The purchase price is based upon appraised value. The Organization issues a second and third mortgage to the homeowner on these properties. The amount of the second mortgage is the difference between the appraised value and the sum of the first mortgage, held by the financial institution, and the third mortgage held by the Organization. The second mortgage is interest free and is payable upon satisfaction of the first mortgage. The fair value of the first mortgage was determined by discounting the mortgage payments using the interest rate on the first mortgage issued by the financial institution. The third mortgage is equal to the interest owed to the financial institution over the life of the first mortgage, with the amount owed on the third mortgage reduced proportionately over the life of the first mortgage as payments are made.

Previously, the Organization recognized revenue from the sale of its homes at the fair value of the first mortgages it received plus the required down payments. The first mortgages issued by the Organization to the homeowners were non-interest-bearing and required monthly payments, typically over a 30-year period. The amount of a first mortgage was determined by the Organization such that, when considering real estate taxes and insurance, the required mortgage payment was affordable to the homeowner in accordance with the Organization's policies. The fair value of the first mortgage was determined by discounting the mortgage payments using an interest rate that approximates a current market rate of interest for such a mortgage instrument.

The sales price is the lower of appraised value or cost of construction. The Organization determines the amount of the first mortgage based on the partner family's ability to pay, and a second mortgage is entered into for the difference. The following is a reconciliation of the market value of homes sold and the revenue recognized on the sale of those homes for the years ended June 30:

4. **Home Sales** (cont'd)

	2018	2017
Market value of homes sold	**$ 741,000**	$ -
Excess of market value over sales price of home sold	**(36,000)**	-
Grant funds applied	**(40,000)**	
Silent third mortgages not recorded	**(187,989)**	-
Present value discount on first and second mortgages (non-interest)	**(95,929)**	-
Net revenue from the sale of homes	**$ 381,082**	$ -

The Organization can recover a portion of these subsidies if a homeowner disposes of a home or otherwise prepays the first mortgage prior to the end of the term of the first mortgage.

5. **Mortgages Receivable**

Applicants purchasing homes from the Organization agree to a mortgage secured by the purchased home. The mortgages are non-interest-bearing and require monthly payments, typically over a 30-year period. To appropriately reflect the economics of the non-interest-bearing mortgage, the Organization discounts the mortgages for financial reporting purposes at the time they are originated using an interest rate that approximates a current market rate of interest for such a mortgage instrument. The discount rates in effect range from 4.0% and 8.78%. That discount is then amortized to income over the term of the mortgage. The Organization recognized $205,311 and $149,674 of income from the mortgage loan discount amortization for fiscal years ended June 30, 2018 and 2017, respectively.

The Organization did originate two new mortgages during the year ended June 30, 2018, net of related discounts, in the amount of $54,707. For the year ended June 30, 2017, the Organization did not originate any new mortgages. The Organization does not charge homeowners any fees in connection with originating the mortgages and does not defer any costs related to originating the mortgages.

5. **Mortgages Receivable** (cont'd)

Mortgages receivables at June 30, are presented net of unamortized discounts as follows:

	2018	2017
Gross mortgages receivables at face value	**$ 4,445,007**	$ 4,541,677
Less – unamortized discount based on imputed interest rates of 4.0% to 8.8%	**(2,723,280)**	(2,832,661)
Net mortgages receivables	**$ 1,721,727**	$ 1,709,016
Current portion	**$ 122,056**	$ 95,698
Long-term	**1,599,671**	1,613,318
	$ 1,721,727	$ 1,709,016

Anticipated future principal collections on the discounted first mortgages are estimated as:

2019	$ 122,056
2020	80,694
2021	80,694
2022	80,694
2023	79,179
Thereafter	1,278,410
Total	$ 1,721,727

In addition, "silent" second mortgages exist on nearly all homes sold by the Organization prior to July 1, 2017. In general, the "silent" second mortgages are established for the difference between (a) the estimated market value of the home at date of sale (or, in the case of homes funded through certain grants, the cost of the home) and (b) the sales price of the home (the sum of the undiscounted amount of the first mortgage and the down payment made by the homeowner). The "silent" second mortgages are non-interest-bearing and are forgiven ratably beginning in the 83rd month after sale of the home over the remainder of the first mortgage term (beginning with the 61st month after sale for mortgages originated prior to 2009). All second mortgages are forgiven after 30 years. Pursuant to some grant arrangements, the grantor may hold a portion of the "silent" second mortgage or may hold a "silent" third mortgage. The Organization does not record its share of the "silent" second mortgages in the consolidated financial statements. Second mortgages on homes sold prior to July 1, 2017 totaled $3,330,767 which is net of $1,148,118 in mortgage forgiveness as of June 30, 2018, and $3,461,578, which is net of $1,060,011 in mortgage forgiveness as of June 30, 2017.

5. **Mortgages Receivable** (cont'd)

Also, "silent" third mortgages exist on homes sold by the Organization subsequent to June 30, 2017, equal to the interest paid to the financial institution holding the first mortgage. The "silent" third mortgages are non-interest-bearing and are forgiven ratably over term of the first mortgage. All third mortgages are forgiven after 30 years. The Organization does not record its share of the "silent" third mortgages in the consolidated financial statements. Third mortgages on homes sold after to July 30, 2018, totaled $189,712, which is net of $1,795 in mortgage forgiveness as of June 30, 2018.

Finally, a profit sharing agreement exists on all homes sold by the Organization. The amount is based on a percentage of the appreciation in value and the length of time the homeowner has owned the house so that the longer the homeowner has owned the home, the lower the percentage of profit due to the Organization.

Events which trigger payments to be made on second mortgages are as follows:

1. Sale of property to a third-party.
2. Transfer of property to someone other than the buyer's spouse.
3. Rental of property to a third-party.
4. Creation of certain trusts which affects the title to the property.
5. Failure to occupy property as main residence.
6. Refinance property without paying off the amount due under the first mortgage note plus the amount for which the buyer has not received credit under the second mortgage noted as of the date of the payoff.
7. Failure to make three payments in a row.
8. Third-party forecloses on the property or files mechanic's lien on the property.
9. Use of property to carry on a business, trade, or profession except as permitted by applicable law or ordinance.
10. Attempt to prepay one of the mortgage notes before maturity of the first mortgage note and the second mortgage note without prepaying both the first mortgage note and the second mortgage note.
11. Failure to perform the terms of either of the first mortgage note or the second mortgage note or either of the first mortgage or the second mortgage and do not cure such failure within any applicable notice or cure period.

In the event that a homeowner disposes of a home or otherwise prepays the first mortgage prior to the end of the term of the first mortgage, the balance of the "silent" second mortgage and any sharing of appreciation in the value of the home between the homeowner and the Organization becomes due. Finally, the first mortgage provides the Organization with the right of first refusal, at the then current market value, to purchase any home that a homeowner has decided to sell. There was no income from partner families selling homes in fiscal 2018 or 2017.

5. **Mortgages Receivable** (cont'd)

The Organization has not established an allowance for loan losses for its mortgages receivable as there are no probable and reasonably estimable losses related to the mortgage receivables as of June 30, 2018 and 2017. This conclusion is based in part on the fact that the estimated value of the properties securing the mortgages receivable significantly exceeds the amount recognized as mortgages receivable.

6. **Mortgages Receivables Servicing**

DuPage Habitat for Humanity mortgages receivables are serviced by Harris Bank at no charge. The Organization received $11,185 and $4,220 of donated services for the years ended June 30, 2018 and 2017, respectively, which are recorded at fair value in the consolidated financial statements.

7. **Related Party Transactions**

The Organization annually remits a portion of its contributions (excluding in-kind contributions) to Habitat for Humanity International, Inc. (HFHI). These funds are used to construct homes in economically depressed areas around the world. For the year ended June 30, 2018, the Organization made contributions of $56,000 (none for the year ended June 30, 2017).

During the year ended June 30, 2018, the Organization received grant funds, contributions and pass-through funds from HFHI and Chicagoland Habitat for Humanity for unrestricted support, build days support, Stewardship and Organizational Sustainability Initiative (SOSI) fee support, and ReStore marketing support totaling $89,968 ($130,193 during the year ended June 30, 2017).

The Organization received grant funds from HFHI, which are sponsored by other organizations, totaling $58,367 for the year ended June 30, 2017.

During the years ended June 30, 2018 and 2017, the Organization received net proceeds from HFHI through the Cars for Homes program totaling $14,729 and $15,923, respectively.

As described in Note 3, HFHI, acting as a re-granting entity for HUD, awarded a capacity building grant to the Organization. The Organization recognized grant revenue of $31,667 and $41,740 related to this grant during the years ended June 30, 2018 and 2017, respectively.

During 2011, the Organization borrowed $249,900 from HFHI, securing the loan by pledging mortgages receivable. The loan was refinanced through proceeds from an additional note through HFHI totaling $400,300 during the year ended June 30, 2016. Refer to Note 9 for further information.

7. **Related Party Transactions** (cont'd)

On March 1, 2011, the Organization commenced a lease for office space located at 1600 East Roosevelt in Wheaton, Illinois, with Home Together, LLC. Refer to Note 8 for more information.

Chicagoland Habitat for Humanity (CHFH), an organization which DuPage Habitat for Humanity has a representative on their Board of Directors, awarded a capacity building grant to the Organization. The Organization recognized grant revenue of $45,000 related to this grant during the year ended June 30, 2017.

8. **Operating Leases**

On March 1, 2011, the Organization commenced a lease for its office space located at 1600 East Roosevelt in Wheaton, Illinois, with a related party, Home Together, LLC. See Note 13 for information about the formation and mission of Home Together, LLC. The Organization's monthly rent is set annually by the Board of Managers of Home Together, LLC at an amount that approximates 50% of the projected operating costs of Home Together, LLC. The rent payment per month was $2,000 for the year ended June 30, 2017 and the eleven months beginning July 1, 2017 through May 31, 2018. In May 2018, Home Together, LLC entered into a lease for additional space at 1616 East Roosevelt Road in Wheaton, Illinois. The lease runs from May 4, 2018 through May 3, 2021. The Organization's monthly rent was adjusted to $3,500 beginning in June 2018, and it is anticipated that the rent will be approximately this same amount in future years. For financial reporting purposes, the Organization is treating the lease with Home Together, LLC as a five-year operating lease, which corresponds to the term of Home Together, LLC's bank financing used to purchase the property. Office space rent expense was $25,500 and $24,000 for the years ended June 30, 2018 and 2017, respectively.

The Organization leases retail space for its ReStore operations at 869 South Route 53 in Addison, Illinois, under an operating lease with an original expiration date of February 28, 2016, that was extended in the prior year for five additional years through February 28, 2021. Rent, common area maintenance, and utilities for the years ended June 30, 2018 and 2017, were $231,292 and $225,081, respectively.

The Organization leases a copy machine under an operating lease, expiring in December 2018. Rent expense for the years ended June 30, 2018 and 2017, was $6,436 and $6,862, respectively.

Minimum future lease payments are as follows at June 30:

	Retail Space	Other	Total
2019	$ 126,436	$ 1,291	$ 127,727
2020	129,597	-	129,597
2021	87,826	-	87,826
	$ 343,859	$ 1,291	$ 345,150

9. Notes Payable and Lines of Credit

	2018	2017
DuPage Habitat for Humanity, Inc.		
The Organization maintains a line of credit with Wheaton Bank and Trust Company dated December 20, 2011, and maturing December 20, 2012, with borrowings up to $200,000; subsequently renewed through July 31, 2018, with borrowings up to $200,000; interest due monthly at the lender's prime rate but not less than 4%.	**$ 160,000**	$ 160,000
On June 28, 2016, the Organization obtained a promissory note with HFHI in the amount of $400,300 with a maturity date of June 30, 2026. Original principal of $400,300 payable in quarterly installments of $12,630 which includes interest at 4.75%. Proceeds used to refinance all debt except Wheaton Bank and Trust Company line of credit.	**334,641**	368,229
On May 29, 2018, the Organization obtained a promissory note with First Eagle Bank in the amount of $350,000 with a maturity date of May 29, 2021. Original principal of $350,000 payable in lump sum at maturity. Interest is payable monthly commencing June 29, 2018, at a variable rate equal to the prime rate as published in the Wall Street Journal (5.00% at June 30, 2018). Proceeds used to acquire property in Hanover Park.	**350,000**	-
	844,641	528,229
Less current portion	**(195,248)**	(193,622)
Net long-term debt	**$ 649,393**	$ 334,607

Minimum future principal payments are as follows at June 30:

2019	$ 195,248
2020	36,952
2021	388,740
2022	40,612
2023	42,576
2024-2026	140,513
Total	$ 844,641

Interest expense and interest paid totaled $22,528 for the year ended June 30, 2018 ($25,851 for the year ended June 30, 2017).

10. **Inventories – Land and Construction in Progress**

Land and construction in progress inventory consists of the following at June 30:

	2018	2017
Homes under construction (14 properties in 2018 and 9 properties at June 30, 2017)	**$ 2,486,326**	$ 1,664,566
Land held for future development	**-**	10,000
Building supplies	**1,964**	1,964
Total	**$ 2,488,290**	$ 1,676,530

11. **Contributions Receivable**

Unconditional promises to give cash, in-kind contributions and certain qualified donated services are recognized in the consolidated financial statements at the time of commitment based on written documentation or strong verbal assurances from the donor. At June 30, 2018 and 2017, contributions receivables are restricted to construction and rehabilitation of homes in the home ownership program. Contributions receivables at June 30, 2018 and 2017 consist of unconditional promises to give cash and are considered current.

When a contribution receivable is deemed uncollectible, it is written off as a reduction of donation expense (contributions unrealized). For the year ended June 30, 2018, the Organization wrote off $40,071 of contributions receivables. For the year ended June 30, 2017, the Organization did not deem any contributions receivables as uncollectible and did not write any off.

12. **Temporarily Restricted Net Assets**

Temporarily restricted net assets consist of the following at June 30:

	2018	2017
Unconditional promises to give cash and donate materials and labor for the construction and rehabilitation of homes in the home ownership program.	**$ 78,700**	$ 95,324
Grants for homebuilding costs and Neighborhood Revitalization Programs	**241,621**	120,865
Donations for future fund-raising events	**78,358**	43,363
	$ 398,679	$ 259,552

13. **Home Together LLC**

During the year ended June 30, 2011, Habitat and DuPage Home Ownership Center (DHOC) formed Home Together, LLC to jointly acquire office space for themselves in DuPage County, Illinois. On February 13, 2012, Home Together, LLC received a notice from the Internal Revenue Service that it is a 501(c)(3) organization.

Home Together, LLC has acquired the property located at 1600 East Roosevelt Road in Wheaton, Illinois, for $625,000. This purchase was funded through a CDBG grant received from HUD in the amount of $566,888 and a loan from West Suburban Bank in the amount of $70,000. The grant is in the form of a 20-year non-interest-bearing loan that will be forgiven after 20 years as long as the Organization, Home Together, LLC, and DHOC have complied with the terms of the grant. Specifically, the grant requires that any real property acquired using the grant funds be used to benefit low and moderate income persons for the 20-year term of the forgivable loan. The Organization, DHOC, and Home Together, LLC are jointly obligated for the forgivable loan.

The promissory note with West Suburban Bank has a term of 5 years, a maturity date of March 2016, and a fixed interest rate at 4.25%. Principal is being paid monthly as if the loan was amortized over 20 years, with the balance of the loan due in March of 2016. Effective November 1, 2015, the note was amended increasing the interest rate to 5.25% and extending the maturity date to October 1, 2025.

Home Together, LLC will administer, operate and oversee the use and management of the property, including, without limitation, leasing office space to member organizations, repairing, and maintaining the property. Each member has equal membership interest and is entitled to appoint three managers of the Company.