



LEXINGTON HABITAT FOR HUMANITY, INC.

FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

LEXINGTON HABITAT FOR HUMANITY, INC.

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Blue & Co., LLC / 250 West Main Street, Suite 2900 / Lexington, KY 40507
main 859.253.1100 fax 859.253.1384 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Lexington Habitat for Humanity, Inc.
Lexington, Kentucky

We have audited the accompanying financial statements of Lexington Habitat for Humanity, Inc. ("Habitat"), which comprise the statements of financial position as of June 30, 2018 and 2017 and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from 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.

To the Board of Directors
Lexington Habitat for Humanity, Inc.
Lexington, Kentucky

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Blue & Co., LLC

Lexington, Kentucky
December 5, 2018

LEXINGTON HABITAT FOR HUMANITY, INC.

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2018 AND 2017

	ASSETS	
	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 112,216	\$ 230,294
Accounts and grants receivable	111,148	122,528
Pledges receivable, net	1,000	8,450
Inventory	13,014	14,611
Prepaid expenses	88,510	67,743
Non-interest bearing mortgage loans, net	5,166,017	5,226,494
Construction in progress	557,507	419,777
Land and property held for sale or development	438,969	420,068
Building and equipment, net	1,256,021	1,052,452
Investments at fair value	988,692	927,921
	<u> </u>	<u> </u>
Total assets	<u>\$ 8,733,094</u>	<u>\$ 8,490,338</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	\$ 354,891	\$ 197,058
Accrued liabilities	443,234	418,080
Deferred lease incentive	70,833	87,500
Line of credit	200,000	210,000
Notes payable	987,323	1,036,889
Total liabilities	<u>2,056,281</u>	<u>1,949,527</u>
Net assets		
Unrestricted	5,705,821	5,546,523
Temporarily restricted:		
To be received in future years	1,000	8,450
Endowment earnings	-0-	45,337
	<u>1,000</u>	<u>53,787</u>
Permanently restricted, endowment	<u>969,992</u>	<u>940,501</u>
	<u> </u>	<u> </u>
Total net assets	<u>6,676,813</u>	<u>6,540,811</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 8,733,094</u>	<u>\$ 8,490,338</u>

See accompanying notes to financial statements.

LEXINGTON HABITAT FOR HUMANITY, INC.

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other support				
ReStore sales, net	\$ 2,113,561	\$ -0-	\$ -0-	\$ 2,113,561
Contributions and fundraising	956,882	-0-	2,485	959,367
Interest income from mortgage discount amortization	456,010	-0-	-0-	456,010
Grants	444,778	-0-	-0-	444,778
Transfers to homeowners	377,445	-0-	-0-	377,445
Gain on lot sales	185,206	-0-	-0-	185,206
Gifts in-kind	153,404	-0-	-0-	153,404
Special events, net of donor benefits	106,978	-0-	27,006	133,984
Investment return	78,692	-0-	-0-	78,692
Other income	29,451	-0-	-0-	29,451
Gain on equipment dispositions	6,500	-0-	-0-	6,500
Released from restrictions and used for programs	52,787	(52,787)	-0-	-0-
Total revenues and other support	<u>4,961,694</u>	<u>(52,787)</u>	<u>29,491</u>	<u>4,938,398</u>
Expenses				
Program	4,161,411	-0-	-0-	4,161,411
Management and general	148,675	-0-	-0-	148,675
Fundraising	492,310	-0-	-0-	492,310
Total expenses	<u>4,802,396</u>	<u>-0-</u>	<u>-0-</u>	<u>4,802,396</u>
Change in net assets	159,298	(52,787)	29,491	136,002
Net assets, beginning of year	<u>5,546,523</u>	<u>53,787</u>	<u>940,501</u>	<u>6,540,811</u>
Net assets, end of year	<u>\$ 5,705,821</u>	<u>\$ 1,000</u>	<u>\$ 969,992</u>	<u>\$ 6,676,813</u>

See accompanying notes to financial statements.

LEXINGTON HABITAT FOR HUMANITY, INC.

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other support				
ReStore sales, net	\$ 1,954,860	\$ -0-	\$ -0-	\$ 1,954,860
Contributions and fundraising	917,888	-0-	4,228	922,116
Interest income from mortgage discount amortization	452,274	-0-	-0-	452,274
Transfers to homeowners	411,175	-0-	-0-	411,175
Grants	262,216	-0-	-0-	262,216
Special events, net of donor benefits	136,342	-0-	28,512	164,854
Gifts in-kind	95,634	-0-	-0-	95,634
Investment return	43,831	-0-	-0-	43,831
Other income	37,989	-0-	-0-	37,989
Loss on equipment dispositions	(663)	-0-	-0-	(663)
Loss on lot sales	(29,719)	-0-	-0-	(29,719)
Released from restrictions used for programs	57,249	(57,249)	-0-	-0-
Total revenues and other support	<u>4,339,076</u>	<u>(57,249)</u>	<u>32,740</u>	<u>4,314,567</u>
Expenses				
Program	3,893,136	-0-	-0-	3,893,136
Management and general	129,350	-0-	-0-	129,350
Fundraising	417,190	-0-	-0-	417,190
Total expenses	<u>4,439,676</u>	<u>-0-</u>	<u>-0-</u>	<u>4,439,676</u>
Change in net assets	(100,600)	(57,249)	32,740	(125,109)
Net assets, beginning of year	<u>5,647,123</u>	<u>111,036</u>	<u>907,761</u>	<u>6,665,920</u>
Net assets, end of year	<u>\$ 5,546,523</u>	<u>\$ 53,787</u>	<u>\$ 940,501</u>	<u>\$ 6,540,811</u>

See accompanying notes to financial statements.

LEXINGTON HABITAT FOR HUMANITY, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2018

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 1,487,840	\$ 34,230	\$ 270,095	\$ 1,792,165
Building materials and supplies	1,325,978	-0-	-0-	1,325,978
Employee fringe benefits and payroll taxes	339,699	7,247	51,498	398,444
Rent expense	291,630	-0-	-0-	291,630
Professional fees	84,267	3,898	53,194	141,359
Office	95,616	9,817	29,512	134,945
Depreciation expense	66,881	38,271	-0-	105,152
Utilities	92,751	3,705	4,477	100,933
Repairs and maintenance	80,490	12,635	4,119	97,244
ReStore cost of goods sold	69,577	-0-	-0-	69,577
Insurance	58,035	1,030	1,396	60,461
Advertising	53,648	158	3,014	56,820
Special events	-0-	-0-	50,344	50,344
Bank and merchant account charges	38,501	80	3,063	41,644
Interest expense	16,027	24,948	-0-	40,975
Vehicle expense	38,688	-0-	21	38,709
Habitat for Humanity International, Inc. fees and tithes	37,500	-0-	-0-	37,500
Telephone	15,640	2,549	2,930	21,119
Seminars and conferences	10,016	5,425	3,656	19,097
Special events, donor benefits	-0-	-0-	10,656	10,656
Partner family expenses	10,437	-0-	-0-	10,437
Travel and meals	6,965	2,896	5,910	15,771
Unfulfilled pledges	-0-	-0-	7,587	7,587
Post sale home repairs	6,014	-0-	-0-	6,014
Postage	2,828	312	1,494	4,634
Equipment rental	1,960	1,474	-0-	3,434
Total expenses	<u>4,230,988</u>	<u>148,675</u>	<u>502,966</u>	<u>4,882,629</u>
Less expenses included with revenues in the statement of activities	<u>(69,577)</u>	<u>-0-</u>	<u>(10,656)</u>	<u>(80,233)</u>
Total expenses included in the expense section of the statement of activities	<u>\$ 4,161,411</u>	<u>\$ 148,675</u>	<u>\$ 492,310</u>	<u>\$ 4,802,396</u>

See accompanying notes to financial statements.

LEXINGTON HABITAT FOR HUMANITY, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2017

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 1,346,672	\$ 35,059	\$ 234,721	\$ 1,616,452
Building materials and supplies	1,364,089	-0-	-0-	1,364,089
Employee fringe benefits and payroll taxes	299,745	7,003	47,020	353,768
Rent expense	265,313	-0-	-0-	265,313
Office	78,169	7,704	28,094	113,967
Repairs and maintenance	79,015	4,152	7,165	90,332
Depreciation expense	51,666	32,200	281	84,147
Professional fees	51,616	3,830	26,654	82,100
Utilities	70,330	3,311	4,001	77,642
Advertising	54,864	303	2,784	57,951
Insurance	53,364	991	1,338	55,693
ReStore cost of goods sold	41,604	-0-	-0-	41,604
Special events	-0-	-0-	45,491	45,491
Habitat for Humanity International, Inc. fees and tithes	42,000	-0-	-0-	42,000
Bank and merchant account charges	36,800	128	3,245	40,173
Interest expense	11,063	23,420	-0-	34,483
Vehicle expense	34,388	-0-	84	34,472
Telephone	16,257	1,836	2,878	20,971
Partner family expenses	16,366	-0-	-0-	16,366
Seminars and conferences	8,511	4,065	2,245	14,821
Travel and meals	5,418	3,208	4,141	12,767
Special events, donor benefits	-0-	-0-	10,348	10,348
Equipment rental	4,156	1,922	784	6,862
Unfulfilled pledges	-0-	-0-	4,376	4,376
Postage	2,204	218	1,888	4,310
Post sale home repairs	1,130	-0-	-0-	1,130
Total expenses	<u>3,934,740</u>	<u>129,350</u>	<u>427,538</u>	<u>4,491,628</u>
Less expenses included with revenues in the statement of activities	<u>(41,604)</u>	<u>-0-</u>	<u>(10,348)</u>	<u>(51,952)</u>
Total expenses included in the expense section of the statement of activities	<u>\$ 3,893,136</u>	<u>\$ 129,350</u>	<u>\$ 417,190</u>	<u>\$ 4,439,676</u>

See accompanying notes to financial statements.

LEXINGTON HABITAT FOR HUMANITY, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Operating Activities		
Change in net assets	\$ 136,002	\$ (125,109)
Adjustments to reconcile change in net assets to net change from operating activities:		
Depreciation	105,152	84,147
Transfers to homeowners	(377,445)	(411,175)
Imputed interest income from non-interest bearing mortgage loans	(456,010)	(452,274)
Discount on pledges receivable	-0-	1,543
Realized and unrealized gains on investments	(67,517)	(35,595)
Loss (gain) on disposal of equipment	(6,500)	663
Loss on sale or write off of mortgage loan	50,248	104,419
Unfulfilled pledges	7,587	4,376
Special event revenue restricted for long-term investment	(27,006)	(28,512)
Donated equipment	(34,190)	(12,106)
Changes in operating assets and liabilities:		
Accounts and grants receivable	11,380	12,167
Pledges receivable, net	(137)	3,113
Inventory	1,597	(1,048)
Prepaid expenses	(20,767)	(33,280)
Construction in progress	(137,730)	(26,929)
Land and property held for sale or development	(18,901)	261,499
Accounts payable	157,833	(563)
Accrued liabilities	25,154	84,773
Deferred lease incentive	(16,667)	87,500
Net cash flows from operating activities	(667,917)	(482,391)

See accompanying notes to financial statements.

LEXINGTON HABITAT FOR HUMANITY, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Investing Activities		
Proceeds from sales of property and equipment	6,500	1,500
Purchases of property and equipment	(274,531)	(270,135)
Non-interest bearing mortgage loan payments received	843,684	720,079
Proceeds from sales of investments	386,522	800,527
Purchases of investments	(379,776)	(796,631)
Net cash flows from investing activities	582,399	455,340
Financing Activities		
Special events revenue restricted for endowment	27,006	28,512
Proceeds from line of credit and notes payable	90,000	130,000
Payments on line of credit and notes payable	(149,566)	(165,723)
Net cash flows from financing activities	(32,560)	(7,211)
Net change in cash	(118,078)	(34,262)
Cash, beginning of year	230,294	264,556
Cash, end of year	<u>\$ 112,216</u>	<u>\$ 230,294</u>
Supplemental disclosures		
In-kind contributions of equipment	<u>\$ 34,190</u>	<u>\$ 12,106</u>
In-kind contributions of land and construction supplies	<u>\$ 67,799</u>	<u>\$ 46,454</u>
Cash paid for interest during the year	<u>\$ 40,975</u>	<u>\$ 34,483</u>
Discount on current year non-interest bearing mortgage loans	<u>\$ 474,679</u>	<u>\$ 567,630</u>

See accompanying notes to financial statements.

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Lexington Habitat for Humanity, Inc. (Habitat), a nonprofit corporation, was incorporated on November 26, 1986. Habitat is an affiliate of Habitat for Humanity International, Inc. (Habitat International), a nondenominational Christian nonprofit organization whose purpose is to create decent, affordable housing for those in need, and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists with information resources, training, publications, prayer support, and in other ways, Habitat is primarily and directly responsible for its own operations.

In 2001, Habitat opened a discount home improvement outlet called ReStore. ReStore sells donated new and gently used furniture, home accessories, building supplies, and appliances. All ReStore proceeds benefit Habitat. ReStore gross revenues were approximately 44% and 45% of total revenues, respectively, for the years ended June 30, 2018 and 2017.

Basis of Accounting

The financial statements of Habitat have been prepared on the accrual method of accounting. Accordingly, revenues are recognized when they are earned and expenses are recognized when they are incurred.

Financial Statement Presentation

Net assets and revenues and other support are classified based on the existence or absence of donor-imposed restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. Accordingly, the net assets of Habitat and the changes therein are classified and reported as follows:

- 1) Unrestricted net assets encompass the portion of net assets that are not restricted by donor-imposed stipulations.
- 2) Temporarily restricted net assets are the net assets resulting from contributions and other inflows whose use by Habitat is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of Habitat pursuant to those stipulations.
- 3) Permanently restricted net assets are the net assets resulting from contributions to the Pat Smith Endowment fund. These contributions are to be invested and the earnings will be used to support local and international service projects.

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

Estimates

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and reported revenues and expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with an original maturity of three months or less.

Investments

Investments in equity and debt securities that have a readily determinable fair value are reported at fair value in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Accounts and Pledges Receivable

Accounts receivable primarily consists of grants earned, but not yet received. Grants are recorded at the amount Habitat expects to collect on outstanding balances. Habitat has not recorded an allowance for uncollectible grant receivables, as historically, they have not experienced materially uncollectible amounts.

Pledges receivable consists of unconditional pledges received from individual donors. Unconditional pledges receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional pledges that are expected to be collected in future years are recorded at the present value of their future cash flows. The discounts on those amounts are computed using a discount rate reflective of current interest rates. Amortization of the discounts is included in contributions income.

Receivables are considered past due based on contractual terms and Habitat does not accrue finance charges on its past due receivables. Receivables deemed to be uncollectible are written off in the period in which the determination is made. Management believes there is no significant risk of loss associated with the receivables recorded at June 30, 2018 and 2017, and accordingly no provision for bad debts has been provided in the accompanying financial statements. Unfulfilled pledges written off for the years ended June 30, 2018 and 2017, related to receivables were approximately \$8,000 and \$4,000, respectively.

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

Non-Interest Bearing Mortgage Loans, Net

Habitat records and accounts for non-interest bearing loans using the discounted cash flow method based on Habitat's current incremental borrowing rates for similar types of borrowing arrangements. These rates vary from 6.0% to 9.0% based upon the prevailing market rate at the inception of the mortgages. Discounts are amortized using the effective interest method over the lives of the mortgages. The discounted carrying amount of these loans approximates their fair value. An expense is recorded upon the sale of the houses for the difference between the face value of the mortgage loans receivable and the present value of the loans. The mortgages are secured by the real estate and due in monthly installments over the life of the mortgages, which range from 15 to 40 years. Two notes are issued to every homeowner; one being the amount the board has set (the first note), the other being the difference between the amount of the first note and the appraised value of the home. After a period of time designated in the mortgage, the second note, which is not recorded by Habitat, is forgiven, annually, at a prorated amount designated in the mortgage such that before or at the maturity date of the first note, the second note would be forgiven in full. Habitat's policy is to work closely with homeowners to avoid defaulted mortgages.

Habitat has not recorded an allowance for uncollectible mortgages because it can reclaim houses through foreclosure. Though some of these mortgages may be foreclosed, Habitat believes that losses on foreclosure, if any, are immaterial in relation to these financial statements.

Inventory

Inventory consists of construction materials that were donated or purchased by Habitat. Inventory is valued at the market value of the donation or cost of the asset on the first in, first out method.

Construction in Progress

Construction in progress include the direct and indirect costs of construction, land, and the estimated fair market value of donated materials and professional services used in construction of homes. Transfer to homeowners is recorded when the home is occupied and title is transferred.

Land and Property Held for Sale or Development

Land or property held for sale or development includes the cost of land and improvements to land or, if donated, the approximate fair value of the land at the date of the donation, held for sale or future development and properties previously transferred by Habitat which have been reclaimed in foreclosure, which are recorded at the outstanding first note balance at the date of foreclosure.

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

ReStore Inventory

Most of the store's merchandise has been donated by building supply stores and by individuals in the community. Because many of the donations are the result of overstocked items or are used items, the value of the donations is not readily determinable until such merchandise is sold. Therefore, retail inventory of the store has not been recorded in these financial statements. Retail sales are recorded at the point of sale.

Building and Equipment

Building and equipment consist of land, construction in progress, leasehold improvements, and furniture and equipment which are stated at cost. Depreciation is provided for using the straight-line method over the estimated useful lives of the respective assets, which range from 5 to 40 years. Acquisitions of property and equipment in excess of \$500 are capitalized. The cost of repairs and maintenance is expensed as incurred.

Contributions

Contributions are recorded when received as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. When a donor restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as released from restrictions used for programs. Restricted contributions whose restrictions are satisfied in the period the contributions are received are reported as unrestricted contributions.

Gifts In-kind

Property, equipment, land, materials, and supplies, which are donated as support, are recorded at estimated fair values on the date of donation. Such donations are reported as "unrestricted" support unless the donor has restricted the contributions to a specific purpose. Assets donated with explicit restrictions as to their use are reported as "restricted". Habitat reports expirations of donor restrictions when the donated assets are placed in service as instructed by the donor. Habitat reclassifies temporarily restricted net assets to unrestricted net assets when the donor's restriction is satisfied. During the years ended June 30, 2018 and 2017, Habitat received approximately \$102,000 and \$58,600 of donated property, equipment, land, materials, and supplies.

The values of professional services are recorded at estimated fair values when they create or enhance nonfinancial assets or they require specialized skills which would need to be purchased if they were not donated. Habitat received approximately \$51,400 and \$37,100 of donated professional services for the years ended June 30, 2018 and 2017, respectively.

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

A substantial number of volunteers have made significant contributions of time to assist Habitat's program and supporting services. No amounts have been recognized in the accompanying statements of activities for these volunteer services because accounting standards criteria for recognition have not been satisfied.

Transfers to Homeowners

Transfers to homeowners are recorded at the first note mortgage amount. Non-interest bearing mortgages have been discounted based upon prevailing market rates for low income housing at the inception of the mortgages, as provided by Habitat International. Utilizing the effective interest method, this discount will be recognized as interest income over the term of the mortgage.

Advertising Costs

Advertising costs are expensed when incurred.

Functional Allocation of Expenses

The costs of providing various programs and supporting services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. While the methods of allocation are considered appropriate, other methods could produce different results.

Income Taxes

Habitat is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code). In addition, Habitat has been determined by the Internal Revenue Service not to be a private foundation within the context of Section 509(a) of the Code.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by Habitat and recognize a tax liability if Habitat has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by Habitat, and has concluded that as of June 30, 2018 and 2017 there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements. Habitat is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Habitat has filed its federal information returns for periods through June 30, 2017. These information returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

Going Concern

Management evaluates whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern for a period of one year from the date the financial statements are issued.

Reclassifications

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation. Total net assets and change in net assets are unchanged due to these reclassifications.

Subsequent Events

Habitat has evaluated events or transactions occurring subsequent to the statement of financial position date for recognition and disclosure in the accompanying financial statements through, December 5, 2018, the date which the financial statements were available to be issued.

2. PLEDGES RECEIVABLE, NET

Pledges receivable at June 30 are as follows:

	<u>2018</u>	<u>2017</u>
Receivable in less than one year	\$ 1,000	\$ 8,450

3. NON-INTEREST BEARING MORTGAGE LOANS, NET

Maturities of non-interest bearing mortgage loans receivable as of June 30, 2018 are as follows:

<u>Year ended June 30:</u>	
2019	\$ 777,062
2020	680,613
2021	651,663
2022	628,119
2023	595,029
2024 and thereafter	5,998,648
	<u>9,331,134</u>
Less discount	(4,165,117)
	<u>\$ 5,166,017</u>

As of June 30, 2017, non-interest bearing mortgage loans receivable, net of unamortized discounts, totaled \$5,226,494.

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

4. CONSTRUCTION IN PROGRESS AND LAND AND PROPERTY HELD FOR SALE OR DEVELOPMENT

A summary of activity in construction in progress and land and property held for sale or development for the year ended June 30, 2018:

	Construction in progress	Land and property held for sale or development
Balance at June 30, 2017	\$ 419,777	\$ 420,068
Gifts in-kind and donations	88,878	-0-
Property acquired via foreclosure	-0-	50,248
Purchases and additional cost incurred	1,208,144	135,339
Transfers of land	166,686	(166,686)
Property transfers (sold)	-0-	-0-
Cost of completed repair projects transferred out	(162,515)	-0-
Cost of completed homes transferred out	(1,163,463)	-0-
Balance at June 30, 2018	\$ 557,507	\$ 438,969

A summary of activity in construction in progress and land and property held for sale or development for the year ended June 30, 2017:

	Construction in progress	Land and property held for sale or development
Balance at June 30, 2016	\$ 392,848	\$ 681,567
Gifts in-kind and donations	75,410	-0-
Property acquired via foreclosure	-0-	56,694
Purchases and additional cost incurred	1,148,178	44,898
Transfers of land	168,217	(168,217)
Property transfers (sold)	-0-	(194,874)
Cost of completed repair projects transferred out	(99,928)	-0-
Cost of completed homes transferred out	(1,264,948)	-0-
Balance at June 30, 2017	\$ 419,777	\$ 420,068

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

5. BUILDING AND EQUIPMENT, NET

Building and equipment, net consist of the following at June 30:

	2018	2017
Office building and improvements	\$ 1,360,233	\$ 1,144,583
Land	89,250	89,250
Office furniture	105,656	65,716
Warehouse equipment	130,531	131,517
Vehicles	214,492	200,892
	<u>1,900,162</u>	<u>1,631,958</u>
Less accumulated depreciation	644,141	579,506
	<u>\$ 1,256,021</u>	<u>\$ 1,052,452</u>

Habitat has no material commitments as of June 30, 2018.

6. INVESTMENTS

Investments consist of the following at June 30:

	2018	2017
Money market mutual funds	\$ 15,482	\$ 34,025
Equities, common stocks, exchange-traded funds, and closed-end funds:		
Technology	216,552	125,678
Financial services	135,211	109,642
International	127,663	150,830
Industrials	101,710	104,630
Healthcare	80,435	96,635
Large cap	76,232	48,532
Consumer goods	61,855	38,498
Utilities	57,507	108,041
Materials	43,045	25,537
Real estate	36,862	51,684
Communications	16,869	13,603
Other	19,269	20,586
	<u>\$ 988,692</u>	<u>\$ 927,921</u>

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

Investment income and expenses were as follows for the year ended June 30:

	2018	2017
Dividend and interest income	\$ 21,635	\$ 17,904
Realized and unrealized gains	67,517	35,595
Investment expenses	(10,460)	(9,668)
	<u>\$ 78,692</u>	<u>\$ 43,831</u>

7. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Major classes of assets and liabilities that are measured at fair value are categorized according to a fair value hierarchy that prioritizes the inputs to value techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Habitat has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. Habitat's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers between levels during 2018 and 2017.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

- Money market mutual funds: Generally transact subscription and redemption activity at a \$1 stable net asset value (NAV) however, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund.

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

- Common stock and exchange traded and closed end funds: Valued at the closing price reported on the active market on which the securities are traded.
- Mutual funds, exchange-traded, and closed-end funds: Valued at the daily closing price as reported by the respective funds. These funds are registered with the Securities and Exchange Commission, publish their daily net asset value (NAV), and transact at that price. Deemed to be actively traded.

Fair Value Measurements at June 30, 2018:

	Level 1	Level 2	Level 3	Total
Investments:				
Money market mutual funds	\$ -0-	\$ 15,482	\$ -0-	\$ 15,482
Common stocks	373,596	-0-	-0-	373,596
Exchange-traded and closed-end funds, equities	599,614	-0-	-0-	599,614
Total	<u>\$ 973,210</u>	<u>\$ 15,482</u>	<u>\$ -0-</u>	<u>\$ 988,692</u>

Fair Value Measurements at June 30, 2017:

	Level 1	Level 2	Level 3	Total
Investments:				
Money market mutual funds	\$ -0-	\$ 34,025	\$ -0-	\$ 34,025
Common stocks	398,468	-0-	-0-	398,468
Exchange-traded and closed-end funds, equities	495,428	-0-	-0-	495,428
Total	<u>\$ 893,896</u>	<u>\$ 34,025</u>	<u>\$ -0-</u>	<u>\$ 927,921</u>

8. LINE OF CREDIT

At June 30, 2018 and 2017, Habitat has available a secured line of credit, which provides for borrowing up to \$500,000. Interest is payable monthly and is fixed at the prime rate, which was 4.75% and 4.25%, respectively, at June 30, 2018 and 2017. The current agreement expires in March 2019. The line of credit is secured by the assignment of mortgages of properties located in Lexington, Kentucky. The outstanding balance on the line of credit as of June 30, 2018 and 2017 was \$200,000 and \$210,000 respectively. Interest expense related to the line of credit during the years ended June 30, 2018 and 2017 was approximately \$10,000 and \$8,000, respectively.

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

9. NOTES PAYABLE

Notes payable as of June 30, 2018 and 2017 consist of the following:

	2018	2017
<p>10 separate, non-interest bearing notes payable to Habitat International. The notes are payable in 48 monthly installments with due dates ranging between July 2013 and December 2021. The notes are unsecured full recourse obligations of Habitat. If the loans default, they become payable on demand plus interest at 10% from the date of the loan's inception.</p>	\$ 51,226	\$ 98,367
<p>1% installment note payable to Kentucky Housing Corporation in 30 annual installments of principal and interest in the amount of \$5,812. The note is unsecured. Final payment due on June 30, 2034.</p>	85,543	90,451
<p>Eight 1% installment notes payable, unsecured, to Bluegrass Affordable Housing Association in 20 annual installments. Interest is due quarterly and principal in the amount of \$31,127 is due annually. Five are due on June 1, two August 1, and one October 1, with the final payments maturing each year from 2022 through 2030.</p>	202,618	233,745
<p>Construction note payable to bank dated December 20, 2016. Loan approved by bank for up to \$160,000. At June 30, 2018, \$160,000 had been drawn. Monthly interest-only payments due at 4.50% during the initial eighteen months (construction term). Principal and interest payments due monthly during the final one hundred and eighty months (permanent term). The interest rate for the first forty-two months of the permanent term is 4.50%. The interest rate for the final one hundred thirty-eight months of the permanent term is the Wall Street Journal prime rate (5.00% at June 30, 2018). Secured by land and improvements thereon located at 700 Loudon Avenue, Lexington, Kentucky. Entire principal due June 20, 2033.</p>	160,000	100,000
<p>Installment note payable to bank dated March 19, 2015. Original amount of \$541,500. Principal and interest payments due in monthly installments of \$3,436 with a final payment due March 19, 2035. The note is secured by property located at 700 East Loudon Avenue, Lexington, Kentucky with a net book value of approximately \$593,000 and \$628,000 at June 30, 2018 and 2017, respectively.</p>	473,279	491,797

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Installment note payable to bank dated March 19, 2015. Original amount of \$45,000. Principal and interest payments due in monthly installments of \$729 with a final payment due March 19, 2020. The note is secured by property located at 700 East Loudon Avenue, Lexington, Kentucky with a net book value of approximately \$593,000 and \$628,000 at June 30, 2018 and 2017, respectively.	14,657	22,529
Total	<u>\$ 987,323</u>	<u>\$ 1,036,889</u>

The following is a summary of debt maturities as of June 30, 2018:

<u>Year ended June 30:</u>	
2019	\$ 87,980
2020	75,762
2021	69,212
2022	63,387
2023	59,178
2024 and thereafter	631,804
	<u>\$ 987,323</u>

Interest expense for these notes for the years ended June 30, 2018 and 2017 was approximately \$31,000 and \$26,000 respectively.

10. ENDOWMENT FUNDS

In approving endowment and related policies as part of the prudent and diligent discharge of its duties, Habitat's Board of Directors, as authorized by Kentucky law, has relied upon the actions, reports, information, advice and counsel taken or provided by its duly constituted committees and the duly appointed officers of Habitat and in doing so has interpreted the law to require the preservation of the historic dollar value of donor restricted endowment funds, absent explicit donor direction to the contrary.

As a result of this interpretation, for accounting and financial statement purposes, Habitat classifies as permanently restricted net assets the historic dollar value of assets held as donor-restricted endowment, including any subsequent gifts and any accumulations to donor-restricted endowments made in accordance with the direction of the applicable gift instruments.

The portion of the donor restricted endowment funds that are not classified as permanently restricted net assets are classified for accounting and financial reporting purposes in accordance with requirements of the Financial Accounting Standards Board and the law.

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

Habitat has an investment policy, approved by the Board of Directors, for its endowment fund. The Board of Directors has appointed an agent to execute its investment policy. The primary goals of the investment policy are to maximize return on the investments through interest and dividends and appreciation of capital within acceptable levels of investment risk, and to provide a source of funds to support operations as needed. Habitat's investment policy works to achieve this objective. At the Board's discretion, execution of the investment policy may be delegated to investment managers.

All endowment funds at June 30, 2018 and 2017 are donor-restricted. Each fiscal year a distribution from the endowment funds will be made to the operating funds in an amount of at least 5% of the fair market value of the endowment funds calculated on the basis of market values determined quarterly and averaged over a period of the three fiscal years immediately preceding the fiscal year in which the appropriation is made. The distribution shall not exceed 7% in any given year unless it has been approved by the Board of Directors as a special circumstance.

From time to time, the fair value of assets associated with the endowment fund may fall below the level that the donor or the Uniform Prudent Management of Institutional Funds Act requires Habitat to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, there were no such deficiencies of this nature that are reported in unrestricted net assets as of June 30, 2018 and 2017.

Changes in endowment net assets for the year ended June 30, 2018 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (58,880)	\$ 45,337	\$ 940,501	\$ 926,958
Contributions	-0-	-0-	2,485	2,485
Special events revenues	-0-	-0-	37,662	37,662
Special events expenses	-0-	-0-	(10,656)	(10,656)
Investment income	21,635	-0-	-0-	21,635
Investment expenses	(10,460)	-0-	-0-	(10,460)
Appreciation of investments	67,517	-0-	-0-	67,517
Amount appropriated for expenditure	(1,963)	(45,337)	-0-	(47,300)
Endowment net assets, end of year	<u>\$ 17,849</u>	<u>\$ -0-</u>	<u>\$ 969,992</u>	<u>\$ 987,841</u>

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (102,711)	\$ 93,554	\$ 907,761	\$ 898,604
Contributions	-0-	-0-	4,228	4,228
Special events revenues	-0-	-0-	38,860	38,860
Special events expenses	-0-	-0-	(10,348)	(10,348)
Investment returns	17,904	-0-	-0-	17,904
Investment expenses	(9,668)	-0-	-0-	(9,668)
Appreciation of investments	35,595	-0-	-0-	35,595
Amount appropriated for expenditure	-0-	(48,217)	-0-	(48,217)
Endowment net assets, end of year	<u>\$ (58,880)</u>	<u>\$ 45,337</u>	<u>\$ 940,501</u>	<u>\$ 926,958</u>

11. GRANTS AWARDED

Habitat receives financial assistance from various sources, such as corporations and local governments. Habitat recognizes the award as grant revenue when the conditions stipulated in the grant agreement have been met. Funds by the grantors for the following programs may be requested for future program expenditures as of June 30:

Grant award	2018	2017
FHLB Affordable Housing Program award 201401-0003	-0-	16,723
FHLB Affordable Housing Program award 201501-0011	-0-	9,175
FHLB Affordable Housing Program award 201501-0026	1,305	29,019
FHLB Affordable Housing Program award 201601-0025	8,543	106,250
FHLB Affordable Housing Program award 201601-0026	7,999	106,250
FHLB Affordable Housing Program award 201701-0013	125,000	-0-
HOME investment Partnerships Program 2015 Consolidated Plan	-0-	60,000
HOME investment Partnerships Program 2016 Consolidated Plan	60,000	50,000
HOME investment Partnerships Program 2017 Consolidated Plan	1,475	-0-
LFUCG Stormwater Quality Projects Incentive Grant Program	194,067	-0-
KHC GAP GF16-0096-01	34,000	120,000
KHC GAP HB18-0096-01	200,000	-0-
	<u>\$ 632,389</u>	<u>\$ 497,417</u>

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

12. RETIREMENT

Habitat maintains a 401(k) defined contribution pension plan (the Plan) for employees 18 years of age and over who are enrolled in the Plan in the first day of the month after twelve months from the date of employment. Employee benefits are immediately vested. Habitat will contribute five percent (5%) of the eligible employees' gross wages. The Plan permits eligible employees to make voluntary contributions. During each of the years ended June 30, 2018 and 2017, Habitat contributed approximately \$68,000 and \$52,000, respectively.

13. LEASE AGREEMENTS

Habitat maintains a building lease under a non-cancelable operating lease that expires September 30, 2022. During the year ended June 30, 2017, Habitat signed an addendum to the original building lease adding additional space to the leased premises. As an inducement for Habitat to enter into the addendum, the landlord paid Habitat \$100,000 as a lease incentive. The lease incentive is recorded as a liability and is being amortized into rent expense over the life of the lease.

On December 29, 2017, Habitat entered into another building lease under a non-cancelable operating lease that expires June 30, 2028. As an incentive for Habitat to enter into the lease, the landlord provided free rent during the initial six months of the lease agreement.

Rent expense related to these leases totaled approximately \$308,000 and \$277,000 for the years ending June 30, 2018 and 2017, respectively.

As of June 30, 2018, future minimum lease payments under these noncancelable operating lease agreements are as follows:

<u>Year ended June 30:</u>		
2019	\$	385,830
2020		391,815
2021		397,950
2022		412,796
2023		174,341
2024 and thereafter		505,955
	\$	<u>2,268,687</u>

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

In addition to the minimum lease payments above, Habitat is responsible for paying its pro-rata share (based on square footage it occupies to the total square footage available for rent) of taxes, assessments, levies, deferred taxes, license fees, property insurance, water rents, dumpster fees, landfill fees, sewer fees, excises, franchises, common area maintenance fees and the like (common costs). Total common cost expenses during the years ended June 30, 2018 and 2017 were approximately \$44,000 and \$43,000, respectively. Storage rent expenses for the years ended June 30, 2018 and 2017, were approximately \$14,000 and \$13,000, respectively.

14. RELATED-PARTY TRANSACTIONS

During the years ended June 30, 2018 and 2017, Habitat paid tithes and fees to Habitat for Humanity International, Inc. (HFHI) of \$37,500 and \$42,000, respectively. Additionally, Habitat received support from HFHI of approximately \$138,000 and \$-0- during the years ended June 30, 2018 and 2017, respectively. Amounts paid to HFHI during the years ended June 30, 2018 and 2017 were approximately \$59,000 and \$36,000, respectively.

15. CONCENTRATION OF RISK

Habitat maintains cash deposits in financial institutions which are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Habitat has not experienced any losses on such accounts and does not believe that it is subject to significant credit risk related to the accounts.

16. RECENTLY ISSUED ACCOUNTING STANDARDS

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of this new guidance is that "an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services". On August 12, 2015, the FASB further amended this guidance and issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606)*, which deferred the effective date for all entities by one year. These new standards, which Habitat is not required to adopt until its year ending June 30, 2019, deal with the timing of reporting revenues from contracts with customers, and disclosures related thereto.

On January 5, 2016, the FASB issued ASU No. 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This new standard, which Habitat is not required to adopt until its year ending June 30, 2020, is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The primary impact on Habitat will be that changes in the fair value of equity investments will be recognized in net income, rather than in other comprehensive income as currently required.

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This new standard, which Habitat is not required to adopt until its year ending June 30, 2021, is intended to improve financial reporting about leasing transactions by requiring entities that lease assets to recognize on their statement of financial position the assets and liabilities for the rights and obligations created by those leases, and to provide additional disclosures regarding the leases. Leases with terms (as defined in the ASU) of twelve months or less are not required to be reflected on an entity's statement of financial position.

On August 18, 2016, the FASB issued an Accounting Standards Update (ASU) No. 2016-14 *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)* that amends how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. This new standard, which Habitat is not required to adopt until its year ending June 30, 2019, requires improved presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. This ASU completes the first phase of a two phase project to amend not-for-profit financial reporting requirements.

On January 5, 2016, the FASB issued ASU No. 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This new standard, which the Organization is not required to adopt until its year ending June 30, 2020, is intended to clarify and improve the scope and the accounting guidance for contributions received and made, primarily by not-for-profit organizations. The standard will provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction.

Habitat is presently evaluating the effects that these ASUs will have on its future financial statements, including related disclosures.