

**RUTHERFORD COUNTY AREA
HABITAT FOR HUMANITY, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
YEARS ENDED JUNE 30, 2017 AND 2016**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rutherford County Area Habitat for Humanity, Inc.

Report on the Financial Statements

I have audited the accompanying financial statements of Rutherford County Area Habitat for Humanity, Inc. (a nonprofit organization) which comprise the statements of financial position as of June 30, 2017 and 2016, 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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rutherford County Area Habitat for Humanity, Inc. as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Tim Montgomery, CPA PLLC

Murfreesboro, Tennessee
September 22, 2017

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 675,440	\$ 523,131
Accounts receivable	3,864	3,878
Warehouse inventory	19,279	17,042
Construction in process/lots held	608,566	595,334
Current portion of mortgages	<u>224,250</u>	<u>201,273</u>
Total current assets	<u>1,531,399</u>	<u>1,340,658</u>
Property and equipment, net	<u>984,591</u>	<u>1,073,534</u>
OTHER ASSETS		
Mortgages receivable - long-term portion	1,578,740	1,436,005
Other assets	<u>5,528</u>	<u>1,233</u>
Total other assets	<u>1,584,268</u>	<u>1,437,238</u>
TOTAL ASSETS	<u><u>\$ 4,100,258</u></u>	<u><u>\$ 3,851,430</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 62,757	\$ 62,757
Lines of credit	210,961	272,200
Accounts payable	42,490	6,214
Escrow funds held	631	5,330
Other accrued expenses	<u>5,801</u>	<u>10,185</u>
Total current liabilities	<u>322,640</u>	<u>356,686</u>
LONG-TERM LIABILITIES		
Note payable	-	100,000
Long-term debt, less current portion of mortgage note payable	<u>612,944</u>	<u>675,704</u>
Total long-term liabilities	<u>612,944</u>	<u>775,704</u>
Total liabilities	<u>935,584</u>	<u>1,132,390</u>
NET ASSETS		
Unrestricted	3,049,255	2,594,621
Temporarily restricted	<u>115,419</u>	<u>124,419</u>
Total net assets	<u>3,164,674</u>	<u>2,719,040</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,100,258</u></u>	<u><u>\$ 3,851,430</u></u>

The accompanying notes are an integral part of these financial statements.

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
SUPPORT AND REVENUE:		
Grants/contributions	\$ 572,153	\$ 469,530
Transfers to homeowners	1,166,755	891,397
Mortgage discount amortization	122,617	109,819
Contributions of land, materials, labor	186,376	57,344
Interest income	806	511
ReStore income	394,493	413,657
Other income	32,808	43,118
Gain on sale of property	35,615	-
Net assets released from restrictions	<u>100,250</u>	<u>30,000</u>
 Total unrestricted support and revenue	 <u>2,611,873</u>	 <u>2,015,376</u>
 EXPENSES:		
Program services:		
Construction	1,610,808	1,423,890
ReStore	312,731	284,067
Fundraising	96,593	90,628
General and administrative	<u>137,107</u>	<u>138,686</u>
 Total expenses	 <u>2,157,239</u>	 <u>1,937,271</u>
 CHANGE IN UNRESTRICTED NET ASSETS	 <u>454,634</u>	 <u>78,105</u>
 TEMPORARILY RESTRICTED NET ASSETS:		
Grants and contributions	91,250	100,250
Net assets released from restrictions	<u>(100,250)</u>	<u>(30,000)</u>
 CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	 <u>(9,000)</u>	 <u>70,250</u>
 CHANGES IN NET ASSETS	 445,634	 148,355
 NET ASSETS, BEGINNING OF YEAR	 <u>2,719,040</u>	 <u>2,570,685</u>
 NET ASSETS, END OF YEAR	 <u><u>\$ 3,164,674</u></u>	 <u><u>\$ 2,719,040</u></u>

The accompanying notes are an integral part of these financial statements.

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2017 AND 2016

	2017					2016				
	Program		Fundraising	General and		Program		Fundraising	General and	
	Construction	ReStore		Administrative	Total	Construction	ReStore		Administrative	Total
Construction materials and supplies	\$ 811,092	\$ -	\$ -	\$ -	\$ 811,092	\$ 748,075	\$ -	\$ -	\$ -	\$ 748,075
Payroll and related costs	260,017	127,667	80,244	61,583	529,511	239,677	139,065	77,508	57,624	513,874
Mortgage discount	426,150	-	-	-	426,150	342,173	-	-	-	342,173
ReStore costs of sales	-	94,701	-	-	94,701	-	65,134	-	-	65,134
Insurance	34,158	16,882	-	5,749	56,789	29,567	16,326	-	5,018	50,911
Depreciation and amortization	5,469	30,560	2,087	3,633	41,749	8,493	31,127	-	3,931	43,551
Utilities	3,858	26,045	1,422	2,844	34,169	3,357	18,756	1,281	2,229	25,623
Habitat International tithes and contributions	10,000	-	-	15,000	25,000	8,000	-	-	15,000	23,000
Training	16,883	240	-	-	17,123	4,593	-	-	-	4,593
Office supplies	-	325	3,121	12,486	15,932	124	1,800	2,601	16,497	21,022
Repair and maintenance	1,095	6,660	383	7,572	15,710	40	275	-	7,986	8,301
Community events	7,075	-	7,263	-	14,338	1,112	-	7,952	30	9,094
Interest	1,684	9,409	643	1,118	12,854	1,975	11,037	754	1,312	15,078
Professional fees	3,377	-	-	8,048	11,425	-	-	-	7,997	7,997
Tools	9,417	-	-	-	9,417	12,024	-	-	-	12,024
Miscellaneous	5,847	152	-	3,282	9,281	6,933	-	-	-	6,933
Dues and fees	-	-	1,430	6,088	7,518	1,192	520	45	6,822	8,579
Meetings and travel	5,063	90	-	1,535	6,688	3,168	27	487	434	4,116
Contract labor	-	-	-	5,218	5,218	-	-	-	11,497	11,497
Family services	4,824	-	-	-	4,824	4,504	-	-	-	4,504
Rental expenses	4,799	-	-	-	4,799	7,792	-	-	-	7,792
Bank charges	-	-	-	2,487	2,487	-	-	-	1,793	1,793
Advertising	-	-	-	464	464	1,091	-	-	516	1,607
Total expenses	<u>\$ 1,610,808</u>	<u>\$312,731</u>	<u>\$ 96,593</u>	<u>\$ 137,107</u>	<u>\$2,157,239</u>	<u>\$ 1,423,890</u>	<u>\$ 284,067</u>	<u>\$ 90,628</u>	<u>\$ 138,686</u>	<u>\$1,937,271</u>

The accompanying notes are an integral part of these financial statements.

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 445,634	\$ 148,355
Depreciation and amortization	41,749	43,551
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Gifts restricted for long-term purposes	(91,250)	(100,250)
Gain on sale of property	(35,615)	-
(Increase) decrease in assets:		
Warehouse inventory	(2,237)	767
Grants/accounts receivable	14	1,591
Construction in process/lots held	21,161	107,061
Mortgages receivable	(165,712)	(255,741)
Other assets	(5,000)	-
Increase (decrease) in liabilities:		
Accounts payable	36,276	(18,905)
Escrow liability	(4,699)	(14,005)
Accrued expenses	(4,384)	(79)
Net cash provided by (used in) operating activities	<u>235,937</u>	<u>(87,655)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of property and equipment	99,764	-
Purchase of property and equipment	<u>(50,643)</u>	<u>(7,304)</u>
Net cash provided by (used in) investing activities	<u>49,121</u>	<u>(7,304)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net repayments on line-of-credit	(61,239)	(28,483)
(Repayment) borrowing on note payable	(100,000)	100,000
Principal paid on long-term debt	(62,760)	(62,760)
Gifts restricted for long-term purposes	<u>91,250</u>	<u>130,250</u>
Net cash provided by (used in) financing activities	<u>(132,749)</u>	<u>139,007</u>
Net increase in cash and cash equivalents	152,309	44,048
Cash and cash equivalents, beginning of year	<u>523,131</u>	<u>479,083</u>
Cash and cash equivalents, end of year	<u>\$ 675,440</u>	<u>\$ 523,131</u>
SUPPLEMENTAL DISCLOSURES		
Interest paid	<u>\$ 12,854</u>	<u>\$ 15,078</u>
NON-CASH TRANSACTIONS		
Rental property owned transferred to construction in process/ lots held	<u>\$ 34,393</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rutherford County Area Habitat for Humanity, Inc. ("Habitat" or "Organization"), is a not-for-profit organization, chartered by the State of Tennessee, and is the local affiliate of Habitat for Humanity International ("HFHI") headquartered in Americus, Georgia. The purpose of the Organization is to provide simple, decent, affordable homes for sale to low income families. Homes are sold at no profit and are financed with non-interest bearing mortgages. The Organization also operates ReStores in Murfreesboro and Smyrna which receive donated used building materials, appliances, and other items and then resells them to the general public.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of Presentation

The Organization follows accounting standards set by the Financial Accounting Standards Board (FASB). The financial statements have been prepared in accordance with standards of accounting and financial reporting under Accounting Standards Codification (ASC) 958, *Not for Profit Entities*. The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets.

Contributions

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

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions of Services and Materials

Contributed materials used for home building are reflected as contributions in the financial statements at their estimated values at the date of receipt. No amounts have been reflected in the statements for contributed services inasmuch as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have contributed significant amounts of their time in the Organization's program services.

Property and Equipment

The Organization capitalizes all expenditures for property and equipment in excess of \$500. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Buildings and improvements, including rental property, are depreciated using the straight-line method over an estimated life ranging from ten to thirty-nine years. The remaining assets are depreciated using the straight-line method over three to seven year estimated life.

ReStore Materials

Consistent with policies used by other Habitat agencies, used materials donated to the Restore are not valued in inventory since they are deemed to have no determinable value until sold.

Transfers to Homeowners

Transfers to homeowners include material costs, lot costs and other direct costs associated with properties that were transferred to homeowners during the year.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Mortgages and Notes Receivable

Rutherford County Area Habitat for Humanity, Inc., sells homes to qualifying families and provides interest free mortgages ranging from twenty to thirty-five years. The qualifying families are required to contribute "sweat equity" during the construction phase and then they qualify to purchase the home. Mortgage payments, net of insurance and taxes, are applied to reduce the mortgage.

The allowance for doubtful loans is maintained at a level that, in management's judgment, is adequate to absorb loan losses. This determination is based upon an analysis of the loan portfolio by management including, but not limited to, review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This process is based on estimates and ultimate losses may vary from current estimates. As changes in estimates occur, adjustments to the level of the allowance are recorded in the provision for potential loan losses in the period in which they become known. In addition, the net realizable value of property serving as collateral for delinquent loans will be assessed on an annual basis. Due to the nature of the relationship with its borrowers, the Organization is willing to make accommodations with borrowers whose payments are not current, so long as such accommodations do not jeopardize the interests of the Organization's mission.

A loan is considered impaired when, based upon current information and events, it is probable that the Organization will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans are classified as delinquent when payments of principal and interest are over 90 days overdue.

Income Taxes

Habitat is a not-for-profit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, whereby only unrelated business income, as defined by Section 509(a)(1) of the Internal Revenue Code, is subject to federal income tax. The Organization does not believe that during the fiscal years ended June 30, 2017 and 2016 that it had unrelated business income and accordingly, no provision for income taxes has been recorded in the accompanying financial statements. The Organization files Federal Form 990 in the United States. Federal Forms 990 filed before June 30, 2014 are no longer subject to examination.

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Concentration of Credit Risk

The Organization's credit risk relates to cash and cash equivalents. The Organization maintains several bank accounts at two banks. Accounts at an institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Cash at one of these institutions exceeds federally insured limits from time to time.

Events Occurring After Reporting Date

Rutherford County Area Habitat for Humanity, Inc. has evaluated events and transactions that occurred between June 30, 2017 and September 22, 2017, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 2 - CASH EQUIVALENTS/RESTRICTED CASH

Habitat held \$4,064 at June 30, 2016 in a separate escrow account used to pay for homeowner property taxes and insurance. During 2017 all mortgages are serviced by third parties and escrow deposits made by homeowners are remitted to these third parties.

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 3 - MORTGAGES RECEIVABLE

Mortgages receivable as of each June 30 are summarized as follows:

		2017	2016
Homes with mortgages	78	\$ 3,992,246	\$ 3,523,000
Less unamortized discount		<u>(2,189,256)</u>	<u>(1,885,722)</u>
		<u><u>\$ 1,802,990</u></u>	<u><u>\$ 1,637,278</u></u>

The discount is computed using rates varying from 7.39% to 8.5% based upon the original amount of the note. Habitat also holds second and/or third mortgages on each home that is not reflected above. These mortgages represent the difference between market value and purchase price of the homes. These mortgages would only be collected if the family sold the property. Habitat holds a right of first refusal on each property.

A loan is considered impaired, in accordance with the impairment accounting guidance (FASB ASC 310-10-35-16), when based on current information and events, it is probable that the Organization will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Based on this standard, management has concluded that none of its loans are impaired.

The Organization makes mortgage loans in accordance with its stated mission. As such, the Organization has credit exposure in the residential real estate market. No provision for mortgage loan losses has been made.

Credit Quality Indicators

Credit risk profile by internally assigned grade (excluding unamortized discount):

Performing	\$ 3,819,837
Non performing	172,409
	<u><u>\$ 3,992,246</u></u>

Age Analysis of Past Due Loans (excluding unamortized discount):

30 - 59 days past due	\$ 291,597
60 - 90 days past due	61,210
91 - 120 days past due	44,124
Over 120 days past due	128,285
Current	3,467,030
	<u><u>\$ 3,992,246</u></u>

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment as of each June 30 is as follows:

	2017	2016
Vehicles	\$ 42,299	\$ 42,299
Office furniture and equipment	89,696	80,245
Rental property	96,544	202,316
Leasehold improvements	24,451	-
Building	890,358	873,617
	<u>1,143,348</u>	<u>1,198,477</u>
Less accumulated depreciation	385,992	352,178
	<u>757,356</u>	<u>846,299</u>
Land	227,235	227,235
	<u><u>\$ 984,591</u></u>	<u><u>\$ 1,073,534</u></u>

NOTE 5 - TRANSACTIONS WITH HABITAT INTERNATIONAL

Habitat voluntarily remits a portion of its cash contributions to HFHI. These funds are used to construct homes in economically depressed areas around the world. Habitat contributed \$10,000 and \$8,000 to HFHI for the years ended June 30, 2017 and 2016, respectively.

Habitat remitted \$15,000 in 2017 and 2016 to HFHI in accordance with the U.S. Stewardship and Organizational Sustainability Initiative.

NOTE 6 - RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets at each June 30 are available for the following purposes:

	2017	2016
Rehabilitation projects	\$ 24,169	\$ 24,169
Home sponsorships	91,250	100,250
	<u><u>\$ 115,419</u></u>	<u><u>\$ 124,419</u></u>

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 7 - LINES OF CREDIT

The Organization has two lines-of-credit with a bank for \$300,000 and \$100,000, respectively. The first line is secured by the mortgage notes receivables and deeds of trust and matures June 18, 2018. The interest rate on the line at June 30, 2017 was 5%. The unused portion at June 30, 2017 is \$111,041. The second line is unsecured, used for ReStore inventory purchases, and matures December 5, 2017. The interest rate on the line at June 30, 2017 was 6.25%. The unused portion at June 30, 2017 is \$77,998.

NOTE 8 - NOTE PAYABLE

The Organization borrowed \$100,000 on November 18, 2015 on an unsecured term note. The note was repaid during 2017.

NOTE 9 - LONG TERM DEBT

Long term debt is composed of the following:

	2017	2016
Note payable to bank; fixed interest rate of .25%; monthly payments of \$5,230 through maturity date of April 23, 2018. The note is secured by real estate.	\$ 675,701	\$ 738,461
Less current portion	<u>62,757</u>	<u>62,757</u>
	<u>\$ 612,944</u>	<u>\$ 675,704</u>

Aggregate maturities of long-term debt are as follows:

<u>Year ending June 30,</u> 2018	<u>\$ 675,701</u>
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RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 10 - OPERATING LEASE

The Organization entered into an operating lease effective January 1, 2017 for the lease of space for its Smyrna ReStore. Lease payments of \$5,000 per month are due for the term of the lease ending in January 2019. Rent expense during 2017 was \$25,000. Future lease commitments are as follows:

<u>Year ending June 30,</u>	
2018	\$ 60,000
2019	60,000
2018	<u>30,000</u>
	<u>\$ 150,000</u>

NOTE 11 - 401K PLAN

The Organization has a 401k plan that covers all eligible employees who have reached age 30 and have completed one year of service. Participating employees may contribute up to 96% of compensation to the plan, subject to IRS limits. The Organization makes a discretionary matching contribution determined annually. For the year ending June 30, 2017 participating employee deferrals were matched 50% up to 3% of eligible compensation. For the year ended June 30, 2017 and 2016 matching contributions were \$6,655 and \$6,668, respectively.

NOTE 12 - RELATED PARTY

During the year, the Organization purchased building materials from a company owned by a board member. Purchases from this company totaled \$71,930. This company also made in-kind contributions of building materials which have been included in these financial statements.

NOTE 13 - CONTINGENCY

During the year, the Organization sold three first mortgages to Tennessee Housing Development Agency (THDA) for \$311,288. A third-party agency contracted by THDA services the mortgages collecting principal and escrow payments from the homeowners. The Organization guarantees payment of the mortgages to THDA for the homeowners. In the event the homeowner defaults on their mortgage, THDA assigns the deed of trust back to the Organization, who would then be able to initiate foreclosure proceedings. Twenty-five mortgages totaling \$1,453,598 are serviced under this arrangement.