
HABITAT FOR HUMANITY
ST. LOUIS
FINANCIAL STATEMENTS
DECEMBER 31, 2010



Contents

	Page
Independent Auditors' Report	1
 Financial Statements	
Statement Of Financial Position	2
Statement Of Activities.....	3
Statement Of Cash Flows	4
Notes To Financial Statements	5 - 19
 Supplementary Information	
Independent Auditors' Report On Supplementary Information	20
Statement Of Functional Expenses.....	21 - 22



Independent Auditors' Report

Board of Directors
Habitat for Humanity St. Louis
St. Louis, Missouri

RubinBrown LLP
Certified Public Accountants
& Business Consultants

One North Brentwood
Saint Louis, MO 63105

T 314.290.3300
F 314.290.3400

W rubinbrown.com
E info@rubinbrown.com

We have audited the accompanying statement of financial position of Habitat for Humanity St. Louis (Habitat), a not-for-profit organization, as of December 31, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Habitat's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative financial information has been derived from Habitat's 2009 financial statements and, in our report dated July 23, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Habitat's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat as of December 31, 2010, 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.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. 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 Habitat for Humanity St. Louis' financial statements for the year ended December 31, 2009, from which the summarized information was derived.

RubinBrown LLP

July 22, 2011

HABITAT FOR HUMANITY ST. LOUIS

STATEMENT OF FINANCIAL POSITION

December 31, 2010

(With Summarized Financial Information As Of December 31, 2009)

	Assets	
	2010	2009
Current Assets		
Cash and cash equivalents	\$ 87,254	\$ 565,778
Restricted cash (Note 3)	733,113	621,288
Investments (Notes 4, 11 and 13)	97,500	166,805
Promises to give - current (Note 5)	328,409	308,496
Grants receivable (Note 6)	371,623	679,182
Other receivables	34,559	110,021
Mortgages receivable - current (Note 7)	142,019	61,606
Inventory (Notes 9 and 13)	1,120,100	503,614
Prepaid expenses and other assets	36,717	32,804
Total Current Assets	2,951,294	3,049,594
Long-Term Assets		
Promises to give - long term (Note 5)	65,000	—
Mortgages receivable - long-term (Note 7)	1,381,557	851,966
Investment in HFHI-SA Leverage II, LLC (Note 8)	3,430,000	3,430,000
Investment in HFHSTL Leverage Lender, LLC (Note 8)	4,950,000	4,950,000
Property and equipment (Notes 10 and 13)	1,824,208	1,802,346
Total Long-Term Assets	11,650,765	11,034,312
Total Assets	\$ 14,602,059	\$ 14,083,906
	Liabilities And Net Assets	
Current Liabilities		
Line of credit (Note 11)	\$ 299,967	\$ 296,663
Notes payable (Note 12)	7,279	599,950
Current portion of long-term debt (Note 13)	70,322	24,481
Accounts payable and accrued expenses	1,043,088	781,831
Escrow deposits	237,984	202,117
Total Current Liabilities	1,658,640	1,905,042
Escrow Deposits (Note 8)	200,837	107,918
Long-Term Debt (Note 13)	9,743,293	9,034,619
Total Liabilities	11,602,770	11,047,579
Net Assets		
Unrestricted:		
Undesignated	812,245	887,520
Investment in property and equipment	1,180,548	1,137,925
Board designated (Note 15)	427,481	494,781
Total Unrestricted	2,420,274	2,520,226
Temporarily restricted (Note 14)	579,015	516,101
Total Net Assets	2,999,289	3,036,327
Total Liabilities And Net Assets	\$ 14,602,059	\$ 14,083,906

HABITAT FOR HUMANITY ST. LOUIS

STATEMENT OF ACTIVITIES For The Year Ended December 31, 2010 (With Summarized Financial Information For The Year Ended December 31, 2009)

	2010			2009
	Unrestricted	Temporarily Restricted	Total	Total
Revenues, Support And Gains				
Contributions	\$ 350,502	\$ 11,574	\$ 362,076	\$ 314,578
Sponsorships	—	1,429,838	1,429,838	1,404,064
Fundraising and special events revenue (net of expenses of \$104,408 for 2010 and \$104,294 for 2009)	91,571	—	91,571	121,478
Transfers to homeowners	2,505,000	—	2,505,000	2,772,564
Grant revenue (Note 6)	419,058	—	419,058	981,137
New market tax credit funding (Note 8)	—	—	—	621,834
Debt forgiveness (Note 12)	599,950	—	599,950	—
Sale of property	3,627	—	3,627	1,319
Investment income (Note 4)	103,059	—	103,059	58,832
ReStore sales	729,345	—	729,345	503,958
ReStore donated materials	715,464	—	715,464	518,508
Other donated materials and services	—	290,465	290,465	495,974
Other income	76,868	25	76,893	17,947
Net assets released from restrictions (Note 14)	1,668,988	(1,668,988)	—	—
Total Revenues, Support And Gains	7,263,432	62,914	7,326,346	7,812,193
Expenses				
Program Services:				
Home Construction	5,158,991	—	5,158,991	6,389,430
ReStore:				
Operating expenses	438,506	—	438,506	363,391
Cost of sales	704,417	—	704,417	497,691
Total Program Services	6,301,914	—	6,301,914	7,250,512
Supporting Activities:				
Management and general	633,482	—	633,482	595,025
Fundraising	427,988	—	427,988	347,031
Total Supporting Activities	1,061,470	—	1,061,470	942,056
Total Expenses	7,363,384	—	7,363,384	8,192,568
Increase (Decrease) In Net Assets	(99,952)	62,914	(37,038)	(380,375)
Net Assets - Beginning Of Year	2,520,226	516,101	3,036,327	3,416,702
Net Assets - End Of Year	\$ 2,420,274	\$ 579,015	\$ 2,999,289	\$ 3,036,327

HABITAT FOR HUMANITY ST. LOUIS

STATEMENT OF CASH FLOWS For The Year Ended December 31, 2010 (With Summarized Financial Information For The Year Ended December 31, 2009)

	For The Years Ended December 31,	
	2010	2009
Cash Flows From Operating Activities		
Decrease in net assets	\$ (37,038)	\$ (380,375)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation	81,148	84,651
Unrealized gain on investments	(42,060)	(63,549)
Realized loss on investments	35,568	30,000
Gain on sale of property and equipment	(32,850)	—
Debt forgiveness	(599,950)	
Changes in assets and liabilities:		
(Increase) decrease in promises to give	(84,913)	447,151
(Increase) decrease in grants receivable	307,559	(54,506)
(Increase) decrease in other receivables	75,462	(103,027)
Increase in mortgages receivable	(610,004)	(516,821)
Increase in inventory	(616,436)	(113,050)
Increase in prepaid expenses	(3,913)	(13,350)
Increase in accounts payable and accrued expenses	261,257	505,078
Increase in escrow deposits	35,867	23,031
Net Cash Used In Operating Activities	(1,230,353)	(154,767)
Cash Flows From Investing Activities		
Purchases of investments	(111,203)	(577)
Proceeds from sale of investments	187,000	107,028
Purchase of investment in HFHSTL Leverage Lender, LLC	—	(4,950,000)
Payments for property and equipment	(70,160)	(58,928)
Net Cash Provided By (Used In) Investing Activities	5,637	(4,902,477)
Cash Flows From Financing Activities		
New market tax credit reserve	92,919	—
Proceeds on lines of credit, net	3,304	70,663
Proceeds from notes payable	7,279	985,928
Proceeds from long term debt	780,000	5,015,626
Principal payments on notes payable	—	(878,195)
Principal payments on long term debt	(25,435)	(12,992)
Net Cash Provided By Financing Activities	858,017	5,181,030
Net Increase (Decrease) In Cash And Cash Equivalents	(366,699)	123,786
Cash And Cash Equivalents - Beginning Of Year	1,187,066	1,063,280
Cash And Cash Equivalents - End Of Year	\$ 820,367	\$ 1,187,066
Supplemental Disclosure Of Cash Flow Information		
Donated materials and services received - ReStore and temporarily restricted	\$ 1,005,929	\$ 1,014,482
Notes payable refinanced with long-term debt	—	128,000
Interest paid	123,547	37,304

HABITAT FOR HUMANITY ST. LOUIS

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

1. Summary Of Significant Accounting Policies

Basis Of Accounting

Habitat for Humanity St. Louis (Habitat) uses the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Estimates And Assumptions

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

Basis Of Presentation

Financial statement presentation follows the requirements of the Financial Accounting Standards Board for not-for-profit organizations by presenting assets and liabilities within similar groups and classifying them in a way that provides relevant information about the interrelationships, liquidity, and financial flexibility. As a result, Habitat is required to report information regarding its financial position and activities according to the following three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Habitat has no permanently restricted net assets.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. 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 Habitat's financial statements for the year ended December 31, 2009, from which the summarized information was derived.

Cash Equivalents

Habitat considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Habitat invests its cash with financial institutions with strong credit ratings. At times, such investments may be in excess of Federal Deposit Insurance Corporation insurance limits.

HABITAT FOR HUMANITY ST. LOUIS

Notes To Financial Statements *(Continued)*

Investments

Investments are reported at fair value. Donated assets are recorded at fair value at the date of donation, or, if sold immediately after receipt, at the amount of sales proceeds received, which are considered a fair measure of the value at the date of donation. Gains or losses on sales of investments are determined on a specific cost identification method. Unrealized gains and losses are determined based on year-end market value fluctuations.

Habitat invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of financial position.

Accounting rules in fair value measurements establish a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). All of Habitat's investments are measured at fair value using quoted prices in active markets (Level 1), except for investments in partnerships related to its New Markets Tax Credit Programs, which are measured using significant unobservable inputs (Level 3), and which had no change in value for the reporting period.

Inventory

Inventory primarily consists of land and buildings occupied and subject to lease with the option to purchase, homes available for sale, ReStore merchandise, and construction in progress. Habitat uses the specific identification method in valuing inventory at cost.

All direct material and equipment costs and those indirect costs related to home construction are recorded as construction in progress inventory. When revenue from the sale of a home is recognized, the corresponding costs are expensed in the statement of activities and changes in net assets as program services.

HABITAT FOR HUMANITY ST. LOUIS

Notes To Financial Statements (*Continued*)

Property And Equipment

Property and equipment are recorded at cost when purchased and depreciated using the straight-line method over the estimated useful lives of the assets. The useful lives of the assets are as follows:

Building and improvements	20 - 39 years
Vehicles, furniture and equipment and software	3 - 7 years
Construction tools and equipment	3 years

Habitat is prohibited by grant agreements from selling assets purchased with certain grant proceeds.

Repairs and maintenance are charged to expense when incurred. Expenditures for major renewals and betterments that extend the useful life of an asset are capitalized.

Revenue And Cost Recognition Method

Contribution revenue is recognized when a promise to give becomes unconditional. Promises to give and grants receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollected amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Those balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the receivable. Management believes that no valuation allowance is necessary for promises to give at December 31, 2010.

Habitat reports contributions restricted for the purpose of building a home as temporarily restricted support. A substantial portion of contributions received are restricted for specific homes. As costs are incurred to construct the homes, the costs are recorded as inventory. Construction costs are expensed as program costs when homes are sold.

HABITAT FOR HUMANITY ST. LOUIS

Notes To Financial Statements *(Continued)*

Donated Materials And Services

Donated materials are valued at the lower of estimated donor cost or fair value at the date of contribution. Certain professional services are donated to Habitat by various organizations. Since these donated services meet the criteria for recognition, as stated by generally accepted accounting principles, they are recorded at fair value at the date of donation. In addition, a substantial number of volunteers have donated a significant amount of their time to Habitat. These donated services have not been recognized as contributions in the financial statements since the recognition criteria, as stated by generally accepted accounting principles, were not met. Some donated materials and services are designated by the donor for specific construction projects, and accordingly, are recorded as temporarily restricted.

Description Of Program Services And Supporting Activities

The following program services and supporting activities are included in the accompanying financial statements:

Program Services

Construction And Construction Support

Includes all home construction costs such as materials, supplies, labor and overhead. Also includes construction supporting costs such as real estate development, volunteer mobilization and family selection services.

ReStore - Operating Expenses

Includes salaries, utilities and overhead necessary to operate the ReStore - a discount and recycled materials and hardware store.

ReStore - Cost Of Sales

Estimated value of donated merchandise sold by the ReStore.

Supporting Activities

Management And General

Includes the functions necessary to maintain an equitable employment program; ensure an adequate working environment; provide coordination and articulation of Habitat's program strategy; secure proper administrative functioning of the Board of Directors; and manage the financial and budgetary responsibilities of Habitat.

Fundraising

Provides the structure necessary to encourage and secure financial support for Habitat through grants, contributions and special events.

HABITAT FOR HUMANITY ST. LOUIS

Notes To Financial Statements *(Continued)*

Expense Allocation

Expenses are charged to program services and supporting activities on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of Habitat.

Income Taxes

Habitat is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and as a public charity qualifies for charitable contributions under Internal Revenue Code Section 170.

Habitat's federal tax returns for the tax years 2007 and later remain subject to examination by taxing authorities.

Subsequent Events

Management has evaluated subsequent events through July 22, 2011, the date which the financial statements were available for issue.

Reclassifications

Certain amounts on the 2009 financial statements were reclassified, where appropriate, to conform to 2010 financial statement presentation.

2. Operations

Habitat is a not-for-profit organization affiliated with Habitat for Humanity International, Inc. Habitat's mission is to construct affordable, decent housing for sale to low-income families at cost and to build communities by encouraging existing homeowners to upgrade and improve their property.

The primary source of Habitat's revenues is contributions and sponsorships received from the general public, corporations and religious organizations. The St. Louis Chapter also operates a retail hardware store (ReStore) with sales to the general public. Inventory is primarily donated, with the sale proceeds used to carry out Habitat's mission.

HABITAT FOR HUMANITY ST. LOUIS

Notes To Financial Statements (Continued)

3. Restricted Cash

Restricted cash consists of the following at December 31, 2010:

Cash and cash equivalents held in checking and money market accounts designated by the Board for specific purposes (Note 15)	\$ 334,454
Homeowner repair escrow	197,822
Restricted for new market tax credit expenses (Note 8)	200,837
	<u> </u>
	<u>\$ 733,113</u>

4. Investments

Investments consist of the following at December 31, 2010:

	<u>Cost</u>	<u>Fair Value</u>
Equity mutual funds	\$ 56,556	\$ 55,618
Fixed income mutual funds	31,067	30,768
Other	10,203	11,114
	<u> </u>	<u> </u>
	<u>\$ 97,826</u>	<u>\$ 97,500</u>

Investments are carried at fair value in accordance with generally accepted accounting principles.

Certain investments have been designated by the Board for specific purposes (Note 15).

Investment income (loss) includes the following for the year ended December 31, 2010:

Interest and dividend income	\$ 96,567
Unrealized gain on investments	42,060
Realized loss on investments	<u>(35,568)</u>
	<u>\$ 103,059</u>

Investment fees of approximately \$7,000 are included in management and general expenses on the statement of activities.

HABITAT FOR HUMANITY ST. LOUIS

Notes To Financial Statements (Continued)

5. Promises To Give

Promises to give consist of contributions restricted for the purpose of building a home. At December 31, 2010, promises to give include \$393,409 from house sponsorships. The promises to give are unconditional, with expected collections of \$328,409 in 2011 and \$65,000 in 2012.

6. Grants Receivable And Grant Revenue

Grants receivable at December 31, 2010 consists primarily of reimbursement-type grants for home construction costs.

Affordable Housing Trust	\$ 277,049
Brownsfield Grant	86,770
Federal Home Loan Bank	28,430
Home Depot Foundation	3,125
Jefferson Solid Waste Grant	28,215
	<u>423,589</u>
Less: Allowance for uncollectible grant receivables	<u>51,966</u>
	<u>\$ 371,623</u>

Grant revenue at December 31, 2010 consists of the following:

Affordable Housing Trust	\$ 222,000
Jefferson Solid Waste Grant	72,560
Softwood Lumber	124,498
	<u>\$ 419,058</u>

7. Mortgages Receivable

Mortgages receivable consist of noninterest bearing mortgages secured by real estate, receivable in monthly installments through years ranging to 2041. Mortgage receivables consist primarily of mortgages repurchased from CitiMortgage upon homeowner default.

Each mortgage is discounted to the value it could be sold to a third party lender.

HABITAT FOR HUMANITY ST. LOUIS

Notes To Financial Statements (Continued)

Mortgages receivable are presented net of unamortized discount resulting from the imputation of interest as follows:

Mortgages receivable at face value	\$ 3,102,836
Less: Unamortized discount based on imputed interest	1,559,260
Less: Allowance for doubtful accounts	20,000
	<u>1,523,576</u>
Less: Current portion	142,019
	<u><u>\$ 1,381,557</u></u>

8. Investments For New Market Tax Credit Programs

Habitat participates in a New Markets Tax Credit (NMTC) program. The program provides funds to eligible organizations for investment in "qualified low-income community investment." Program compliance requirements included creation of a promissory note and investment in a qualified community development entity (CDE). Tax credit recapture is required if compliance requirements are not met over a seven-year period.

Investment In HFHI-SA Leverage II, LLC:

In 2008, Habitat recorded its 50% investment in HFHI-SA Leverage II, LLC at the cost of investment plus transaction costs, expendable construction funds, escrow cash, and program cost liabilities. Revenue recorded of \$513,652 equals the amount Habitat expended in 2008 for eligible low income home construction costs.

In June 2015, USB NMTC Fund 2008-2 LLC, (the 2008 Fund), and the upstream effective owner of MBS-UI Sub CDE VIII, LLC (holder of a promissory note due from Habitat) is expected to exercise its put option. Under the terms of the put option agreement HFHI-SA Leverage II, LLC is expected to purchase the ownership interest of the 2008 Fund. Exercise of the option will effectively allow Habitat to extinguish its outstanding debt owed to the 2008 Fund.

HABITAT FOR HUMANITY ST. LOUIS

Notes To Financial Statements (Continued)

Investment In HFHSTL Leverage Lender, LLC:

In 2009, Habitat has recorded its 99.99% investment in HFHSTL Leverage Lender, LLC at the cost of investment plus transaction costs, expendable construction funds, escrow cash, and program cost liabilities. Revenue recorded of \$621,834 equals the amount Habitat expended in 2009 for eligible low income home construction costs.

In December 2016, USBCDE Investment Fund XXXVII, LLC, (the 2009 Fund), and the upstream effective owner of USBCDE Sub-CDE XXXVII, LLC (holder of a promissory note due from Habitat) is expected to exercise its put option. Under the terms of the put option agreement HFHSTL Leverage Lender, LLC is expected to purchase the ownership interest of the 2009 Fund. Exercise of the option will effectively allow Habitat to extinguish its outstanding debt owed to the 2009 Fund.

9. Inventory And Home Construction Costs

Inventory consists of the following:

Leased and available for sale homes	\$ 332,396
ReStore merchandise	163,680
Construction in progress	622,274
Other	<u>1,750</u>
	<u>\$ 1,120,100</u>

Leases for homes contain purchase options, which allow the lessee to purchase the property with an interest-free loan payable over 20 to 39 years. Leased and available for sale homes are valued in inventory at cost, net of the expected discount that will result from conversion to sales. There were 11 leased and available for sale homes in inventory, which are recorded net of an estimated allowance of \$316,036 at December 31, 2010. One of these homes is occupied on a temporary rent-free basis, while the remaining 10 homes are vacant.

HABITAT FOR HUMANITY ST. LOUIS

Notes To Financial Statements (Continued)

10. Property And Equipment

Property and equipment at December 31, 2010 is comprised of the following:

Building and improvements	\$ 1,956,937
Construction tools and equipment	307,725
Computer software	80,160
Furniture and equipment	105,552
Vehicles	144,811
ReStore furniture and equipment	88,807
Warehouse furniture and equipment	78,217
	<u>2,762,209</u>
Less: Accumulated depreciation	<u>938,001</u>
	<u>\$ 1,824,208</u>

Depreciation expense for 2010 was \$81,148.

11. Line Of Credit

Habitat has a \$300,000 revolving line-of-credit agreement with a bank expiring in November 2011. The line of credit has a secured interest in the securities account of Habitat. These securities must be maintained in this account with such bank. The line of credit bears interest the Prime rate, subject to a minimum of 5% (5% at December 31, 2010). The agreement also contains a restrictive covenant requiring Habitat to maintain a certain level of investments. Habitat was in compliance with this covenant at December 31, 2010. Habitat had borrowings outstanding of \$299,967 as of December 31, 2010.

12. Notes Payable

Habitat repurchased homeowner interest free mortgages from CitiMortgage for \$7,279 through individual short-term maturity notes. Habitat repurchased the mortgages in order to assist homeowners who were not making their required monthly mortgage payments. In certain instances, when Habitat believes homeowners are able to consistently make their monthly payments, CitiMortgage will consider accepting the return of these mortgages.

The notes payable of \$599,950 outstanding at December 31, 2009, were forgiven by CitiMortgage and recorded as debt forgiveness income in 2010.

HABITAT FOR HUMANITY ST. LOUIS

Notes To Financial Statements (Continued)

13. Long-Term Debt

Long-term debt consists of the following:

US Bank

Note agreement requires monthly interest and principal payments of \$500. The loan matures in September 2012. The interest rate of 7.25% is fixed through the term of the loan. The loan is secured by substantially all assets held by Habitat.

\$ 9,955

First National Bank

Note agreement requires monthly interest and principal payments of \$4,654 with a balloon payment when the loan matures in June 2013. The interest rate of 5.5% is fixed through the term of the loan based on a 360 day year. The loan is secured by a deed of trust on the buildings.

643,660

IFF Construction

Note agreement requires monthly interest payments on the outstanding balance. Beginning in January 2010 interest and principal payments of \$5,063 are required through December 2025. The interest rate of 6.0% is fixed through the first interest recalculation date in 2016. The loan is secured by a deed of trust on the buildings and assignment of rents.

600,000

St. Louis Housing Authority

Note agreement requires monthly principal payments of \$2,500 beginning April 1, 2011 through maturity in April 2018. Notes provides for borrowing up to \$210,000 with the remaining \$30,000 funds disbursed in 2011. The loan is non interest bearing and is unsecured. The loan may be forgiven if certain events occur.

180,000

MBS UI Sub-CDE VIII

Debt requires interest only payments until June 2015 at 0.706%. The loan matures in December 2023. The loan is secured by substantially all the assets acquired by Habitat from the project loan proceeds. Debt has a put option feature that is exercisable June 2015 (Note 8).

3,430,000

USBCDE Sub-CDE XXXVII, LLC

Debt requires interest only payments until December 2016 at 0.761%. The loan matures in December 2024. The loan is secured by substantially all bank accounts. The loan is also guaranteed by a related party if an event of recapture occurs. The note contains restrictive covenants. Debt has a put option feature that is exercisable December 2015 (Note 8).

4,950,000

9,813,615

70,322

Less: Current maturities

\$ 9,743,293

HABITAT FOR HUMANITY ST. LOUIS

Notes To Financial Statements (Continued)

The USBCDE Sub-CDE XXXVII, LLC note contains covenants which require Habitat to meet certain financial tests and for timing of financial reports. Habitat was not in compliance with certain covenants at December 31, 2010, but management represents that it is in compliance as of the issuance date of this report.

The following is a schedule of estimated future principal payments as of December 31, 2010:

<u>Year</u>	<u>Amount</u>
2011	\$ 70,322
2012	78,789
2013	656,000
2014	56,171
2015	58,048
Thereafter	8,894,285
	<u>\$ 9,813,615</u>

Interest expense on all borrowing arrangements for 2010 was \$123,547.

14. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2010 are subject to the following restrictions:

Construction projects	\$ 574,002
Other	<u>5,013</u>
	<u>\$ 579,015</u>

Net assets released from restrictions during 2010 consist of the following:

Construction projects	\$ 1,655,774
Other	<u>13,214</u>
	<u>\$ 1,668,988</u>

HABITAT FOR HUMANITY ST. LOUIS

Notes To Financial Statements (Continued)

15. Board Designated Net Assets

Unrestricted net assets have been designated for specific purposes, and certain assets have been set aside accordingly as follows at December 31, 2010:

Cash and equivalents (Note 3)	\$ 334,454
Investments (Note 4)	<u>93,027</u>
	<u>\$ 427,481</u>

These assets have been set aside for the following board designated net assets:

Deferred compensation	\$ 25,000
Operating Reserve Fund	330,690
Legacy Fund	<u>71,791</u>
	<u>\$ 427,481</u>

16. Related Parties

Habitat has a nonbinding covenant with Habitat for Humanity International, Inc. (HFHI) to make an annual voluntary tithe payment to HFHI. Habitat makes tithe payments in the amount of \$1,000 for each house sold. An additional tithe payment is required for each house sponsored by a specific donor. In the current year, \$18,000 was expensed and paid to HFHI for the sale of 18 homes built in 2010.

17. Lease Agreements

Habitat may lease one or more of its properties to an occupant from time to time. Although Habitat is a for-sale housing program, certain situations arise from time to time where a property or properties may be leased to its occupants, rather than sold. Such situations may involve a lease-to-own, or option-to-purchase agreement, but others may be only a rental situation for a fixed, or renewable term.

At December 31, 2010, Habitat was not receiving lease payments on any properties (Note 9).

HABITAT FOR HUMANITY ST. LOUIS

Notes To Financial Statements (*Continued*)

18. Mortgages Sold With Recourse

Prior to 2002, Habitat sold mortgages receivable with recourse to the Missouri Housing Development Commission. At December 31, 2010, the uncollected balances remaining on the mortgages totaled \$104,620.

19. Commitments And Contingencies

The purchase option agreement used when a home is sold contains a provision that if the home is sold within 10 years of the initial date of the lease agreement, Habitat has the right to receive a certain percentage of the gain on the sale of the home. The percentage ranges from 100%, if sold during the first year, to 10% if sold in the 10th year.

Habitat provides a limited warranty to homeowners for all work done and materials provided in the construction of the home. This warranty is a one-year warranty from the date the buyer took occupancy, including the buyer's lease term. During this time, upon written notice from the purchaser, Habitat will repair or replace substantial defects free of charge. However, Habitat has the right to use the funds in the major repair fund (a portion of each mortgage payment is allocated to this escrow account). Based on past experience, management has determined no reserve is needed for warranties.

20. Employee Benefit Plan

Habitat implemented a SIMPLE-IRA plan in 1998. An employee is eligible for the plan if \$2,500 of wages have been earned in any prior year. The plan provides for a deferral of compensation and an employer matching contribution, subject to certain limitations. Habitat's contribution to the plan amounted to \$28,043 for the year ended December 31, 2010.

HABITAT FOR HUMANITY ST. LOUIS

Notes To Financial Statements *(Continued)*

21. Deferred Compensation Agreement

Habitat has entered into a deferred compensation agreement with a key employee. In accordance with the agreement, Habitat will accrue additional compensation for the employee if the employee fulfills the terms of employment and remains employed by Habitat through December 31, 2010. At December 31, 2010, \$25,000 is accrued for deferred compensation. In addition, the Board has designated \$25,000 of unrestricted net assets for this obligation (Note 15).

22. Subsequent Events

In July 2010, Habitat expects to sell 24 mortgages generated during the 2010 build to CitiMortgage, Inc., pursuant to a Master Agreement. The anticipated net sale price of this transaction is approximately \$1,600,000.

In 2011, Habitat borrowed \$1,100,000 from a bank to fund on a short-term basis ongoing operations and programs. The loan is secured with mortgages generated during the 2010 build. Upon the sale of these mortgages pursuant to the above referenced Master Agreement with CitiMortgage, Inc., Habitat will satisfy the debt in full.

On June 17, 2011, Habitat participated in a New Market Tax Credit transaction. The investor for the transaction was US Bank CDE, and the tax credit allocatee was Central Bank of Kansas sub-CDE. Habitat received a net benefit from the transaction of approximately \$675,000 to be used in the construction of homes leveraged in the transaction.

Independent Auditors' Report On Supplementary Information

Our audit as of and for the year ended December 31, 2010 was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The statements of functional expenses for the years ended December 31, 2010 and 2009 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

RubinBrown LLP

July 22, 2011

HABITAT FOR HUMANITY ST. LOUIS

STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended December 31, 2010

	Program Services			Supporting Activities		
	Construction And Construction Support	Restore Operations	Total	Management And General	Fundraising	Total
Salaries and wages	\$ 655,266	\$ 209,066	\$ 864,332	\$ 248,844	\$ 221,573	\$ 470,417
Employee taxes & benefits	154,844	69,245	224,089	49,810	41,765	91,575
Home construction costs	2,861,488	—	2,861,488	—	3,575	3,575
Discount on mortgages	1,229,013	—	1,229,013	—	—	—
Bad debt	—	3,126	3,126	34,305	5,318	39,623
Committee expenses	2,068	978	3,046	15,120	2,215	17,335
Computer expenses	5,243	904	6,147	19,762	15,485	35,247
Depreciation	14,788	4,613	19,401	61,747	—	61,747
Facilities cost	20,754	32,152	52,906	39,303	—	39,303
Insurance	15,622	1,482	17,104	25,821	—	25,821
Interest expense and service charges	88,032	13,206	101,238	17,493	643	18,136
Marketing and public relations	8,179	50,389	58,568	2,962	117,610	120,572
Miscellaneous	22,640	13,644	36,284	8,689	8,452	17,141
Office expenses	6,771	6,925	13,696	10,414	3,073	13,487
Postage	3,289	3,443	6,732	2,185	1,758	3,943
Professional fees	5,369	—	5,369	80,213	—	80,213
Telephone	15,031	3,759	18,790	11,176	3,103	14,279
Travel and meals	14,872	3,373	18,245	4,790	1,135	5,925
Vehicle	35,722	22,201	57,923	848	2,283	3,131
	\$ 5,158,991	\$ 438,506	\$ 5,597,497	\$ 633,482	\$ 427,988	\$ 1,061,470
						\$ 6,658,967

HABITAT FOR HUMANITY ST. LOUIS

STATEMENT OF FUNCTIONAL EXPENSES For The Year Ended December 31, 2009

	Program Services			Supporting Activities		
	Construction And Construction Support	Restore Operations	Total	Management And General	Fundraising	Total
Salaries and wages	\$ 587,455	\$ 186,183	\$ 773,638	\$ 230,203	\$ 192,458	\$ 422,661
Employee taxes & benefits	145,829	52,236	198,065	43,270	35,194	78,464
Home Construction costs	4,357,101	—	4,357,101	663	150	813
Discount on mortgages	1,109,277	—	1,109,277	—	—	—
Bad debt	—	799	799	57,541	1,204	58,745
Committee expenses	1,787	333	2,120	11,821	1,771	13,592
Computer expenses	4,942	—	4,942	2,424	30,398	32,822
Depreciation	16,558	6,717	23,275	61,376	—	61,376
Facilities cost	18,517	29,484	48,001	48,473	—	48,473
Insurance	15,537	1,758	17,295	17,285	—	17,285
Interest expense and service charges	6,791	8,463	15,254	13,083	50	13,133
Marketing and public relations	42,743	30,169	72,912	1,074	58,321	59,395
Miscellaneous	3,967	7,732	11,699	5,111	4,525	9,636
Office expenses	8,386	7,901	16,287	11,780	3,838	15,618
Postage	2,880	2,091	4,971	1,987	5,368	7,355
Professional fees	1,325	—	1,325	75,078	5,625	80,703
Telephone	12,095	5,134	17,229	9,327	2,851	12,178
Travel and meals	20,297	4,678	24,975	4,163	3,198	7,361
Vehicle	33,943	19,713	53,656	366	2,080	2,446
	\$ 6,389,430	\$ 363,391	\$ 6,752,821	\$ 595,025	\$ 347,031	\$ 942,056
						\$ 7,694,877

See the accompanying independent auditors' report on supplementary information.