Habitat for Humanity Saint Louis

Financial Statements and
Independent Auditors' Report

December 31, 2011

Habitat for Humanity Saint Louis

Index

Independent Auditors' Report

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

We have audited the accompanying statement of financial position of Habitat for Humanity Saint Louis (Habitat) as of December 31, 2011, 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.

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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2011, 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.

As discussed in note 3, Habitat has restated its net assets as of December 31, 2010 to correct an accounting error.

As part of our audit of the 2011 financial statements, we also audited the adjustments described in note 3 that were applied to restate the 2010 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2010 financial statements of Habitat other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2010 financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on page 30 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

CohnReznick LLP

Chicago, Illinois
December 17, 2012

Habitat for Humanity Saint Louis

Statement of Financial Position

December 31, 2011

Assets

Current assets		
Cash and cash equivalents	$	185,697
Restricted cash		1,014,607
Investments		99,104
Promises to give		260,360
Grants receivable		110,648
Mortgages receivable - current, net		61,650
Other receivables		34,250
Inventory		2,073,433
Prepaid expenses and other assets		36,115
Total current assets		3,875,864
Long-term assets		
Mortgages receivables - long term, net		381,352
Investment in HFHI-SA Leverage II, LLC		2,631,075
Investment in HFHSTL Leverage Lender, LLC		8,783,321
Capitalized costs, net		499,394
Property and equipment, net		1,814,938
Total long-term assets		14,110,080
Total assets	$	17,985,944

(continued)

Habitat for Humanity Saint Louis

Statement of Financial Position - Continued

December 31, 2011

Liabilities and Net Assets

Current liabilities	
Line of credit	$ 295,500
Current portion of long-term debt	30,000
Accounts payable and accrued expenses	1,068,639
Escrow deposits	209,107
Total current liabilities	1,603,246
Long-term liabilities	
Long-term debt	15,618,010
Total long-term liabilities	15,618,010
Total liabilities	17,221,256
Net assets	
Unrestricted net assets	
Undesignated	(48,053)
Board designated	363,775
Total unrestricted net assets	315,722
Temporarily restricted net assets	448,966
Total net assets	764,688
Total liabilities and net assets	$ 17,985,944

See notes to financial statements

Habitat for Humanity Saint Louis

Statement of Activities

Year ended December 31, 2011

	Unrestricted	Temporarily restricted	Total
Revenues			
Contributions	$ 430,053	$ 114,849	$ 544,902
Sponsorships	-	1,049,644	1,049,644
Fundraising and special events revenue (net of expenses of $94,104 for 2011 and $104,409 for 2010)	105,055	-	105,055
Transfers of homeowners	1,428,000	-	1,428,000
Grant revenue	94,891	-	94,891
Debt forgiveness	138,547	-	138,547
Sale of property	4,907	-	4,907
Investment income	83,207	-	83,207
ReStore sales	822,177	-	822,177
ReStore donated materials	870,062	-	870,062
Other donated materials and services	-	254,109	254,109
Other income	67,864	-	67,864
Net assets released from restrictions	1,548,651	(1,548,651)	-
Total revenues	5,593,414	(130,049)	5,463,365
Expenses			
Program services:			
Home construction and construction support	4,017,339	-	4,017,339
ReStore operating expenses	1,260,872	-	1,260,872
Total program services	5,278,211	-	5,278,211
Supporting activities:			
Management and general	711,391	-	711,391
Fundraising	401,873	-	401,873
Total supporting activities	1,113,264	-	1,113,264
Total expenses	6,391,475	-	6,391,475
Change in net assets	(798,061)	(130,049)	(928,110)
Net assets - beginning of year, restated	1,113,783	579,015	1,692,798
Net assets - end of year	$ 315,722	$ 448,966	$ 764,688

See notes to financial statements

Habitat for Humanity Saint Louis

Statement of Cash Flows

Year ended December 31, 2011

Cash flows from operating activities	
Change in net assets	$ (928,110)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	188,077
Unrealized gain on investments	(715)
Realized loss on investments	3,183
Changes in assets and liabilities:	
Decrease in promises to give	133,049
Decrease in grants receivable	312,941
Decrease in other receivables	309
Decrease in mortgages receivable	1,028,608
Increase in inventory	(952,299)
Increase in prepaid expenses	(433)
Increase in accounts payable and accrued expenses	18,273
Decrease in escrow deposits	(68,148)
Net cash used in operating activities	(265,265)

(continued)

Habitat for Humanity Saint Louis

Statement of Cash Flows - Continued

Year ended December 31, 2011

Cash flows from investing activities	
Purchase of investments	(6,649)
Proceeds from sale of investments	2,577
Payments for investment in HFHSTL Leverage Lender, LLC	(4,913,655)
Payments for capitalized costs	(175,000)
Purchase of property and equipment	(92,000)
Net cash used in investing activities	(5,184,727)
Cash flows from financing activities	
Payments on lines of credit	(4,467)
Proceeds from long-term debt	7,088,800
Principal payments on long-term debt	(1,254,405)
Net cash provided by financing activities	5,829,928
Net increase in cash	379,936
Cash and cash equivalents, beginning	820,368
Cash and cash equivalents, ending	$ 1,200,304
Supplemental disclosure of cash flow information:	
Donated materials and services received - ReStore and temporarily restricted	$ 1,124,171
Cash paid for interest	$ 148,130

See notes to financial statements

Note 1 - Organization

Habitat for Humanity Saint Louis (Habitat) was organized as a non-profit organization in the state of Missouri and is affiliated with Habitat for Humanity International, Inc. Habitat has received tax exempted status under the provisions of Section 501(c)(3) of the Internal Revenue Code of 1954 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. Habitat 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's activities are composed of primarily three program divisions and two supporting divisions:

Program Services

Home 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.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

Habitat is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Additionally, information is required to segregate program service expenses from support expenses. Support expenses include management and general and fundraising expenses.

Revenue Recognition

Contributions and grants received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions received with donor imposed restrictions that are met in the same year as received are reported as unrestricted revenues. Contributions of assets other than cash are recorded at their estimated fair market value. The expiration of temporary restrictions on net assets (i.e., the donor imposed stipulated purpose has been fulfilled, or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Donated investments are recorded at the fair market value as of the date of the contribution. Gains and losses on investments and other assets or liabilities, are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulation or by law.

Unconditional pledges receivable that are expected to be collected within a year are recorded at their net realizable value when the donor makes the promise. Unconditional pledges receivable that are expected to be collected in the future years are recorded at the present value of their estimated future cash flows.

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 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.

Net Assets

Habitat classifies net assets as unrestricted, temporarily restricted or permanently restricted.

Unrestricted net assets of Habitat are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets of Habitat result (a) from contributions and other inflows of assets 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, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations and (c) from reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of Habitat pursuant to those stipulations.

Permanently restricted net assets of Habitat result (a) from contributions and other inflows of assets whose use by Habitat is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of Habitat, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations and (c) from reclassifications from (or to) other classes of net assets as a consequence of donor-imposed stipulations. Habitat has not received any permanently restricted contributions. There are no permanently restricted net assets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments

Habitat's short-term investments consist of various securities. Habitat's short-term investments are classified as securities and are carried at fair value determined based on Level 1 inputs as of the date nearest the balance sheet date.

Habitat's long-term investments are investments in entities related to the New Market Tax Credit (NMTC) program. The NMTC investments are accounted for using the equity method. Under the equity method, the initial investment is recorded at cost and is subsequently increased or decreased by its share of income or loss and increased or decreased by the amount of any contributions made or distributions received.

Fair Value of Assets

Pursuant to the accounting guidance for fair value measurements and its subsequent updates, fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, Habitat considers the principal or most advantageous market in which it would transact, and it considers assumptions that market participants would use when pricing the asset or liability.

The accounting guidance for fair value measurement also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is as follows:

- Level 1 - Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level 1 include listed equities, securities and listed derivatives.

- Level 2 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

- Level 3 - Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Habitat's assessment of the significant of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The following table summarizes the valuation of Habitat's investments that are recorded at fair value according to the hierarchy levels at December 31, 2011:

	Level 1	Level 2	Level 3
Short-term investments	$ 99,104	$ -	$ -

Capitalized Costs

Guarantee fees paid in conjunction with the NMTC investments are capitalized and amortized over 7 years, the NMTC guarantee period.

Advertising Costs

Advertising costs are charged to operations when incurred.

Income Taxes

Habitat has applied for and received a determination letter from the Internal Revenue Service (IRS) to be treated as a tax exempt entity pursuant to Section 501(c)(3) of the Internal Revenue Code and did not have any unrelated business income for the year ended December 31, 2011. Due to its tax exempt status, Habitat is not subject to income taxes. Habitat is required to file and does file tax returns with the IRS and other taxing authorities. Habitat's Form 990, Return of Organization Exempt from Income Tax, for the years ending 2008, 2009, and 2010 are subject to examination by the IRS, generally for three years after they were filed.

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. ReStore inventory consists of materials and is stated at donated value. Any purchased inventory is stated at the lower of cost or market value.

All direct material and equipment costs and 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.

Capitalization and Depreciation

Property and equipment are recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. Assets are depreciated over their estimated service lives. The estimated service lives of the assets for depreciation purposes may be different than their actual economic useful lives.

Impairment of Long-Lived Assets

Habitat reviews its property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No asset or impairment losses have been recognized during 2011.

Cash and Cash Equivalents

Habitat considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Note 3 - Restatement of Net Assets

During 2011, Habitat discovered that its investments in the NMTC entities were not properly accounted for under generally accepted accounting principles in prior years. In prior years, Habitat prematurely recorded net income from the NMTC entity investments in the amount of $1,306,491. In prior years, Habitat also classified and included capitalized costs as investments in NMTCs in the amount of $371,931 and recorded incorrectly recorded escrow deposit liability in the amount of $200,837 as of December 31, 2010. The errors resulted in the investments in the NMTC entities being overstated by $1,879,259; capitalized costs, net of amortization, being understated by $371,931; escrow deposits liability being overstated by $200,837; and the unrestricted net assets being overstated by $1,306,491 as of December 31, 2010. In 2011, Habitat corrected this error.

	Assets		Liabilities and Net Assets	
	Investments in NMTC Entities	Capitalized Costs, Net	Escrow Deposit Liability	Unrestricted Net Assets
As previously reported as of 12/31/2010	$ 8,380,000	$ -	$ (200,837)	$ 2,420,274
Restatement	(1,879,259)	371,931	200,837	(1,306,491)
Restated as of 12/31/2010	$ 6,500,741	$ 371,931	$ -	$ 1,113,783

Management expects the put option for each of its NMTC transactions (note 9) to be exercised at the end of the compliance period. If that does occur, management anticipates revenue from the forgiveness of debt as follows:

	Revenue
Year ending December 31, 2015	$ 798,925
2016	1,080,334
2019	966,345
Total	$ 2,845,604

Note 4 - Cash and Cash Equivalents

Habitat maintains its cash reserve balances in several accounts. The cash reserve balances are insured by the Federal Deposit Insurance Corporation. At times, these balances may exceed the federal insurance limits; however, Habitat has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash reserve balances at December 31, 2011.

Restricted cash consists of the following at December 31, 2011:

Cash and cash equivalents held in checking and money market accounts designated by the board for specific purposes (note 16)	$	268,860
Homeowner repair escrow		296,232
Restricted for new market tax credit expenses (note 9)		449,515
	$	1,014,607

Note 5 - Investments

Investments consist of the following at December 31, 2011:

	Cost		Fair Value	
Equity mutual funds	$	56,556	$	51,925
Fixed income mutual funds		31,067		34,157
Other		10,203		13,022
	$	97,826	$	99,104

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

Certain investments have been designated by the Board for specific purposes (see note 16). Income (loss) on those investments includes the following for the year ended December 31, 2011:

Investment income from NMTC investments	$	85,675
Unrealized gain on investments		715
Realized loss on investments		(3,183)
	$	83,207

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

Note 6 - Promises to Give

Promises to give consist of contributions restricted for the purpose of building a home. At December 31, 2011, promises to give include $260,360 from house sponsorships. The promises to give are unconditional, with expected collections of $260,360 in 2012.

Note 7 - Grants Receivable and Grant Revenue

Grants receivable at December 31, 2011 consists primarily of reimbursement type grants for home construction costs:

Affordable Housing Trust Fund	$	72,746
Jefferson Solid Waste		37,902
	$	110,648

Grant revenue during 2011 consists of the following:

Softwood Lumber	$	65,464
Jefferson Solid Waste		29,427
	$	94,891

Note 8 - Mortgages Receivable

Mortgages receivable consist of noninterest bearing mortgages secured by real estate, receivable in monthly installments though years ranging to 2047. 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.

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

Mortgages receivable at face value	1,083,789
Less: Unamortized discount based on imputed interest	(486,643)
Less: Allowance for doubtful accounts	(154,144)
	443,002
Less: Current portion	61,650
Long-term portion of mortgages receivable	$ 381,352

Note 9 - Investments for New Market Tax Credit Programs

As of December 31, 2011, Habitat has entered into three transactions involving the New Markets Tax Credit (NMTC) financing. The NMTC 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 made an investment in HFHI-SA Leverage II, LLC in the amount of $2,420,299 plus transaction costs of $210,776. Habitat is a 50% member in HFHI-SA Leverage II, LLC. Habitat recorded its investment at cost plus transaction costs. In return for its investment, Habitat received a loan from MBS UI Sub-CDE VIII in the amount of $3,430,000. As of December 31, 2011, Habitat’s investment in HFHI-SA Leverage II, LLC is $2,631,075.

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. If the put option is not exercised HFHI-SA Leverage II, LLC has a call option to purchase the 100% ownership interest of the 2008 Fund at fair market value. Exercise of the option will effectively allow Habitat to extinguish its outstanding debt owed to the 2008 Fund.

Investment in HFHSTL Leverage Lender, LLC

In 2009, Habitat made an investment in HFHSTL Leverage Lender, LLC in the amount of $3,764,468 plus transaction costs of $105,198. Habitat is the 99.99% member of HFHSTL Leverage Lender, LLC. Habitat recorded its investment at cost plus transaction costs. In return for its investment, Habitat received a loan from USBCDE Sub-CDE XXXVII, LLC in the amount of $4,950,000.

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. If the put option is not exercised HFHSTL Leverage Lender, LLC has a call option to purchase the 100% ownership interest of the 2009 Fund at fair market value. Exercise of the option will effectively allow Habitat to extinguish its outstanding debt owed to the 2009 Fund.

In 2011, Habitat made an additional investment in HFHSTL Leverage Lender, LLC in the amount of $4,772,293 plus transaction costs of $141,362. Habitat recorded its investment at cost plus transaction costs. In return for its investment, Habitat received a loan from CBKC Subsidiary CDE X, LLC in the amount of $5,880,000. During 2011, Habitat incurred and expensed fees of $32,036 in connection with its investment.

According to the option agreement, U.S. Bancorp Community Development Corporation (USB), who owns all of the membership interest in Habitat STL-CBKC Investment Fund, LLC, which is the 99.99% owner of CBKC Subsidiary CDE X, LLC, has an option to sell its ownership interest in Habitat STL-CBKC Investment Fund LLC to HFHSTL Leverage Lender, LLC. The put option may be exercised by USB commencing in July 2018. If USB does not exercise the put option, HFHSTL Leverage Lender, LLC has the option to purchase (call), at any time during the 12-month period following the expiration of the put option, USB’s ownership interest. Exercise of this option will effectively allow Habitat to extinguish its outstanding debt owed to CBKC Subsidiary CDE X, LLC.

As of December 31, 2011, Habitat’s investment in HFHSTL Leverage Lender, LLC is $8,783,321.

Interest income earned from the investments and interest expense incurred from the loans is as follows for the year ended December 31, 2011:

Interest income	$	82,600
Interest expense		(83,533)
Net interest	$	(933)

Note 10 - Inventory and Home Construction Costs

Inventory at December 31, 2011 consists of the following:

Leased and available for sale homes	$	441,177
ReStore merchandise		302,053
Construction in progress		1,328,453
Other		1,750
	$	2,073,433

Leases for home 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 the lower of cost or net realizable proceeds after all expected selling costs. There were 12 leased and available for sale homes in inventory at December 31, 2011. One of these homes is occupied on a temporary rent-free basis, while the remaining 11 homes are vacant.

Note 11 - Property and Equipment

Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. Property and equipment at December 31, 2011 is comprised of the following:

	Useful Life	Cost
Land	N/A	$ 320,000
Building and improvements	10 - 40 years	1,647,315
Equipment	3 - 39 years	634,216
Vehicles	5 years	172,518
Computer software	3 years	80,160
		2,854,209
Less: Accumulated depreciation		(1,039,271)
		$ 1,814,938

Depreciation expense for the year ended December 31, 2011 was $101,270.

Note 12 - Capitalized Costs

The guarantee fees associated with the NMTC transactions have been capitalized and amortized over the 7-year guarantee period. As of December 31, 2011, guarantee fees amounted to $687,855 and accumulated amortization amounted to $188,461. During the year ending December 31, 2011, amortization expense amounted to $86,807.

Estimated amortization expense for the next five years and thereafter is as follows:

Year	Amount
2012	$ 98,265
2013	98,265
2014	98,265
2015	97,211
2016	70,929
Thereafter	36,459
	$ 499,394

Note 13 - Line of Credit

Habitat has a $300,000 revolving line-of-credit agreement with Wells Fargo Bank. The line of credit has a secured interest in the securities account of Habitat. These securities must be maintained in this account with Wells Fargo. The line of credit bears interest the Prime rate, subject to a minimum of 5% (5% at December 31, 2011). 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, 2011. Habitat had borrowings outstanding of $295,500 as of December 31, 2011. During 2012, the line-of-credit was fully paid down.

Note 14 - Long Term Debt

Long term debt at December 31, 2011 consists of the following:

St. Louis Housing Authority The loan in the amount of $210,000, dated August 3, 2010, is held by St. Louis Housing Authority. The loan is non-interest bearing. Principal payments in the amount of $2,500 are due monthly beginning April 1, 2011. The loan matures April 1, 2018. The loan is unsecured.	$ 179,210

MBS UI Sub-CDE VIII The loan in the amount of $3,430,000, dated December 18, 2008, is held by MBS-UI Sub-CDE VIII, LLC. The loan bears interest at 0.706%. Interest-only payments are due semi-annually until December 2015. Commencing on December 18, 2015, semi-annual principal and interest payments in the amount of $208,232 are due until maturity. The loan matures in December 2023. The loan is secured by the assets of the 2008 NMTC project. The loan is also guaranteed by a related party if an event of recapture occurs. The loan has a put option feature that is exercisable June 2015 (note 9).	3,430,000
USBCDE SUB-CDE XXXVII, LLC The loan in the amount of $4,950,000, dated December 15, 2009 is held by USBCDE SUB-CDE XXXVII, LLC. The loan bears interest at 0.761%. Interest-only payments are due semi-annually until December 2016. Commencing on December 15, 2016, semi-annual principal and interest payments in the amount of $285,042 are due until maturity. The loan matures in December 2024. The loan is secured by the 2009 NMTC project and bank accounts.. The loan is also guaranteed by a related party if an event of recapture occurs. The loan has a put option feature that is exercisable in December 2015 (note 9).	4,950,000
IFF NMTC Loan The loan in the amount of $1,208,800, dated November 30, 2011, is held by IFF. The loan bears interest at 5.875%. The interest rate is recalculated on December 1, 2018, November 30, 2028 and December 1, 2028. Interest-only payments are due monthly until December 1, 2018. Beginning December 1, 2018, principal and interest payments are due monthly in an amount equal to amount that amortizes the principal balance over 180 months. The loan matures on December 1, 2028. The loan is secured by Habitat's building and assignment of rents.	1,208,800

<u>CBKC Subsidiary CDE X, LLC</u>

The loan in the amount of $5,880,000, dated June 17, 2011, is held by CBKC Subsidiary CDE X, LLC. The loan bears interest at 0.809%. Interest-only payments are due semi-annually unit December 5, 2018. Commencing on December 5, 2018, semi-annual principal and interest payments in the amount of $380,262 are due until maturity. The loan matures on June 16, 2026. The loan is secured by the operating account held by U.S. Bank National Association, the guaranty account held by the lender and the 2011 NMTC Project. The loan is also guaranteed by a related party if an event of NMTC recapture occurs. The loan has a put option feature that is exercisable in July, 2018 (note 9).	5,880,000
Total	15,648,010
Less: Current maturities	(30,000)
Long-term debt	$ 15,618,010

The USBCDE Sub-CDE XXXVII, LLC note payable 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, 2011. However, Habitat has obtained a letter from the bank waiving the non-compliant loan covenants as of December 31, 2011.

The following is a schedule of estimated future payments as of December 31, 2011:

Year	Amount
2012	$ 30,000
2013	30,000
2014	30,000
2015	30,000
2016	296,218
Thereafter	15,231,792
	$ 15,648,010

Note 15 - Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2011 are subject to the following restrictions:

Construction projects	$	440,015
Other		8,951
	$	448,966

Net assets released from restrictions during 2011 consist of the following:

Construction projects	$	1,472,100
Other		76,551
	$	1,548,651

Note 16 - 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, 2011:

Cash and equivalents	$	268,860
Investments		94,915
	$	363,775

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

Operation reserve fund	$	291,623
Legacy fund		72,152
	$	363,775

Note 17 - 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,

$15,000 was expensed and remains payable to HFHI for the sale of 15 homes built in 2011.

Note 18 - 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, 2011, Habitat was not receiving lease payments on any properties (note 10).

Note 19 - Mortgages Sold with Recourse

Prior to 2002, Habitat sold mortgages receivable with recourse to the Missouri Housing Development Commission. Habitat has guaranteed payment of the mortgage loans and in the event of any loan default Habitat will replace the non-performing loan with a performing loan or will buy back the non-performing loan at par. At December 31, 2011, the uncollected balances remaining on the mortgages totaled $85,162.

Note 20 - Commitments and Contingencies

The purchase option agreement 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 to warranties.

Note 21 - Employee Benefit Plan

Habitat implemented a SIMPLE -IRA plan in 1998. An employee is eligible for the plan if $2,400 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 $33,007 for the year ended December 31, 2011.

Note 22 - Deferred Compensation Agreement

Habitat has entered into a deferred compensation agreement with a key employee. In accordance with the agreement, Habitat accrued additional compensation for the employee after the employee fulfilled the terms of employment and remained employed by Habitat through December 31, 2010. At December 31, 2010, $25,000 was accrued for deferred compensation. In addition, the Board designated $25,000 of unrestricted net assets for this obligation. During 2011, deferred compensation was paid in the amount of $25,000.

Note 23 - Subsequent Events

Events that occur after the balance sheet date but before the financial statements were issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which reflect significant matters but which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the Company through December 17, 2012 and concluded that no subsequent events, except the subsequent event noted below, have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

In April 2012, Habitat closed on a NMTC transaction in which they made an investment of $1,448,780 into a leverage lender entity and in return received a loan in the amount of $1,880,000. The NMTC investor is U.S. Bancorp and the tax credit allocate was CCML CDE.

Supplementary Information

Habitat for Humanity Saint Louis

Statement of Functional Expenses

Year ended December 31, 2011

	Program services			Supporting activities			
	Construction	ReStore operations	Total	Management and general	Fundraising	Total	Total
Salaries and wages	$ 718,804	$ 238,606	$ 957,410	$ 244,181	$ 202,785	$ 446,966	$ 1,404,376
Employee taxes and benefits	187,017	82,940	269,957	52,136	44,158	96,294	366,251
Home construction costs	1,829,347	-	1,829,347	-	123	123	1,829,470
Discount on mortgages	775,857	-	775,857	-	-	-	775,857
Impairment on inventory	154,223	-	154,223	-	-	-	154,223
Cost of sales - ReStore	-	789,764	789,764	-	-	-	789,764
New market tax credit expenses	32,036	-	32,036	-	-	-	32,036
Bad debt	13,257	1,818	15,075	5,000	30	5,030	20,105
Committee expenses	1,998	594	2,592	18,276	2,636	20,912	23,504
Computer expenses	5,517	848	6,365	12,923	4,115	17,038	23,403
Depreciation and amortization	116,688	5,977	122,665	65,412	-	65,412	188,077
Facilities cost	42,549	30,850	73,399	48,558	-	48,558	121,957
Insurance	18,169	1,472	19,641	27,690	-	27,690	47,331
Interest expense and service charges	55,660	13,365	69,025	114,813	674	115,487	184,512
Marketing and public relations	13,864	44,048	57,912	1,956	121,837	123,793	181,705
Miscellaneous	16,704	8,251	24,955	9,975	12,767	22,742	47,697
Office expenses	7,031	6,439	13,470	12,901	2,216	15,117	28,587
Postage	2,815	120	2,935	1,789	1,224	3,013	5,948
Professional fees	33	-	33	78,638	-	78,638	78,671
Telephone	13,868	4,596	18,464	12,805	3,295	16,100	34,564
Travel and meals	3,822	7	3,829	2,743	2,240	4,983	8,812
Vehicle	8,080	31,177	39,257	1,595	3,773	5,368	44,625
	$ 4,017,339	$ 1,260,872	$ 5,278,211	$ 711,391	$ 401,873	$ 1,113,264	$ 6,391,475