Habitat for Humanity Saint Louis

Financial Statements
(With Supplementary Information)
and Independent Auditor's Report

December 31, 2012 and 2011

Habitat for Humanity Saint Louis

Index

Independent Auditor's Report

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

Report on Financial Statements

We have audited the accompanying financial statements of Habitat for Humanity Saint Louis (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity Saint Louis as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on pages 32 and 33 are 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
June 20, 2013

Habitat for Humanity Saint Louis

Statements of Financial Position

December 31, 2012 and 2011

Assets

	2012	2011
Current assets		
Cash and cash equivalents	$ 354,075	$ 185,697
Restricted cash	1,131,707	1,014,607
Investments	108,560	99,104
Promises to give	212,518	260,360
Grants receivable	123,306	110,648
Mortgages receivable - current, net	57,564	61,650
Other receivables	44,212	34,250
Inventory	1,282,412	2,073,433
Prepaid expenses and other assets	53,145	36,115
Total current assets	3,367,499	3,875,864
Long-term assets		
Mortgages receivables - long-term, net	553,686	381,352
Investment in HFHI-SA Leverage II, LLC	2,631,075	2,631,075
Investment in HFHSTL Leverage Lender, LLC	8,783,321	8,783,321
Investment in HFHI-CCML Leverage I, LLC	1,491,843	-
Capitalized costs, net	440,659	499,394
Property and equipment, net	1,767,821	1,814,938
Total long-term assets	15,668,405	14,110,080
Total assets	$ 19,035,904	$ 17,985,944

(continued)

Habitat for Humanity Saint Louis

Statements of Financial Position - Continued

December 31, 2012 and 2011

Liabilities and Net Assets (Deficit)

	2012	2011
Current liabilities		
Line of credit	$ -	$ 295,500
Current portion of long-term debt	30,000	30,000
Accounts payable and accrued expenses	559,333	1,068,639
Escrow deposits	192,910	209,107
Deferred revenue	156,825	-
Total current liabilities	939,068	1,603,246
Long-term liabilities		
Line of credit	858,608	-
Long-term debt	17,468,010	15,618,010
Total long-term liabilities	18,326,618	15,618,010
Total liabilities	19,265,686	17,221,256
Net assets (deficit)		
Unrestricted net assets (deficit)		
Undesignated	(1,059,607)	(48,053)
Board designated	426,542	363,775
Total unrestricted net assets (deficit)	(633,065)	315,722
Temporarily restricted net assets	403,283	448,966
Total net assets (deficit)	(229,782)	764,688
Total liabilities and net assets (deficit)	$ 19,035,904	$ 17,985,944

See notes to financial statements

Habitat for Humanity Saint Louis

Statements of Activities

Year ended December 31, 2012

	Unrestricted	Temporarily restricted	Total
Revenues			
Contributions	$ 336,584	$ 61,172	$ 397,756
Sponsorships	-	1,179,855	1,179,855
Fundraising and special events revenue (net of expenses of $48,844)	70,467	-	70,467
Transfers of homeowners	2,589,760	-	2,589,760
Grant revenue	775,406	-	775,406
Debt forgiveness	8,290	-	8,290
Sale of property	57,237	-	57,237
Investment income	130,388	-	130,388
ReStore sales	744,703	-	744,703
ReStore donated materials	706,876	-	706,876
Other donated materials and services	-	451,721	451,721
Other income	70,322	-	70,322
Net assets released from restrictions	1,738,431	(1,738,431)	-
Total revenues	7,228,464	(45,683)	7,182,781
Expenses			
Program services:			
Home construction and construction support	5,968,004	-	5,968,004
ReStore operating expenses	1,202,630	-	1,202,630
Total program services	7,170,634	-	7,170,634
Supporting activities:			
Management and general	692,373	-	692,373
Fundraising	314,244	-	314,244
Total supporting activities	1,006,617	-	1,006,617
Total expenses	8,177,251	-	8,177,251
Decrease in net assets	(948,787)	(45,683)	(994,470)
Net assets - beginning of year	315,722	448,966	764,688
Net assets (deficit) - end of year	$ (633,065)	$ 403,283	$ (229,782)

(continued)

Habitat for Humanity Saint Louis

Statements of Activities - Continued

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 $97,092)	102,067	-	102,067
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	5,590,426	(130,049)	5,460,377
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	398,885	-	398,885
Total supporting activities	1,110,276	-	1,110,276
Total expenses	6,388,487	-	6,388,487
Decrease in net assets	(798,061)	(130,049)	(928,110)
Net assets - beginning of year	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

Statements of Cash Flows

Years ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Change in net assets	$ (994,470)	$ (928,110)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	204,267	188,077
Unrealized gain on investments	(9,454)	(715)
Realized loss on investments	83	3,183
Changes in assets and liabilities:		
Decrease in promises to give	47,842	133,049
(Increase) decrease in grants receivable	(12,658)	312,941
(Increase) decrease in other receivables	(9,962)	309
(Increase) decrease in mortgages receivable	(168,248)	1,028,608
Decrease (increase) in inventory	791,021	(952,299)
Increase in prepaid expenses	(17,030)	(433)
(Decrease) increase in accounts payable and accrued expenses	(509,306)	18,273
Decrease in escrow deposits	(16,197)	(68,148)
Increase in deferred revenue	156,825	-
Net cash used in operating activities	(537,287)	(265,265)
Cash flows from investing activities		
Purchase of investments	(9,371)	(6,649)
Proceeds from sale of investments	9,286	2,577
Payments for investment in HFHSTL Leverage Lender, LLC	-	(4,913,655)
Payments for investment in HFHI-CCML Leverage I, LLC	(1,491,843)	-
Payments for capitalized costs	(44,274)	(175,000)
Purchase of property and equipment	(54,141)	(92,000)
Net cash used in investing activities	(1,590,343)	(5,184,727)

(continued)

Habitat for Humanity Saint Louis

Statement of Cash Flows - Continued

Years ended December 31, 2012 and 2011

	2012	2011
Cash flows from financing activities		
Proceeds (payments) on lines of credit, net	563,108	(4,467)
Proceeds from long-term debt	1,880,000	7,088,800
Principal payments on long-term debt	(30,000)	(1,254,405)
Net cash provided by financing activities	2,413,108	5,829,928
Net increase in cash	285,478	379,936
Cash and cash equivalents, beginning	1,200,304	820,368
Cash and cash equivalents, ending	$ 1,485,782	$ 1,200,304
Supplemental disclosure of cash flow information:		
Donated materials and services received - ReStore and temporarily restricted	$ 1,158,597	$ 1,124,171
Cash paid for interest	$ 178,278	$ 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 hardware store.

ReStore Cost of Sales - Includes the 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.

Grants that are received prior to recognition of revenue are recorded as deferred revenue.

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.

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 includes 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, 2012 and 2011:

	2012		
	Level 1	Level 2	Level 3
Short-term investments	$ 108,560	$ -	$ -

	2011		
	Level 1	Level 2	Level 3
Short-term investments	$ 99,104	$ -	$ -

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.

Cash and Cash Equivalents

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

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.

Homes are transferred from construction in progress to homes available for sale, once completed, with the accrued impairment for the sale of the mortgage and the expected loss on the sale of the property. Finished goods inventory are fairly valued. Homes available for sale also includes foreclosed homes mortgage balances which are recorded at the unpaid mortgage balance at the time of foreclosure.

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.

Capitalized Costs

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

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 2012 and 2011, respectively.

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, 2012. 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 2009, 2010, and 2011 are subject to examination by the IRS, generally for three years after they were filed.

Advertising Costs

Advertising costs are charged to operations when incurred.

Note 3 - 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 during the years ended December 31, 2012 and 2011.

Restricted cash consists of the following as of December 31, 2012 and 2011:

	2012	2011
Cash and cash equivalents held in checking and money market accounts designated by the board for specific purposes (Note 15)	$ 322,788	$ 268,860
Homeowner repair escrow	302,530	296,232
Restricted for new market tax credit expenses (Note 9)	506,389	449,515
	$ 1,131,707	$ 1,014,607

Note 4 - Investments

Investments consist of the following as of December 31, 2012 and 2011:

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Equity mutual funds	$ 53,762	$ 58,419	$ 56,556	$ 51,925
Fixed income mutual funds	34,221	35,938	31,067	34,157
Other	11,853	14,203	10,203	13,022
	$ 99,836	$ 108,560	$ 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 15). Income (loss) on those investments includes the following for the years ended December 31, 2012 and 2011:

	2012	2011
Investment income from NMTC investments	$ 121,017	$ 85,675
Unrealized gain on investments	9,454	715
Realized loss on investments	(83)	(3,183)
	$ 130,388	$ 83,207

As of December 31, 2012 and 2011, investment fees of approximately $7,000 and $7,000, respectively, are included in management and general expenses on the statement of activities.

Note 5 - Promises to Give

Promises to give consist of contributions restricted for the purpose of building a home. At December 31, 2012 and 2011, promises to give include $212,518 and $260,360, respectively, from house sponsorships. The promises to give are unconditional, with expected collections of $212,518 and $260,360 in 2013 and 2012, respectively.

Note 6 - Grants Receivable and Grant Revenue

Grants receivable as of December 31, 2012 and 2011 consists primarily of reimbursement type grants for home construction costs:

	2012	2011
Affordable Housing Trust Fund	$ -	$ 72,746
City of St. Louis HOME Funds	72,681	-
Jefferson Solid Waste	25,624	37,902
Softwood Lumber Grant	25,001	-
	$ 123,306	$ 110,648

Grant revenue during 2012 and 2011 consists of the following:

	2012	2011
City of St. Louis HOME Funds	$ 465,600	$ -
St. Louis County HOME Funds	196,000	-
Jefferson Solid Waste	65,000	29,427
Softwood Lumber	48,806	65,464
	$ 775,406	$ 94,891

Note 7 - 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 and second promissory notes on homes under the zero-equivalent mortgage method. Each mortgage is discounted to the value it could be sold to a third party lender.

During 2012, Habitat began participating in a zero-equivalent mortgage method for financing homes. Under this method, the lending bank charges the homebuyer a below-market rate of interest. The monthly payments the homebuyer makes to the lending bank are the same as if Habitat was providing a zero-percent loan directly to the homebuyer. Habitat sells homes at a reduced price in order for the mortgage with interest to be equivalent to the mortgage with no interest at a normal sale price. Habitat holds the second mortgage on each home which will be forgiven over the life of the mortgage.

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

	2012	2011
Mortgages receivable at face value	$ 1,749,929	$ 1,083,789
Less: Reserve	(916,012)	(486,643)
Less: Allowance for doubtful accounts	(222,667)	(154,144)
	611,250	443,002
Less: Current portion	57,564	61,650
Long-term portion of mortgages receivable	$ 553,686	$ 381,352

Note 8 - Inventory and Home Construction Costs

Inventory for the years ended December 31, 2012 and 2011 consists of the following:

	2012	2011
Leased and available for sale homes	$ 493,938	$ 441,177
ReStore merchandise	312,726	302,053
Construction in progress	473,998	1,328,453
Other	1,750	1,750
	$ 1,282,412	$ 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. During 2012, there were 17 leased and available for sale homes in inventory. One of these homes is occupied on a temporary rent-free basis, while the remaining 16 homes are vacant. During 2011, there were 12 leased and available for sale homes in inventory. One of these homes is occupied on a temporary rent-free basis, while the remaining 11 homes are vacant.

Note 9 - Investments for New Market Tax Credit Programs

As of December 31, 2012, Habitat has entered into four transactions involving New Markets Tax Credit (NMTC) financing. Under the NMTC structure, Habitat makes investments in a leverage lender, whose sole purpose is to lend to an investment fund. The investment fund entity also receives capital contribution equity from private investors. The private investor receives NMTCs in return for its contribution into the investment fund. The investment fund uses the loan from the leverage lender and the equity from the investors to make an investment in a community development entity (CDE). Sustainably all of the proceeds received by the CDE are then loaned to Habitat.

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, 2012 and 2011, Habitat's investment in HFHI-SA Leverage II, LLC is $2,631,075 and $2,631,075, respectively.

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, 2012 and 2011, Habitat's investment in HFHSTL Leverage Lender, LLC is $8,783,321 and $8,783,321, respectively.

Investment in HFHI-CCML Leverage I, LLC

In 2012, Habitat made an investment in HFHI-CCML Leverage I, LLC in the amount of $1,448,866 plus transaction costs of $42,977. Habitat is the 20% member of HFHI-CCML Leverage I, LLC. Habitat recorded its investment at cost plus transaction costs. In return for its investment, Habitat received a loan from CCM Community XVII LLC in the amount of $1,880,000. As of December 31, 2012, Habitat's investment in HFHI-CCML Leverage I, LLC is $1,491,843.

In December 2019, USBCDE Investment Fund XVII, LLC (the 2012 Fund) and the upstream effective owner of CCM Community XVII 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-CCML Leverage I, LLC is expected to purchase the ownership interest of the 2012 Fund. If the put option is not exercised HFHI-CCML Leverage I, LLC has a call option to purchase the 100% ownership interest of the 2012 Fund at fair market value. Exercise of the option will effectively allow Habitat to extinguish its outstanding debt owed to the 2012 Fund.

Interest income earned from the investments and interest expense incurred from the loans is as follows for the years ended December 31, 2012 and 2011:

	2012	2011
Interest income	$ 117,409	$ 82,600
Interest expense	(119,855)	(83,533)
Net interest	$ (2,446)	$ (933)

Management expects the put option for each of its NMTC transactions 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
	2020	388,157
	Total	$ 3,233,761

Note 10 - Property and Equipment

Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. Property and equipment as of December 31, 2012 and 2011 is comprised of the following:

	Useful Life	2012	2011
Land	N/A	$ 320,000	$ 320,000
Building and improvements	10 - 40 years	1,647,315	1,647,315
Equipment	3 - 39 years	638,847	634,216
Vehicles	5 years	206,518	172,518
Computer software	3 years	95,670	80,160
		2,908,350	2,854,209
Less: Accumulated depreciation		(1,140,529)	(1,039,271)
		$ 1,767,821	$ 1,814,938

Depreciation expense for the years ended December 31, 2012 and 2011 was $101,258 and $101,270, respectively.

Note 11 - Capitalized Costs

The guarantee fees associated with the NMTC transactions have been capitalized and amortized over the seven-year guarantee period. As of December 31, 2012 and 2011, guarantee fees amounted to $732,130 and $687,855, and accumulated amortization amounted to $291,471 and $188,461, respectively. During the years ending December 31, 2012 and 2011, amortization expense amounted to $103,009 and $86,807, respectively.

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

Year	Amount
2013	$ 104,590
2014	104,590
2015	103,536
2016	77,254
2017	31,325
Thereafter	19,364
	$ 440,659

Note 12 - Lines of Credit

During 2012 and 2011, Habitat had a $300,000 revolving line of credit agreement with Wells Fargo Bank. The line of credit had a secured interest in the securities account of Habitat. These securities must be maintained in this account with Wells Fargo. The line of credit bore interest the Prime rate, subject to a minimum of 5% (5% at December 31, 2011). The agreement also contained a restrictive covenant requiring Habitat to maintain a certain level of investments. Habitat was in compliance with this covenant during 2012 and 2011. Habitat had borrowings outstanding of $0 and $295,500 as of December 31, 2012 and 2011, respectively. During 2012, the line of credit was fully paid and closed.

In 2012, Habitat opened a revolving line of credit in the amount of $1,500,000 with First National Bank (FNB). The line of credit bears interest at a variable rate equal to FNB's prime rate plus 1%. FNB's prime rate during 2012 was 4.5%. The interest rate is subject to a minimum of 5.50%. Interest-only payments are due monthly until March 19, 2014, at which all outstanding principal and unpaid interest are due. The line of credit is secured by Habitat's building and assets. Habitat had borrowings outstanding of $858,608 as of December 31, 2012.

Note 13 - Long-Term Debt

Long-term debt at December 31, 2012 and 2011 consists of the following:

	2012	2011
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.	$ 149,210	$ 179,210
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	1,208,800
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 $208,242 are due until maturity. The loan matures on December 18, 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	3,430,000

	2012	2011
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 0.76057%. 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 $301,254 are due until maturity. The loan matures on December 15, 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	4,950,000
CBKC Subsidiary CDE X, LLC 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 0.808942%. Interest-only payments are due semi-annually until December 5, 2018. Commencing on December 5, 2018, semi-annual principal and interest payments in the amount of $380,277 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	5,880,000

	2012	2011
CCM Community Development XVII LLC		
The loan in the amount of $1,880,000, dated April 12, 2012, is held by CCM Community Development XVII LLC. The loan bears interest at 0.7707%. Interest-only payments are due semi-annually until May 5, 2020. Commencing on May 5, 2020, semi-annual principal and interest payments in the amount of $114,467 are due until maturity. The loan matures on April 11, 2028. The loan is secured by the operating account held by U.S. Bancorp, the guaranty account held by the lender and the 2012 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 December, 2019 (Note 9).	1,880,000	-
Total	17,498,010	15,648,010
Less: Current maturities	(30,000)	(30,000)
Long-term debt	$ 17,468,010	$ 15,618,010

The USBCDE Sub-CDE XXXVII, LLC and CBKC Subsidiary CDE X, LLC notes payable contained covenants which required Habitat to meet certain financial tests and for timing of financial reports. Habitat was not in compliance with certain covenants during the year December 31, 2011. However, Habitat obtained letters from the banks waiving the non-compliant loan covenants as of December 31, 2011. During 2013, the loan agreements were amended to remove or modify the covenants terms, effective December 31, 2012.

The following is a schedule of estimated future payments as of December 31, 2012:

Year	Amount
2013	$ 30,000
2014	30,000
2015	226,116
2016	706,714
2017	994,347
Thereafter	15,510,833
	$ 17,498,010

Note 14 - Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31, 2012 and 2011 are subject to the following restrictions:

	2012	2011
Construction projects	$ 338,036	$ 388,488
Other	65,247	60,478
	$ 403,283	$ 448,966

Net assets released from restrictions during 2012 and 2011 consist of the following:

	2012	2011
Construction projects	$ 1,727,777	$ 1,472,100
Other	10,654	76,551
	$ 1,738,431	$ 1,548,651

Note 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, 2012 and 2011:

	2012	2011
Cash and equivalents	$ 322,788	$ 268,860
Investments	103,754	94,915
	$ 426,542	$ 363,775

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

	2012	2011
Operating reserve fund	$ 361,900	$ 291,623
Capacity reserve fund	64,642	-
Legacy fund	-	72,152
	$ 426,542	$ 363,775

Note 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. For the years 2012 and 2011, tithes were payable to HFHI, and were included in accounts payable and accrued expenses on the balance sheet. During 2012, $18,000 was expensed for the sale of 18 homes built and remained payable as of December 31, 2012. During 2011, $15,000 was expensed for the sale of 15 homes built, remained a payable as of December 31, 2011, but was paid in full on June 20, 2012.

During 2012 and 2011, Habitat paid Smith NMTC Associates, LLC an entity affiliated with a board member, guarantee fees associated with NMTC transactions in the amount of $44,275 and $175,000, respectively.

Note 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.

As of December 31, 2012 and 2011, Habitat was not receiving lease payments on any properties.

Note 18 - 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. As of December 31, 2012 and 2011, the uncollected balances remaining on the mortgages totaled $70,076 and $85,162, respectively.

Note 19 - 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 20 - 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. For the years ended December 31, 2012 and 2011, Habitat's contribution to the plan amounted to $34,252 and $33,007, respectively.

Note 21 - 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. In prior years, $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 22 - 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 June 20, 2013 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.

Supplementary Information

Habitat for Humanity Saint Louis

Statements of Functional Expenses

Year ended December 31, 2012

	Program services			Supporting activities			
	Construction	ReStore operations	Total	Management and general	Fundraising	Total	Total
Salaries and wages	$ 809,938	$ 258,839	$ 1,068,777	$ 266,017	$ 155,441	$ 421,458	$ 1,490,235
Employee taxes and benefits	203,141	82,523	285,664	53,406	35,302	88,708	374,372
Home construction costs	3,059,921	-	3,059,921	-	-	-	3,059,921
Discount on mortgages	1,000,972	-	1,000,972	-	-	-	1,000,972
Impairment on inventory	359,570	-	359,570	-	-	-	359,570
Cost of sales - ReStore	-	727,589	727,589	-	-	-	727,589
New market tax credit expenses	82,552	-	82,552	-	-	-	82,552
Bad debt	9,653	1,569	11,222	258	-	258	11,480
Committee expenses	8,995	478	9,473	7,160	936	8,096	17,569
Computer expenses	3,163	292	3,455	19,260	1,879	21,139	24,594
Depreciation and amortization	133,688	9,038	142,726	61,541	-	61,541	204,267
Facilities cost	26,858	55,910	82,768	57,816	-	57,816	140,584
Insurance	36,296	1,828	38,124	28,769	13	28,782	66,906
Interest expense and service charges	171,893	11,468	183,361	27,581	2,417	29,998	213,359
Marketing and public relations	4,023	3,824	7,847	462	95,502	95,964	103,811
Miscellaneous	12,826	8,671	21,497	9,132	6,732	15,864	37,361
Office expenses	7,347	3,532	10,879	11,022	3,340	14,362	25,241
Postage	2,098	48	2,146	2,220	1,257	3,477	5,623
Professional fees	1,037	-	1,037	135,244	-	135,244	136,281
Telephone	20,265	4,451	24,716	6,623	4,357	10,980	35,696
Travel and meals	2,812	871	3,683	3,576	3,962	7,538	11,221
Vehicle	10,956	31,699	42,655	2,286	3,106	5,392	48,047
	$ 5,968,004	$ 1,202,630	$ 7,170,634	$ 692,373	$ 314,244	$ 1,006,617	$ 8,177,251

Habitat for Humanity Saint Louis

Statements of Functional Expenses - Continued

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	118,849	120,805	178,717
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	$ 398,885	$ 1,110,276	$ 6,388,487