Habitat for Humanity Saint Louis and Affiliates

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

December 31, 2017 and 2016

CohnReznick
Accounting • Tax • Advisory

Habitat for Humanity Saint Louis and Affiliates

Index

Independent Auditor's Report

Board of Directors
Habitat for Humanity Saint Louis and Affiliates
St. Louis, MO

Report on Combined Financial Statements

We have audited the accompanying combined financial statements of Habitat for Humanity Saint Louis and its affiliates, which comprise the combined statements of financial position as of December 31, 2017 and 2016, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity Saint Louis and its affiliates as of December 31, 2017 and 2016, and the changes in their net assets and their 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 combined financial statements as a whole. The combined statements of functional expenses on pages 33 and 34 are presented for purposes of additional analysis and are not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined financial statements as a whole.

CohnReznick LLP

Chicago, Illinois
August 8, 2018

Habitat for Humanity Saint Louis and Affiliates

Combined Statements of Financial Position
December 31, 2017 and 2016

Assets

	2017	2016
Current assets		
Cash and cash equivalents	$ 191,735	$ 112,622
Restricted cash	2,177,173	152,107
Investments	4,839	86,478
Pledges receivable	75,024	139,518
Grants receivable	66,500	38,583
Other receivables	58,562	30,822
Home construction and inventory	1,591,914	2,067,459
ReStore inventory	273,945	246,527
Prepaid expenses and other assets	48,697	55,400
Total current assets	4,488,389	2,929,516
Fixed assets		
Assets held for sale	-	1,399,750
Property and equipment, net	1,576,665	296,633
Total fixed assets	1,576,665	1,696,383
Long-term assets		
Mortgages receivable, net	1,717,514	1,441,676
Investments in new markets tax credit programs	7,666,050	6,405,498
Capitalized costs, net	150,472	50,689
Total long-term assets	9,534,036	7,897,863
Total assets	$ 15,599,090	$ 12,523,762

Habitat for Humanity Saint Louis and Affiliates

Combined Statements of Financial Position
December 31, 2017 and 2016

Liabilities and Net Assets

	2017	2016
Current liabilities		
Lines of credit	$ 1,753,070	$ 1,497,386
Current portion of long-term debt	383,454	332,293
Accounts payable and accrued expenses	842,072	962,869
Deferred revenue	160,147	482,573
Total current liabilities	3,138,743	3,275,121
Deposits liability		
Mortgage escrows	327,657	328,077
Long-term liabilities		
Long-term debt	11,388,775	9,083,000
Total liabilities	14,855,175	12,686,198
Net assets		
Unrestricted net assets		
Undesignated	669,751	(320,619)
Board designated	4,839	86,478
Total unrestricted net assets	674,590	(234,141)
Temporarily restricted net assets	69,325	71,705
Total net assets	743,915	(162,436)
Total liabilities and net assets	$ 15,599,090	$ 12,523,762

See Notes to Combined Financial Statements.

Habitat for Humanity Saint Louis and Affiliates

Combined Statements of Activities
Year Ended December 31, 2017

	Unrestricted	Temporarily restricted	Total
Operating support and revenue			
Contributions and sponsorships	$ 2,308,756	$ 104,111	$ 2,412,867
Grants	565,247	-	565,247
Sales to homeowners	1,303,000	-	1,303,000
ReStore retail sales	1,097,805	-	1,097,805
Donated property, materials and services	1,124,729	142,881	1,267,610
Fundraising and special events revenue (net of expenses of $11,172)	22,027	2,620	24,647
Investment income	66,885	-	66,885
Other income	244,276	-	244,276
Net assets released from restrictions	251,992	(251,992)	-
Total operating support and revenue	6,984,717	(2,380)	6,982,337
Operating expenses			
Program services:			
Home construction and construction support	3,514,370	-	3,514,370
ReStore retail operations	2,334,475	-	2,334,475
Total program services	5,848,845	-	5,848,845
Supporting activities:			
Management and general	881,421	-	881,421
Fundraising	315,671	-	315,671
Total supporting activities	1,197,092	-	1,197,092
Total operating expenses	7,045,937	-	7,045,937
Other revenue and expenses			
Gain on sale of property and equipment	969,951	-	969,951
Change in net assets	908,731	(2,380)	906,351
Net assets - beginning of year	(234,141)	71,705	(162,436)
Net assets - end of year	$ 674,590	$ 69,325	$ 743,915

Habitat for Humanity Saint Louis and Affiliates

Combined Statements of Activities
Year Ended December 31, 2016

	Unrestricted	Temporarily restricted	Total
Operating support and revenue			
Contributions and sponsorships	$ 1,942,231	$ 58,470	$ 2,000,701
Grants	236,857	-	236,857
Sales to homeowners	665,000	-	665,000
ReStore retail sales	1,056,110	-	1,056,110
Donated property, materials and services	1,080,803	180,829	1,261,632
Fundraising and special events revenue (net of expenses of $6,424)	19,627	-	19,627
Investment income	57,354	-	57,354
Other income	431,687	-	431,687
Net assets released from restrictions	293,401	(293,401)	-
Total operating support and revenue	5,783,070	(54,102)	5,728,968
Operating expenses			
Program services:			
Home construction and construction support	2,424,423	-	2,424,423
ReStore retail operations	2,124,205	-	2,124,205
Total program services	4,548,628	-	4,548,628
Supporting activities:			
Management and general	789,466	-	789,466
Fundraising	282,634	-	282,634
Total supporting activities	1,072,100	-	1,072,100
Total operating expenses	5,620,728	-	5,620,728
Change in net assets	162,342	(54,102)	108,240
Net assets - beginning of year	(396,483)	125,807	(270,676)
Net assets - end of year	$ (234,141)	$ 71,705	$ (162,436)

See Notes to Combined Financial Statements.

Habitat for Humanity Saint Louis and Affiliates

Combined Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Contribution and sponsorship receipts	$ 2,449,621	$ 1,571,368
Grant receipts	211,644	490,845
Sales to homeowners receipts	773,529	496,311
ReStore retail receipts	1,098,450	1,057,366
Net fundraising and special events receipts	24,647	19,627
Investment receipts	66,129	63,118
Other operating receipts	172,114	359,460
Total receipts	4,796,134	4,058,095
Salaries and wages paid	(2,158,929)	(2,126,031)
Home construction costs paid	(1,504,922)	(1,296,008)
Cost of merchandise sales	(392)	(1,228)
New markets tax credit transaction costs paid	(58,725)	(61,214)
Committee expenses paid	(15,395)	(15,226)
Computer expenses paid	(27,691)	(67,534)
Facilities expenses paid	(604,738)	(68,826)
Insurance paid	(32,160)	(75,091)
Interest expense and service charges paid	(260,270)	(271,677)
Marketing and PR expenses paid	(97,358)	(100,830)
Administrative expenses paid	(215,830)	(124,534)
Professional fees paid	(187,442)	(8,765)
Total disbursements	(5,163,852)	(4,216,964)
Net cash used in operating activities	(367,718)	(158,869)

Habitat for Humanity Saint Louis and Affiliates

Combined Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from investing activities		
Purchases of investments	-	(432,381)
Proceeds from sale of investments	82,395	551,152
Investment in Harbor Habitat Leverage II, LLC	(1,260,552)	-
Guarantee fees paid	(131,108)	-
Proceeds from sale of property and equipment	2,400,000	-
Purchases of property and equipment	(1,231,458)	(802)
Net cash (used in) provided by investing activities	(140,723)	117,969
Cash flows from financing activities		
Proceeds from / (payments on) line of credit, net	255,684	(193,042)
Proceeds from long-term debt	3,915,229	188,750
Principal payments on long-term debt	(1,558,293)	(44,467)
Net cash provided by (used in) financing activities	2,612,620	(48,759)
Net increase (decrease) in cash	2,104,179	(89,659)
Cash, cash equivalents, and restricted cash, beginning	264,729	354,388
Cash, cash equivalents, and restricted cash, end	$ 2,368,908	$ 264,729
Significant noncash investing and financing activities		
Purchases of property and equipment	$ (136,200)	$ -
Accounts payable and accrued expenses	136,200	-
	$ -	$ -

Habitat for Humanity Saint Louis and Affiliates

Combined Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Reconciliation of change in net assets to net cash provided by operating activities		
Change in net assets	$ 906,351	$ 108,240
Adjustments to reconcile change in net assets (deficit) to net cash used in operating activities:		
Discount on home construction and inventory	146,661	22,601
Discount on mortgages receivable	209,080	60,494
Donated property, materials and services	(28,064)	(27,614)
Bad debt	3,260	5,000
Depreciation and amortization	88,652	125,215
Gain on sale of property and equipment	(969,951)	-
Unrealized (gain) loss on investments	(756)	5,764
Changes in assets and liabilities:		
Pledges receivable, net	61,234	(96,354)
Grants receivable, net	(27,917)	(14,949)
Other receivables, net	(27,740)	2,731
ReStore inventory	646	1,256
Home construction and inventory	328,884	(923,976)
Prepaid expenses	6,703	113,406
Mortgages receivable	(484,918)	(4,824)
Accounts payable and accrued expenses	(256,997)	115,563
Mortgage escrows	(420)	79,641
Deferred revenue	(322,426)	268,937
Net cash used in operating activities	$ (367,718)	$ (158,869)

See Notes to Combined 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 associated with Habitat for Humanity International, Inc. Habitat has received tax exempt 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.

On July 10, 2014, HFHSL Community Housing Development Organization ("HFHSL CHDO") and on January 27, 2015, HFHSL Community Housing Development Corporation II ("HFHSL CHDC II"), were formed in the State of Missouri.

HFHSL CHDO and HFHSL CHDC II are Community Housing Development Organizations ("CHDO's") sanctioned by the U.S. Department of Housing and Urban Development's ("HUD") HOME Program, whose purpose is to assist in developing community low-income housing. CHDO's receive certain priority and eligibility for HUD grants.

These combined financial statements include the accounts of Habitat for Humanity Saint Louis, HFHSL Community Housing Development Organization, and HFHSL Community Housing Development Corporation II (collectively, the "Organization"). Inter-company activity is eliminated in combination.

The primary source of the Organization's revenues is contributions and sponsorships received from the general public, corporations, and religious organizations. Habitat also operates two retail hardware stores (the "ReStores") with sales to the general public. Inventory is primarily donated, with the sale proceeds used to carry out the Organization's mission.

The Organization's activities are primarily comprised of the following:

Program services
Home construction, financing and support - Includes all home construction costs such as materials, supplies, labor and overhead, as well as financing certain mortgages for the homeowners. This programming also includes construction supporting costs such as real estate development, volunteer mobilization and family selection services.

ReStore operations - Includes salaries, utilities, and overhead necessary to operate two discount and recycled materials hardware stores. This programming also includes the estimated value of donated merchandise sold in the stores.

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 the Organization's program strategy; secure proper administrative functioning of the Board of Directors; and manage the combined financial and budgetary responsibilities of the Organization.

Fundraising - Provides the structure necessary to encourage and secure combined financial support for the Organization through grants, contributions, and special events.

Note 2 - Summary of significant accounting policies

Basis of presentation

The Organization is required to report information regarding its combined 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. Contributions of assets other than cash are recorded at their estimated fair market value.

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. 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.

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.

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

Sales to homeowners represent the sale of homes built or rehabilitated by the Organization. The resulting mortgages are noninterest-bearing and have been discounted based upon prevailing market rates for low-income housing at the inception of the mortgages. The Organization recognizes income from the sales to homeowners on the completed contract method when home closings occur.

Donated property, 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 the Organization 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 the Organization. These donated services have not been recognized as contributions in the combined 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.

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.

Net assets
The Organization classifies net assets as unrestricted, temporarily restricted, or permanently restricted.

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

Temporarily restricted net assets of the Organization result (a) from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization 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 the Organization pursuant to those stipulations.

Permanently restricted net assets of the Organization result (a) from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization, (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. The Organization has not received any permanently restricted contributions. There are no permanently restricted net assets.

Use of estimates
The preparation of combined 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 combined 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, the Organization 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. The Organization'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 the Organization's investments that are recorded at fair value according to the hierarchy levels at December 31, 2017 and 2016:

2017	Level 1	Level 2	Level 3
Short-term investments	$ 4,839	$ -	$ -

2016	Level 1	Level 2	Level 3
Short-term investments	$ 86,478	$ -	$ -

Investments
The Organization's short-term investments consist of various securities. The Organization'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.

The Organization's long-term investments are investments in entities related to the New Markets 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
The Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Inventory
Inventory primarily consists of ReStore merchandise, construction in progress, homes available for sale, and land and buildings occupied and subject to lease with the option to purchase.

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 combined statement of activities and changes in net assets as program services.

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. Homes available for sale also includes foreclosed homes mortgage balances which are recorded at the unpaid mortgage balance at the time of foreclosure.

Mortgages receivable
Mortgages receivable consist of noninterest bearing notes received from homebuyers in connection with the sale of homes constructed by the Organization. The notes are discounted to their present values using various interest rates at the time of closing. The discount is amortized over the lives of the mortgages using the effective interest method. An allowance for estimated doubtful accounts has been setup based on past collection experience of homeowners.

Assets held for sale
Long-lived assets to be sold are classified as "held for sale" in the period in which certain criteria are met such as the estimated timeframe in which the assets are expected to be sold. As a result, depreciation is not recorded on an asset once deemed to be held for sale, and it is recorded in the financial statements at the lower of its carrying value or fair value less cost to sell.

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.

Construction in progress
Costs incurred for construction in progress are capitalized when incurred. If at any time management determines that the costs incurred would no longer provide a future benefit to the Organization, the costs are expensed in the period in which the determination is made.

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
The Organization 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 impairment losses have been recognized during 2017 and 2016, 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 years ended December 31, 2017 and 2016. Due to its tax-exempt status, Habitat is not subject to income taxes. They are required to file, and do file, tax returns with the IRS and other taxing authorities. The Forms 990, Return of Organization Exempt from Income Tax, 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

The Organization 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, the Organization 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, 2017 and 2016.

Restricted cash consists of the following as of December 31, 2017 and 2016:

	2017	2016
Cash and cash equivalents held in checking and money market accounts designated by the board for specific purposes (Note 17)	$ 4,839	$ 50,385
Homeowner repair escrow	6,811	11,936
Restricted for NMTC expenses (Note 10)	165,523	89,786
Project fund (Note 4)	2,000,000	-
	$ 2,177,173	$ 152,107

Note 4 - Project fund

In accordance with the Financing Agreement dated December 1, 2017 (the "Financing Agreement"), proceeds from the Series 2017 Revenue Bonds (see Note 15) are required to be deposited with Royal Bank of Missouri, the fiscal agent. The project fund is to be used to pay for the rehabilitation costs of the Organization's new administrative office building at 3830 South Grand Boulevard. As of December 31, 2017 and 2016, the balance in the project fund was $2,000,000 and $0, respectively, which is included in restricted cash on the accompanying combined statements of financial position.

Note 5 - Investments

Investments are carried at fair value in accordance with generally accepted accounting principles. Investments consist of the following as of December 31, 2017 and 2016:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Equity mutual funds	$ -	$ -	$ -	$ 2,851
Fixed income mutual funds	-	-	31,964	33,242
Money market funds	-	4,839	-	50,385
	$ -	$ 4,839	$ 31,964	$ 86,478

Certain investments have been designated by the Board for specific purposes (see Note 17). Income (loss) on those investments includes the following for the years ended December 31, 2017 and 2016:

	2017	2016
Investment income from NMTC investments	$ 62,045	$ 62,045
Interest and dividend income	4,084	1,073
Unrealized gain (loss) on investments	11	(12,455)
Realized gain on investments	745	6,691
	$ 66,885	$ 57,354

As of December 31, 2017 and 2016, investment fees of approximately $305 and $644, respectively, are included in management and general expenses on the combined statements of activities.

Note 6 - Pledges receivable

Pledges, or promises to give, consist of contributions restricted for the purpose of building a home. At December 31, 2017 and 2016, pledges receivable for house sponsorships totaled $75,024 and $139,518, respectively. The promises to give are unconditional and are expected to be collected within one year.

Note 7 - Grants receivable and grant revenue

Grants receivable as of December 31, 2017 and 2016 consists primarily of reimbursement type grants for home construction costs:

	2017	2016
Affordable Housing Trust Fund	$ 13,500	$ 10,800
City of St. Louis HOME Funds	-	3,260
Jefferson Solid Waste	35,000	24,523
Federal Home Loan Bank Funds	18,000	-
	$ 66,500	$ 38,583

Grant revenue earned during 2017 and 2016 consists of the following:

	2017	2016
Affordable Housing Trust Fund	$ 27,000	$ -
City of St. Louis CDBG Funds	249,800	130,940
City of St. Louis HOME Funds	7,065	-
St. Louis County HOME Funds	228,382	70,917
Jefferson Solid Waste	35,000	35,000
Federal Home Loan Bank Funds	18,000	-
	$ 565,247	$ 236,857

Note 8 - Mortgages receivable

Mortgages receivable consist of noninterest-bearing mortgages secured by real estate, receivable in monthly installments through years ranging to 2048. Mortgage receivables include those 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.

The Organization utilizes an affordable mortgage analysis 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 the Organization was providing a zero-percent loan directly to the homebuyer. The Organization 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. The Organization holds the second mortgage on each home which will be forgiven over the life of the mortgage.

Mortgages receivable as of December 31, 2017 and 2016 are presented net of unamortized discount resulting from the imputation of interest as follows:

	2017	2016
Mortgages receivable at face value	$ 4,334,391	$ 3,961,400
Less: Reserve	(2,114,764)	(2,081,029)
Less: Allowance for doubtful accounts	(502,113)	(438,695)
Long-term portion of mortgages receivable	$ 1,717,514	$ 1,441,676

Note 9 - Home construction and inventory

Home construction and inventory for the years ended December 31, 2017 and 2016 consists of the following:

	2017	2016
Land	$ 231,770	$ 248,322
Construction in progress	1,170,291	1,228,297
Leased and available-for-sale homes	189,853	590,840
	$ 1,591,914	$ 2,067,459

Leases for homes contain purchase options, which allow the lessee to purchase the home with an affordable mortgage payable over 30 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 2017, there were three leased and available-for-sale homes in inventory. Two are leased as rent-to-own and the remaining one home is vacant. During 2016, there were six leased and available-for-sale homes in inventory. Two are leased as rent-to-own and the remaining four homes were vacant.

Note 10 - Investments in New Markets Tax Credit programs

Habitat entered into three 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 tax credits 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"). All of the proceeds received by the CDE are then loaned to Habitat.

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 was 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 2015, 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) exercised its put option. Under the terms of the put option agreement, HFHSTL Leverage Lender, LLC purchased the ownership interest of the 2009 Fund. Exercise of the option effectively extinguished Habitat's outstanding debt owed to the 2009 Fund and resulted in $1,185,532 in debt forgiveness income during 2015.

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.

As of December 31, 2017 and 2016, Habitat's investment in HFHSTL Leverage Lender, LLC is $4,913,655.

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.

Investment in CCML Leverage I, LLC
In 2012, Habitat made an investment in CCML Leverage I, LLC in the amount of $1,448,866, plus transaction costs of $42,977. Habitat is the 20% member of 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, 2017 and 2016, Habitat's investment in 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, CCML Leverage I, LLC is expected to purchase the ownership interest of the 2012 Fund. If the put option is not exercised, CCML Leverage I, LLC has the option to purchase (call), at any time during the 12-month period following the expiration of the put option, 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.

Investment in Harbor Habitat Leverage II, LLC
In 2017, Habitat made an investment in Harbor Habitat Leverage II, LLC in the amount of $1,207,410, plus transaction costs of $53,142. Habitat is the 16.67% member of Harbor Habitat Leverage II, LLC. Habitat recorded its investment at cost plus transaction costs. In return for its investment, Habitat received a loan from Harbor Community Fund XIII, LLC in the amount of $1,715,000.

As of December 31, 2017 and 2016, Habitat's investment in Harbor Habitat Leverage II, LLC was $1,260,552.

In December 2024, Twain Investment Fund 296, LLC (the "2017 Fund") and the upstream effective owner of Harbor Community Fund XIII, LLC (holder of the promissory note due from the Habitat) is expected to exercise its put option. Under the terms of the put option agreement, Harbor Habitat Leverage II, LLC is expected to purchase the ownership interest of the 2017 Fund. If the put option is not exercised, Harbor Habitat Leverage II, LLC has the option to purchase (call), at any time during the 12-month period following the expiration of the put option. Exercise of the option will effectively allow Habitat to extinguish its outstanding debt owed to the 2017 Fund.

Management expects the put option for each of its NMTC transactions to be exercised at the end of each respective compliance period. If that does occur, management anticipates revenue from the forgiveness of debt as follows for the years ending December 31:

	Revenue
2018	$ 966,345
2019	388,157
2020	-
2021	-
2022	-
2023	-
2024	454,408
Total	$ 1,808,910

Interest income earned from the investments and interest expense incurred from the loans during the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
Interest income	$ 62,045	$ 62,045
Interest expense	(62,056)	(62,056)
Net interest	$ (11)	$ (11)

Note 11 - Fixed assets

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, 2017 and 2016 is comprised of the following:

	Useful Life	2017	2016
Land	N/A	$ 1,141,364	$ 320,000
Building and improvements	10 - 40 years	365,909	1,925,354
Equipment	3 - 39 years	628,523	703,549
Vehicles	5 years	106,487	157,086
Computer software	3 years	73,903	73,903
Construction in progress	N/A	136,200	-
Total property and equipment		2,452,386	3,179,892
Less: Accumulated depreciation		(875,721)	(1,483,509)
Property and equipment, net		$ 1,576,665	$ 1,696,383

Depreciation expense for the years ended December 31, 2017 and 2016 was $57,327 and $93,890, respectively.

Sale of 3763 Forest Park Avenue

During the year ended December 31, 2016, management committed to a plan to sell the administrative office building at 3763 Forest Park Ave in St. Louis, MO. On November 25, 2016, Habitat entered into a Purchase and Sale Agreement with Midas Acquistion, LLC, an unrelated party, for a sale price of $2,400,000. The transaction closed on April 28, 2017 and closing costs amounted to $72,350. As of December 31, 2016, the property, net of accumulated amortization totaled $1,399,750 and was classified as held for sale on the accompanying statements of financial position. During 2017, Habitat recognized a gain on sale of the property of $969,951, which has been disclosed in the accompanying combined statements of activities.

Purchase of 3830 South Grand Boulevard

On July 21, 2017, management entered into a purchase agreement with Schnuck Markets Inc, an unrelated party, to purchase land, together with all other improvements and fixtures, located at 3830 South Grand Boulevard, St. Louis, MO for total consideration of $1,227,273. The transaction closed on November 30, 2017.

The following table summarized the consideration for the acquiring and the amounts of assets acquired:

Purchase consideration		
Cash	$	500,000
Contribution - AHAP check exchange		727,273
Total consideration paid	$	1,227,273
Assets acquired		
Land	$	1,141,364
Building		85,909
Total assets acquired	$	1,227,273

Construction in progress

In 2017, management decided to pursue a rehabilitation project for its facility at 3830 South Grand Boulevard, St. Louis, MO. Costs incurred in connection with this project are being capitalized as incurred. During the year ended December 31, 2017, construction in progress amounted to $136,200.

Note 12 - Construction contract

In 2017, Habitat entered into a construction contract with S.M. Wilson, an unrelated party, to rehabilitate its office at 3830 South Grand Boulevard, St. Louis, MO. The construction contract is in the original amount of $1,981,872. During the year ended December 31, 2017, construction costs in the amount of $136,200 were incurred and no amounts were paid. As of December 31, 2017, construction costs in the amount of $136,200 remained payable and is included in accounts payable and accrued expenses on the accompanying combined statements of financial position.

Note 13 - 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, 2017 and 2016, guarantee fees amounted to $350,383 and $219,275, respectively, and accumulated amortization amounted to $199,911 and $168,586, respectively. During the years ending December 31, 2017 and 2016, amortization expense totaled $31,325 and $31,325, respectively.

Estimated amortization expense for the ensuing years is as follows:

Year	Amount
2018	$ 36,513
2019	20,311
2020	18,730
2021	18,730
2022	18,730
Thereafter	37,458
	$ 150,472

Note 14 - Lines of credit

Central Bank of St. Louis

During 2012, and as amended in 2013, Habitat opened a revolving line of credit in the amount of $2,000,000 with Central Bank of St. Louis, formerly known as First National Bank. The line of credit bore interest at a variable rate equal to Central Bank's prime rate, which was 4.5% and 3.75% at December 31, 2017 and 2016, respectively, plus 1%. The interest rate is subject to a minimum of 5.50%. Interest-only payments were due monthly through maturity.

Habitat has entered into modification agreements with Central Bank to extend the maturity date to July 10, 2016. At this time, all outstanding principal and unpaid interest were due. The line of credit was secured by Habitat's building and assets. During the year ended December 31, 2016, the line was repaid in full. Habitat had no borrowings outstanding as of December 31, 2017 and 2016.

People's National Bank, N.A.

On July 5, 2016, Habitat opened two lines of credit with People's National Bank, N.A. in the amounts of $307,758 and $230,772, respectively. The lines of credit bear interest at a variable interest rate equal to the prime rate, which was 4.50% and 3.75% at December 31, 2017 and 2016, respectively, plus 1%. The interest rate is subject to a minimum of 4.50%. Commencing August 5, 2016, interest-only payments are due monthly through maturity on April 5, 2017. The lines of credit are secured by Habitat's assets.

Habitat has entered into a modification agreement with People's National Bank to extend the maturity date to July 5, 2018. At this time, all outstanding principal and unpaid interest is due. Habitat had borrowings outstanding totaling $230,593 and $538,530, respectively, as of December 31, 2017 and 2016.

On October 13, 2016, Habitat opened another line of credit with People's National Bank, N.A. in the amount of $77,790. The line of credit bears interest at a variable interest rate equal to the prime rate, which was 4.50% and 3.75% at December 31, 2017 and 2016, respectively, plus 1%. The interest rate is subject to a minimum of 4.50%. Commencing November 11, 2016, interest-only payments are due monthly through maturity on October 11, 2017. The line of credit is secured by

Habitat's assets. Habitat had borrowings outstanding totaling $0 and $76,500 as of December 31, 2017 and December 31, 2016, respectively.

On June 26, 2017, Habitat opened another line of credit with People's National Bank, N.A. in the amount of $76,500. The line of credit bears interest at a variable interest rate equal to the corporate prime rate, which was 4.50% as of December 31, 2017, plus 1%. Unpaid interest and principal balances are due on the maturity date, June 24, 2018. The line of credit is secured by Habitat's assets. As of December 31, 2017, Habitat had borrowings outstanding totaling $76,403.

On August 9, 2017, Habitat opened another line of credit with People's National Bank, N.A. in the amount of $40,320. The line of credit bears interest at a variable interest rate equal to the corporate prime rate, which was 4.50% as of December 31, 2017, plus 1%. Unpaid interest and principal balances are due on the maturity date, February 9, 2019. The line of credit is secured by Habitat's assets. As of December 31, 2017, Habitat had borrowings outstanding totaling $5,839.

On September 28, 2017, Habitat opened another line of credit with People's National Bank, N.A. in the amount of $216,750. The line of credit bears interest at a variable interest rate equal to the corporate prime rate which was 4.50% at December 31, 2017, plus 1%. Unpaid interest and principal balances are due on the maturity date, September 26, 2018. The line of credit is secured by Habitat's assets. As of December 31, 2017, Habitat had borrowings outstanding totaling $216,675.

On October 26, 2017, Habitat opened another line of credit with People's National Bank, N.A. in the amount of $74,132. The line of credit bears interest at a variable interest rate equal to the corporate prime rate which was 4.50% at December 31, 2017, plus 1%. Unpaid interest and principal balances are due on the maturity date, October 24, 2018. The line of credit is secured by Habitat's assets. As of December 31, 2017, Habitat had borrowings outstanding totaling $70,404.

On October 26, 2017, Habitat opened another line of credit with People's National Bank, N.A. in the amount of $73,612. The line of credit bears interest at a variable interest rate equal to the corporate prime rate which was 4.50% at December 31, 2017, plus 1%. Unpaid interest and principal balances are due on the maturity date, October 24, 2018. The line of credit is secured by Habitat's assets. As of December 31, 2017, Habitat had borrowings outstanding totaling $47,544.

On November 3, 2017, Habitat opened another line of credit with People's National Bank, N.A. in the amount of $229,500. The line of credit bears interest at a variable interest rate equal to the corporate prime rate which was 4.50% at December 31, 2017, plus 1%. Unpaid interest and principal balances are due on the maturity date, May 3, 2018. The line of credit is secured by Habitat's assets. Habitat has entered into a modification agreement with People's National Bank to extend the maturity date to December 3, 2018. As of December 31, 2017, Habitat had borrowings outstanding totaling $229,500.

First Clover Leaf Bank, N.A.

On October 14, 2016, Habitat opened two lines of credit with First Clover Leaf Bank, N.A. in the amounts of $76,500 and $50,000, respectively. The lines of credit bear interest at a variable interest rate equal to the prime rate, which was 4.5% and 3.75% at December 31, 2017 and 2016, respectively, plus 1.50%. Commencing on January 15, 2017, interest-only payments are due monthly through maturity on July 15, 2017. The lines of credit are secured by Habitat's assets. Habitat had borrowings outstanding totaling $76,112 and $82,356, respectively, as December 31, 2017 and 2016. As of September 5, 2017, both homes that secured the lines of credit have been sold, therefore, the mortgage receivables on those homes became collateral for the lines of credit.

Royal Banks of Missouri

On November 4, 2016, Habitat opened a line of credit in the amount of $800,000 with Royal Banks of Missouri. The line of credit bears interest at a variable interest rate equal to the Prime rate, which was 4.5% and 3.75% at December 31, 2017 and 2016, respectively, plus 1%. Commencing December 4, 2016, interest-only payments are due monthly through maturity, which is on November 4, 2017.

Habitat entered into a modification agreement to extend the maturity date of the remaining line of credit through November 4, 2018.The line of credit is secured by Habitat's building and assets. Habitat had borrowings outstanding of $800,000 and $800,000 as of December 31, 2017 and 2016, respectively.

Note 15 - Long-term debt

Long-term debt at December 31, 2017 and 2016 consists of the following:

	2017	2016
St. Louis Housing Authority		
The loan in the original amount of $210,000, dated August 3, 2010, was held by St. Louis Housing Authority. The loan was noninterest-bearing. Principal payments in the amount of $2,500 were due monthly beginning January 1, 2012. The loan matures on January 1, 2019. The loan was unsecured. As of December 31, 2017, the loan has been paid off.	$ -	$ 29,210
IFF NMTC Loan		
The loan in the original amount of $1,208,800, dated November 30, 2011, was held by IFF. The loan bore interest at 5.875%. The interest rate is recalculated on December 1, 2018, November 30, 2028 and December 1, 2028. Interest-only payments were due monthly until December 1, 2018. Beginning December 1, 2018, principal and interest payments were due monthly in an amount that amortizes the principal balance over 180 months. The loan matures on December 1, 2028. The loan was secured by Habitat’s building and an assignment of rents. As of December 31, 2017, the loan had been paid off.	-	1,208,800

	2017	2016
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 10).	5,880,000	5,880,000
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 10).	1,880,000	1,880,000
Harbor Community Fund XIII LLC The loan in the amount of $1,715,000, dated December 20, 2017, is held by Harbor Community Fund XIII LLC. The loan bears interest at fixed rate of 0.7041%. The loan matures on December 20, 2037. The loan is secured by the operating account, Joint expense Non-POB account and all other bank accounts held by U.S. Bank. 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 2024 (Note 10).	1,715,000	-

	2017	2016
Lookaway Summit On December 29, 2014, Habitat purchased 18 parcels of real property from an individual in the amount of $243,000. The loan is noninterest-bearing and payments are due upon the closing of homes subsequently built and sold on each parcel of land. The loan matures on December 31, 2016, which was extended to December 31, 2017. It was again extended to December 31, 2018 at which time any remaining balance is due. Commencing in January 1, 2017, the loan bears interest at 6.5%.	27,000	243,000
IFF Bridge Loan The loan in the amount of $188,750, dated August 17, 2016, was held by IFF. The loan bore interest at 6%. Principal and interest payments in the amount of $5,742 were due monthly beginning October 1, 2016. The loan matures on September 1, 2019. As of December 31, 2017, the loan had been paid off.	-	174,283
Series 2017 Revenue Bonds On December 1, 2017, The Industrial Development Authority of the City of St. Louis, MO, issued Series 2017 revenue bonds in the amount of $2,040,000 to finance the rehabilitation of 3830 South Grand Boulevard, St. Louis, MO. Royal Bank of Missouri is the fiscal agent. The bonds carry interest at the rate of 3.3%. Principal and interest payments in the amount of $8,920 are due monthly begining on January 1, 2020. The loan matures on December 20, 2049.	2,040,000	-
Construction Loan The loan in the amount of $235,474, dated December 18, 2017, is held by the Royal Bank of Missouri. The loan bears interest at 5%. Principal and interest payments in the amount of $1,799 are due monthly beginning January 18, 2019. The loan matures on December 18, 2022.	230,229	-
Total	11,772,229	9,415,293
Less: Current maturities	(383,454)	(332,293)
we can leave at 7:50		
Long-term debt	$ 11,388,775	$ 9,083,000

Aggregate annual maturities of the mortgages and notes payable for each of the following years and thereafter is as follows:

Year	Amount
2018	$ 383,454
2019	727,288
2020	988,784
2021	998,208
2022	1,194,632
Thereafter	7,479,863
	$ 11,772,229

Note 16 - Temporarily restricted net assets

Temporarily restricted net assets as of December 31, 2017 and 2016 are subject to the following restrictions:

	2017	2016
Construction projects	$ 48,000	$ 48,000
Other	21,325	23,705
	$ 69,325	$ 71,705

Net assets released from restrictions during 2017 and 2016 consist of the following:

	2017	2016
Construction projects	$ 237,881	$ 235,648
Other	14,111	57,753
	$ 251,992	$ 293,401

Note 17 - 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, 2017 and 2016:

	2017	2016
Investments	$ 4,839	$ 86,478

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

	2017	2016
Operating reserve fund	$ 2,214	$ 38,675
Capacity reserve fund	2,625	47,803
	$ 4,839	$ 86,478

Note 18 - Related party transactions

Habitat has a nonbinding covenant with Habitat for Humanity International, Inc. ("HFHI") to make an annual voluntary tithe payment to HFHI. In prior years, Habitat made 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 2013, HFHI implemented its Stewardship and Organizational Sustainability Initiative ("SOSI"), which requires payment from affiliates of annual fees based upon the size of the individual affiliate. The annual fee required of Habitat is $25,000, and is in addition to any voluntary tithe.

In 2017 and 2016, Habitat paid $25,000 and $25,000, respectively, for the previous year's SOSI commitment. In 2017 and 2016, Habitat paid tithe payment in the amount of $5,000 and $5,000, respectively, for 2017 and 2016 commitments. Tithes payable to HFHI are included in accounts payable and accrued expenses on the accompanying combined statements of financial position. As of December 31, 2017 and 2016, no tithes remain payable.

Note 19 - Operating lease

On March 27, 2013, Habitat entered into a lease agreement to open a second ReStore location. The lease commenced on June 1, 2013 and terminates on May 31, 2018, with two 5-year options to renew. The lease provides for annual base rent, a portion of which is donated back to Habitat each year on June 1, and monthly base rent payable by Habitat.

On November 14, 2016, Habitat entered into an amended lease agreement effective January 1, 2015. The new lease agreement states the Landlord shall compensate Habitat for the work performed, amount of any rent collected, and the amount of any invoice for service paid on behalf of the Landlord. During 2017 and 2016, Habitat received $118,456 and $303,478, respectively, of reimbursement expenses. In addition, the Landlord shall compensate Habitat with a management fee in the amount equal to 15% of the reimbursement expenses. During 2017 and 2016, Habitat received a management fee of $28,315 and $45,522, respectively. The reimbursement and the management fee are included in other income on the accompanying combined statements of activities.

On November 25, 2016, coincided with the sale of its administrative office property, Habitat entered into a lease agreement to lease back the property from the new owner. The lease commenced on April 28, 2017 and terminates on April 28, 2018.

Minimum future rents to be incurred and paid on the lease agreement for 2018 is $156,870.

Note 20 - Lease agreements

The Organization leases some of its properties from time-to-time. Although the Organization is a for-sale housing program, certain situations may arise where a property may be temporarily leased before it is sold. Most situations involve a lease-to-own or option-to-purchase agreement, but others may be only a rental situation for a fixed or renewable term.

During 2017, Habitat was receiving lease payments on two homes, of which none were sold during 2017. During 2016, Habitat was receiving lease payments on five homes, of which three were sold during 2016.

Note 21 - 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, 2017 and 2016, the uncollected balances remaining on the mortgages totaled $11,675 and $23,425, respectively.

Note 22 - 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, the Organization 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.

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

Note 23 - 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. During the years ended December 31, 2017 and 2016, Habitat's contribution to the plan amounted to $36,287 and $39,076, respectively.

Note 24 - Subsequent events

Events that occur after the balance sheet date but before the combined financial statements were available to be 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 combined 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 Organization through August 8, 2018 (the date the financial statements were available to be issued) and concluded that no additional subsequent events 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 and Affiliates

Combined Statements of Functional Expenses
Year Ended December 31, 2017

	Program services			Supporting activities			
	Construction	ReStore operations	Total	Management and general	Fundraising	Total	Total
Salaries and wages	$ 701,997	$ 465,166	$ 1,167,163	$ 355,852	$ 207,249	$ 563,101	$ 1,730,264
Employee taxes and benefits	184,950	131,873	316,823	77,236	40,938	118,174	434,997
Home construction costs	1,775,561	-	1,775,561	1,000		1,000	1,776,561
Discount on mortgages	209,080	-	209,080	-	-	-	209,080
Impairment on inventory	146,661	-	146,661	-	-	-	146,661
Cost of merchandise sales	-	1,097,058	1,097,058	-	-	-	1,097,058
New market tax credit expenses	58,725	-	58,725	-	-	-	58,725
Bad debt	3,260	-	3,260	-	-	-	3,260
Committee expenses	3,873	-	3,873	10,727	795	11,522	15,395
Computer expenses	6,978	8,678	15,656	7,435	4,600	12,035	27,691
Depreciation and amortization	33,737	40,028	73,765	14,887	-	14,887	88,652
Facilities cost	54,525	498,583	553,108	78,747	121	78,868	631,976
Insurance	445	1,193	1,638	33,453	-	33,453	35,091
Interest expense and service charges	180,997	15,711	196,708	29,708	6,646	36,354	233,062
Marketing and public relations	57,990	7,148	65,138	1,316	30,904	32,220	97,358
Miscellaneous	35,741	12,778	48,519	74,357	5,306	79,663	128,182
Office expenses	16,327	14,013	30,340	14,233	11,692	25,925	56,265
Postage	1,130	43	1,173	1,259	873	2,132	3,305
Professional fees	12,945	-	12,945	174,497	-	174,497	187,442
Telephone	12,686	8,413	21,099	6,012	2,314	8,326	29,425
Travel and meals	2,934	-	2,934	211	1,021	1,232	4,166
Vehicle	13,828	33,790	47,618	491	3,212	3,703	51,321
	$ 3,514,370	$ 2,334,475	$ 5,848,845	$ 881,421	$ 315,671	$ 1,197,092	$ 7,045,937

Habitat for Humanity Saint Louis and Affiliates

Combined Statements of Functional Expenses
Year Ended December 31, 2016

	Program services			Supporting activities			
	Construction	ReStore operations	Total	Management and general	Fundraising	Total	Total
Salaries and wages	$ 714,607	$ 416,423	$ 1,131,030	$ 353,764	$ 184,987	$ 538,751	$ 1,669,781
Employee taxes and benefits	229,111	124,985	354,096	74,026	34,208	108,234	462,330
Home construction costs	812,811	180	812,991	114		114	813,105
Discount on mortgages	206,972	-	206,972	-	-	-	206,972
Impairment on inventory	22,601	-	22,601	-	-	-	22,601
Cost of merchandise sales	-	1,054,417	1,054,417	-	-	-	1,054,417
New market tax credit expenses	61,214	-	61,214	-	-	-	61,214
Bad debt	5,000	-	5,000	-	-	-	5,000
Committee expenses	3,750	-	3,750	10,716	760	11,476	15,226
Computer expenses	16,084	18,787	34,871	17,992	14,671	32,663	67,534
Depreciation and amortization	39,069	43,841	82,910	42,305	-	42,305	125,215
Facilities cost	3,630	354,260	357,890	30,372	-	30,372	388,262
Insurance	30,921	1,973	32,894	38,482	-	38,482	71,376
Interest expense and service charges	168,266	46,202	214,468	55,528	1,681	57,209	271,677
Marketing and public relations	53,051	13,837	66,888	921	33,021	33,942	100,830
Miscellaneous	16,789	6,623	23,412	13,198	2,873	16,071	39,483
Office expenses	9,911	6,595	16,506	7,752	3,623	11,375	27,881
Postage	1,787	33	1,820	799	1,047	1,846	3,666
Professional fees	1,250	-	1,250	137,515	-	137,515	138,765
Telephone	13,266	8,722	21,988	5,218	2,531	7,749	29,737
Travel and meals	1,942	-	1,942	-	73	73	2,015
Vehicle	12,391	27,327	39,718	764	3,159	3,923	43,641
	$ 2,424,423	$ 2,124,205	$ 4,548,628	$ 789,466	$ 282,634	$ 1,072,100	$ 5,620,728

See Independent Auditor's Report.

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