

**HABITAT FOR HUMANITY
MISSISSIPPI CAPITAL AREA and
SUBSIDIARY**

(A Non-Profit Organization)

Jackson, Mississippi

Audited Financial Statements
Year Ended December 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Habitat for Humanity Mississippi Capital Area and Subsidiary
Jackson, Mississippi

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Habitat for Humanity Mississippi Capital Area and Subsidiary (the "Company"), which comprise the consolidated statement of financial position as of December 31, 2018 and 2017 and the related consolidated statements of activities, functional expenses and cash flows for the years then ended and the related notes to the consolidated financial statements (collectively, 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including 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 the Company as of December 31, 2018 and 2017 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.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating information is presented for purposes of additional analysis rather than to present the financial position and results of activities of the individual companies 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 consolidating 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 taken as a whole.

HORNE LLP

Ridgeland, Mississippi

June 18, 2019

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA AND SUBSIDIARY

Consolidated Statements of Financial Position

December 31, 2018 and 2017

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,287,935	\$ 1,672,093
Restricted cash	533,531	433,873
Receivables	36,078	16,910
Prepaid expenses	20,717	14,979
Construction in progress	4,672	337,309
Current portion of mortgage notes receivable	976,095	985,297
Property held-for-resale	656,076	1,547,176
	<hr/>	<hr/>
Total current assets	3,515,104	5,007,637
Mortgage notes receivable, collateralized by deeds of trust on real estate, less discounts of \$7,872,597 and \$7,928,599, respectively		
	7,063,580	7,223,213
Note receivable	4,748,844	4,748,844
Interest receivable on note receivable	328,821	277,055
Property and equipment, net of accumulated depreciation	894,464	943,606
Other assets	33,188	82,974
	<hr/>	<hr/>
Total non-current assets	13,068,897	13,275,692
	<hr/>	<hr/>
Total assets	\$ 16,584,001	\$ 18,283,329
LIABILITIES AND NET ASSETS		
Current liabilities		
Amounts held for home owners	\$ 124,457	\$ 93,157
Accounts payable and accrued expenses	192,363	234,085
Deferred revenue	791,577	1,135,641
Current maturities of notes payable	847,954	467,138
	<hr/>	<hr/>
Total current liabilities	1,956,351	1,930,021
Long-term liabilities		
Notes payable, less current maturities	8,516,139	9,060,479
	<hr/>	<hr/>
Total long-term liabilities	8,516,139	9,060,479
	<hr/>	<hr/>
Total liabilities	10,472,490	10,990,500
Net assets		
Without donor restrictions	5,860,232	7,037,154
With donor restrictions	251,279	255,675
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Total net assets	6,111,511	7,292,829
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Total liabilities and net assets	\$ 16,584,001	\$ 18,283,329

See accompanying notes.

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA AND SUBSIDIARY

Consolidated Statements of Activities

Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Home sales	\$ 1,893,930	\$ -	\$ 1,893,930
Contributions	131,829	724,865	856,694
Mortgage notes receivable discount amortization	605,065	-	605,065
Mortgage notes payable discount	45,978	-	45,978
Fundraising	215,752	84,721	300,473
Grants	-	301,906	301,906
Miscellaneous revenue	126,361	-	126,361
Net assets released from restriction	1,115,888	(1,115,888)	-
Total support and revenue	4,134,803	(4,396)	4,130,407
Expenses			
Program services			
Cost of homes sold	2,155,723	-	2,155,723
Mortgage notes receivable discount	549,065	-	549,065
Salaries, payroll taxes and insurance	249,450	-	249,450
Mortgage notes payable discount amortization	243,762	-	243,762
Property taxes and other property expenses	167,024	-	167,024
Miscellaneous program expenses	388,377	-	388,377
Impairment loss on property held for resale	888,873	-	888,873
Total program services	4,642,274	-	4,642,274
Management and general			
Salaries, payroll taxes and insurance	208,614	-	208,614
Administrative	118,382	-	118,382
Office occupancy	45,381	-	45,381
Total management and general	372,377	-	372,377
Fundraising			
Salaries, payroll taxes and insurance	209,823	-	209,823
Administrative and office occupancy	39,581	-	39,581
Special events	47,670	-	47,670
Total fundraising	297,074	-	297,074
Total expenses	5,311,725	-	5,311,725
Change in net assets	(1,176,922)	(4,396)	(1,181,318)
Net assets, beginning of year	7,037,154	255,675	7,292,829
Net assets, end of year	\$ 5,860,232	\$ 251,279	\$ 6,111,511

See accompanying notes.

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA AND SUBSIDIARY

Consolidated Statements of Activities

Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Home sales	\$ 2,063,139	\$ -	\$ 2,063,139
Contributions	401,281	318,162	719,443
Mortgage notes receivable discount amortization	606,813	-	606,813
Mortgage notes payable discount	161,724	-	161,724
Fundraising	163,993	45,095	209,088
Grants	-	1,022,649	1,022,649
Miscellaneous revenue	116,704	-	116,704
Net assets released from restriction	1,655,952	(1,655,952)	-
Total support and revenue	5,169,606	(270,046)	4,899,560
Expenses			
Program services			
Cost of homes sold	2,322,779	-	2,322,779
Mortgage notes receivable discount	857,539	-	857,539
Salaries, payroll taxes and insurance	359,832	-	359,832
Mortgage notes payable discount amortization	254,204	-	254,204
Property taxes and other property expenses	162,727	-	162,727
Miscellaneous program expenses	348,356	-	348,356
Total program services	4,305,437	-	4,305,437
Management and general			
Salaries, payroll taxes and insurance	187,414	-	187,414
Administrative	74,403	-	74,403
Office occupancy	46,355	-	46,355
Total management and general	308,172	-	308,172
Fundraising			
Salaries, payroll taxes and insurance	285,405	-	285,405
Administrative and office occupancy	37,904	-	37,904
Special events	58,954	-	58,954
Total fundraising	382,263	-	382,263
Total expenses	4,995,872	-	4,995,872
Change in net assets	173,734	(270,046)	(96,312)
Net assets, beginning of year	6,863,420	525,721	7,389,141
Net assets, end of year	\$ 7,037,154	\$ 255,675	\$ 7,292,829

See accompanying notes.

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA AND SUBSIDIARY

Statement of Functional Expenses
For the Year Ended December 31, 2018

	Support Services			Total
	Program Services	Management and General	Fundraising	
Salaries	\$ 201,618	\$ 171,522	\$ 166,164	\$ 539,304
Payroll taxes	13,014	11,458	17,031	41,503
Employee benefits	34,818	25,633	26,628	87,079
Total salaries and benefits	249,450	208,613	209,823	667,886
Cost of homes sold	2,128,223	-	-	2,128,223
Allocated management and general expenses	27,500	(27,500)	-	-
Advertising	-	-	110	110
Amortization of loan closing cost (NMTC)	49,786	-	-	49,786
Collection expenses	16,362	-	-	16,362
Contract labor	-	20,000	15,000	35,000
Contributions	-	-	20	20
Dues and subscriptions	-	1,576	91	1,667
Employee supplies	-	2,167	-	2,167
Equipment	-	1,022	216	1,238
Family recruiting	4,996	-	-	4,996
Filing fees	1,149	-	-	1,149
Financial service fees	-	4,442	-	4,442
HFHI sustainability fee	15,000	-	-	15,000
HFHI tithe	34,200	-	-	34,200
Homeowner expense	7,321	-	2,000	9,321
Impairment loss on property held for resale	888,873	-	-	888,873
Insurance	19,154	12,172	-	31,326
Interest expense (NMTC Loan)	76,832	-	-	76,832
IT expenses	13,440	10,152	11,021	34,613
Janitorial	-	6,270	-	6,270
Legal fees	3,555	-	-	3,555
License and permits	-	298	-	298
Meeting expense	64	2,645	116	2,825
Miscellaneous	6,209	2,441	-	8,650
Mortgage loan service fees	79,084	-	-	79,084
Mortgage loan underwriting expenses	5,058	-	-	5,058
Mortgage notes payable discount amortization	243,762	-	-	243,762
Mortgage notes receivable discount	549,064	-	-	549,064
NMTC expenses	12,000	-	-	12,000
Occupancy supplies	-	3,284	-	3,284
Office landscape maintenance	-	1,824	-	1,824
Office security	-	452	-	452
Office supplies	2,902	5,418	3,599	11,919
Postage	603	1,711	13,353	15,667
Printing	-	-	21,262	21,262
Professional fees	-	70,000	3,010	73,010
Property maintenance	62,963	-	-	62,963
Property taxes	75,123	-	-	75,123
Repairs and maintenance	2,270	7,787	514	10,571
Software	760	3,355	4,074	8,189
Special event expenses	-	-	7,540	7,540
Staff activities	-	662	-	662
Staff recruiting	-	242	-	242
Staff training	39	4,484	278	4,801
Supplies	-	-	582	582
Travel	128	2,404	1,813	4,345
Unemployment tax assessment	-	6,110	-	6,110
Utilities	5,367	8,934	-	14,297
Volunteer expenses	-	-	2,652	2,653
Warranty repairs	49,625	-	-	49,630
	4,381,412	152,352	87,251	4,621,017
Total expenses before depreciation	4,630,862	360,965	297,074	5,288,903
Depreciation	11,412	11,412	-	22,824
Total expenses	\$ 4,642,274	\$ 372,377	\$ 297,074	\$ 5,311,727

See accompanying notes.

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA AND SUBSIDIARY

Statement of Functional Expenses
For the Year Ended December 31, 2017

	Support Services			
	Program Services	Management and General	Fundraising	Total
Salaries	\$ 296,061	\$ 153,684	\$ 237,276	\$ 687,021
Payroll taxes	22,355	11,661	18,151	52,167
Employee benefits	41,416	22,069	29,978	93,463
Total salaries and benefits	<u>359,832</u>	<u>187,414</u>	<u>285,405</u>	<u>832,651</u>
Cost of homes sold	2,292,779	-	-	2,292,779
Allocated management and general expenses	30,000	(30,000)	-	-
Advertising	-	-	901	901
Amortization of loan closing cost (NMTC)	49,786	-	-	49,786
Collection expenses	16,492	-	-	16,492
Dues and subscriptions	-	2,111	15	2,126
Employee supplies	-	2,752	-	2,752
Equipment	-	724	226	950
Family recruiting	112	-	-	112
Filing fees	1,938	-	-	1,938
Financial service fees	-	4,097	-	4,097
HFHI sustainability fee	15,000	-	-	15,000
HFHI tithe	42,643	-	-	42,643
Homeowner expense	12,898	-	2,353	15,251
Insurance	19,699	13,000	-	32,699
Interest expense (NMTC loan)	76,832	-	-	76,832
IT expenses	15,227	8,569	12,014	35,810
Janitorial	-	6,455	-	6,455
Legal fees	2,575	-	-	2,575
License and permits	1,232	235	-	1,467
Meeting expense	-	3,015	216	3,231
Miscellaneous	60	2,593	-	2,653
Mortgage loan service fees	72,624	-	-	72,624
Mortgage loan underwriting expenses	4,113	-	-	4,113
Mortgage notes payable discount amortization	254,204	-	-	254,204
Mortgage notes receivable discount	857,539	-	-	857,539
NMTC expenses	12,000	-	-	12,000
Occupancy supplies	-	3,288	-	3,288
Office landscape maintenance	-	3,304	-	3,304
Office security	150	684	72	906
Office supplies	21	7,414	3,213	10,648
Postage	895	2,243	13,695	16,833
Printing	129	859	31,281	32,269
Professional fees	900	50,419	-	51,319
Property maintenance	52,975	-	-	52,975
Property taxes	77,390	-	-	77,390
Repairs and maintenance	2,006	6,445	-	8,451
Software	791	3,553	3,165	7,509
Special event expenses	-	-	11,386	11,386
Staff activities	-	871	-	871
Staff recruiting	-	1,088	125	1,213
Staff training	733	1,535	5,301	7,569
Supplies	2,431	-	534	2,965
Travel	1,578	3,043	10,391	15,012
Utilities	5,337	8,020	-	13,357
Volunteer expenses	-	-	1,970	1,970
Warranty repairs	8,075	-	-	8,075
	<u>3,931,164</u>	<u>106,317</u>	<u>96,858</u>	<u>4,134,339</u>
Total expenses before depreciation	<u>4,290,996</u>	<u>293,731</u>	<u>382,263</u>	<u>4,966,990</u>
Depreciation	14,441	14,441	-	28,882
Total expenses	<u>\$ 4,305,437</u>	<u>\$ 308,172</u>	<u>\$ 382,263</u>	<u>\$ 4,995,872</u>

See accompanying notes.

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA AND SUBSIDIARY

Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Operating activities		
Change in net assets	\$ (1,181,318)	\$ (96,312)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	49,142	62,349
Amortization of deferred financing costs	49,786	49,786
Mortgage notes receivable discounts, net of amortization	(56,000)	250,726
Mortgage notes payable discount, net of amortization	197,784	92,480
Impairment loss on property held for resale	888,873	-
Changes in assets and liabilities		
Receivables	(70,934)	347,296
Construction in progress	332,637	(32,733)
Property held-for-resale	2,227	(283,151)
Prepaid expenses	(5,738)	451
Deferred revenue	(344,064)	785,530
Amounts held for home owners	31,300	31,480
Accounts payable and accrued expenses	(41,722)	13,417
Net cash (used in) provided by operating activities	<u>(148,027)</u>	<u>1,221,319</u>
Investing activities		
Net decrease (increase) in mortgage notes receivable	224,835	(363,199)
Purchases of equipment	-	(1,336)
Net cash provided by (used in) investing activities	<u>224,835</u>	<u>(364,535)</u>
Financing activities		
Net decrease in notes payable	(361,308)	(190,203)
Net cash used in financing activities	<u>(361,308)</u>	<u>(190,203)</u>
Net (decrease) increase in cash and cash equivalents	(284,500)	666,581
Cash and cash equivalents, beginning of year	<u>2,105,966</u>	<u>1,439,385</u>
Cash and cash equivalents, end of year	<u>\$ 1,821,466</u>	<u>\$ 2,105,966</u>
Cash consists of		
Cash and cash equivalents	\$ 1,287,935	\$ 1,672,093
Restricted cash	533,531	433,873
Cash and cash equivalents, end of year	<u>\$ 1,821,466</u>	<u>\$ 2,105,966</u>
Supplemental disclosure of non-cash investing activities:		
Discount on non-interest bearing notes receivable	\$ 549,065	\$ 857,539
Repossession of homes	<u>\$ 303,177</u>	<u>\$ 652,735</u>

See accompanying notes.

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA
December 31, 2018 and 2017

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Activities and Significant Accounting Policies

Nature of Activities

Habitat for Humanity Mississippi Capital Area (the "Company") was organized under the laws of the State of Mississippi in 1986 as an affiliate of Habitat for Humanity International ("Habitat International"). The Company's objective is to provide decent, affordable housing in partnership with working families. Homes are constructed or renovated and sold to families on a no-interest basis. Families are selected on the basis of need, ability to repay the loan and willingness to put in 125 to 250 hours of labor in the building of their own houses and another Habitat house. The capital needed to build these homes is obtained through gifts, interest-free loans and grants including federal funds and volunteer labor.

The Company owns 99.9 percent of its subsidiary HFH - Metro Jackson Leverage Lender, LLC, ("HFH"), which was organized in 2012 for the sole purpose of carrying out certain investment transactions more fully described in Note 3.

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the financial statements of the Company and its subsidiary. All material intercompany balances and transactions have been eliminated upon consolidation.

The Company's financial statements are presented in accordance with accounting principles generally accepted in the United States of America, which requires the Company to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Company's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Company or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated that resources be maintained in perpetuity. Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

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.

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA
December 31, 2018 and 2017

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

Cash and Cash Equivalents

The Company considers all cash and interest bearing accounts, which are not subject to withdrawal restrictions or penalties, to be cash equivalents. Restricted cash consists primarily of contributions restricted for construction expenses of particular homes.

Mortgage Notes Receivable

Mortgage notes receivable are reported at net realizable value, which is the present value of the amount due under the notes after discounting for the time value of money.

The Company does not establish an allowance for uncollectible accounts since all accounts are considered to be collectible and all are collateralized by properties with estimated fair values in excess of the loan balances.

Note Receivable

The note receivable relates to HFH's receivable from a non-related entity pertaining to New Markets Tax Credit financing transactions, as more fully described in Note 3 and is carried at net realizable value.

Property Held for Resale

Properties previously sold to applicants and returned to the Company through foreclosure or by voluntary return of the property by purchaser are held on the books at the cost of the unpaid mortgage plus cost to renovate. These properties are renovated and then sold to approved applicants.

During 2018, the Company determined certain properties' costs would not be fully recoverable when sold. Accordingly, the Company reduced the carrying value of these properties by approximately \$889,000, which is included in the consolidated statement of activities.

Construction in Progress

Construction in progress is recorded when costs are incurred and represents real estate costs, costs of building materials, general contractor fees and contractor labor costs.

Property and Equipment

Purchased property and equipment are capitalized at cost. Contributions of property and equipment are recognized at estimated fair market value as of the date of contribution. Property and equipment is depreciated using the straight-line method, over the estimated useful life of the related assets. Depreciation expense was \$49,142 and \$62,349 for the years ended December 31, 2018 and 2017, respectively. The Company capitalizes all fixed asset purchases that are not clearly de minimis.

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA
December 31, 2018 and 2017

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

Net Assets

The Company reports donations of cash as net assets with donor restrictions if amounts are received with donor stipulations that limit the use of the funds. The Company receives donations from individuals, churches and other organizations to be used for the building of homes and for the purchase of land. When the purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions without donor restrictions are recognized in support and revenue when received or unconditionally promised.

Home Sales

Homes are sold to qualified low-income applicants at appraised value. The Company finances the home with a no-interest first mortgage.

Cost of Homes Sold

Costs incurred in conjunction with home construction are charged to construction in progress and are included in cost of homes sold when a house is sold to a homeowner.

Donated Services

No amounts have been reflected in the financial statements for donated services that do not require specialized skills. Nevertheless, a large number of volunteers have given significant amounts of their time for construction of the homes, as well as to the Company's fund-raising campaigns and management. Services that require specialized skills that would need to be purchased if not donated and that have a clearly measurable basis, are recorded at their estimated fair value. In addition, the fair rental values of properties furnished rent-free are also recorded as in-kind contributions.

Grants

The Company receives grant income from Habitat International and other financial assistance programs that supplement its traditional funding sources. The Company recognizes grant revenue as the conditions in the grant agreement are met. The Company recognized approximately \$84,000 of grant income from Habitat International in each of the years ended December 31, 2018 and 2017.

Interest-Free Loans

Under the Community Reinvestment Act ("CRA"), the Company has received interest-free financing with financial institutions for the construction of homes. Likewise, the mortgage notes receivable between the purchasers and the Company are interest free, which enables ownership opportunities for lower income applicants. Interest is imputed on the mortgage notes receivable and mortgage notes payable by discounting the instruments to their respective present values, based on an assumed 7.57 and 7.47 percent interest rate as of December 31, 2018 and 2017, respectively, over the terms of each note. Since the Company does not anticipate making a profit on the interest

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

rate spread, a similar rate is used to discount the mortgage notes receivable and the mortgage notes payable. The difference between the face value and present value of each note receivable is considered to be donated interest by the maker of the note and is recorded as expense in the year the loan is originated. Conversely, the interest forgiven under the CRA on notes payable is recorded as income. The discount on mortgage notes receivable and payable is amortized to income and expense, respectively, by use of the effective interest method over the term of each loan.

Deferred Revenue

Deferred revenue represents amounts collected but not earned as of December 31, 2018 and 2017. This is primarily comprised of grants received from state and federal agencies. Revenue is recognized upon the sale of the related home.

Income Taxes

The Company is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state provisions.

Advertising Costs

The Company expenses advertising costs as incurred. All advertising costs are considered fund raising expenses and are included as such on the statements of activities. Advertising costs totaled \$6,447 and \$1,377 for the years ended December 31, 2018 and 2017, respectively.

Functional Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs, such as salaries and benefits, information technologies, general office supplies, general software and utilities, have been allocated among the programs and supporting services benefited by either time and effort or full time equivalent allocation.

Recent Accounting Pronouncements

The Company adopted FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* in 2018. The changes required to the financial statements were applied retrospectively to the 2017 financial statements presented herein. The adoption did not impact the Company's financial position as of December 31, 2018 and 2017 or the changes in its net assets or cash flows for the years then ended.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which clarifies the principles for recognizing revenue. This guidance requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company will be required to adopt ASU No. 2014-09 as of January 1, 2019. The Company is currently evaluating the impact of ASU No. 2014-09 on the Company's financial position and statement of activities.

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA
December 31, 2018 and 2017

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

Reclassifications

Certain reclassifications were made to the 2017 financial statements in order to conform to the current year presentation. These reclassifications had no impact on the previously reported change in net assets or net assets.

Note 2. Mortgage Notes Receivable

The Company had mortgage notes receivable at December 31, 2018, as follows:

Receivable in less than one year	\$ 976,095
Receivable in one to five years	3,676,737
Receivable in six to ten years	3,914,607
Receivable thereafter	<u>7,344,833</u>
Total mortgage receivable	15,912,272
Less discounts to present value at 7.39 to 8.00 percent	<u>7,872,597</u>
Net mortgage notes receivable	<u><u>\$ 8,039,675</u></u>

Note 3. Notes Receivable and Restricted Investments in LLCs

New Market Tax Credit ("NMTC") financing allows an entity to receive a loan or investment capital from third-party investors, who will receive tax credits to be applied toward their federal and state income tax liabilities. As a result, the Company has invested funds and secured 15-year loans payable to community development entities. The loan proceeds are required to be used solely for the purpose of constructing and selling qualified properties to low income residents. As more fully described at Note 5, the loans accrue interest only for years 1 through 7 at a reduced rate of 1.2317 percent and beginning in year 8 through year 15 the principal balances of the loans are reduced by an eight year amortization at the same rate of interest.

In connection with the NMTC financing activities, the Company and HFH have notes payable to and notes receivable from certain special purpose entities owned by non-related investors and lenders associated with the NMTC financing. The NMTC agreements also contain option agreements, which allow investors the right to sell their ownership interest in the special purpose entity for a specified nominal price or allows the Company the right to purchase an investor's ownership at a nominal price on or after a specified date at least seven years from the date of the applicable transaction.

Management expects to exercise this option at the end of seven years. Once an option is exercised, the Company will own a majority of the special purpose entity and the notes payable, notes receivable and investment will be eliminated in consolidation. As of December 31, 2018 and 2017, the notes receivable are carried at net realizable value and the notes payable are carried at unpaid principal balance, as further described in Note 5.

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA
December 31, 2018 and 2017

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Continued

Following is a summary of the assets at December 31, 2018 and 2017 resulting from the NMTC transactions:

	2018	2017
Restricted cash (unexpended loan proceeds)	\$ 58,807	\$ 97,905
Note receivable from HFH NMTC Investment Fund, LLC	4,748,844	4,748,844
Interest receivable on note receivable from HFH NMTC Investment Fund, LLC	328,821	277,055
Unamortized deferred financing costs Munistrategies Sub-CDE4, LLC	33,188	82,974
Total	\$ 5,169,660	\$ 5,206,778

The above assets are subject to certain risks associated with the compliance requirements of the applicable NMTC transactions.

Note 4. Property and Equipment

The major classes of property and equipment are as follows:

	2018	2017
Land	\$ 76,717	\$ 76,717
Buildings and improvements	1,024,350	1,024,350
Furnishings and equipment	429,920	429,920
	1,530,987	1,530,987
Less accumulated depreciation	636,523	587,381
Total	\$ 894,464	\$ 943,606

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA
December 31, 2018 and 2017

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Notes Payable

The following is a summary of notes payable at December 31, 2018 and 2017:

	2018	2017
Notes payable to Habitat International at no interest; loans are payable in monthly installments of \$2,116 beginning in July 2014, net of imputed interest of \$243 in 2017.	\$ -	\$ 11,231
Note payable to Habitat International at no interest; loan is payable in monthly installments of \$234 beginning January 2016, net of imputed interest of \$30 in 2017.	-	1,321
Notes payable to Habitat International at no interest; loans are payable in monthly installments of \$1,114 beginning January 2017, net of imputed interest of \$2,114 and \$4,567 in 2018 and 2017, respectively.	24,681	35,596
Note payable to Habitat International at no interest; loan is payable in monthly installments of \$506 beginning January 2018, net of imputed interest of \$2,072 and \$3,579 in 2018 and 2017, respectively.	16,161	20,727
Notes payable to Habitat International at no interest; loan is payable in monthly installments of \$241 beginning January 2019, net of imputed interest of \$1,479 and \$0 in 2018 and 2017, respectively.	9,259	11,602
Notes payable to Habitat International at no interest; loans are payable in monthly installments beginning January 2019.	30,773	22,500
Notes payable to Habitat International at no interest; loans are payable in monthly installments beginning January 2020.	16,250	-
Notes payable to banks; payable in monthly installments totaling \$1,437 at no interest through varying dates ending March 2046, collateralized by the assignments of the Deeds of Trust which collateralize mortgage notes receivable of \$306,856 and \$232,699, net of imputed interest of \$91,072 and \$54,965 in 2018 and 2017, respectively.	119,583	79,843
Notes payable to housing corporation; payable in monthly installments totaling \$5,495 at no interest through varying dates ending in 2045, collateralized by the assignments of the Deeds of Trust which collateralize mortgage notes receivable of \$788,519 and \$860,960, net of imputed interest of \$336,688 and \$372,061 in 2018 and 2017, respectively.	425,409	455,978

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA AND SUBSIDIARY
Years Ended December 31, 2018 and 2017

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Continued

	2018	2017
Notes payable to state agency; payable in monthly installments totaling \$12,049 at no interest through varying dates ending in 2029, collateralized by the assignments of the Deeds of Trust which collateralize mortgage notes receivable of \$1,630,309 and \$1,802,351, net of imputed interest of \$367,589 and \$443,901 in 2018 and 2017, respectively.	\$ 916,475	\$ 984,748
Revolving credit facility at no interest, payable in monthly installments of \$18,168, collateralized by mortgage notes receivable, net of imputed interest \$614,123 and \$733,575 in 2018 and 2017, respectively.	1,439,103	1,537,672
Munistrategies MS NMTC Investments II, LLC Payable in semi-annual interest only payments of 1 percent November 5, 2012 through November 5, 2019; commencing May 5, 2020 and continuing on each May 5 and November 5 thereafter, principal and interest payments sufficient to fully amortize principal balance at August 20, 2027.	683,899	683,899
Munistrategies Sub-CDE4, LLC Payable in semi-annual interest only payments of 1.2317 percent November 5, 2012 through May 5, 2019; commencing November 5, 2019 and continuing on each May 5 and November 5 thereafter, principal and interest payments sufficient to fully amortize principal balance at August 21, 2027.	5,682,500	5,682,500
Total debt	9,364,093	9,527,617
Less current maturities	847,954	467,138
Long-term debt, less current maturities	\$ 8,516,139	\$ 9,060,479

The Company maintains a revolving credit facility (the "Credit Facility") with a syndicate of lenders. The Credit Facility is non-interest bearing and has maximum availability of \$5,545,000. Available borrowings are determined monthly based on, among other things, outstanding mortgage notes receivables, as defined. The Credit Facility requires minimum monthly payments of \$18,164 and may be prepaid in full without penalty. Outstanding borrowings at December 31, 2018 and 2017 were \$2,053,226 and \$2,271,247, respectively and are recorded net of imputed interest of \$614,123 and \$733,575, respectively. Additional available borrowings under the Credit Facility at December 31, 2018 were approximately \$2,800,000. The Credit Facility agreement states the Company is to maintain net assets of at least \$5,045,625 and EBITDA shall not be negative for two successive years. Substantially all of the Company's mortgage notes receivable collateralize borrowings under the Credit Facility. The Credit Facility matures May 24, 2022.

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA AND SUBSIDIARY
Years Ended December 31, 2018 and 2017

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Continued

Maturities of debt for the next five years and in the aggregate are as follows:

Period Ending December 31, 2018	Amount
2019	\$ 847,954
2020	1,231,171
2021	922,690
2022	2,403,884
2023	1,004,252
Thereafter	<u>4,369,279</u>
Total borrowings outstanding	10,779,230
Less unamortized imputed interest	<u>1,415,137</u>
Net borrowings outstanding	<u><u>\$ 9,364,093</u></u>

Note 6. Restrictions on Net Assets

Net assets with donor restrictions consist of unexpended contributions and grants restricted by the donor or grantor for the acquisition of land and houses and for construction and rehabilitation costs of houses. Contributions restricted for the acquisition of land and houses and rehabilitation costs of houses totaled \$251,279 and \$255,675 as of December 31, 2018 and 2017, respectively.

Note 7. Unrecorded Contributed Services

Management estimates the fair value of contributed services representing general volunteer construction labor that does not require specialized skills approximated \$48,532 and \$62,458 for 2018 and 2017, respectively. The value of those services not requiring specialized skills are not recorded in the financial statements of the Company.

Note 8. Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash investments at financial institutions. The Company had cash deposits at financial institutions in excess of insurable limits of \$250,000 as of December 31, 2018 of \$1,002,957.

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA AND SUBSIDIARY
Years Ended December 31, 2018 and 2017

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Liquidity and Availability

The following represents the Company's financial assets at December 31, 2018 and 2017:

	2018	2017
Financial assets at year-end:		
Cash, cash equivalents and restricted cash	\$ 1,821,466	\$ 2,442,817
Receivables	364,899	293,965
Current maturities of mortgage loans receivable	976,095	985,297
Total financial assets	3,162,460	3,722,079
Less amounts not available to be used within one year:		
Net assets with donor restrictions	251,279	255,675
Board designated net assets for sponsored house construction	250,914	146,119
Other restricted cash	31,338	32,079
Interest receivable on note receivable from HFH NMTC Investment Fund, LLC	328,821	277,055
	862,352	710,928
Financial assets available to meet general expenditures over the next twelve months	\$ 2,300,108	\$ 3,011,151

A substantial portion of contributions received by the Company are for sponsored house construction. The Company utilizes unrestricted contributions, grants and mortgage loan proceeds to cover operating expenses. In addition, the Company can utilize the Credit Facility discussed in Note 5 and by using third party financial institutions that partner with the Company to originate mortgages at zero percent interest on homes sold by the Company.

Note 10. Subsequent Events

The Company has evaluated subsequent events through June 18, 2019, the date the financial statements were available to be issued.

OTHER FINANCIAL INFORMATION

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA AND SUBSIDIARY
 Consolidating Statement of Financial Position
 December 31, 2018

	Habitat for Humanity Mississippi Capital Area	HFH Metro Jackson Lender, LLC	Eliminations	Habitat for Humanity Mississippi Capital Area Consolidated
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,041,413	\$ 246,522	\$ -	\$ 1,287,935
Restricted cash	533,531	-	-	533,531
Receivables	36,078	-	-	36,078
Prepaid expenses	20,717	-	-	20,717
Construction in progress	4,672	-	-	4,672
Current portion of mortgage notes receivable	976,095	-	-	976,095
Property held-for-resale	656,076	-	-	656,076
Total current assets	3,268,582	246,522	-	3,515,104
Mortgage notes receivable, collateralized by deeds of trust on real estate, less discounts	7,063,580	-	-	7,063,580
Note receivable	-	4,748,844	-	4,748,844
Interest receivable on note receivable	-	328,821	-	328,821
Property and equipment, net	894,464	-	-	894,464
Other assets				
Unamortized closing costs	33,188	-	-	33,188
Restricted investments in LLC	4,640,289	-	4,640,289	-
Total non-current assets	12,631,521	5,077,665	4,640,289	13,068,897
Total assets	\$ 15,900,103	\$ 5,324,187	\$ 4,640,289	\$ 16,584,001
LIABILITIES AND NET ASSETS				
Current liabilities				
Amounts held for home owners	\$ 124,457	\$ -	\$ -	\$ 124,457
Accounts payable and accrued expenses	192,363	-	-	192,363
Deferred revenue	791,577	-	-	791,577
Current maturities of notes payable	847,954	-	-	847,954
Total current liabilities	1,956,351	-	-	1,956,351
Long-term liabilities				
Notes payable, less current maturities	7,832,241	683,898	-	8,516,139
Total long-term liabilities	7,832,241	683,898	-	8,516,139
Total liabilities	9,788,592	683,898	-	10,472,490
Net assets				
Without donor restrictions	5,860,232	575,344	575,344	5,860,232
With donor restrictions	251,279	4,064,945	4,064,945	251,279
Total net assets	6,111,511	4,640,289	4,640,289	6,111,511
Total liabilities and net assets	\$ 15,900,103	\$ 5,324,187	\$ 4,640,289	\$ 16,584,001

HABITAT FOR HUMANITY MISSISSIPPI CAPITAL AREA AND SUBSIDIARY

Consolidating Statement of Activities

Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Habitat for Humanity Mississippi Capital Area	HFH Metro Jackson Leverage Lender, LLC Without Donor Restrictions	HFH Metro Jackson Leverage Lender, LLC Donor Restricted	Eliminations	Habitat for Humanity Mississippi Capital Area Consolidated
Support and revenue							
Home sales	\$ 1,893,930	\$ -	\$ 1,893,930	\$ -	\$ -	\$ -	\$ 1,893,930
Contributions	131,829	724,865	856,694	-	-	-	856,694
Mortgage notes receivable discount amortization	605,065	-	605,065	-	-	-	605,065
Mortgage notes payable discount	45,978	-	45,978	-	-	-	45,978
Fundraising	215,752	84,721	300,473	-	-	-	300,473
Grants	-	301,906	301,906	-	-	-	301,906
Miscellaneous revenue	27,106	-	27,106	99,255	-	-	126,361
Net assets released from restriction	1,115,888	(1,115,888)	-	-	-	-	-
Subsidiary earnings	90,417	-	90,417	-	-	90,417	-
Total support and revenue	4,125,965	(4,396)	4,121,569	99,255	-	90,417	4,130,407
Expenses							
Program services							
Cost of homes sold	2,155,723	-	2,155,723	-	-	-	2,155,723
Mortgage notes receivable discount	549,065	-	549,065	-	-	-	549,065
Salaries, payroll taxes and insurance	249,450	-	249,450	-	-	-	249,450
Mortgage notes payable discount amortization	243,762	-	243,762	-	-	-	243,762
Property taxes and other property expenses	167,024	-	167,024	-	-	-	167,024
Miscellaneous program expenses	381,539	-	381,539	6,838	-	-	388,377
Impairment loss on property held for resale	888,873	-	888,873	-	-	-	888,873
Total program services	4,635,436	-	4,635,436	6,838	-	-	4,642,274
Management and general							
Salaries, payroll taxes and insurance	208,614	-	208,614	-	-	-	208,614
Administrative	116,382	-	116,382	2,000	-	-	118,382
Office occupancy	45,381	-	45,381	-	-	-	45,381
Total management and general	370,377	-	370,377	2,000	-	-	372,377
Fundraising							
Salaries, payroll taxes and insurance	209,823	-	209,823	-	-	-	209,823
Administrative and office occupancy	39,581	-	39,581	-	-	-	39,581
Special events	47,670	-	47,670	-	-	-	47,670
Total fundraising	297,074	-	297,074	-	-	-	297,074
Total expenses	5,302,887	-	5,302,887	8,838	-	-	5,311,725
Change in net assets	(1,176,922)	(4,396)	(1,181,318)	90,417	-	90,417	(1,181,318)
Net assets, beginning of year	7,037,154	255,675	7,292,829	484,927	4,064,945	4,549,872	7,292,829
Net assets, end of year	\$ 5,860,232	\$ 251,279	\$ 6,111,511	\$ 575,344	\$ 4,064,945	\$ 4,640,289	\$ 6,111,511