

HABITAT FOR HUMANITY OF OMAHA, INC.
CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2017
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR 2016)



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Habitat for Humanity of Omaha, Inc.
Omaha, Nebraska

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Habitat for Humanity of Omaha, Inc. (the Organization), a Nebraska non-profit corporation, which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

INDEPENDENT AUDITORS' REPORT (Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 11, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Bland & Associates, P.C.

Omaha, Nebraska
May 5, 2018

HABITAT FOR HUMANITY OF OMAHA, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(WITH COMPARATIVE FINANCIAL INFORMATION FOR 2016)

| ASSETS | December 31, | |
|--|----------------------|----------------------|
| | 2017 | 2016 |
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | \$ 4,412,578 | \$ 3,871,735 |
| Cash Restricted for Joint Ventures | 1,283,417 | 178,800 |
| Investments | 2,751,417 | 2,566,185 |
| Current Portion of Unconditional Promises to Give | 1,751,294 | 973,206 |
| Current Portion of Mortgage Loans | 540,552 | 485,940 |
| Current Portion of Home Repair Loans | 150,132 | 141,588 |
| Other Receivables | 352,209 | 186,973 |
| Prepaid Expenses | 21,124 | 51,307 |
| Materials Inventory | 190,902 | 170,838 |
| Total Current Assets | 11,453,625 | 8,626,572 |
| PROPERTY AND EQUIPMENT | | |
| Land | 570,700 | 570,700 |
| Buildings | 5,244,759 | 5,229,140 |
| Equipment and Furniture | 826,608 | 787,174 |
| Vehicles | 251,407 | 193,598 |
| | 6,893,474 | 6,780,612 |
| Less Accumulated Depreciation | (1,597,335) | (1,325,115) |
| Total Property and Equipment | 5,296,139 | 5,455,497 |
| Unconditional Promises to Give, Less Current Portion | 775,100 | 940,900 |
| Note Receivable - Building | 154,967 | 161,686 |
| Construction in Progress | 5,889,326 | 5,976,799 |
| Mortgage Loans, Less Current Portion | 4,447,297 | 3,976,214 |
| Home Repair Loans, Less Current Portion and Allowance for Doubtful Accounts of \$40,000 and \$30,000, Respectively | 325,301 | 340,277 |
| Investments in Joint Ventures | 6,014,681 | 5,843,525 |
| Note Receivable from Joint Venture | 5,096,045 | 5,096,045 |
| Total Other Assets | 22,702,717 | 22,335,446 |
| | <u>\$ 39,452,481</u> | <u>\$ 36,417,515</u> |
| | | |
| LIABILITIES AND NET ASSETS | December 31, | |
| | 2017 | 2016 |
| CURRENT LIABILITIES | | |
| Accounts Payable | \$ 382,333 | \$ 302,613 |
| Accrued Expenses | 531,520 | 164,587 |
| Accrued Payroll and Compensated Absences | 568,964 | 521,999 |
| Current Portion of Long-Term Debt | 129,137 | 305,358 |
| Total Current Liabilities | 1,611,954 | 1,294,557 |
| LONG-TERM LIABILITIES | | |
| Long-Term Debt | | |
| Principal Amount | 15,017,237 | 13,805,667 |
| Less Debt Issuance Costs | (473,676) | (329,522) |
| Total Long-Term Liabilities, Net of Current Portion and Debt Issuance Costs | 14,543,561 | 13,476,145 |
| Total Liabilities | 16,155,515 | 14,770,702 |
| COMMITMENTS AND CONTINGENCIES | - | - |
| NET ASSETS | | |
| Unrestricted: | | |
| Operating | 18,508,491 | 19,088,219 |
| Designated as Funds Functioning as an Endowment | 17,468 | 15,629 |
| Temporarily Restricted | 4,771,007 | 2,542,965 |
| Total Net Assets | 23,296,966 | 21,646,813 |
| | <u>\$ 39,452,481</u> | <u>\$ 36,417,515</u> |

The accompanying notes to consolidated financial statements
are an integral part of these statements

HABITAT FOR HUMANITY OF OMAHA, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
(WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016)

| | Years Ended December 31, | | |
|---|--------------------------|------------------------|----------------------|
| | 2017 | | 2016 |
| | Unrestricted | Temporarily Restricted | Total |
| OPERATING REVENUES AND SUPPORT | | | |
| Contributions | \$ 1,293,104 | \$ 4,984,749 | \$ 6,277,853 |
| Sales to Homeowners | 5,022,711 | - | 5,022,711 |
| Grants | 2,190,352 | 452,698 | 2,643,050 |
| ReStore Sales | 1,951,448 | - | 1,951,448 |
| Discount Recovery on Sale of Mortgage Loans | 1,344,739 | - | 1,344,739 |
| In-Kind Contributions | 1,180,805 | - | 1,180,805 |
| Loan Discount Interest Income - Homeowner Sales | 639,670 | - | 639,670 |
| Income from Debt Extinguishment | 497,782 | - | 497,782 |
| Event Income | 390,865 | 58,750 | 449,615 |
| Investment Income | 254,639 | - | 254,639 |
| Revenue from Homeowners - Home Repair | 184,990 | - | 184,990 |
| Other Revenue | 55,067 | - | 55,067 |
| Income from Joint Ventures | 52,356 | - | 52,356 |
| Loan Discount Interest Income - Home Repair | 36,483 | - | 36,483 |
| Loss on Sale of Land, Property and Equipment | (76,513) | - | (76,513) |
| Satisfaction of Program Restrictions | 3,268,155 | (3,268,155) | - |
| Total Operating Revenues and Support | 18,286,653 | 2,228,042 | 20,514,695 |
| OPERATING EXPENSES | | | |
| Program Services | 16,893,715 | - | 16,893,715 |
| Management and General | 1,086,299 | - | 1,086,299 |
| Fundraising | 884,528 | - | 884,528 |
| Total Operating Expenses | 18,864,542 | - | 18,864,542 |
| CHANGES IN NET ASSETS | (577,889) | 2,228,042 | 1,650,153 |
| NET ASSETS - BEGINNING OF YEAR | 19,103,848 | 2,542,965 | 21,646,813 |
| NET ASSETS - END OF YEAR | <u>\$ 18,525,959</u> | <u>\$ 4,771,007</u> | <u>\$ 23,296,966</u> |

The accompanying notes to consolidated financial statements
are an integral part of these statements

HABITAT FOR HUMANITY OF OMAHA, INC.
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016)

| | Program Services | | | | Supporting Services | | | Totals | |
|---|----------------------|-------------------|---------------------|------------------------------------|------------------------|------------------------|-------------------------------|---------------------------|----------------------|
| | Construction | Home Repair | ReStore | Discounts on Mortgage Originations | Total Program Services | Management and General | Fundraising and Developmental | Total Supporting Services | |
| | | | | | | | | | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2016 |
| Cost of Homes Sold | \$ 6,692,316 | \$ - | \$ - | \$ - | \$ 6,692,316 | \$ - | \$ - | \$ - | \$ 6,692,316 |
| Salaries and Benefits | 2,311,562 | 111,467 | 1,014,861 | - | 3,437,890 | 734,121 | 589,960 | 1,324,081 | 4,406,319 |
| Mortgage Discounts | - | - | - | 2,920,314 | 2,920,314 | - | - | - | 2,920,314 |
| Demolition and Deconstruction Accomplished | 624,939 | - | 127,442 | - | 752,381 | - | - | - | 735,706 |
| Building Costs and Call Backs | 104,502 | 569,604 | - | - | 674,106 | - | - | - | 434,962 |
| Depreciation and Amortization | 129,115 | - | 163,243 | - | 292,358 | 53,620 | - | 53,620 | 350,400 |
| Interest | 246,064 | - | - | - | 246,064 | 16,645 | - | 16,645 | 233,470 |
| Information Technology | 123,778 | 2,582 | 39,852 | - | 166,212 | 41,090 | 20,306 | 61,396 | 187,740 |
| Professional Fees | 67,116 | 3,227 | 26,537 | - | 96,880 | 95,845 | 1,588 | 97,433 | 180,507 |
| Occupancy | 46,287 | 2,024 | 109,586 | - | 157,897 | 10,117 | 9,105 | 19,222 | 170,465 |
| Supplies | 73,795 | 2,685 | 60,850 | - | 137,330 | 25,613 | 12,546 | 38,159 | 141,801 |
| Bad Debt Expense | - | 28,298 | - | - | 28,298 | - | 145,000 | 145,000 | 47,058 |
| Vehicle Expense | 89,006 | 70 | 67,451 | - | 156,527 | 3,904 | 4,393 | 8,297 | 139,469 |
| Publicity | 23,559 | 1,000 | 66,820 | - | 91,379 | - | 65,376 | 65,376 | 136,904 |
| Miscellaneous | 70,821 | 995 | 50,737 | - | 122,553 | 26,246 | 7,560 | 33,806 | 87,434 |
| Tithe to Habitat for Humanity International | 141,523 | - | - | - | 141,523 | - | - | - | 127,184 |
| Merchandise Costs | - | - | 127,533 | - | 127,533 | - | - | - | 96,704 |
| Training and Travel | 55,993 | 1,896 | 10,846 | - | 68,735 | 36,804 | 11,424 | 48,228 | 113,813 |
| International Build | 100,516 | - | - | - | 100,516 | - | - | - | 85,487 |
| VISTA/Americorps | 58,466 | - | 3,634 | - | 62,100 | 5,500 | - | 5,500 | 162,773 |
| Maintenance and Small Equipment | 53,500 | - | 1,728 | - | 55,228 | 751 | - | 751 | 55,979 |
| Telephone | 17,949 | 1,428 | 11,366 | - | 30,743 | 20,356 | 3,393 | 23,749 | 47,730 |
| Insurance and Taxes | 32,855 | - | 14,211 | - | 47,066 | 5,498 | - | 5,498 | 52,910 |
| Family Partners and Public Education | 48,673 | 14 | - | - | 48,687 | 889 | 1,530 | 2,419 | 70,910 |
| Mortgage Discounts - Roof and Repair | - | - | - | 48,407 | 48,407 | - | - | - | 54,639 |
| Printing and Postage | 25,649 | 1,631 | 6,788 | - | 34,068 | 1,370 | 12,347 | 13,717 | 50,807 |
| | 11,137,984 | 726,921 | 1,903,485 | 2,968,721 | 16,737,111 | 1,078,369 | 884,528 | 1,962,897 | 17,118,204 |
| In-Kind Expense | 109,129 | 47,175 | 300 | - | 156,604 | 7,930 | - | 7,930 | 212,647 |
| TOTAL FUNCTIONAL EXPENSES | \$ 11,247,113 | \$ 774,096 | \$ 1,903,785 | \$ 2,968,721 | \$ 16,893,715 | \$ 1,086,299 | \$ 884,528 | \$ 1,970,827 | \$ 18,864,542 |
| | | | | | | | | | \$ 17,330,851 |

The accompanying notes to consolidated financial statements
are an integral part of these statements

HABITAT FOR HUMANITY OF OMAHA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(WITH COMPARATIVE FINANCIAL INFORMATION FOR 2016)

| | <u>Years Ended December 31,</u> | |
|--|---------------------------------|----------------------------|
| | <u>2017</u> | <u>2016</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Changes in Net Assets | \$ 1,650,153 | \$ 249,002 |
| Adjustments to Reconcile Changes in Net Assets to Net Cash Used In Operating Activities: | | |
| Sales to and Revenues from Homeowners | (3,147,412) | (3,490,203) |
| Loan Discount Interest Income - Homeowner Sales | (639,670) | (461,842) |
| Loan Discount Interest Income - Home Repair | (36,483) | (40,387) |
| Realized (Gain) Loss on Investments | (11,082) | 23,081 |
| Unrealized Gain on Investments | (124,891) | (49,672) |
| Income From Joint Ventures | (52,356) | (123,789) |
| Decrease in Construction in Progress | 636,734 | 521,922 |
| Loss on Sale of Land, Property and Equipment | 76,513 | 83,378 |
| Depreciation and Amortization | 345,978 | 350,400 |
| Increase in Allowance for Doubtful Accounts | 10,000 | 10,000 |
| Imputed Interest on Debt Issuance Costs | 92,692 | 65,412 |
| Income from Debt Extinguishment | (497,782) | - |
| (Increase) Decrease in Assets: | | |
| Unconditional Promises to Give | (612,288) | (259,266) |
| Other Receivables | (158,519) | 79,026 |
| Prepaid Expenses | 30,183 | (32,335) |
| Materials Inventory | (20,064) | 17,431 |
| Increase (Decrease) in Liabilities: | | |
| Accounts Payable | 79,720 | (43,378) |
| Accrued Expenses | 366,930 | 80,647 |
| Accrued Payroll and Compensated Absences | 46,965 | 71,319 |
| Net Cash Used In Operating Activities | <u>(1,964,679)</u> | <u>(2,949,254)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| (Increase) Decrease in Cash Restricted for Joint Venture | (1,104,616) | 52,514 |
| Proceeds from Sale of Investments | 985,031 | 1,280,997 |
| Purchase of Investments | (1,034,290) | (1,816,216) |
| Purchase of Property and Equipment | (186,618) | (124,378) |
| Mortgage Loans Sold | 1,857,459 | 2,432,894 |
| Home Repair Loans Sold | 49,118 | 105,453 |
| Mortgage Loans Payments Received | 615,913 | 497,284 |
| Home Repair Loans Payments Received | 146,040 | 162,595 |
| Investments in Joint Ventures | (2,980,055) | - |
| Cash Payments Received From Joint Ventures | 57,568 | 54,245 |
| Net Cash (Used In) Provided By Investing Activities | <u>(1,594,450)</u> | <u>2,645,388</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payment of Loan Costs and Structuring Fees | (236,847) | - |
| Proceeds from Issuance of Long-Term Debt | 4,456,976 | 40,769 |
| Payments on Long-Term Debt | (120,157) | (68,712) |
| Net Cash Provided By (Used In) Financing Activities | <u>4,099,972</u> | <u>(27,943)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 540,843 | (331,809) |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | <u>3,871,735</u> | <u>4,203,544</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u><u>\$ 4,412,578</u></u> | <u><u>\$ 3,871,735</u></u> |
| SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES | | |
| Issuance of Mortgage Loans | \$ 4,771,394 | \$ 4,550,287 |
| Discount on Mortgage Loans | (1,623,982) | (1,060,084) |
| Transfers to Homeowners Subject to Non-Interest Bearing Mortgage Loans | <u>\$ 3,147,412</u> | <u>\$ 3,490,203</u> |
| Real Property Received for Outstanding Mortgages | <u>\$ 625,772</u> | <u>\$ 347,052</u> |
| Interest Paid | <u>\$ 170,016</u> | <u>\$ 168,058</u> |
| Investment in Joint Venture Effectively Exchanged in NMTC Dissolution Transaction | <u>\$ 2,803,688</u> | <u>\$ -</u> |
| Long-Term Debt Effectively Exchanged in NMTC Dissolution Transaction | <u>\$ 3,301,470</u> | <u>\$ -</u> |

The accompanying notes to consolidated financial statements
are an integral part of these statements

HABITAT FOR HUMANITY OF OMAHA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2017
(With Summarized Comparative Information For 2016)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Habitat for Humanity of Omaha, Inc., HFHO Real Estate Holdings, Inc., and 1701, LLC (the Organization) is presented to assist in understanding the Organization's consolidated financial statements. The consolidated financial statements and notes are representations of the Organization's management who are responsible for the integrity and objectivity of the consolidated financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and have been consistently applied in the preparation of the consolidated financial statements.

Reporting Entity

Habitat for Humanity of Omaha, Inc. (Habitat), a Nebraska non-profit company incorporated on January 1, 1984, is an affiliate of Habitat for Humanity International, Inc. (Habitat International). Habitat International was organized for the purpose of creating decent, affordable housing with those in need and to make decent shelter a matter of conscience for all. Although Habitat International assists with information resources, training, publications, prayer support and in other ways, Habitat is primarily and directly responsible for its own operations.

Habitat builds and sells new and remodeled homes and also funds certain home repair projects for homeowners. The home sales are based on appraised values which are typically at or below the total cost of construction. Home repair projects are typically completed at either third-party cost or with Habitat resources at a cost estimated to approximate third-party cost. Both home sales and repair projects are done in exchange for non-interest bearing mortgage loans provided by Habitat to the homeowner. Certain home sales and certain repair projects are also partially funded by grants and/or donations. Habitat also raises and spends funds for acquiring land and blighted structures which are demolished. Such land may be used for future construction or sold to outside parties for redevelopment. Habitat also operates two retail stores (ReStores) designed to provide for resale of primarily used home and office materials – keeping such materials out of landfills and providing low-cost construction materials to the general public.

1701, LLC, a wholly-owned subsidiary of Habitat, was incorporated on December 20, 2012. 1701, LLC was organized to purchase the main warehouse and office facilities and aid Habitat in completing Tax Increment Financing arrangements.

HFHO Real Estate Holdings, Inc. (HFHO RE), a Nebraska non-profit corporation, was incorporated on June 27, 2013. HFHO RE was organized to acquire and operate certain assets previously owned by Habitat, for the purpose of qualifying for the benefits of the New Market Tax Credit (NMTC) transaction that occurred in 2013 (See Notes G and H). As part of the 2013 NMTC transaction, HFHO RE purchased Habitat's ReStore retail stores and Habitat's main warehouse and office facilities which are being leased back to Habitat.

HABITAT FOR HUMANITY OF OMAHA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Year Ended December 31, 2017
(With Summarized Comparative Information For 2016)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity (Continued)

These entities whose financial statements are included in the consolidated financial statements are collectively referred to as the Organization.

Basis of Presentation

The Organization is required to provide consolidated financial statements which are prepared to focus on the organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

The Organization maintains its accounts on the accrual basis of accounting.

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted net assets – Net assets which are not subject to any donor-imposed stipulations. Income that is limited to specific uses by donor restrictions is reported as increases in unrestricted net assets if the restrictions are met in the same reporting period as the income is recognized.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. 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. Expiration of temporary restrictions on net assets, i.e. the donor-stipulated purposes have been fulfilled and/or the stipulated time period has elapsed, are reported as reclassifications between the applicable classes of net assets.

Principles of Consolidation

The consolidated financial statements include the accounts of Habitat for Humanity of Omaha, Inc., its affiliate, HFHO Real Estate Holdings, Inc. and its wholly-owned subsidiary, 1701, LLC. Intercompany transactions and accounts have been eliminated in the accompanying consolidated financial statements.

HABITAT FOR HUMANITY OF OMAHA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Year Ended December 31, 2017
(With Summarized Comparative Information For 2016)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measure of Operations

In the consolidated statements of activities and changes in net assets, the Organization includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities. Investment income, including net realized and unrealized gains and losses, are recognized as operating support, revenues, gains, and losses.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions that affect certain reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents designated for long-term purposes or received with donor-imposed restrictions limiting their use to long-term purposes are not considered cash or cash equivalents for purposes of the consolidated statements of cash flows. Certain cash amounts are required to be kept in separate bank accounts.

Restricted Cash

The Organization has classified certain cash that is restricted for specific purposes as restricted cash. At December 31, 2017 and 2016, the Organization has restricted \$1,283,417 and \$178,800 for joint venture commitments, respectively. Certain joint venture agreements require the Organization to keep cash in separate accounts.

Unconditional Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Management reports promises to give net of allowance for uncollectible promises on its consolidated financial statements. The Organization considers promises to give to be nearly 100% collectible; therefore, no allowance for uncollectible amounts has been established.

HABITAT FOR HUMANITY OF OMAHA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Year Ended December 31, 2017
(With Summarized Comparative Information For 2016)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Materials Inventory

Materials inventory is recorded using the average cost method, which is not an acceptable method in accordance with accounting principles generally accepted in the United States of America. Management estimates that this does not have a material impact to the consolidated financial statements.

Investments and Investments in Joint Ventures

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the consolidated statements of financial position. Any unrealized gains and losses are reported in the consolidated statements of activities and changes in net assets as a change in unrestricted net assets.

Investments in joint ventures such as partnerships that are not consolidated, but over which the Organization exercises significant influence, are accounted for under the equity method of accounting. Whether or not the Organization exercises significant influence with respect to a specified investment depends on an evaluation of several factors including, among others, representation on the joint venture partnership's board of directors and ownership level, which is generally a 20% to 50% interest in the voting securities of the respective partnership.

If the Organization's carrying value in an equity method investment is reduced to zero, subsequent losses are not recorded in the Organization's consolidated financial statements unless the Organization guaranteed obligations of the joint venture partnership or has committed additional funding. If the joint venture partnership subsequently reports income, the Organization will not record its share of such income until it equals the amount of its share of losses not previously recognized.

Property and Equipment

Property and equipment are recorded at cost. Expenditures for additions and betterments are capitalized; expenditures for maintenance and repairs are charged to expense as incurred. The cost of assets disposed and the related accumulated depreciation are eliminated from the accounts in the year of disposal. Gains or losses from property disposals are recognized in the year of disposal.

HABITAT FOR HUMANITY OF OMAHA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Year Ended December 31, 2017
(With Summarized Comparative Information For 2016)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (Continued)

Depreciation is computed using the straight-line method over the following useful lives:

| | <u>Years</u> |
|-------------------------|--------------|
| Buildings | 5-40 |
| Equipment and Furniture | 3-15 |
| Vehicles | 5-10 |

Construction in Progress

The Organization carries the cost incurred in conjunction with home construction in construction in progress until sold to homeowners.

Loans and Discount

Home repair and mortgage loans are non-interest bearing and are payable in monthly installments over the life of the loan. All mortgage loans and most home repair loans are secured by real estate. Management determines the allowance for doubtful accounts by regularly evaluating the home repair and mortgage loan listing and considering prior years' experience and analysis of specific promises made. As of December 31, 2017 and 2016, the allowance for the home repair loan receivables was \$40,000 and \$30,000, respectively. The Organization considers all mortgage loans to be 100% collectible; therefore, no allowance for uncollectible accounts has been established.

Non-interest bearing loans have been discounted at 7.47% during 2017, 7.48% during 2016, and at various rates ranging from 6.0% to 9.0% in prior years based upon prevailing market rates for low income housing at the inception of the loan. Utilizing a straight-line basis, this discount is amortized over the term of the loan.

From time to time the Organization will sell mortgages to financial institutions. If the loan is sold, the unamortized balance of the loan discount recorded at the inception of the loan is recorded as income in the consolidated financial statements as discount recovery on the sale of mortgage loans. The Organization retains full recourse on these mortgages and continues to service and guarantee the mortgages. The Organization retains the right to substitute similar mortgages in case of default by the homeowners to pay the mortgage. At December 31, 2017 the amount of loans sold and still outstanding was approximately \$18.2 million.

HABITAT FOR HUMANITY OF OMAHA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Year Ended December 31, 2017
(With Summarized Comparative Information For 2016)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

Employees of the Organization are entitled to certain amounts of paid personal time off. In the event of termination, an employee is reimbursed for accumulated unused paid time off.

Contingent Equity and Sales to Homeowners

Habitat International requires a \$500 cash down payment (contingent equity) that is applied towards the purchase of the home at the time that the purchase contract is signed.

Sales to homeowners are recorded at the gross mortgage amount plus contingent equity payments received.

Revenues and Reclassifications

Support is provided in the form of federal and state grants and grants from non-governmental entities. All support and revenues are considered unrestricted unless stipulated by the grantor.

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted revenue and increase unrestricted net assets. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. Third-party reimbursement contracts (grant reimbursements) are recognized as revenue upon submission of the reimbursement request. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

In-Kind Contributions and Donated Services

Contributions of gifts in-kind that can be used by the Organization are recorded at estimated fair value in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by an individual possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their estimated fair values in the period received.

A substantial number of volunteers have made significant contributions of their time to the Organization's program and supporting services, which do not meet the above criteria. The value of this contributed time is not reflected in these consolidated financial statements since there is not an objective measure or valuation of these services.

HABITAT FOR HUMANITY OF OMAHA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Year Ended December 31, 2017
(With Summarized Comparative Information For 2016)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Program Services

Program services include construction, home repairs, the Organization's ReStore operations, the discount on mortgage originations, support of families, and education of the general public. Program services also include the cost of homes sold to homeowners.

Advertising

The Organization uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense was \$156,755 and \$133,154 for the years ended December 31, 2017 and 2016, respectively.

Income Taxes

Habitat and HFHO RE have received exemption from income taxes under Section 501(c)(3) of the Internal Revenue Code and are not classified as private foundations. As such, no provision for income taxes is reflected in the consolidated financial statements. 1701, LLC is a disregarded entity for income tax purposes, so it is considered a part of the Organization's tax exemption.

The Organization files two Form 990's, *Return of Organization Exempt from Income Tax*. The Organization's returns are subject to review and examination by federal authorities. As of December 31, 2017, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements. Tax years subsequent to 2014 remain subject to examination by major tax jurisdictions.

The Organization has concluded that there are no significant uncertain tax positions requiring disclosure, and there are no material amounts of unrecognized tax benefits.

Subsequent Events

Management has evaluated subsequent events through May 5, 2018, which is the date the consolidated financial statements were available to be issued.

HABITAT FOR HUMANITY OF OMAHA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Year Ended December 31, 2017
(With Summarized Comparative Information For 2016)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Summarized Comparative Information

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended December 31, 2016, from which the summarized information was derived.

NOTE B – CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to credit risk consist of cash, investments, receivables, and unconditional promises to give. The Organization maintains cash balances in financial institutions in which balances sometimes exceed the federally insured limits.

NOTE C – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give are as follows at December 31,:

| | 2017 | 2016 |
|--------------------------------------|---------------------|---------------------|
| Corporate and Foundation | \$ 2,394,587 | \$ 1,662,996 |
| Other Donations | 131,807 | 251,110 |
| Total Unconditional Promises to Give | <u>\$ 2,526,394</u> | <u>\$ 1,914,106</u> |

The maturities of unconditional promises to give at December 31, 2017 are as follows:

| | |
|--------------------------------------|---------------------|
| Receivable in Less than One Year | \$ 1,751,294 |
| Receivable in One to Five Years | 775,100 |
| Total Unconditional Promises to Give | <u>\$ 2,526,394</u> |

HABITAT FOR HUMANITY OF OMAHA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Year Ended December 31, 2017
(With Summarized Comparative Information For 2016)

NOTE D – INVESTMENTS

The Organization's investments at December 31, 2017 consist of the following:

| | Cost | Gross Unrealized Gain | Gross Unrealized Loss | Fair Value |
|--|---------------------|-----------------------------|-----------------------------|---------------------|
| Cash Equivalents | \$ 595,058 | \$ - | \$ 1,075 | \$ 593,983 |
| U.S. Treasury and Corporate Notes | 1,287,749 | 7,570 | 38,846 | 1,256,473 |
| Equity Mutual Funds | 654,712 | 228,781 | - | 883,493 |
| Beneficial Interest in Net Assets Held by Omaha Community Foundation | 12,101 | 5,367 | - | 17,468 |
| | <u>\$ 2,549,620</u> | <u>\$ 241,718</u> | <u>\$ 39,921</u> | <u>\$ 2,751,417</u> |

The Organization's investments at December 31, 2016 consist of the following:

| | Cost | Gross Unrealized Gain | Gross Unrealized Loss | Fair Value |
|--|---------------------|-----------------------------|-----------------------------|---------------------|
| Cash Equivalents | \$ 674,247 | \$ - | \$ - | \$ 674,247 |
| U.S. Treasury and Corporate Notes | 1,158,958 | 5,956 | 45,190 | 1,119,724 |
| Equity Mutual Funds | 644,877 | 196,863 | 85,155 | 756,585 |
| Beneficial Interest in Net Assets Held by Omaha Community Foundation | 12,101 | 3,528 | - | 15,629 |
| | <u>\$ 2,490,183</u> | <u>\$ 206,347</u> | <u>\$ 130,345</u> | <u>\$ 2,566,185</u> |

The following schedule summarizes the investment return and its classification in the consolidated statements of activities and changes in net assets for the years ended December 31,:

| | 2017 | 2016 |
|---|-------------------|-------------------|
| Interest and Dividend Income | \$ 118,666 | \$ 113,635 |
| Unrealized Gain on Investments | 124,891 | 49,672 |
| Realized Gain (Loss) on Sale of Investments | 11,082 | (23,081) |
| | <u>\$ 254,639</u> | <u>\$ 140,226</u> |

In connection with the sale of certain loans, the Organization has granted security interest rights in a portion of its investment portfolio to another party. Such rights restrict the ability of the Organization to use such funds unless and until the associated loans are repaid.

HABITAT FOR HUMANITY OF OMAHA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Year Ended December 31, 2017
(With Summarized Comparative Information For 2016)

NOTE D – INVESTMENTS (Continued)

The amount subject to these rights was approximately \$500,000 of investments as of December 31, 2017 and 2016, respectively.

NOTE E – FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows.

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
- Level 2 - Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017.

HABITAT FOR HUMANITY OF OMAHA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Year Ended December 31, 2017
(With Summarized Comparative Information For 2016)

NOTE E – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Common stocks, equity mutual funds, corporate bonds and U.S. government securities: Valued at the closing price reported on the active market on which the individual securities are traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2017 and 2016.

| Assets at Fair Value as of December 31, 2017 | | | | |
|--|---------------------|----------------|------------------|---------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments: | | | | |
| Cash Equivalents | \$ 593,983 | \$ - | \$ - | \$ 593,983 |
| U.S. Treasury and Corporate Notes | 1,256,473 | - | - | 1,256,473 |
| Equity Mutual Funds | 883,493 | - | - | 883,493 |
| Beneficial Interest in Net Assets Held by Omaha Community Foundation | - | - | 17,468 | 17,468 |
| Total Assets at Fair Value | <u>\$ 2,733,949</u> | <u>\$ -</u> | <u>\$ 17,468</u> | <u>\$ 2,751,417</u> |
| Assets at Fair Value as of December 31, 2016 | | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Investments: | | | | |
| Cash Equivalents | \$ 674,247 | \$ - | \$ - | \$ 674,247 |
| U.S. Treasury and Corporate Notes | 1,119,724 | - | - | 1,119,724 |
| Equity Mutual Funds | 756,585 | - | - | 756,585 |
| Beneficial Interest in Net Assets Held by Omaha Community Foundation | - | - | 15,629 | 15,629 |
| Total Assets at Fair Value | <u>\$ 2,550,556</u> | <u>\$ -</u> | <u>\$ 15,629</u> | <u>\$ 2,566,185</u> |

There were no transfers in and out of Levels 1, 2, and 3 in years 2017 and 2016.

HABITAT FOR HUMANITY OF OMAHA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Year Ended December 31, 2017
(With Summarized Comparative Information For 2016)

NOTE E – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The Organization uses the following methods and significant assumptions to estimate fair value:

Investments: The fair value of investments is determined by obtaining quoted market prices on nationally recognized securities exchanges.

Beneficial interest in net assets held by the Omaha Community Foundation: The fair value of the beneficial interests is determined based on the investments in the underlying portfolio. The fair value of the investments in the underlying portfolio is determined by the Omaha Community Foundation based on quoted market prices from nationally recognized securities exchanges.

The assets held by Omaha Community Foundation are measured at fair value on a recurring basis using significant unobservable inputs (Level 3). The beneficial interest in net assets held by the Omaha Community Foundation as of December 31, 2017 and 2016 is included in Note F.

NOTE F – ENDOWMENTS

The Organization's endowment consists of a designated endowment managed by the Omaha Community Foundation. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated to function as endowments, are classified and reported based on the existence or absence of restrictions.

Changes in Endowment Unrestricted Net Assets for the years ended December 31 are as follows:

| | 2017 | 2016 |
|---|------------------|------------------|
| Endowment Net Assets, January 1 | \$ 15,629 | \$ 14,905 |
| Total Gains or Losses (realized/unrealized) | 1,791 | 694 |
| Interest and Dividends | 348 | 330 |
| Contributions and Distributions, Net | (300) | (300) |
| Endowment Net Assets, December 31 | <u>\$ 17,468</u> | <u>\$ 15,629</u> |

Investment expenses were \$300 for both of the years ended December 31, 2017 and 2016.

NOTE G – NEW MARKET TAX CREDITS AND ASSOCIATED JOINT VENTURES

The Organization has participated in five New Market Tax Credit (NMTC) transactions. These transactions provide funds to eligible organizations for making qualified low-income community

HABITAT FOR HUMANITY OF OMAHA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Year Ended December 31, 2017
(With Summarized Comparative Information For 2016)

NOTE G – NEW MARKET TAX CREDITS AND ASSOCIATED JOINT VENTURES (Continued)

investments. Such funds are the result of outside investors who effectively purchase the tax credits associated with the Organization's community investment.

Transaction requirements for the Organization include the creation of a promissory note (see Note K) and an associated investment in, or associated loan made to, a qualified community development entity through a joint venture. The tax credits produced by the transactions are subject to recapture if compliance requirements are not met over a seven year period.

In connection with these NMTC transactions, the Organization recorded:

- an investment of \$2,514,254 for its 22.58% ownership of the first joint venture in 2010 (which was unwound in 2017 as more fully described later in this footnote),
- an investment of \$1,448,867 for its 9.99% ownership of a 2nd joint venture in 2012,
- a note receivable of \$5,096,045 from a 3rd joint venture in 2013 (see Note H),
- an investment of \$1,471,654 for its 9.54% ownership of a 4th joint venture in 2015, and
- an investment of \$2,980,055 for its 13.79% ownership of a 5th joint venture in 2017.

After investment earnings and distributions, the investments in joint venture balance totaled \$6,014,681 and \$5,843,525 as of December 31, 2017 and 2016, respectively.

As expected, in July 2017 the 2010 NMTC transaction was unwound without material cash flows, as originally structured. The result of that unwind is that the Organization's investment in the first joint venture was effectively exchanged for the related promissory note (See Note K). That exchange resulted in a gain on extinguishment of debt of \$497,782 which is recognized in the consolidated statements of activities as income from debt extinguishment. The gain on extinguishment of debt effectively represents the net cash benefit to the Organization from entering into the transaction. That cash benefit was actually received at the inception of the NMTC transaction in 2010 but is not recognized in the consolidated statements of activities until the benefit becomes certain with the unwinding of the structure.

In the future (approximately 7 years from the inception of each of the other NMTC transactions described in this footnote), the entities that are the effective owners of the Organization's promissory notes are expected to exercise put options whereby the promissory notes will become the property of the associated joint venture. Similar to the unwinding of the 2010 transaction described above, the exercise of the put options will effectively allow the Organization to extinguish the outstanding debt and realize its joint venture investments and note receivable without further material cash flow activity.

NOTE H – NOTE RECEIVABLES

As discussed in Note G, during 2013 the Organization recorded a note receivable and a promissory note (see note K) in connection with a NMTC transaction. The receivable accrues

HABITAT FOR HUMANITY OF OMAHA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Year Ended December 31, 2017
(With Summarized Comparative Information For 2016)

NOTE H – NOTE RECEIVABLES (Continued)

interest at 1.6% per year, payable each quarter, and is due in full January 1, 2042. The balance of the receivable was \$5,096,045 at December 31, 2017 and 2016.

The Organization entered into a note receivable financing agreement resulting from the sale of a building. The note requires monthly cash receipts of \$1,221 plus interest at 5% with final payment to be received on January 1, 2019.

The principal portion of the note receivable is due as follows:

| Years Ending December 31, | |
|------------------------------|-------------------|
| 2018 | \$ 6,719 |
| 2019 | 154,967 |
| | <u>\$ 161,686</u> |

NOTE I – NON-INTEREST BEARING LOANS

Traditional Home Loans

The Organization sells homes to program participants in exchange for mortgage loans with no interest. These loans are all payable to the Organization, and are shown on the consolidated statements of financial position discounted at various rates ranging from 6.0% to 9.0% at the inception of the mortgages, as dictated by Habitat International. The Organization had 138 and 119 loans outstanding at December 31, 2017 and 2016, respectively. Management feels no provision for loan losses is required because the Organization is a secured creditor and the fair market value of the homes is typically in excess of the related mortgage loan balance.

The Organization also sells homes to program participants under the NMTC programs in exchange for mortgage notes with no interest. These notes are all payable to the Organization, and are shown on the consolidated statement of financial position discounted at various rates ranging from 7.4% to 7.6% at the inception of the mortgages, as dictated by Habitat International. The Organization had 26 and 32 loans outstanding at December 31, 2017 and 2016, respectively. Management feels no provision for loan losses is required because the Organization is a secured creditor and the fair market value of the homes is typically in excess of the related mortgage note balance.

The Organization's mortgage home loans are as follows at December 31,:

| | 2017 | 2016 |
|---------------------|---------------------|---------------------|
| Mortgage Home Loans | \$ 12,696,019 | \$ 11,208,503 |
| Loan Discount | (7,708,170) | (6,746,349) |
| Basis in Loan | <u>\$ 4,987,849</u> | <u>\$ 4,462,154</u> |

HABITAT FOR HUMANITY OF OMAHA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Year Ended December 31, 2017
(With Summarized Comparative Information For 2016)

NOTE I – NON-INTEREST BEARING LOANS (Continued)

Home Repair Loans

The Organization funds certain home repairs for program participants in exchange for mortgage loans with no interest. These notes are all payable to the Organization, and are shown on the consolidated statements of financial position discounted at various rates ranging from 7.4% to 8.0% at the inception of the mortgages, as dictated by Habitat International. The Organization had 125 and 112 loans outstanding at December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, the allowance for the home repairs loan receivables was \$40,000 and \$30,000, respectively.

The Organization's home repair loans are as follows at December 31,:

| | 2017 | 2016 |
|---------------------------------|-------------------|-------------------|
| Home Repair Loans | \$ 694,855 | \$ 705,278 |
| Loan Discount | (179,422) | (193,413) |
| Allowance for Doubtful Accounts | (40,000) | (30,000) |
| Basis in Loan | <u>\$ 475,433</u> | <u>\$ 481,865</u> |

NOTE J – BANK REVOLVING LINES OF CREDIT

At December 31, 2017, the Organization had a bank revolving line of credit in the amount of \$2,000,000, payable on July 6, 2018, including interest at .25% below the national prime rate. The interest rate on the line of credit at December 31, 2017 was 4.25%. The Organization had no outstanding balance on the line of credit at December 31, 2017.

At December 31, 2016 the Organization had a bank revolving line of credit in the amount of \$1,000,000. This line of credit was terminated during the year and a new line of credit was established, as mentioned above. The Organization had no outstanding balance on the line of credit at December 31, 2016.

NOTE K – LONG-TERM DEBT

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

| | 2017 | 2016 |
|---|------------|------------|
| Interest-free promissory notes payable to Habitat International. Monthly payments range from \$7 to \$1,953 and due dates range from January 2018 to June 2023. | \$ 287,287 | \$ 326,850 |

HABITAT FOR HUMANITY OF OMAHA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Year Ended December 31, 2017
(With Summarized Comparative Information For 2016)

NOTE K – LONG TERM DEBT (Continued)

| | <u>2017</u> | <u>2016</u> |
|---|-------------|--------------|
| Note payable to HFHI-SA NMTC III, LLC, semi-annual interest only payments were made until June 2017 at 0.76%, then semi-annual payments were scheduled in an amount sufficient to fully amortize the remaining balance by June 2025. The note was effectively extinguished in connection with the unwind of the related NMTC investment in joint venture in July 2017. The note was secured by substantially all assets acquired from the project loan proceeds. (See Note G) | \$ - | \$ 3,301,470 |
| Note payable to CCM Community Development XVII, LLC, semi-annual interest only payments until May 2020 at 0.77%, then semi-annual payments of \$121,386, until due April 2028. The note has a put option feature that is exercisable by April 2019. The note is secured by substantially all assets acquired from the project loan proceeds. (See Note G) | 1,880,000 | 1,880,000 |
| Note payable to Stonehenge Community Development LXXXVIII, LLC, quarterly interest only payments until January 1, 2020 at 1.606%, then quarterly payments of \$64,628, until due October 23, 2043. The note has a put option feature that is exercisable in 2020. The note is secured by substantially all the assets of HFHO RE. (See Note G) | 5,095,045 | 5,095,045 |
| Note payable to Stonehenge Community Development LXXXVIII, LLC, quarterly interest only payments until January 1, 2020 at 1.606%, then quarterly payments of \$12,664, until due October 23, 2043. The note has a put option feature that is exercisable in 2020. The note is secured by substantially all the assets of HFHO RE. (See Note G) | 999,620 | 999,620 |
| Note payable to HFHI NMTC SUB CDE I, LLC, semi-annual interest only payments until November 2023 at 0.68%, then semi-annual payments in an amount sufficient to fully amortize the remaining balance by December 2044. The associated agreements include a put option feature that is exercisable in 2023. The note is secured by substantially all assets acquired from the project loan proceeds. (See Note G) | 2,157,398 | 2,157,398 |

HABITAT FOR HUMANITY OF OMAHA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Year Ended December 31, 2017
(With Summarized Comparative Information For 2016)

NOTE K – LONG TERM DEBT (Continued)

| | <u>2017</u> | <u>2016</u> |
|--|----------------------|----------------------|
| Note payable to a bank, monthly interest-only payments for 24 months (beginning February 2015) at 5.75%, then semi-annual payments of approximately \$18,000 beginning July 2017 at primarily variable interest rates until maturity in January 2030. The note is secured by an agreement associated with a Tax Increment Redevelopment Project between the Organization and the City of Omaha. | \$ 320,725 | \$ 350,642 |
| Note payable to HFHI NMTC SUB-CDE II, LLC, semi-annual interest only payments until May 2024 at 0.68%, then semi-annual payments in an amount sufficient to fully amortize the remaining balance by July 2047. The associated agreements include a put option feature that is exercisable in 2024. The note is secured by substantially all assets acquired from the project loan proceeds. (See Note G) | <u>4,406,299</u> | <u>-</u> |
| Total Long-Term Debt | 15,146,374 | 14,111,025 |
| Less Debt Issuance Costs | (473,676) | (329,522) |
| Less Current Portion of Long-Term Debt | <u>(129,137)</u> | <u>(305,358)</u> |
| | <u>\$ 14,543,561</u> | <u>\$ 13,476,145</u> |

The aggregate maturities of long-term debt for the years ending after December 31, 2017 are as follows:

| <u>Years Ending December 31,</u> | |
|--------------------------------------|----------------------|
| 2018 | \$ 129,137 |
| 2019 | 94,716 |
| 2020 | 467,261 |
| 2021 | 501,234 |
| 2022 | 489,534 |
| Thereafter | <u>13,464,492</u> |
| | <u>\$ 15,146,374</u> |

NOTE L – TRANSACTIONS WITH HABITAT INTERNATIONAL

The Organization annually remits a portion of its contributions (excluding in-kind contributions) to Habitat International. These funds are used to construct homes in economically depressed areas around the world. For the years ended December 31, 2017 and 2016, the Organization contributed \$141,523 and \$127,184 to Habitat International, respectively. This amount is included in the program services expense in the consolidated statements of activities and changes in net assets.

HABITAT FOR HUMANITY OF OMAHA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Year Ended December 31, 2017
(With Summarized Comparative Information For 2016)

NOTE M – OPERATING LEASES

The Organization leases a vehicle and a warehouse under operating lease agreements expiring at various times through December 2019.

The future minimum lease payments required under the above operating leases as of December 31, 2017 are as follows:

| Years Ending December 31, | Amount |
|------------------------------|------------------|
| 2018 | \$ 38,359 |
| 2019 | 16,567 |
| Total | <u>\$ 54,926</u> |

NOTE N – IN-KIND CONTRIBUTIONS

Included in the consolidated financial statements are in-kind contributions and corresponding expenses, which consisted of the following at December 31,:

| | 2017 | | 2016 | |
|----------------------------|---------------------|-------------------|---------------------|-------------------|
| | Contribution | Expense | Contribution | Expense |
| Construction in Progress | \$ 970,598 | \$ - | \$ 930,336 | \$ - |
| Professional Fees | 134,878 | 134,878 | 140,777 | 140,777 |
| Inventory | 42,864 | - | 68,769 | - |
| Publicity | - | - | 29,069 | 29,069 |
| Miscellaneous | 29,656 | 29,656 | 42,801 | 42,801 |
| Property and Equipment | 2,809 | - | 47,699 | - |
| Total In-Kind Contribution | <u>\$ 1,180,805</u> | <u>\$ 164,534</u> | <u>\$ 1,259,451</u> | <u>\$ 212,647</u> |

NOTE O – RETIREMENT PLAN

The Organization participates in a 403(b) retirement savings plan covering substantially all employees. The Organization's contributions are discretionary. There were Organization contributions of \$89,998 and \$92,492 for the years ended December 31, 2017 and 2016, respectively.

NOTE P – RECLASSIFICATIONS

Certain reclassifications were made to the 2016 consolidated financial statements to conform to the 2017 presentation.