

Financial Report

Habitat for Humanity St. Tammany West

June 30, 2016



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June 30, 2016

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors,
Habitat for Humanity St. Tammany West,
Mandeville, Louisiana.

Report on the Financial Statements

We have audited the accompanying financial statements of Habitat for Humanity St. Tammany West (a non-profit organization) (HFHSTW) which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to HFHSTW'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 HFHSTW's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity St. Tammany West as of June 30, 2016, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued a report dated December 6, 2016, on our consideration of the HFHSTW's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering HFHSTW's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited Habitat for Humanity St. Tammany West financial statements, and our report dated December 6, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Bougeois Bennett, L.L.C.

Certified Public Accountants.

New Orleans, Louisiana,
December 6, 2016.

STATEMENT OF FINANCIAL POSITION

Habitat for Humanity St. Tammany West Mandeville, Louisiana

June 30, 2016
(with comparative totals for 2015)

ASSETS

	<u>2016</u>	<u>2015</u>
Current Assets		
Cash and cash equivalents		
Unrestricted	\$ 595,614	\$ 447,754
Reserved - escrow deposits	158,971	134,560
Reserved - expense reserve	64,492	-
Mortgage notes receivable - current portion, net (Note 4)	454,513	490,185
Pledges receivable - current portion, net (Note 5)	80,934	87,993
Grants receivable	32,500	99,728
Accounts receivable	84,246	47,412
Inventory	15,389	30,853
Other assets	15,220	14,186
Construction in progress	334,768	339,381
	<u>1,836,647</u>	<u>1,692,052</u>
Total current assets		
Property And Equipment (Note 2j)		
Building and improvements	1,639,722	1,639,722
Land	540,829	657,843
Vehicles	153,379	144,712
Office furniture and equipment	104,857	104,857
Less accumulated depreciation	(745,911)	(689,201)
	<u>1,692,876</u>	<u>1,857,933</u>
Total property and equipment, net		
Other Assets		
Long term portion of mortgage notes receivable, net of unamortized discounts (Note 4)	2,928,561	3,200,705
Investment in HFHI NMTC Sub-CDE I, LLC (Note 6)	1,021,941	-
Investment in HFHI-SA Leverage I, LLC (Note 6)	-	3,274,515
Land held for future home sites	378,860	456,574
Loan obligation costs, net (Note 2l)	153,945	-
Security deposits	1,532	1,532
Long-term portion of pledges (Note 5)	37,425	27,544
Other	153,547	-
	<u>4,675,811</u>	<u>6,960,870</u>
Total other assets		
Total assets	<u>\$ 8,205,334</u>	<u>\$ 10,510,855</u>

See notes to financial statements.

LIABILITIES AND NET ASSETS

	<u>2016</u>	<u>2015</u>
Current Liabilities		
Accounts payable, accrued expenses, and other	\$ 147,448	\$ 161,453
Lines of credit (Note 7)	-	300,000
Current maturities of notes payable (Note 8)	56,820	49,664
Deferred revenue	64,492	-
Escrow deposits	<u>158,971</u>	<u>134,560</u>
Total current liabilities	<u>427,731</u>	<u>645,677</u>
Long-Term Liabilities		
Long-term portion of notes payable (Note 8)	668,894	701,911
QLICI note payable (Note 6)	1,495,639	-
QLICI note payable (Note 6)	<u>-</u>	<u>3,757,086</u>
Total long term liabilities	<u>2,164,533</u>	<u>4,458,997</u>
Total liabilities	<u>2,592,264</u>	<u>5,104,674</u>
Net Assets		
Unrestricted	5,494,711	5,290,644
Temporarily Restricted (Note 5 and 9)	<u>118,359</u>	<u>115,537</u>
Total net assets	<u>5,613,070</u>	<u>5,406,181</u>
Total liabilities and net assets	<u>\$ 8,205,334</u>	<u>\$ 10,510,855</u>

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**Habitat for Humanity St. Tammany West**

Mandeville, Louisiana

For the year ended June 30, 2016

(with comparative totals for 2015)

	2016		2015 Totals
	Unrestricted	Temporarily Restricted	
Support and Revenue			
Sales of houses (Note 10)			
Sales revenue	\$ 1,047,160		\$ 1,047,160
Less: mortgage note receivable discount	(600,310)		(600,310)
Amortization of mortgage note receivable discount (Note 10)	226,363		226,363
ReStore revenues	908,687		908,687
Grants	128,920		128,920
Contributions	195,521		195,521
Event revenues			
Event income	136,145	\$ 201,265	337,410
Event expenses	(51,624)		(51,624)
HFHI-NMTC Sub CDE I investment income (Note 6)	8,843		8,843
HFHI-SA investment income (Note 6)	-		-
Contributions in-kind	68,836		68,836
Gain on sale of mortgage receivables	565,507		565,507
Cancellation of debt from HFHI - SA	482,571		482,571
Other revenue	17,476		17,476
Net assets released from restrictions	198,443	(198,443)	-
Total support and revenue	3,332,538	2,822	3,335,360
Expenses			
Program services			
Housing	1,976,199		1,976,199
ReStore	690,328		690,328
Supporting services			
Management and general	262,293		262,293
Fundraising	199,651		199,651
Total expenses	3,128,471	-	3,128,471
Changes in net assets	204,067	2,822	206,889
Net assets			
Beginning of year	5,290,644	115,537	5,406,181
End of year	\$ 5,494,711	\$ 118,359	\$ 5,613,070

See notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

Habitat for Humanity St. Tammany West
Mandeville, Louisiana

For the year ended June 30, 2016
(with comparative totals for 2015)

	Program Expenses		Supporting Services		Totals	
	Housing	ReStore	Management and General	Fund-Raising	2016	2015
Wages	\$ 537,532	\$ 315,517	\$ 155,793	\$ 124,749	\$ 1,133,591	\$ 946,665
Occupancy						
Interest	31,082	7,170	9,990	430	48,672	126,567
Utilities	16,405	31,344	3,805	3,736	55,290	50,317
Insurance	25,531	19,847	3,183	5,357	53,918	49,286
Repairs and maintenance	10,502	17,687	2,857	1,220	32,266	32,253
Total occupancy	83,520	76,048	19,835	10,743	190,146	258,423
Operating						
Direct construction costs - NMTC	662,212	-	-	-	662,212	139,627
Direct construction costs - other	417,827	-	-	-	417,827	670,297
Cost of goods sold	-	41,744	-	-	41,744	47,458
Supplies and general	7,730	9,347	3,307	1,462	21,846	13,433
Vehicle fuel, insurance, and maintenance	4,070	4,982	256	28	9,336	14,047
Other operating costs	72,869	80,022	27,706	32,171	212,768	172,177
Total operating	1,164,708	136,095	31,269	33,661	1,365,733	1,057,039
Administrative						
Payroll taxes and benefits	115,033	64,784	18,636	29,714	228,167	203,188
Professional fees	69,622	49,810	34,692	-	154,124	122,693
Total administrative	184,655	114,594	53,328	29,714	382,291	325,881
Depreciation	5,784	48,074	2,068	784	56,710	57,405
Total functional expenses	\$ 1,976,199	\$ 690,328	\$ 262,293	\$ 199,651	\$ 3,128,471	\$ 2,645,413

See notes to financial statements.

STATEMENT OF CASH FLOWS**Habitat for Humanity St. Tammany West**
Mandeville, LouisianaFor the year ended June 30, 2016
(with comparative totals for 2015)

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities		
Changes in net assets	\$ 206,889	\$ 1,326,637
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	56,710	57,405
Loss on disposal of assets	49,476	5,895
Loss on sale of land for future homesites	31,903	41,849
Income from HFHI-SA Leverage I, LLC	-	(47,962)
Income from HFHI NMTC Sub-CDE I, LLC	(8,843)	-
Amortization of loan obligation costs	11,462	39,509
Donations of land held for future home sites	-	(36,000)
Forgiveness of debt revenue	(482,571)	-
Decrease (increase) in assets:		
Mortgage notes receivable	307,816	1,249,505
Pledges receivable	(2,822)	(47,693)
Grants receivable	67,228	(57,397)
Accounts receivable	(36,834)	17,732
Inventory	15,464	2,462
Other current assets	(1,034)	832
Construction in progress	4,613	(209,669)
Loan obligation costs	(165,407)	-
Security deposits	-	(1,532)
Other assets	(153,547)	-
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(14,005)	24,526
Deferred revenue	64,492	(21,344)
Escrow deposits	24,411	(25,898)
	<u>(24,599)</u>	<u>2,318,857</u>
Net cash provided by (used in) operating activities	<u>(24,599)</u>	<u>2,318,857</u>

**Exhibit D
(Continued)**

	2016	2015
Cash Flows From Investing Activities		
Distribution from HFHI-SA Leverage I, LLC	-	28,513
Investment in HFHI NMTC Sub-CDE I, LLC	(1,020,239)	-
Distribution from HFHI NMTC Sub-CDE I, LLC	7,141	-
Purchases of property and equipment	(8,668)	(6,431)
Proceeds from sale of assets	67,539	-
Proceeds from sale of land held for future home sites	126,532	228,095
Purchases of land held for future home sites	(80,720)	(131,802)
Net cash (used in) provided by investing activities	(908,415)	118,375
Cash Flows From Financing Activities		
Proceeds from lines of credit	1,350,000	150,000
Proceeds from notes payables	25,057	45,420
Proceeds from QLICI note payable	1,495,639	-
Repayments of lines of credit	(1,650,000)	(250,000)
Principal payments on notes payable	(50,919)	(2,152,821)
Net cash provided by (used in) financing activities	1,169,777	(2,207,401)
Net Increase In Cash and Cash Equivalents	236,763	229,831
Cash and Cash Equivalents		
Beginning of year	582,314	352,483
End of year	\$ 819,077	\$ 582,314

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS**Habitat for Humanity St. Tammany West**
Mandeville, Louisiana

June 30, 2016 and 2015

Note 1 - NATURE OF ACTIVITIES

Habitat for Humanity St. Tammany West (HFHSTW) was founded in 1981 as the tenth affiliate of Habitat for Humanity International and first in the State of Louisiana. HFHSTW's vision is a world where everyone has a decent place to live and its mission is implemented by bringing people together to build homes, communities, and hope. HFHSTW identifies and acquires building sites and builds housing for workforce and low-income family partners. These homes, located in the western half of St. Tammany Parish, are sold to qualified family partners who have contributed 300-400 hours of sweat equity and signed non-interest bearing mortgage notes. HFHSTW relies heavily on volunteer efforts, donations from individuals, churches and companies, Habitat's Fund for Humanity, government and private grants, and various other financing vehicles to fund the construction projects.

Habitat's Fund for Humanity consists of non-interest bearing mortgage receivable payments from existing homeowners (see Note 4). In effect, homeowners, when making monthly mortgage payments for their homes, are supporting the construction financing for future homeowners.

HFHSTW also operates a 20,000 square foot ReStore facility from which it primarily sells donated building materials and home furnishings to middle and low income customers. The net cash flow from ReStore operations are used to fund the acquisition of some of the building sites and construction of some of the homes referred to in the previous paragraphs.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**a. Organization and Income Taxes**

HFHSTW is a nonprofit entity organized under the laws of the State of Louisiana and is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC), and qualifies as an organization that is not private foundation as defined in Section 509(a) of the IRC. It is also exempt from Louisiana income tax under the authority of R.S. 47.121(5).

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

a. Organization and Income Taxes (Continued)

Accounting standards provide detailed guidance for financial statement recognition, measurement, and disclosure of uncertain tax positions recognized in an entity's financial statements. These standards require an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will not be sustained upon examination. As of June 30, 2016, management believes HFHSTW has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Tax years ended June 30, 2013 and later remain subject to examination by the taxing authorities.

b. Basis of Accounting

The financial statements of HFHSTW are prepared on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recorded when incurred.

c. 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 impact certain reported amounts and disclosures. Actual results could differ from those estimates.

d. Basis of Presentation

Net assets, revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of HFHSTW and changes thereto are classified and reported as:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of HFHSTW and/or the passage of time.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Basis of Presentation (Continued)

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that are maintained permanently by HFHSTW. Generally, the donors of such assets permit the donor to use all or part of the income earned from these assets for general or specific purposes. As of June 30, 2016 and 2015, HFHSTW had no permanently restricted net assets.

e. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, HFHSTW considers all short-term highly liquid investments with an original maturity of one year or less from the date of acquisition to be cash equivalents.

f. Reserved Cash

HFHSTW services the mortgages on the homes it sells. Included in cash and cash equivalents are amounts received from homeowners for insurance and property taxes. Reserved cash for escrow deposits as of June 30, 2016 and 2015 was \$158,971 and \$134,560, respectively.

During the year ended June 30, 2016, HFHSTW participated in a New Markets Tax Credit (NMTC) transaction. Upon commencement of the transaction, HFHSTW established an expense reserve fund to pay Habitat for Humanity International for servicing, compliance, and consulting fees related to the NMTC transaction. The balance of the expense reserve as of June 30, 2016 was \$64,492.

g. Mortgage Notes Receivable

Mortgage notes receivable consist of non-interest bearing mortgage notes which are collateralized by real estate in the St. Tammany West area and payable in monthly installments over the life of the mortgage loans. The mortgage notes receivable are net of discounts, which represent the difference between the stated amount of the mortgage notes and the present value based on an imputed amount

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g. Mortgage Notes Receivable (Continued)

of interest. The discounts are amortized over the lives of the mortgage loans. The imputed interest rates are set by Habitat for Humanity International. The rates are based on a 12 month average rate published by the Internal Revenue Service plus a risk factor of 3%. Mortgage notes receivable are considered past due if payments are more than 30 days late. Management believes that the values of such collateral are in excess of the mortgage notes receivable as of June 30, 2016 and 2015 and therefore no allowance for losses has been provided.

h. Pledges Receivable

Contributions are recognized when the donor makes a pledge to HFHSTW that is, in substance, unconditional. Conditional pledges are recognized when the conditions on which the pledges were made are substantially met. Pledges receivable are recognized as assets, net of an allowance for uncollectible amounts. HFHSTW provides for estimated uncollectible pledge receivables based on prior years' experience and management's analysis of specific pledges made. As of June 30, 2016 and 2015, the allowance for uncollectible amounts totaled \$10,853 and \$12,102, respectively.

i. Inventory

Inventory represents building materials and goods to be sold in the ReStore operations, as well as building materials and goods on hand for use in the construction of homes. Gift in-kind inventory is recorded at the fair value on the date of receipt, and such items are expensed as program services expense when used based on the specific identification method. Purchased inventory is recorded at the lower of cost or market determined by the specific identification method. As of June 30, 2016 and 2015, inventory totaled \$15,389 and \$30,853, respectively.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j. Property and Equipment

Property and equipment consists of land, buildings and improvements, office furniture and equipment, and is stated at cost or fair market value at date of donation, net of accumulated depreciation. Repairs and maintenance are charged to expense as incurred; major renewals and betterments are capitalized. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets. Buildings are depreciated over 30 years. Other depreciable property and equipment is depreciated over five to twelve years. HFHSTW has established a policy capitalizing all expenditures for property and equipment in excess of \$5,000 with a useful life of five or more years. For the years ended June 30, 2016 and 2015, depreciation expense totaled \$56,710 and \$57,405, respectively.

k. Construction in Progress

Construction in progress represents all direct material, labor, land, and infrastructure costs incurred to construct family housing. Revenue is recognized under the full accrual method when a sale is consummated and the homeowner is obligated under a mortgage.

As of June 30, 2016 and 2015, construction in progress included:

	2016	2015
New homes under construction	\$ 167,770	\$ 213,647
Repossessed homes	166,998	125,734
Total construction in progress	\$ 334,768	\$ 339,381

l. Loan Obligation Costs

Certain costs related to the New Markets Tax Credit Financing (see Note 6) have been capitalized and are being amortized over the estimated life of the related notes payable. Financing and loan acquisition costs totaled \$165,407 as of June 30, 2016. Accumulated amortization totaled \$11,462 as of June 30, 2016.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

m. Compensated Absences

Accumulated paid time off is payable upon termination of employment and is accrued. HFHSTW's obligation as of June 30, 2016 and 2015 totaled \$58,160 and \$56,556, respectively, which is included in accounts payable and accrued expenses on the Statement of Financial Position.

n. Contributions and Revenue Recognition

Contributions are recognized when the donor makes an unconditional promise to give. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions were made. All other donor-restricted contributions are reported as increases in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Gifts of long-lived operating assets such as land, buildings, or equipment are reported as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

o. Donated Services of Volunteers and Other In-Kind Donations

A substantial number of volunteers have given extensive amounts of time and services to HFHSTW. However, no amounts are reflected in the financial statements for such services as management feels that the requirements for recording in-kind services have not been satisfied. Other contributed services that require specialized skills provided by individuals possessing those skills and otherwise needing to be purchased if not provided by donation are recognized as revenue and expense and totaled \$36,844 and \$30,841 for the years ended June 30, 2016 and 2015, respectively.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

o. Donated Services of Volunteers and Other In-Kind Donations (Continued)

Donations of materials, supplies, and other totaled \$59,028 and \$93,418 for the years ended June 30, 2016 and 2015, respectively.

p. Sales Tax

The State of Louisiana and St. Tammany Parish impose a combined sales tax of 9.75% on all of HFHSTW sales to non-exempt customers. HFHSTW collects that sales tax from customers and remits the entire amount to the State. For the years ended June 30, 2016 and 2015, HFHSTW paid state sales taxes totaling \$78,228 and \$69,507, respectively. Sales tax collected and paid is not reported as revenues and expenses on the Statement of Activities and Changes in Net Assets.

q. Advertising Expense

HFHSTW uses advertising to promote ReStore operations and fundraising activities. The production costs of advertising are expensed as incurred. For the years ended June 30, 2016 and 2015, advertising costs totaled \$27,609 and \$20,681, respectively.

r. Allocated Expenses

Expenses are summarized on a functional basis. Salaries and related payroll expenses are distributed based upon the time spent for each function. Allocation of all other shared expenses is based upon management's estimates of the usage applicable to conducting various program or support activities.

s. Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through December 6, 2016.

Note 3 - CONCENTRATION OF CREDIT RISK

HFHSTW builds and rehabilitates homes in the St. Tammany West area. As a result, all of the mortgage receivables from homeowners are concentrated as to geographic risk. Also, all homes built are transferred to low-income families, which can represent a credit risk.

HFHSTW maintains cash balances at several local financial institutions where the funds are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution. As of June 30, 2016, cash in excess of the insured limits was approximately \$112,000.

Note 4 - MORTGAGE NOTES RECEIVABLE

HFHSTW sells its completed homes to family partners in exchange for a mortgage note (see Note 10) secured by the residence with typical repayment terms over 15 to 35 years and bearing 0% interest. As of June 30, 2016, HFHSTW held 166 non-interest bearing loans, 16 of which (\$861,227 gross carrying value) are pledged to secure certain notes payable. As of June 30, 2015, HFHSTW held 182 non-interest bearing loans, 20 of which (\$949,935 gross carrying value) were pledged to secure certain notes payable (see Note 8).

During the year ended June 30, 2016, HFHSTW sold 22 of its loans (\$1,252,302 gross carrying value) with recourse to a financial institution for 85% of face value. During the year ended June 30, 2015, HFHSTW sold 43 of its loans (\$3,144,753 gross carrying value) with recourse to a financial institution for 85% of face value. The loans are considered to be delinquent after 90 days of non-payment of principal. HFHSTW will repurchase or replace any delinquent loans. HFHSTW has retained servicing of these loans. During the year ended June 30, 2016, HFHSTW repurchased and replaced four delinquent loans (\$273,849 gross carrying value).

As of June 30, 2016 and 2015, a summary of the mortgage notes receivable was:

	2016	2015
Mortgage notes receivable	\$ 7,420,477	\$ 8,066,805
Unamortized discount	(4,037,403)	(4,375,915)
Net	\$ 3,383,074	\$ 3,690,890
Current	\$ 454,513	\$ 490,185
Long-term	2,928,561	3,200,705
Totals	\$ 3,383,074	\$ 3,690,890

Note 4 - MORTGAGE NOTES RECEIVABLE (Continued)

As of June 30, 2016, contractual maturities of mortgage receivables were as follows:

2016	\$ 454,513
2017	451,962
2018	447,781
2019	442,294
2020	436,510
Thereafter	<u>5,187,417</u>
Total	<u>\$ 7,420,477</u>

Note 5 - PLEDGES RECEIVABLE

Beginning in the year ended June 30, 2013 and for each year thereafter, HFHSTW held the Community Partners Breakfast (CPB) in which donors made unconditional promises to give for up to five years. These long-term pledges were discounted using a rate of 5%. Management estimated \$10,853 and \$12,102 of pledges to be uncollectible as of June 30, 2016 and 2015, respectively.

As of June 30, 2016 and 2015, a summary of the CPB pledges receivable is as follows:

	<u>2016</u>	<u>2015</u>
Pledges receivable at beginning of year	\$ 131,746	\$ 81,139
New CPB pledges made during the year	201,265	158,175
Less:		
Cash received	(183,177)	(96,968)
Write-offs	<u>(15,100)</u>	<u>(10,600)</u>
Pledges receivable at end of year	134,734	131,746
Unamortized discount	(5,522)	(4,107)
Allowance for doubtful promises	<u>(10,853)</u>	<u>(12,102)</u>
Pledges receivable, net	<u>\$ 118,359</u>	<u>\$ 115,537</u>
Current portion	\$ 80,934	\$ 87,993
Long-term	<u>37,425</u>	<u>27,544</u>
Totals	<u>\$ 118,359</u>	<u>\$ 115,537</u>

Note 5 - PLEDGES RECEIVABLE (Continued)

Future maturities of pledges receivable are as follows:

2017		\$ 80,934
2018		38,200
2019		8,300
2020		3,300
2021		2,000
Thereafter		<u>2,000</u>
 Total		 <u>\$ 134,734</u>

Note 6 - NEW MARKETS TAX CREDIT

On July 1, 2008, HFHSTW invested, along with four other Habitat for Humanity affiliates, in a joint venture, HFHI-SA Leverage I, LLC (the "LLC"), to take advantage of New Market Tax Credit (NMTC) financing. NMTC financing allows an entity to receive a loan or investment capital from outside investors who, in exchange, will receive new market tax credits to be applied against their federal tax liability. HFHSTW's total investment in the LLC as of June 30, 2015 totaled \$3,274,515. Interest income earned on the investment in the LLC totaled \$47,963 for the year ended June 30, 2015. HFHSTW secured a 15 year loan in the amount of \$3,757,086 payable to a community development entity ("QLICI note payable"). The loan proceeds have been used solely for the purpose of constructing and selling qualified housing properties to low income residents. The loan accrued interest only for years one through seven at the rate of 0.759% per annum. Interest expense on this note totaled \$28,513 for the year ended June 30, 2015. The balance of the note payable as of June 30, 2015 was \$3,757,086. On July 17, 2015, HFHI-SA Leverage I, LLC exercised its put option. Under the terms of the put option agreement, the LLC became owner of the community development entity (Sub-CDE) and its assets. This allowed HFHSTW to extinguish its outstanding debt owed to the Sub-CDE. HFHSTW recognized net cancellation of debt income in the amount of \$482,571.

On August 19, 2015, HFHSTW invested, along with four other Habitat for Humanity affiliates, in a joint venture, HFHI NMTC Sub-CDE I, LLC, to take advantage of additional NMTC financing. HFHSTW's investment in the HFHI NMTC Sub-CDE I, LLC as of June 30, 2016 was \$1,021,941. Interest income earned on the investment in the LLC totaled \$8,843 for the year ended June 30, 2016. HFHSTW secured a 30 year loan in the amount of \$1,495,639 payable to a community development entity. The loan proceeds will be used solely for the purpose of constructing and selling qualified housing properties to low income residents. The loan accrues interest only for years one through seven at the rate of 0.682% per annum. Beginning in year 8 through year 30, the principal balance of the loan is reduced by a 21-year amortization at the same

Note 6 - NEW MARKETS TAX CREDIT (Continued)

rate of 0.682%. The loan has a put option that will enable the leverage lender to become owner of the Sub-CDE and its assets, including the loan. Interest expense on this note totaled \$8,843 for the year ended June 30, 2016.

Included in the Statement of Financial Position as of June 30, 2016 is \$153,945 in unamortized closing costs related to the NMTC. These costs are being amortized on a straight line basis between seven to thirty years.

Note 7 - LINES OF CREDIT

In February 2013, HFHSTW obtained a line of credit at a financial institution with an interest rate of 3.25%, with an original maturity date of February 19, 2014. This line of credit has been renewed annually and has a current maturity date of July 12, 2017. Borrowings under the line are collateralized by certain assets of HFHSTW. The maximum borrowing limit is \$1,000,000. As of June 30, 2015, HFHSTW had an outstanding balance of \$300,000. There was no outstanding balance on the line of credit as of June 30, 2016. For the years ended June 30, 2016 and 2015, interest expense on the line of credit totaled \$10,201 and \$14,110, respectively.

Note 8 - NOTES PAYABLE

As of June 30, 2016 and 2015, HFHSTW had the following notes payable:

	2016	2015
Note payable to Home Bank. The note is due in 93 equal installments of \$4,349 and one balloon payment estimated at \$428,200. The note bears interest at 4.5% and is secured by ReStore land and buildings.	\$ 612,289	\$ 635,793
Note payable to Habitat for Humanity International. The note was due in 47 monthly installments of principal of \$1,302 beginning June 2011, with the final payment of \$1,306 due July 1, 2015. The note did not bear interest and was unsecured.	-	7,555

Note 8 - NOTES PAYABLE (Continued)

	2016	2015
<p>Note payable to Habitat for Humanity International. The note is due in 47 monthly installments of principal of \$847 beginning January 2015 with the final payment of \$891 due January 2019. The note does not bear interest and is unsecured.</p>	26,836	37,000
<p>Note payable to Habitat for Humanity International. The note is due in 47 monthly installments of principal of \$585 beginning July 2013 with the final payment of \$630 due June 2017. The note does not bear interest and is unsecured.</p>	10,575	17,595
<p>Note payable to Habitat for Humanity International. The note is due in 47 monthly installments of principal of \$539 beginning January 2017 with the final payment of \$567 due January 2021. The note does not bear interest and is unsecured.</p>	22,200	22,200
<p>Note payable to Habitat for Humanity International. The note is due in 47 monthly installments of principal of \$524 beginning July 2016 with the final payment of \$528 due June 2020. The note does not bear interest and is unsecured.</p>	22,527	17,844
<p>Note payable to Habitat for Humanity International. The note is due in 47 monthly installments of principal of \$446 beginning January 2016 with the final payment of \$488 due January 2020. The note does not bear interest and is unsecured.</p>	8,050	13,588
<p>Note payable to Habitat for Humanity International. The note is due in 47 monthly installments of principal of \$59 beginning January 2018 with the final payment of \$90 due January 2022. The note does not bear interest and is unsecured.</p>	2,863	-

Note 8 - NOTES PAYABLE (Continued)

	2016	2015
Note payable to Habitat for Humanity International. The note is due in 47 monthly installments of principal of \$494 beginning January 2018 with the final payment of \$532 due January 2022. The note does not bear interest and is unsecured.	20,374	-
Less current portion	725,714 <u>(56,820)</u>	751,575 <u>(49,664)</u>
Long term	<u>\$ 668,894</u>	<u>\$ 701,911</u>

Future principal payments to be made on these notes are as follows:

Year Ending June 30,	
2017	\$ 56,820
2018	58,407
2019	53,023
2020	44,650
2021	35,969
Thereafter	<u>476,845</u>
Total	<u>\$ 725,714</u>

Total interest expense for the above notes payable totaled \$29,628 and \$83,944 for the years ended June 30, 2016 and 2015, respectively.

Note 9 - TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2016 and 2015, HFHSTW temporarily restricted net assets of \$118,359 and \$115,537, respectively are time restricted by donors.

Note 10 - SALES OF HOUSES

HFHSTW charges no interest on the mortgages receivable from its partner families. The mortgages are recorded net of a discount to present value, considering both the time value of money and the historic credit risk associated with HFHSTW's homeowners. The result is a significant non-cash reduction of revenue. The discount is then amortized as interest income over the life of the mortgage as principal payments are collected. For the years ended June 30, 2016 and 2015, the following amounts are included in the Statements of Activities and Changes in Net Assets:

	2016	2015
Sales of houses		
Sales income	\$ 1,047,160	\$ 796,855
Mortgage discount expense	(600,310)	(455,890)
Sales of houses, net of discount expense	\$ 446,850	\$ 340,965
Amortization income on mortgage notes receivable discount	\$ 226,363	\$ 486,714

Note 11 - RETIREMENT PLAN

HFHSTW adopted a defined contribution plan, which allows eligible participating employees to contribute by salary reduction pursuant to Section 401(k) of the Internal Revenue Code. The plan allows HFHSTW to contribute a discretionary amount on a uniform basis to all participants, 50% of a participant's contribution up to 3% of compensation. HFHSTW's contribution to the plan totaled \$15,120 and \$15,764 for the years ended June 30, 2016 and 2015, respectively.

Note 12 - OPERATING LEASE

During the year ended June 30, 2015, HFHSTW entered into an operating lease for an administrative office space. Lease expense related to the office space totaled \$12,000 and \$6,000 for the years ended June 30, 2016 and 2015, respectively.

During the year ended June 30, 2013, HFHSTW entered into an operating lease for a freightliner truck to be used in ReStore operations. Lease expense related to the freightliner totaled \$16,762 and \$21,182 for the years ended June 30, 2016 and 2015, respectively.

Note 12 - OPERATING LEASE (Continued)

Future minimum lease payments are as follows:

<u>June 30,</u>	
2017	\$ 27,664
2018	23,064
2019	<u>9,776</u>
Total	<u>\$ 60,504</u>

Note 13 - SUPPLEMENTAL CASH FLOW INFORMATION

	<u>2015</u>	<u>2014</u>
Cash paid for interest	<u>\$ 48,672</u>	<u>\$ 126,567</u>

Non-cash financing activities include the refinancing of debt for the years ended June 30, 2015. Debt refinanced during 2015 totaled \$640,338. There was no related interest included in the new loan.

During the year ended June 30, 2015 land held for future home sites acquired by donation was \$36,000.

SPECIAL REPORTS OF CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors,
Habitat for Humanity St. Tammany West,
Mandeville, Louisiana.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Habitat for Humanity St. Tammany West (HFHSTW), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon, dated December 6, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the HFHSTW's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of HFHSTW's internal control. Accordingly, we do not express an opinion on the effectiveness of the HFHSTW's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be a material weakness or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HFHSTW's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of HFHSTW's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering HFHSTW's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Bourgeois Bennett, L.L.C.".

Certified Public Accountants.

New Orleans, Louisiana,
December 6, 2016.

SCHEDULE OF FINDINGS AND RESPONSES

**Habitat for Humanity St. Tammany West
Mandeville, Louisiana**

For the year ended June 30, 2016

Section I - Summary of Auditor's Results

a) Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are
not considered to be a material weakness? Yes None reported

Noncompliance material to financial statements noted? Yes No

b) Federal Awards

HFHSTW did not expend more than \$750,000 in Federal awards during the year ended June 30, 2016, and therefore, was exempt from the audit requirements under *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

**Section II - Internal Control Over Financial Reporting and Compliance and Other Matters
Material to the Basic Financial Statements**

Internal Control Over Financial Reporting

There were no findings noted during the audit for the year ended June 30, 2016 related to internal control over financial reporting.

Compliance and Other Matters

There were no findings noted during the audit for the year ended June 30, 2016 related to compliance and other matters.

Section III - Federal Award Findings and Questioned Costs

Not applicable.

REPORTS BY MANAGEMENT

SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES

Habitat for Humanity St. Tammany West Mandeville, Louisiana

For the year ended June 30, 2016

Section I - Internal Control Over Financial Reporting and Compliance and Other Matters Material to the Basic Financial Statements

Internal Control Over Financial Reporting

No findings noted during the audit for the year ended June 30, 2015 related to internal control over financial reporting.

Compliance and Other Matters

No compliance findings material to the financial statements were reported during the audit of the financial statements for the year ended June 30, 2015.

Section II - Internal Control and Compliance Material to Federal Awards

HFHSTW did not expend Federal awards in excess of \$500,000 during the year ended June 30, 2015, and therefore is exempt from the audit requirements under the Single Audit Act and OMB Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations.

Section III - Management Letter

A management letter was not issued in connection with the audit of the financial statements for the year ended June 30, 2015.

MANAGEMENT'S CORRECTIVE ACTION PLAN

Habitat for Humanity St. Tammany West Mandeville, Louisiana

For the year ended June 30, 2016

Section I - Internal Control Over Financial Reporting and Compliance and Other Matters Material to the Basic Financial Statements

Internal Control Over Financial Reporting

No material weaknesses were reported during the audit of the financial statements for the year ended June 30, 2016.

No significant deficiencies were reported during the audit of the financial statements for the year ended June 30, 2016.

Compliance and Other Matters

No compliance findings material to the financial statements were reported during the audit for the year ended June 30, 2016.

Section II - Internal Control and Compliance Material to Federal Awards

HFHSTW did not expend more than \$750,000 in Federal awards during the year ended June 30, 2016, and therefore, was exempt from the audit requirements under *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Section III - Management Letter

A management letter was not issued in connection with the audit for the year ended June 30, 2016.