

**HABITAT FOR HUMANITY
ST. TAMMANY WEST**

Audits of Financial Statements

June 30, 2018 and 2017



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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 Louisiana not-for-profit corporation) (HFHSTW), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity St. Tammany West as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "LaForte".

A Professional Accounting Corporation

Metairie, LA
October 16, 2018

HABITAT FOR HUMANITY ST. TAMMANY WEST
Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 525,713	\$ 393,506
Restricted Cash - Escrow Deposits	117,579	125,116
Restricted Cash - Expense Reserve	42,995	53,744
Restricted Cash - Microfinance Fund	50,000	-
Mortgage Notes Receivable, Current Portion, Net	414,355	443,803
Pledges Receivable, Current Portion, Net	44,398	49,795
Grants Receivable	-	7,000
Accounts Receivable	133,995	60,878
Inventory	20,891	32,730
Other Assets	18,270	17,227
Construction in Progress	182,856	506,183
	<hr/>	<hr/>
Total Current Assets	1,551,052	1,689,982
Property and Equipment		
Building and Improvements	1,675,008	1,639,722
Vehicles	153,379	153,379
Office Furniture and Equipment	111,857	104,857
	<hr/>	<hr/>
	1,940,244	1,897,958
Less: Accumulated Depreciation	(862,233)	(802,867)
	<hr/>	<hr/>
	1,078,011	1,095,091
Land	540,829	540,829
	<hr/>	<hr/>
Total Property and Equipment, Net	1,618,840	1,635,920
Other Assets		
Long-Term Portion of Mortgage Notes Receivable, Net of Unamortized Discounts	2,451,856	2,736,366
Investment in HFHI NMTC Sub-CDE I, LLC	1,021,941	1,021,941
Land Held for Future Home Sites	524,546	386,285
Security Deposits	1,532	1,532
Long-Term Portion of Pledges Receivable	129,740	110,649
Other	320,152	200,519
	<hr/>	<hr/>
Total Other Assets	4,449,767	4,457,292
	<hr/>	<hr/>
Total Assets	\$ 7,619,659	\$ 7,783,194

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY ST. TAMMANY WEST
Statements of Financial Position (Continued)
June 30, 2018 and 2017

	2018	2017
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable	\$ 72,451	\$ 91,806
Accrued Payroll and Other Expenses	88,026	89,289
Current Maturities of Notes Payable	53,023	55,089
Deferred Revenue	92,995	53,744
Escrow Deposits	117,579	125,116
	<hr/>	<hr/>
Total Current Liabilities	424,074	415,044
Long-Term Liabilities		
Long-Term Portion of Notes Payable	560,770	617,107
QLICI Note Payable	1,495,639	1,495,639
Less: Loan Obligation Costs, Net	(126,437)	(140,191)
	<hr/>	<hr/>
Total Long-Term Liabilities	1,929,972	1,972,555
	<hr/>	<hr/>
Total Liabilities	2,354,046	2,387,599
Net Assets		
Unrestricted	5,091,475	5,235,151
Temporarily Restricted	174,138	160,444
	<hr/>	<hr/>
Total Net Assets	5,265,613	5,395,595
	<hr/>	<hr/>
Total Liabilities and Net Assets	\$ 7,619,659	\$ 7,783,194

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY ST. TAMMANY WEST
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains, and Support			
Sales of Houses			
Sales Revenue	\$ 1,107,203	\$ -	\$ 1,107,203
Less: Mortgage Note Receivable Discount	(640,822)	-	(640,822)
Amortization of Mortgage Note			
Receivable Discount	164,581	-	164,581
ReStore Revenues	825,338	-	825,338
Grants	21,385	-	21,385
Contributions	436,847	-	436,847
Event Revenues			
Event Income	118,535	213,655	332,190
Event Expenses	(50,678)	-	(50,678)
Volunteer Income	74,040	-	74,040
HFHI NMTC Sub CDE I, LLC			
Investment Income	10,203	-	10,203
Contributions In-Kind	119,731	-	119,731
Gain on Sale of Mortgages Receivable	807,898	-	807,898
Gain on Sale of Assets	326	-	326
Other Revenue	109,183	-	109,183
	<u>3,103,770</u>	<u>213,655</u>	<u>3,317,425</u>
Net Assets Released from Restrictions	<u>199,961</u>	<u>(199,961)</u>	<u>-</u>
Total Revenues, Gains, and Support	<u>3,303,731</u>	<u>13,694</u>	<u>3,317,425</u>
Expenses			
Program Services			
Housing	2,094,324	-	2,094,324
ReStore	843,187	-	843,187
Supporting Services			
Management and General	302,905	-	302,905
Fundraising	206,991	-	206,991
	<u>3,447,407</u>	<u>-</u>	<u>3,447,407</u>
Change in Net Assets	(143,676)	13,694	(129,982)
Net Assets, Beginning of Year	<u>5,235,151</u>	<u>160,444</u>	<u>5,395,595</u>
Net Assets, End of Year	<u>\$ 5,091,475</u>	<u>\$ 174,138</u>	<u>\$ 5,265,613</u>

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY ST. TAMMANY WEST
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains, and Support			
Sales of Houses			
Sales Revenue	\$ 656,682	\$ -	\$ 656,682
Less: Mortgage Note Receivable Discount	(389,098)	-	(389,098)
Amortization of Mortgage Note			
Receivable Discount	193,790	-	193,790
ReStore Revenues	895,653	-	895,653
Grants	42,128	-	42,128
Contributions	131,232	-	131,232
Event Revenues			
Event Income	106,558	277,316	383,874
Event Expenses	(44,179)	-	(44,179)
HFHI NMTC Sub CDE I, LLC			
Investment Income	10,203	-	10,203
Contributions In-Kind	72,716	-	72,716
Gain on Sale of Mortgages Receivable	324,246	-	324,246
Other Revenue	524,801	-	524,801
	<u>2,524,732</u>	<u>277,316</u>	<u>2,802,048</u>
Net Assets Released from Restrictions	<u>235,231</u>	<u>(235,231)</u>	<u>-</u>
Total Revenues, Gains, and Support	<u>2,759,963</u>	<u>42,085</u>	<u>2,802,048</u>
Expenses			
Program Services			
Housing	1,793,533	-	1,793,533
ReStore	770,901	-	770,901
Supporting Services			
Management and General	312,341	-	312,341
Fundraising	142,748	-	142,748
Total Expenses	<u>3,019,523</u>	<u>-</u>	<u>3,019,523</u>
Change in Net Assets	(259,560)	42,085	(217,475)
Net Assets, Beginning of Year	<u>5,494,711</u>	<u>118,359</u>	<u>5,613,070</u>
Net Assets, End of Year	<u>\$ 5,235,151</u>	<u>\$ 160,444</u>	<u>\$ 5,395,595</u>

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY ST. TAMMANY WEST
Statement of Functional Expenses
For the Year Ended June 30, 2018

	Program Services		Total Program Services	Supporting Services		Total Supporting Services	Total
	Housing	ReStore		Management and General	Fundraising		
Wages	\$ 528,287	\$ 371,336	\$ 899,623	\$ 200,967	\$ 144,145	\$ 345,112	\$ 1,244,735
Occupancy							
Interest	31,528	6,568	38,096	1,051	394	1,445	39,541
Utilities	16,006	32,919	48,925	4,166	4,055	8,221	57,146
Insurance	27,980	23,412	51,392	5,442	4,473	9,915	61,307
Repairs and Maintenance	8,311	35,719	44,030	1,838	1,011	2,849	46,879
Total Occupancy	83,825	98,618	182,443	12,497	9,933	22,430	204,873
Operating							
Direct Construction Costs - NMTC	525,344	-	525,344	-	-	-	525,344
Direct Construction Costs - Other	689,272	-	689,272	-	-	-	689,272
Cost of Goods Sold	-	78,674	78,674	-	-	-	78,674
Supplies and General	2,860	9,747	12,607	4,369	902	5,271	17,878
Vehicle Fuel, Insurance, and Maintenance	4,150	4,993	9,143	518	274	792	9,935
Other Operating Costs	84,067	80,154	164,221	29,680	20,240	49,920	214,141
Total Operating	1,305,693	173,568	1,479,261	34,567	21,416	55,983	1,535,244
Administrative							
Payroll Taxes and Benefits	116,870	79,139	196,009	28,648	30,713	59,361	255,370
Professional Fees	52,854	70,808	123,662	24,158	-	24,158	147,820
Total Administrative	169,724	149,947	319,671	52,806	30,713	83,519	403,190
Depreciation	6,795	49,718	56,513	2,068	784	2,852	59,365
Total Functional Expenses	\$ 2,094,324	\$ 843,187	\$ 2,937,511	\$ 302,905	\$ 206,991	\$ 509,896	\$ 3,447,407

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY ST. TAMMANY WEST
Statement of Functional Expenses
For the Year Ended June 30, 2017

	Program Services		Total Program Services	Supporting Services		Total Supporting Services	Total
	Housing	ReStore		Management and General	Fundraising		
Wages	\$ 531,351	\$ 356,872	\$ 888,223	\$ 185,341	\$ 84,513	\$ 269,854	\$ 1,158,077
Occupancy							
Interest	21,412	6,837	28,249	9,597	410	10,007	38,256
Utilities	14,175	32,842	47,017	4,064	3,538	7,602	54,619
Insurance	27,209	21,646	48,855	4,870	3,788	8,658	57,513
Repairs and Maintenance	6,566	26,596	33,162	3,064	2,497	5,561	38,723
Total Occupancy	69,362	87,921	157,283	21,595	10,233	31,828	189,111
Operating							
Direct Construction Costs - NMTC	721,320	-	721,320	-	-	-	721,320
Direct Construction Costs - Other	163,297	-	163,297	-	-	-	163,297
Cost Of Goods Sold	-	39,384	39,384	-	-	-	39,384
Supplies and General	5,563	10,180	15,743	3,426	1,060	4,486	20,229
Vehicle Fuel, Insurance, and Maintenance	3,073	4,913	7,986	614	195	809	8,795
Other Operating Costs	95,731	96,224	191,955	32,274	26,071	58,345	250,300
Total Operating	988,984	150,701	1,139,685	36,314	27,326	63,640	1,203,325
Administrative							
Payroll Taxes and Benefits	113,055	77,358	190,413	24,784	19,892	44,676	235,089
Professional Fees	84,751	49,975	134,726	42,239	-	42,239	176,965
Total Administrative	197,806	127,333	325,139	67,023	19,892	86,915	412,054
Depreciation	6,030	48,074	54,104	2,068	784	2,852	56,956
Total Functional Expenses	\$ 1,793,533	\$ 770,901	\$ 2,564,434	\$ 312,341	\$ 142,748	\$ 455,089	\$ 3,019,523

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY ST. TAMMANY WEST
Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in Net Assets	\$ (129,982)	\$ (217,475)
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities		
Depreciation	59,365	56,956
Loss on Disposal of Assets	-	54,763
Gain on Sale of Mortgage Notes Receivable	(807,898)	(296,337)
Loss on Sale of Land for Future Home Sites	9,410	9,505
Donations of Land for Future Home Sites	(30,000)	-
Income from HFHI NMTC Sub-CDE I, LLC	(10,203)	(10,203)
Amortization of Loan Obligation Costs	13,754	13,754
(Increase) Decrease in Assets		
Restricted Cash	(31,714)	44,603
Mortgage Notes Receivable	(353,849)	(60,664)
Pledges Receivable	(13,694)	(42,085)
Grants Receivable	7,000	25,500
Accounts Receivable	(73,117)	23,368
Inventory	11,839	(17,341)
Other Assets	(120,676)	(48,979)
Construction in Progress	323,327	(226,178)
Increase (Decrease) in Liabilities		
Accounts Payable	(19,355)	42,277
Accrued Payroll and Other Expenses	(1,263)	(8,630)
Deferred Revenue	39,251	(10,748)
Escrow Deposits	(7,537)	(33,855)
Net Cash Used in Operating Activities	(1,135,342)	(701,769)
Cash Flows from Investing Activities		
Distribution from HFHI NMTC Sub-CDE I, LLC	10,203	10,203
Purchases of Property and Equipment	(42,287)	-
Proceeds from Sale of Mortgage Notes Receivable	1,475,705	559,906
Proceeds from Sale of Land Held for Future Home Sites	151,999	179,488
Purchases of Land Held for Future Home Sites	(269,668)	(196,418)
Net Cash Provided by Investing Activities	1,325,952	553,179

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY ST. TAMMANY WEST
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Financing Activities		
Proceeds from Lines of Credit	650,000	400,000
Proceeds from Notes Payable	-	3,376
Repayments of Lines of Credit	(650,000)	(400,000)
Principal Payments on Notes Payable	(58,403)	(56,894)
	<u>(58,403)</u>	<u>(53,518)</u>
Net Cash Used in Financing Activities	(58,403)	(53,518)
Net Increase (Decrease) in Cash and Cash Equivalents	132,207	(202,108)
Cash and Cash Equivalents, Beginning of Year	393,506	595,614
Cash and Cash Equivalents, End of Year	\$ 525,713	\$ 393,506
Supplemental Disclosure of Cash Flow Information		
Cash Paid During the Year for Interest	<u>\$ 39,541</u>	<u>\$ 38,256</u>

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY ST. TAMMANY WEST

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Organization

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, grants, and various other financing vehicles to fund the construction projects.

Habitat's Fund for Humanity consists of non-interest bearing mortgage notes receivable payments from existing homeowners (see Note 3). 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 the public. The ReStore is a social enterprise which connects the mission of the affiliate with the market-driven approach of a business. The net cash flow from ReStore operations is used to fund a portion of the acquisition of the building sites and construction of homes referred to in the previous paragraphs.

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.

Basis of Presentation

HFHSTW follows the guidance of the *Not-for-Profit Entities* Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). HFHSTW is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets depending on the existence and/or nature of any donor restrictions.

HABITAT FOR HUMANITY ST. TAMMANY WEST

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

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.

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, 2018 and 2017, HFHSTW had no permanently restricted net assets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates. Estimates are used primarily for depreciation and amortization, the allowance for doubtful accounts, and discount on mortgage notes receivable.

Cash and Cash Equivalents

For the purposes of the statements 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.

Restricted 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. Restricted cash for escrow deposits as of June 30, 2018 and 2017, was \$117,579 and \$125,116, 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, 2018 and 2017 was \$42,995 and \$53,744, respectively.

During the year ended June 30, 2018, HFHSTW created a Microfinance Fund, used to make short-term, low-interest loans to HFHSTW homeowners in need of critical home repairs. The balance of the Microfinance Fund as of June 30, 2018 was \$50,000.

HABITAT FOR HUMANITY ST. TAMMANY WEST

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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 of interest. The discounts are amortized over the lives of the mortgage loans. The mortgage discount interest rate is set annually by Habitat for Humanity International. The rate is calculated by taking the average rate for twelve months, as published by the Internal Revenue Service (IRS) under the Index of Applicable Federal Rates (AFR) Rulings for Low-Income Housing Tax Credits. 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, 2018 and 2017, and therefore no allowance for losses has been provided.

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 pledges receivable based on prior years' experience and management's analysis of specific pledges made. As of June 30, 2018 and 2017, the allowance for uncollectible amounts totaled \$19,705 and \$13,942, respectively.

Inventory

Inventory represents purchased goods to be sold in the ReStore operations, as well as purchased and in-kind building materials 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, 2018 and 2017, inventory totaled \$20,891 and \$32,730, respectively.

Construction in Progress

Construction in progress represents all direct material, labor, land, and infrastructure costs incurred to construct a home. 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, 2018 and 2017, construction in progress included:

	2018	2017
New Homes under Construction	\$ 182,856	\$ 369,684
Repossessed Homes	-	136,499
Total Construction in Progress	\$ 182,856	\$ 506,183

HABITAT FOR HUMANITY ST. TAMMANY WEST

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment consist of land, buildings and improvements, office furniture and equipment, and vehicles, and are 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 are 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, 2018 and 2017, depreciation expense totaled \$59,365 and \$56,956, respectively.

Land Held for Future Home Sites

Land held for future home sites consists of purchased lots that will be used in future development of houses to be sold. The land is carried at cost and reclassified to construction in progress once construction has begun.

Loan Obligation Costs

Certain costs related to the New Markets Tax Credit financing (see Note 5) have been capitalized and are being amortized over the estimated life of the related note payable. Financing and loan acquisition costs totaled \$165,407, as of June 30, 2018 and 2017. Accumulated amortization totaled \$38,970 as of June 30, 2018 and \$25,216, as of June 30, 2017.

Compensated Absences

Accumulated paid time off is payable upon termination of employment and is accrued. HFHSTW's obligation as of June 30, 2018 and 2017, totaled \$59,779 and \$55,798, respectively, which is included in accrued payroll and other expenses on the statements of financial position.

ReStore Revenues

HFHSTW has a resale store that sells primarily donated goods. The sales revenue is unrestricted and is recognized at the time the goods are sold.

Contributions

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.

HABITAT FOR HUMANITY ST. TAMMANY WEST

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Contributions (Continued)

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.

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 \$34,952 and \$38,269, for the years ended June 30, 2018 and 2017, respectively.

Donations of materials, supplies, and other totaled \$84,779 and \$34,447, for the years ended June 30, 2018 and 2017, respectively.

Other Revenue

Other revenue consists of income from various sources that is unrelated to the regular operations of HFHSTW. For the year ended June 30, 2017, other revenue primarily consisted of cash received in the amount of \$365,878 related to a claim settlement.

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 a private foundation as defined in Section 509(a) of the IRC. It is also exempt from Louisiana income tax under the authority of Louisiana Revised Statute (LRS) 47.121(5).

Accounting principles generally accepted in the United States of America provide accounting and disclosure guidance about positions taken by an entity in its tax returns that might be uncertain. HFHSTW believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

Penalties and interest assessed by income taxing authorities, if any, would be included in interest expense.

HABITAT FOR HUMANITY ST. TAMMANY WEST

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Sales Tax

The State of Louisiana and St. Tammany Parish impose a combined sales tax of 9.25% 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, 2018 and 2017, HFHSTW remitted state sales taxes totaling \$79,927 and \$88,502, respectively. Sales tax collected and paid is not reported as revenues and expenses on the statements of activities and changes in net assets.

Advertising Expense

HFHSTW uses advertising to promote ReStore operations and fundraising activities. The costs of advertising are expensed as incurred. For the years ended June 30, 2018 and 2017, advertising costs totaled \$16,739 and \$24,561, respectively.

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.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standard Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled to when products are transferred to customers. ASU 2014-09 will be effective for HFHSTW beginning in the year ended June 30, 2019, though early adopted is permitted. The new revenue standard may be applied retrospectively as of the date of adoption. HFHSTW is currently evaluating the impact of adopting the new revenue standard on its financial statements.

In January 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from leases classified as finance or operating. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. ASU 2016-02 is effective for financial statements issued for annual periods beginning after December 15, 2019. Management is currently evaluating the impact ASU 2016-02 will have on its financial statements.

HABITAT FOR HUMANITY ST. TAMMANY WEST

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements (Continued)

In August 2016, The FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 requires certain improvements that address many of the identified issues about the current financial reporting for not-for-profit entities. An additional phase of the project is expected to address more issues surrounding whether and how to define the term operations and align measures of financial performance as presented in the statement of activities with measures of operations in the statement of cash flow. The amendments in this Update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017 and for interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted. Management is currently evaluating the impact ASU 2016-14 will have on its financial statements.

Note 2. Concentration of Credit Risk

HFHSTW builds and rehabilitates homes in the St. Tammany West area. As a result, all of the mortgage notes receivable 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, 2018, HFHSTW had no cash deposits in excess of the insured limits.

Note 3. Mortgage Notes Receivable

HFHSTW sells its completed homes to individual and family partners in exchange for a mortgage note (see Note 9) secured by the residence with typical repayment terms over 15 to 35 years and bearing 0% interest. As of June 30, 2018, HFHSTW held 152 non-interest bearing loans, 17 of which (\$720,234 gross carrying value) were pledged to secure certain notes payable. As of June 30, 2017, HFHSTW held 164 non-interest bearing loans, 15 of which (\$814,255 gross carrying value) were pledged to secure certain notes payable (see Note 9).

During the year ended June 30, 2018, HFHSTW sold 19 of its loans (\$1,637,932 gross carrying value) to a financial institution for 90% of face value. During the year ended June 30, 2017, HFHSTW sold 6 of its loans (\$658,713 gross carrying value) 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 if those loans are called by the financial institution. HFHSTW has retained servicing of these loans, which is performed by a third-party financial institution. During the year ended June 30, 2018, HFHSTW repurchased and replaced two delinquent loans, with a gross carrying value of \$169,964. During the year ended June 30, 2017, HFHSTW repurchased and replaced two delinquent loans, with a gross carrying value of \$186,934.

HABITAT FOR HUMANITY ST. TAMMANY WEST

Notes to Financial Statements

Note 3. Mortgage Notes Receivable (Continued)

As of June 30, 2018 and 2017, a summary of the mortgage notes receivable was:

	2018	2017
Mortgage Notes Receivable	\$ 6,235,204	\$ 7,017,736
Unamortized Discount	<u>(3,368,993)</u>	<u>(3,837,567)</u>
Net	\$ 2,866,211	\$ 3,180,169
Current	\$ 414,355	\$ 443,803
Long-Term	<u>2,451,856</u>	<u>2,736,366</u>
Total	\$ 2,866,211	\$ 3,180,169

As of June 30, 2018, contractual maturities of mortgage notes receivable were as follows:

Years Ending June 30,	Amount
2019	\$ 414,355
2020	410,089
2021	407,078
2022	396,024
2023	383,071
Thereafter	<u>4,224,587</u>
Total	\$ 6,235,204

Note 4. 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. The long-term pledges were discounted using a rate of 5%. Management estimated \$10,400 and \$11,173 of pledges to be uncollectible as of June 30, 2018 and 2017, respectively.

HABITAT FOR HUMANITY ST. TAMMANY WEST

Notes to Financial Statements

Note 4. Pledges Receivable (Continued)

As of June 30, 2018 and 2017, a summary of the CPB pledges receivable is as follows:

	2018	2017
Pledges Receivable, Beginning of Year	\$ 180,944	\$ 134,734
New CPB Pledges Made During the Year	213,655	277,316
Less:		
Cash Received	(182,490)	(219,933)
Write-Offs	(10,400)	(11,173)
Pledges Receivable, End of Year	201,709	180,944
Unamortized Discount	(7,866)	(6,558)
Allowance for Doubtful Promises	(19,705)	(13,942)
Pledges Receivable, Net	\$ 174,138	\$ 160,444
Current Portion	\$ 44,398	\$ 49,795
Long-Term	129,740	110,649
Total	\$ 174,138	\$ 160,444

Future maturities of pledges receivable are as follows:

Years Ending June 30,	Amount
2019	\$ 44,398
2020	83,211
2021	53,800
2022	11,400
2023	7,000
Thereafter	1,900
Total	\$ 201,709

HABITAT FOR HUMANITY ST. TAMMANY WEST

Notes to Financial Statements

Note 5. New Markets Tax Credit

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 HFHI NMTC Sub-CDE I, LLC as of June 30, 2018 and 2017, was \$1,021,941. Interest income earned on the investment in HFHI NMTC Sub-CDE I, LLC totaled \$10,203 for the years ended June 30, 2018, and 2017. HFHSTW secured a 30-year loan in the amount of \$1,495,639 payable to a community development entity. The loan proceeds were 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 rate of 0.682%. The loan has a put option that will enable the leverage lender to become owner of HFHI NMTC Sub-CDE I, LLC and its assets, including the loan. Interest expense on this note totaled \$10,203 and \$8,503, for the years ended June 30, 2018 and 2017, respectively.

Included in the statements of financial position as of June 30, 2018 and 2017, is \$126,437 and \$140,191, respectively, of unamortized closing costs related to the NMTC. These costs are being amortized on a straight-line basis from seven to thirty years.

HFHSTW is subject to certain financial covenants under the loan agreement with a community development entity. HFHSTW is required to have a solvency ratio of not less than 1.1 to 1.0 of total assets to total debt, and a debt service coverage ratio of not less than 1.1 to 1.0. At June 30, 2018, HFHSTW was in compliance with these covenants.

Note 6. Line of Credit

In February 2013, HFHSTW obtained a line of credit at a financial institution with a floating interest rate of the Wall Street Journal Prime Rate, 5.0% as of June 30, 2018, with an original maturity date of February 19, 2014. This line of credit has been renewed annually and has a current maturity date of September 6, 2018. Borrowings under the line are collateralized by certain assets of HFHSTW. The maximum borrowing limit is \$1,000,000. There was no outstanding balance on the line of credit as of June 30, 2018 or 2017. For the years ended June 30, 2018 and 2017, interest expense on the line of credit totaled \$3,068 and \$2,406, respectively. Subsequent to year end, HFHSTW renewed this line of credit with a reduction of the available line to \$750,000, all other terms remained the same.

HABITAT FOR HUMANITY ST. TAMMANY WEST

Notes to Financial Statements

Note 7. Notes Payable

As of June 30, 2018 and 2017, HFHSTW had the following notes payable:

	2018	2017
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. The note matures in February 2023.	\$ 561,542	\$ 587,453
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 July 2019. The note does not bear interest and is unsecured.	6,508	16,672
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 January 2018. The note does not bear interest and is unsecured.	-	3,555
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 \$562 due January 2021. The note does not bear interest and is unsecured.	12,498	18,966
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.	9,951	16,239
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.	-	2,698

HABITAT FOR HUMANITY ST. TAMMANY WEST

Notes to Financial Statements

Note 7. Notes Payable (Continued)

	2018	2017
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.	2,508	2,863
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.	20,786	23,750
	613,793	672,196
Less Current Portion	(53,023)	(55,089)
Long-Term Portion	\$ 560,770	\$ 617,107

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

Years Ending June 30,	Amount
2019	\$ 53,023
2020	44,651
2021	36,342
2022	34,477
2023	445,300
Total	\$ 613,793

Total interest expense for the above notes payable totaled \$26,270 and \$27,347, for the years ended June 30, 2018 and 2017, respectively.

Note 8. Temporarily Restricted Net Assets

As of June 30, 2018 and 2017, HFHSTW temporarily restricted net assets of \$174,138 and \$160,444, respectively, are time restricted by donors.

HABITAT FOR HUMANITY ST. TAMMANY WEST

Notes to Financial Statements

Note 9. Sales of Houses

HFHSTW charges no interest on the mortgage notes 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, 2018 and 2017, the following amounts are included in the statements of activities and changes in net assets:

	2018	2017
Sales of Houses		
Sales Income	\$ 1,107,203	\$ 656,682
Mortgage Discount Expense	<u>(640,822)</u>	<u>(389,098)</u>
Sales of Houses, Net of Discount Expense	<u>\$ 466,381</u>	<u>\$ 267,584</u>
Amortization Income on Mortgage Notes Receivable Discount	<u>\$ 164,581</u>	<u>\$ 193,790</u>

Note 10. 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 \$17,343 and \$16,510, for the years ended June 30, 2018 and 2017, respectively.

Note 11. 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 \$15,000 and \$13,200, for the years ended June 30, 2018 and 2017, 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 \$18,058 and \$17,934, for the years ended June 30, 2018 and 2017, respectively.

HABITAT FOR HUMANITY ST. TAMMANY WEST

Notes to Financial Statements

Note 11. Operating Lease (Continued)

Future minimum lease payments are as follows:

Years Ending June 30,	Amount
2019	\$ 18,876
Total	\$ 18,876

Note 12. Related Party Transaction

HFHSTW annually remits a portion of its unrestricted contributions (excluding in-kind contributions) to Habitat for Humanity International. These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2018 and 2017, HFHSTW contributed \$12,000 and \$8,300, respectively, to Habitat for Humanity International.

Note 13. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, October 16, 2018, in accordance with FASB ASC 855, and determined that the following event requires disclosure:

On October 15, 2018, HFHSTW renewed its line of credit at a financial institution. There were no changes to the terms of the line of credit, as described in Note 6.

No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.