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**HABITAT FOR HUMANITY
CALCASIEU AREA, INC.**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

Year Ended June 30, 2014

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date FEB 18 2015

Contents

	Page
Independent Auditors' Report.....	2-3
Statement of Financial Position.....	4
Statement of Activities.....	5
Statement of Functional Expenses.....	6
Statement of Cash Flows.....	7
Notes to the Financial Statements.....	8-14
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Governmental Auditing Standards</i>	15-16
Schedule of Findings	17
Schedule of Prior Year Findings	18
Management's Corrective Action Plan.....	19

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Habitat for Humanity
Calcasieu Area, Inc.
Lake Charles, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of Habitat for Humanity Calcasieu Area, Inc. (a non-profit organization) which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity Calcasieu Area, Inc. as of June 30, 2014, 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.

Members

American Institute of Certified Public Accountants
Louisiana Society of Certified Public Accountants

Report on Summarized Comparative Information

We have previously audited the Habitat for Humanity Calcasieu Area, Inc.'s 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 11, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2014, on our consideration of Habitat for Humanity Calcasieu Area, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 Habitat for Humanity Calcasieu Area, Inc.'s internal control over financial reporting and compliance.

McMullen and Mancuso, CPAs, LLC

McMullen and Mancuso CPAs

Sulphur, LA

November 24, 2014

HABITAT FOR HUMANITY CALCASIEU AREA, INC.

STATEMENT OF FINANCIAL POSITION

For the Year Ended June 30, 2014
with comparative totals for June 30, 2013

ASSETS	2014	2013
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 88,811	\$ 421,629
Prepaid Expenses	7,955	-
Construction in Progress	358,331	497,403
Current Portion of Non-Interest Bearing Mortgage Loans Receivable at Fair Value	<u>219,089</u>	<u>133,809</u>
Total Current Assets	674,186	1,052,841
OTHER ASSETS		
Cash Reserved for Escrow Accounts	39,648	22,524
Non-Interest Bearing Mortgage Loans Receivable at Fair Value less Discount of \$2,356,412	1,498,442	1,405,290
Notes Receivable - AHPP	745,343	1,409,961
Inventory - Land and Lot	96,339	134,131
Inventory - Land and Lot - AHPP	<u>21,659</u>	<u>28,745</u>
Total Other Assets	2,401,431	3,000,651
FIXED ASSETS		
Property and Equipment (Net of Accumulated Depreciation of \$ 124,843)	54,318	45,755
Residential Properties - AHPP	<u>144,501</u>	<u>229,334</u>
Net Property and Equipment	198,819	275,089
Total Assets	<u>\$ 3,274,436</u>	<u>\$ 4,328,581</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 26,663	\$ 29,517
Accrued Leave	13,255	12,584
Payroll Taxes Payable	4,620	6,109
Sales Taxes Payable	1,237	930
Current Portion of Non-Interest Bearing Note Payable less Discount of \$4,830	5,171	4,787
Note Payable - Brown Foundation	1,250	1,250
Note Payable - Shop Grant	1,872	-
Escrow Funds for Rent, Taxes, Insurance - Mortgage Escrow Accounts	<u>39,648</u>	<u>22,524</u>
Total Current Liabilities	93,716	77,701
LONG - TERM DEBT		
Non-Interest Bearing Note Payable less Discount of \$20,882	59,107	64,663
Note Payable - Brown Foundation	3,229	4,479
Note Payable - Shop Grant	<u>3,600</u>	<u>-</u>
Total Long - Term Debt	65,936	69,142
Total Liabilities	159,652	146,843
NET ASSETS		
Unrestricted	1,723,369	1,882,164
Temporarily Restricted	<u>1,391,415</u>	<u>2,299,574</u>
Total Net Assets	3,114,784	4,181,738
Total Liabilities and Net Assets	<u>\$ 3,274,436</u>	<u>\$ 4,328,581</u>

The accompanying notes are an integral part of these statements

HABITAT FOR HUMANITY CALCASIEU AREA, INC.

STATEMENT OF ACTIVITIES

For the Year ended June 30, 2014
with comparative totals for 2013

	2014			2013
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	TOTAL
PUBLIC SUPPORT AND REVENUES				
Sales to Homeowners	\$ 692,500	\$ -	\$ 692,500	\$ 528,687
Habitat for Humanity International	-	7,999	7,999	471,724
Contributions/House Sponsors	-	89,065	89,065	102,459
Rental Income	45,166	-	45,166	41,236
Other Program Income	5,151	-	5,151	15,013
ReStore Income	194,219	-	194,219	132,613
Special Events	-	-	-	5,737
Interest Income	76	-	76	106
Miscellaneous Income	4,852	-	4,852	3,939
Contributed Capital - Property	-	-	-	24,000
In-kind Contributions	12,493	-	12,493	63,600
Gain (Loss) on Sale of Properties - AHPP	-	64,514	64,514	21,234
Other Income - AHPP	-	-	-	203,389
Imputed Interest Income on Non - Interest Bearing Mortgage Loans Receivable	98,981	-	98,981	76,586
Total Public Support and Revenues	1,053,438	161,578	1,215,016	1,690,323
Net Assets Released from Restrictions:	136,339	(136,339)	-	-
Total Revenues and Other Support	1,189,777	25,239	1,215,016	1,690,323
EXPENSES				
Program Service				
Construction, Supervision, and Support	1,024,858	908,635	1,933,493	1,659,909
Alternative Housing Pilot Program	-	24,763	24,763	90,764
Restore	153,779	-	153,779	60,000
Management and General	102,188	-	102,188	100,704
Fundraising	60,247	-	60,247	38,646
Total Expenses	1,341,072	933,398	2,274,470	1,950,023
CHANGE IN NET ASSETS	(151,295)	(908,159)	(1,059,454)	(259,700)
NET ASSETS AT BEGINNING OF YEAR, AS ORIGINALLY REPORTED	1,882,164	2,299,574	4,181,738	4,545,296
PRIOR PERIOD ADJUSTMENTS	(7,500)	-	(7,500)	(103,858)
NET ASSETS AT BEGINNING OF YEAR, AS RESTATED	1,874,664	2,299,574	4,174,238	4,441,438
NET ASSETS AT END OF YEAR	\$ 1,723,369	\$ 1,391,415	\$ 3,114,784	\$ 4,181,738

The accompanying notes are an integral part of these statements

HABITAT FOR HUMANITY CALCASIEU AREA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2014
with comparative totals for 2013

	Program Services			Supporting Services		Total Services	
	Construction	Alternative Housing	Restore	Management	Fundraising	2014	2013
	Supervision and Support	Pilot Program		and General			
Administrative Fees	\$ -	\$ -	\$ -	\$ 7,294	\$ -	\$ 7,294	\$ 5,845
Advertising	315	-	7,745	35	-	8,095	5,100
Bank Service Charges	-	-	266	3,085	-	3,351	2,487
Cost of Construction	600,453	-	-	-	-	600,453	650,688
Costs of Construction after Sale	4,724	-	-	-	-	4,724	66
Contract Labor	-	-	-	-	158	158	1,742
Conferences and Forums	8,007	-	-	890	-	8,897	6,530
Donations and Other Tithes	-	-	-	-	-	-	435
Dues and Subscriptions	3,047	-	868	339	735	4,988	10,421
Equipment and Storage Rental	-	-	9,631	-	-	9,631	11,946
HFH International Tithe	9,766	-	-	-	-	9,766	12,148
Insurance	19,863	15,667	8,301	2,207	-	46,038	43,139
Insurance - Worker's Compensation	16,100	-	1,654	1,789	-	19,543	12,411
Insurance - Executive Staff	10,477	-	-	6,923	-	17,400	17,939
Interest	144	-	-	16	-	160	959
Licenses and Taxes	180	-	116	-	-	296	1,221
Miscellaneous	1,584	330	273	176	-	2,363	2,233
Office Expense and Supplies	7,367	-	5,738	819	246	14,170	14,685
Payroll Taxes	17,201	-	5,788	4,150	4,372	31,511	26,148
Postage and Shipping	2,388	-	-	265	829	3,482	2,389
Printing and Publications	-	-	-	-	899	899	1,943
Professional Fees	10,477	-	164	7,203	-	17,844	31,814
Property Management	-	-	-	-	-	-	5,158
Rent	13,500	-	24,073	1,500	-	39,073	17,500
Repairs and Maintenance	8,348	8,745	7,136	281	-	24,510	27,657
Salaries and Wages	209,178	-	66,443	59,792	50,554	385,967	293,415
Small Tools and Supplies	2,786	-	429	310	1,968	5,492	10,242
Telephone	15,022	-	1,190	1,669	-	17,881	12,052
Travel and Transportation	3,722	-	3,000	414	486	7,622	8,871
Utilities	12,166	21	10,164	1,352	-	23,703	8,993
Uniforms	-	-	238	-	-	238	461
Volunteer Expense	1,966	-	562	181	-	2,709	330
Total Functional Expenses							
Before Depreciation and Discounts	978,781	24,763	153,779	100,688	60,247	1,318,258	1,246,968
Depreciation Expense	13,502	-	-	1,500	-	15,002	14,113
Discount on Current Year Non-Interest Bearing Mortgage Loans Receivable	797,467	-	-	-	-	797,467	677,399
Discount on Mortgages Sold to Jeff Davis Bank	138,913	-	-	-	-	138,913	6,450
Discount on Current Year Note Payable	4,830	-	-	-	-	4,830	5,093
Total Functional Expenses	\$ 1,933,493	\$ 24,763	\$ 153,779	\$ 102,188	\$ 60,247	\$ 2,274,470	\$ 1,950,023

The accompanying notes are an integral part of these statements

HABITAT FOR HUMANITY CALCASIEU AREA, INC.

STATEMENT OF CASH FLOWS

For the Year ended June 30, 2014
with comparative totals for 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (1,059,454)	\$ (259,700)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (used) by Operating Activities:		
Depreciation	15,002	14,113
Net (Increase) Decrease in:		
Restricted Cash for Escrow Accounts	(17,124)	9,651
Prepaid Expenses	(7,955)	-
Prepaid Credit Card	-	2,236
Other Receivables	-	(4,618)
Gain on Conversion of AHPP Notes Receivables	(64,514)	-
Houses Under Construction	139,072	116,636
Net Increase (Decrease) in:		
Accounts and Credit Card Payable	(2,854)	(3,011)
Accrued Leave	671	7,018
Payroll Taxes Payable	(1,489)	2,532
Sales Taxes Payable	307	930
Lawsuit Proceeds	-	30,671
Escrow Funds Held	17,124	(9,651)
Net Cash (Used) by Operating Activities	<u>(981,214)</u>	<u>(93,193)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments Received on Mortgages	189,757	267,046
New Mortgages Issued	(1,234,321)	(405,223)
Mortgage Receivable Discount Earned	(98,981)	(76,586)
Mortgage Receivable Discount Expense	936,380	512,027
Proceeds from Mortgages Sold to Jeff Davis Bank	174,883	-
New Notes Receivable Issued	(91,919)	(454,521)
Payments Received on Notes Receivable	54,804	87,762
Notes Receivable Paid Off by Jeff Davis Bank with New Mortgages Issued	698,071	-
Purchase of Fixed Assets	(23,565)	(9,982)
Acquisition of Land and Residential Properties	(22,087)	(24,000)
Sales of Land and Residential Properties - AHPP	-	208,992
Sales of Land and Residential Properties	66,966	76,600
Net Cash Provided by Investing Activities	<u>649,988</u>	<u>182,115</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Shop Loan	7,500	-
Payments on Shop Loan	(2,028)	-
Payments on Note to Jeff Davis Bank	(5,172)	(4,075)
Note Payable Discount Expense	4,830	5,093
Payment on Note to Brown Foundation	(1,250)	(15,186)
Net Cash (Used) by Financing Activities	<u>(1,592)</u>	<u>(14,168)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(332,818)	74,754
Cash and Cash Equivalents, Beginning of Year	421,629	346,875
Cash and Cash Equivalents, End of Year	<u>\$ 88,811</u>	<u>\$ 421,629</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid for Interest During the Period	<u>\$ 160</u>	<u>\$ 959</u>

The accompanying notes are an integral part of these statements

Habitat for Humanity Calcasieu Area, Inc.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Habitat for Humanity Calcasieu Area, Inc. have been prepared on the accrual basis and in conformity with the standards promulgated by the American Institute of Certified Public Accountants in its audit guide for voluntary health and welfare organizations.

1. Organization and Purpose

Habitat for Humanity Calcasieu Area, Inc. ("Habitat" or "the Organization") was incorporated on January 27, 1992, as an interdenominational organization whose purpose is to encourage, promote, and assist in the building and redevelopment of low-income housing in Calcasieu Parish and the surrounding area. Habitat's purpose is accomplished through a privately operated and financed program to transfer such housing to low-income persons at approximate cost utilizing non-interest bearing mortgage loans. Habitat finances its operations through continuing contributions, mortgage payment receipts and low interest loans.

2. Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Organization 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.

3. Cash and Cash Equivalents

For purposes of the 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.

4. Reserved Cash

The Organization currently services the mortgages on the homes it sells. Included in reserved cash, which are required to be kept in a separate bank account, are amounts received from homeowners for insurance, property taxes and home maintenance (escrow funds). Reserved cash at June 30, 2014 was \$39,648.

5. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. This will affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

6. Property and Equipment

Contributed property and equipment are recorded as support at their estimated fair value at the date of donation; all other fixed assets are recorded at cost. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Depreciation amounted to

Habitat for Humanity Calcasieu Area, Inc.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6. Property and Equipment (continued)

\$15,002 for the year ended June 30, 2014, based on an estimated useful life of five (5) to seven (7) years for equipment and twenty-seven and a half (27.5) to thirty-nine (39) years for property and leasehold improvements. Maintenance, repair costs, and minor replacements are charged to expense as incurred. The Organization maintains a capitalization threshold of \$500.

7. Public Support and Revenue

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Donor-restricted contributions are reported as increases in temporarily restricted or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Temporarily restricted contributions are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

8. Advertising Costs

Advertising costs are charged to operations when incurred. For the year ended June 30, 2014, the Organization incurred advertising costs of \$8,095.

9. Houses Under Construction and Real Estate Owned

Real estate, building materials, and labor are recorded at cost when payment is made or at estimated fair market value when donated.

Reclaimed houses are recorded as a component of real estate owned at the outstanding mortgage balance at the date of reclamation.

10. Contributed Services

A substantial number of volunteers have made significant contributions of their time to Habitat, principally in the areas of house construction, administration and fundraising. The value of non-professional contributed time is not reflected in the accompanying financial statements. However, Habitat values donated professional service based on the market value of the service being provided.

11. Income Taxes

Habitat for Humanity Calcasieu Area, Inc. was incorporated under the laws of the state of Louisiana. The Organization is operated exclusively for charitable services and has qualified for the exemption from Federal income taxes under Section 501 (c) (3) of the Internal Revenue Code. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509 (a) of the Code.

12. Comparative Financial Statements

The financial statements included certain prior- year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a

Habitat for Humanity Calcasieu Area, Inc.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

12. Comparative Financial Statements (continued)

presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

NOTE B – COOPERATIVE ENDEAVOR AGREEMENT

On April 6, 2009, the Organization and Project Build A Future, Inc. entered into a cooperative endeavor agreement with the State of Louisiana, Division of Administration, Louisiana Recovery Authority, where as the State agreed to partner with both Agencies to build single family housing units designed as part of the Alternative Housing Pilot Program (AHPP) units on land owned by both Agencies. The State provided funding of \$419,079 of AHPP funds to both Agencies for the purchase of thirty six (36) lots upon which AHPP units would be constructed. The State entered into a Developer Service Agreement with another party to develop and construct the housing units on these lots owned by both Agencies. The two (2) Agencies are the initial owners of all AHPP properties that are specifically constructed in Calcasieu Parish, Louisiana for sale to third parties. The two (2) Agencies will also retain the sale proceeds of the housing units and must use those proceeds for affordable home ownership programs for low and moderate-income people, in conformity with the mission of both Agencies.

The Organization began offering these homes for sale to qualified homeowners in the prior year through a lease with an option to purchase arrangement, with the rental payment being approximately the same as the estimated mortgage payment. Once the buyer is prepared for home ownership, they receive credit for those payments made in rent, less some expenses. The buyer then closes on a loan with the Organization.

During the year, the Organization signed lease to purchase contracts on one (1) property at a sales prices totaling \$91,919, and recorded this as a notes receivable. The Organization closed on eight (8) of the homes, with original mortgages totaling \$688,620, and included these houses in mortgage receivables. Two (2) of the housing units, at values of \$166,160, did not have signed contracts as of the end of the fiscal year June 30, 2014.

In the prior year, the Organization signed lease to purchase contracts on five (5) of the properties at sales prices totaling \$454,521, and recorded these as notes receivable. The Organization closed on ten (10) of the homes, with original mortgages totaling \$793,812, and included these houses in mortgage receivables. Three (3) of the housing units, at values of \$258,079 did not have signed contracts as of June 30, 2013.

NOTE C – PROPERTY AND EQUIPMENT, NET

A summary of property and equipment at June 30, 2014, is as follows:

Vehicles	\$	53,732
Leasehold improvements		11,650
Machinery and equipment		81,896
Office equipment		31,883
		<u>179,161</u>
Less: accumulated depreciation and amortization		<u>124,843</u>
Property and equipment, net	\$	<u>54,318</u>

Habitat for Humanity Calcasieu Area, Inc.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE D – FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Organization in estimating its fair value disclosures for financial instruments:

Cash, cash equivalents, short-term unconditional promises to give, and notes payable: The carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments.

Non-interest bearing mortgage loans receivable: The fair value of non-interest bearing mortgage loans receivable is estimated using discounted cash flow analysis, based on rates developed by Habitat for Humanity International once a year on June 30, 2014, which approximates current market interest rates for mortgage loans of this type. The carrying amounts of the non-interest bearing loans receivable approximate fair value.

Notes payable: The fair value of the non-interest note payable to Jeff Davis Bank is estimated using discounted cash flow analysis, based on the Organization's current incremental borrowing rate. The carrying amount of the Organization's non-interest note payable approximates fair value.

NOTE E – FUNCTIONAL ALLOCATION OF EXPENSES

Expenses were allocated in the accompanying financial statements to program and support services functional expense groups. The methods of allocation were based on the Organization's estimates of the relative proportion of various staff members' time and effort between program and support services as well as the Organization's estimates of the amount of each expense utilized for program or support service functions.

NOTE F – OPERATING LEASES

On March 1, 2008, the Organization entered into a one (1) year monthly lease agreement for its offices at \$1,250 per month. The Organization may continue to lease the property on a month-to-month basis after February 28, 2009 until it receives written notice from the lessor to vacate the building no later than ninety days after the date the Organization receives the notice. Lease expense for the office building was \$15,000 for June 30, 2014.

On February 27, 2014, the Organization entered into a sixty (60) month term lease for its building used for the Restore. The lease agreement has three (3) additional consecutive options to extend the term of the lease for a period of five (5) years each term by written notice to Landlord not less than ninety (90) days prior to the expiration of the current term. The lease amount is \$4,500 per month until February 28, 2015. On March 1, 2015, the rent shall increase to \$5,000 per month until the end of the initial lease term. Lease expense for this commercial building was \$24,073 for June 30, 2014.

NOTE G – CONCENTRATION OF REVENUE AND SUPPORT

Much of the revenue for the Organization's programs is provided by various donors through grants and contributions, as well as funding from Habitat for Humanity International. In the current year, these monies accounted for eight (8%) of its support, aside from the program services of the Agency. The current level of the Organization's operations and program services may be adversely impacted by any reduction in funding.

Habitat for Humanity Calcasieu Area, Inc.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE H – NOTES PAYABLE

Notes payable at June 30, 2014, consist of the following:

The Joe W. and Dorothy Dorsett Brown Foundation,
non-interest bearing notes:

Payable in annual installments of \$1,250 with final payment in May 2018, secured by real property	\$ 4,479
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Jeff Davis Bank, non-interest bearing note, payable in 180 monthly installments of \$833 with final payment in June 2023, secured by certain mortgage receivables	89,990
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Habitat for Humanity International, Inc. (Habitat), non-interest bearing note, payable in 48 monthly installments of \$156, with final payment in July 2017. During the term of the promissory note, Habitat shall have the right to retain any funds or donations received by Habitat which re designated for Affiliate	<u>5,472</u>
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Total Notes Payable	99,941
Less Discount	<u>25,712</u>
	74,229
Less Current Portion	<u>8,293</u>
Total Long - Term Debt	<u>\$ 65,936</u>

Scheduled maturities for debt outstanding at June 30, 2014, for
each of the next five years are as follows:

2015	10,261
2016	10,261
2017	10,117
2018	7,868
2019	7,139
Thereafter	<u>28,583</u>
	74,229

The non-interest note payable to the Brown Foundation and Habitat for Humanity International, Inc. has not been discounted to approximate fair value as management believes it is not material to the financial statements.

The interest rate used to discount the note payable to Jeff Davis Bank was obtained based on the market rates for similar types of notes on the origination date. The interest rate was determined to be 7.75%.

NOTE I - HOUSING ACTIVITIES

During the year ended June 30, 2014, Habitat started eleven (11) new houses. Completed houses were either sold at cost or held in inventory at cost, as real estate owned, pending sale. At June 30, 2014, Habitat had nine (9) houses under construction on land owned by Habitat. Sales of houses were \$692,500 during the year ended June 30, 2014.

Habitat for Humanity Calcasieu Area, Inc.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE I - HOUSING ACTIVITIES (continued)

The Organization records and accounts for mortgage loans receivable based on the present value of the loan at the time of closing. For purposes of calculating loan present values, interest rates are determined based on the market rates for a similar type of loan on the date of closing and are obtained from Habitat for Humanity International, which develops the discount rate once a year on June 30. All mortgage loans issued in the current fiscal year have a rate of 7.58%. This method of accounting properly reflects the value of the mortgage loans receivable in the financial statements and recognizes interest income over the life of the loans. An expense is recorded upon the sale of the house for the difference between the face value of the mortgage loans receivable and the present value of the loans. The Organization has not established an allowance for doubtful accounts as it can reclaim homes through foreclosure in the event that a loan is deemed to be uncollectible. Scheduled annual mortgage receipts are approximately:

2015	\$	124,208
2016		124,208
2017		124,208
2018		124,208
2019		124,208
Thereafter		<u>3,452,903</u>
		4,073,943
Less Discount		<u>2,356,412</u>
	\$	<u><u>1,717,531</u></u>

NOTE J - SALES OF MORTGAGES

During the year ended June 30, 2014, the Organization entered into an agreement with Jeff Davis Bank to sale four (4) of their mortgage receivables at a discount of \$138,913. The resulting discount will be amortized over twenty (20) years, which is the average of the maturities of the mortgages sold. As the loans were sold "with recourse" to the bank, in the event a mortgage loan becomes ninety (90) days delinquent, the Organization must pay the balance of the loan sold under the agreement.

NOTE K - RETIREMENT BENEFITS

The Organization does not provide retirement benefits. Employees participate in the Social Security system. The Organization is not responsible for any post-employment benefits. The Organization has only the usual obligation to make current matching payments of the Social Security system for active employees.

NOTE L - COMPENSATED ABSENCES

The Organization has the following policy relating to vacation and sick leave:

Vacation: Each full-time employee shall be entitled to take vacation with pay in the following manner: An employee of the Organization will earn one week's vacation after one (1) year of employment and it can be taken at the end of that period. After two (2) years of employment, he/she is eligible for an additional week of vacation. After five (5) years of employment, he/she is eligible for three weeks of vacation.

Habitat for Humanity Calcasieu Area, Inc.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE L - COMPENSATED ABSENCES (continued)

Sick Leave: Each full-time employee shall be granted ten (10) days per year effective January 1 each year. A new employee, after working ninety (90) days, will be prorated sick leave at the rate of 3.07 hours per pay period continuing through December 31 of that calendar year. Sick leave is to be used for personal illness, or may be used in hourly increments for preventative care, dental or doctor visits. Once the available sick leave is exhausted, an employee may use vacation leave time or excused leave without pay. Any sick leave absences of more than three (3) consecutive work days, requires a doctor's statement or release prior to returning to work.

Unused sick leave benefits will not be allowed to accumulate from a prior calendar year into a subsequent calendar year. Unused sick leave will not be paid to an employee at the time of termination or retirement.

The value of these compensated absences was \$13,255 at June 30, 2014.

NOTE M - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2014 are available for the following uses:

Purpose and time restrictions - AHPP Notes Receivable	\$ 745,343
Purpose and time restrictions - AHPP Homes	166,163
Purpose and time restrictions - HFH Construction	454,670
Purpose and time restrictions - Contributions and Grants	25,239
Total temporarily restricted net assets	<u>\$ 1,391,415</u>

NOTE N - LITIGATION

The Organization is a defendant in a potential legal action involving an accident at the ReStore that occurred this fiscal year. While the final outcome cannot be determined at this time, management is of the opinion that the ultimate liability, if any, from the final resolution of this matter will not have a material effect on the Organization's financial statements.

NOTE O - SUBSEQUENT EVENT

Subsequent events were evaluated through November 24, 2014, which is the date the financial statements were available to be issued.

NOTE P - PRIOR PERIOD ADJUSTMENT

For the year ended June 30, 2014, it was noted that loan proceeds from Habitat for Humanity International was not recorded as a liability in 2011 when funds were received. This resulted in a decrease of \$7,500 to unrestricted net assets.

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**INDEPENDENT AUDITORS' 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
Calcasieu Area, Inc.
Lake Charles, Louisiana

We have audited, in accordance with the 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 Calcasieu Area, Inc. (a nonprofit corporation) which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Habitat for Humanity Calcasieu Area, Inc.'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 Habitat for Humanity Calcasieu Area, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings to be a material weakness. [2014-1].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Habitat for Humanity Calcasieu Area, Inc.'s financial statements are free from material misstatement, 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

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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*.

Habitat for Humanity Calcasieu Area, Inc.'s Responses to Findings

Habitat for Humanity Calcasieu Area, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Habitat for Humanity Calcasieu Area, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McMullen and Mancuso, CPAs, LLC

McMullen and Mancuso CPAs

Sulphur, LA

November 24, 2014

Habitat for Humanity Calcasieu Area, Inc.

SCHEDULE OF FINDINGS

Year Ended June 30, 2014

We have audited the financial statements of Habitat for Humanity Calcasieu Area, Inc. as of and for the year ended June 30, 2014, and have issued our report thereon dated November 24, 2014. 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. Our audit of the financial statements as of June 30, 2014 resulted in an unmodified opinion.

Section I Summary of Auditors' Reports

a. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control

Material Weaknesses Yes No Significant Deficiencies Yes No

Compliance

Compliance Material to Financial Statements Yes No

Section II Financial Statement Findings

2014-1 Due to a lack of adopted and documented internal control policies regarding the ReStore, in particular a lack of segregation of duties in handling cash receipts, an employee theft occurred during the fiscal year. A staff accounting clerk committed the misappropriation with an approximate value of \$11,000. The Organization terminated the employee and charges were pursued with the local authorities, who are still investigating the matter. There are policies regarding internal controls and segregation of duties issued by Habitat for Humanity International and are applicable to all affiliates.

Habitat for Humanity Calcasieu Area, Inc.

SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2014

<u>Ref No.</u>	<u>Fiscal Year Finding Initially Occurred</u>	<u>Description of Finding</u>	<u>Corrective Action Taken</u>
Section I - Internal Control and Compliance Material to the Financial Statements:			
There were no prior year financial statement findings.			
Section II - Management Letter:			
2013-1	2013	The sales tax returns submitted by the Agency for the Restore contained errors. The incorrect amount of gross sales were reported on returns that were included in our testing, resulting in an underpayment/overpayment of sales taxes.	Resolved

This schedule is prepared by management.

Habitat for Humanity Calcasieu Area, Inc.
MANAGEMENT'S CORRECTIVE ACTION PLAN
 Year Ended June 30, 2014

Ref No.	Fiscal Year Finding Initially Occurred	Description of Finding	Corrective Action Taken	Corrective Action Planned	Name of Contact Person	Anticipated Completion Date
<u>2014-1</u>	6/30/2014	Due to a lack of adopted and documented internal control policies regarding the ReStore, in particular a lack of segregation of duties in handling cash receipts, an employee theft occurred during the fiscal year. A staff accounting clerk committed the misappropriation with an approximate value of \$11,000. The Organization terminated the employee and charges were pursued with the local authorities, who are still investigating the matter. There are policies regarding internal controls and segregation of duties issued by Habitat for Humanity International and are applicable to all affiliates.	Yes	Once the fraud was discovered, months later through compensating controls, the employee was terminated and charges were pursued with the local authorities. The Organization also has fidelity bond insurance and is filing the necessary paperwork for reimbursement. The Organization has since adopted International's policies regarding segregation of duties, and adopted a set of cash handling controls for the ReStore.	Lenn Knapp	11/30/2014