GREATER BIRMINGHAM HABITAT FOR HUMANITY, INC.
AND SUBSIDIARY

Consolidated Financial Statements

June 30, 2017 and 2016

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BARFIELD MURPHY SHANK & SMITH LLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Greater Birmingham Habitat for Humanity, Inc. and Subsidiary
Fairfield, Alabama

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Greater Birmingham Habitat for Humanity, Inc. and Subsidiary (the Organization), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. 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 consolidated financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Organization adopted new accounting guidance to present debt issuance costs as a reduction of the carrying amount of the debt rather than as an asset. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2017, on our consideration of the Organization'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 the Organization's internal control over financial reporting and compliance.

Barfield, Murphy, Shank & Smith, LLC

Birmingham, Alabama
November 27, 2017

BARFIELD MURPHY SHANK & SMITH LLC
CERTIFIED PUBLIC ACCOUNTANTS

GREATER BIRMINGHAM HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
Consolidated Statements of Financial Position
June 30, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	$ 4,228,627	$ 3,615,109
Restricted cash	60,101	103,782
Investment in joint venture	4,082,934	4,126,607
Mortgage loans receivable, net	16,201,429	16,366,511
Inventory	370,887	490,778
Land held for development	501,141	459,170
Homes available for sale	540,916	538,630
Neighborhood Stabilization Program properties	295,309	291,141
Property and equipment, net	2,417,577	2,335,373
Construction in progress	2,200,676	1,533,828
Intangible assets	61,166	99,823
Other assets	433,646	388,328
Total assets	$ 31,394,409	$ 30,349,080
Liabilities and Net Assets		
Liabilities		
Accrued expenses	$ 155,021	$ 124,312
Accounts payable	250,429	221,890
Deferred purchase price	-	15,000
Long-term debt	6,897,852	7,716,014
	7,303,302	8,077,216
Net assets		
Unrestricted	23,706,369	21,879,083
Temporarily restricted	384,738	392,781
	24,091,107	22,271,864
	$ 31,394,409	$ 30,349,080

See notes to consolidated financial statements.

GREATER BIRMINGHAM HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
Consolidated Statements of Activities
Years ended June 30, 2017 and 2016

	2017	2016
Unrestricted Net Assets		
Support		
Cash contributions	$ 534,831	$ 539,043
In-kind donations	-	291,000
Grant revenues - general	1,172,480	327,217
Grant revenues - Rehab	-	10,991
Transfers to homeowners	1,260,614	1,568,660
Interest income	2,122,453	1,348,859
Outlet store revenues	1,846,473	1,791,664
Donated services	15,000	15,000
Other	615,341	731,982
	7,567,192	6,624,416
Satisfaction of program restrictions	681,830	944,482
	8,249,022	7,568,898
Expenses		
Program services	5,806,197	5,994,267
Supporting services	615,538	657,244
	6,421,735	6,651,511
Change in unrestricted net assets	1,827,287	917,387
Temporarily Restricted Net Assets		
Support		
Cash contributions	673,786	1,110,563
Net assets released from restrictions	(681,830)	(944,482)
Change in temporarily restricted net assets	(8,044)	166,081
Net assets - beginning of year	22,271,864	21,188,396
Net assets - end of year	$ 24,091,107	$ 22,271,864

See notes to consolidated financial statements.

GREATER BIRMINGHAM HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

Consolidated Statement of Functional Expenses

Year ended June 30, 2017

	Program Services						Supporting Services			Total
	Construction	Family Services	Rehab	Neighborhood Stabilization Program	Other	Total	Management and General	Fundraising	Total	
Land and home building supplies	$ 2,721,476	$ -	$ 192,436	$ -	$ 98,098	$ 3,012,010	$ -	$ -	$ -	$ 3,012,010
Other salaries and wages	404,342	118,774	85,821	-	276,840	885,777	136,491	88,080	224,571	1,110,348
Employee benefits	45,470	7,788	5,344	-	19,961	78,563	10,069	13,160	23,229	101,792
Payroll taxes	31,618	9,182	7,144	-	20,704	68,648	13,992	7,265	21,257	89,905
Professional fees	370	-	-	-	-	370	45,109	-	45,109	45,479
Supplies	1,543	34	-	-	4,558	6,135	18,666	3,725	22,391	28,526
Telephone	2,942	150	-	-	4,140	7,232	6,490	850	7,340	14,572
Postage and shipping	-	-	-	-	6	6	3,830	48	3,878	3,884
Occupancy	18,360	1,587	-	-	62,542	82,489	48,999	-	48,999	131,488
Equipment rental and maintenance	4,495	-	-	-	7,318	11,813	1,127	16	1,143	12,956
Fundraising	-	-	-	-	350	350	2,485	25,628	28,113	28,463
Printing and publications	-	-	-	-	188	188	1,420	3,184	4,604	4,792
Travel, conferences, conventions and meetings	63	468	-	-	4,333	4,864	10,618	3,358	13,976	18,840
Interest	43,682	-	-	-	67,189	110,871	18,234	-	18,234	129,105
Depreciation	-	-	-	-	90,786	90,786	58,348	-	58,348	149,134
Insurance	110,828	-	7,894	980	48,167	167,869	24,822	-	24,822	192,691
Tithe to Habitat for Humanity International, Inc.	122,500	-	-	-	-	122,500	2,500	-	2,500	125,000
Other expenses	128,342	1,926	-	-	1,025,458	1,155,726	39,187	27,837	67,024	1,222,750
	$ 3,636,031	$ 139,909	$ 298,639	$ 980	$ 1,730,638	$ 5,806,197	$ 442,387	$ 173,151	$ 615,538	$ 6,421,735

See notes to consolidated financial statements.

GREATER BIRMINGHAM HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
Consolidated Statement of Functional Expenses
Year ended June 30, 2016

	Program Services						Supporting Services			Total
	Construction	Family Services	Rehab	Neighborhood Stabilization Program	Other	Total	Management and General	Fundraising	Total	
Land and home building supplies	$ 2,157,971	$ -	$ 233,997	$ 682,826	$ 308,332	$ 3,383,126	$ -	$ -	$ -	$ 3,383,126
Other salaries and wages	354,772	115,887	84,700	-	278,194	833,553	137,987	86,458	224,445	1,057,998
Employee benefits	40,569	7,296	5,179	-	22,584	75,628	9,503	4,423	13,926	89,554
Payroll taxes	28,638	9,036	7,192	-	21,587	66,453	14,277	7,663	21,940	88,393
Professional fees	129	-	-	-	6,047	6,176	53,903	-	53,903	60,079
Supplies	2,850	853	-	-	5,576	9,279	10,386	3,308	13,694	22,973
Telephone	2,611	194	-	-	2,693	5,498	11,128	572	11,700	17,198
Postage and shipping	108	638	-	-	-	746	4,569	13	4,582	5,328
Occupancy	14,828	2,656	-	-	62,169	79,653	47,512	92	47,604	127,257
Equipment rental and maintenance	5,075	-	-	-	7,680	12,755	9,552	132	9,684	22,439
Fundraising	-	-	-	-	-	-	-	19,316	19,316	19,316
Printing and publications	133	1,045	-	-	1,014	2,192	2,184	4,876	7,060	9,252
Travel, conferences, conventions and meetings	708	426	-	-	5,629	6,763	10,689	1,334	12,023	18,786
Interest	43,942	-	-	-	19,897	63,839	13,907	-	13,907	77,746
Depreciation	-	-	-	-	76,626	76,626	48,366	-	48,366	124,992
Insurance	74,866	-	-	-	94,109	168,975	32,900	-	32,900	201,875
Tithe to Habitat for Humanity International, Inc.	79,000	-	-	-	-	79,000	2,500	-	2,500	81,500
Other expenses	42,303	4,019	112	-	1,077,571	1,124,005	108,088	11,606	119,694	1,243,699
	$ 2,848,503	$ 142,050	$ 331,180	$ 682,826	$ 1,989,708	$ 5,994,267	$ 517,451	$ 139,793	$ 657,244	$ 6,651,511

See notes to consolidated financial statements.

GREATER BIRMINGHAM HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years ended June 30, 2017 and 2016

	2017	2016
Operating Activities		
Increase in net assets	$ 1,819,243	$ 1,083,468
Adjustments to reconcile change in net assets to net cash used in operating activities		
Transfers to homeowners for non-interest bearing mortgage loans	(2,712,074)	(3,422,633)
Discounts on non-interest bearing mortgage loans	1,440,450	1,922,872
Depreciation and amortization	190,008	163,650
Interest on debt issuance costs	17,955	17,955
In-kind contributions - property	-	(274,470)
Imputed interest income on mortgage loans receivable	(1,244,566)	(1,224,709)
Gain on sale of mortgages	(876,887)	(124,150)
Gain on sale of property and equipment	(1,000)	-
Changes in operating assets and liabilities:		
Grants receivable	-	200,000
Inventory	73,920	(139,951)
Construction in progress	(548,441)	810,428
Other assets	(45,318)	(15,967)
Accounts payable and accrued expenses	(26,098)	(141,396)
Deferred purchase price	(15,000)	(15,000)
Net cash used in operating activities	(1,927,808)	(1,159,903)

See notes to consolidated financial statements.

GREATER BIRMINGHAM HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years ended June 30, 2017 and 2016

(Continued)

	2017	2016
Investing Activities		
Change in restricted cash	$ 43,681	$ 43,682
Return on investment in joint venture	43,673	43,673
Collections on mortgages receivable	1,989,492	1,686,265
Purchases of land held for development	(246,790)	(366,910)
Purchases of homes available for sale	(145,983)	(24,472)
Purchases of Neighborhood Stabilization Program property	(4,168)	(13,123)
Purchases of property and equipment	(117,030)	(113,826)
Proceeds on sale of mortgage loan receivables	1,534,557	2,570
Proceeds on sale of land held for development	93,680	6,953
Proceeds on sale of homes available for sale	185,330	165,175
Proceeds on sale of Neighborhood Stabilization Program properties	-	694,474
Proceeds on sale of property and equipment	1,000	-
Net cash provided by investing activities	3,377,442	2,124,461
Financing Activities		
Payments on long-term debt	(855,429)	(208,873)
Net borrowings on long-term debt	19,313	-
Net cash used in financing activities	(836,116)	(208,873)
Net increase in cash and cash equivalents	613,518	755,685
Cash and cash equivalents - beginning of year	3,615,109	2,859,424
Cash and cash equivalents - end of year	$ 4,228,627	$ 3,615,109

See notes to consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Greater Birmingham Habitat for Humanity, Inc. ("Habitat") (a nonprofit corporation) was incorporated on March 4, 1987. Habitat is an affiliate of Habitat for Humanity International, Inc. ("Habitat International"), a nondenominational Christian nonprofit organization whose purpose is to create decent, affordable housing for those in need, and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists with information resources, accounting policies, training, publications, prayer support, and in other ways, Habitat is primarily and directly responsible for its own operations.

GBHFH Funding Company I, LLC ("GBHFH Funding") was organized on January 15, 2015 by Habitat. GBHFH Funding was formed to purchase mortgages from Habitat and, in turn, issue a note to PNC Community Development Company, LLC (see Note 12).

Basis of Consolidation and Presentation

The consolidated financial statements include the accounts of Habitat and GBHFH Funding ("the Organization). The consolidated financial statements of the Organization have been prepared in accordance with accounting principles generally accepted in the United States of America. All material intercompany transactions and balances have been eliminated in consolidation. In preparing the consolidated financial statements, management evaluated subsequent events through November 27, 2017, the date the consolidated financial statements were available to be issued.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all instruments with an original maturity of three months or less to be cash and cash equivalents. Cash equivalents consist of money market securities stated at fair value which approximates cost. Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. These amounts represent actual account balances held by financial institutions at the end of the period, and unlike the balance reported in the consolidated financial statements, the account balances do not reflect timing delays inherent in reconciling items such as outstanding checks and deposits in transit. The Organization has never experienced any losses related to these balances.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Restricted Cash

Restricted cash, as of June 30, 2017 and 2016, represents cash set aside that must be used to construct qualifying housing under the New Market Tax Credit investment as noted in Note 3.

Investment in Joint Venture

The Organization's investment in a joint venture is accounted for on the cost basis as it does not possess the ability to exercise control or significant influence over the joint venture.

Mortgage Loans Receivable

Mortgage loans receivable consist of non-interest bearing mortgages which are secured by real estate and payable in monthly installments over the life of the mortgage. The mortgage loans have an original maturity of 20 to 30 years. Mortgages receivable are concentrated within the greater Birmingham area. These receivables have been discounted at prevailing market rates for low income housing in the years of origination. Interest income is recorded under the interest method. Interest income recognition ceases and loan collection is outsourced to collection professionals on a case-by-case basis.

Management's periodic evaluation of the adequacy of the allowance for loan loss is based on the Organization's past loan loss experience and the historically significant specific collateral value in excess of related mortgages. Due to the collateral value in excess of related mortgages, the Organization has determined that credit quality indicators are not applicable in their evaluation of loan loss. Management has evaluated these factors and has determined that no allowance for loan loss is necessary at June 30, 2017 or 2016.

Grants Receivable

Grants receivable consist of amounts earned but not yet received under awarded grants. Generally, amounts awarded to the Organization are reimbursement grants, whereby the Organization expends funds in accordance with grant requirements and is subsequently reimbursed. The Organization had no grants receivable at June 30, 2017 or 2016. The Organization uses the allowance method to estimate uncollectible grant receivables. The allowance is based on historical experience and management's analysis of specific grants. Based on management's review of grants receivable, no allowance was considered necessary at June 30, 2017 or 2016.

Inventory

Inventory consists primarily of items purchased by the Organization and offered for public purchase at the Habitat ReStore in Irondale, Alabama. The Organization determines the cost of purchased inventory using the average cost method, not in excess of net realizable value. Donated inventory is not recorded until it is sold or used by the Organization. When donated items are used in construction, such items are expensed based upon the specific identification method.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and include expenditures which substantially increase the useful lives of existing property and equipment. Maintenance, repairs and minor renovations are charged to income as incurred. When property and equipment are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the respective accounts and any gain or loss on the disposition is credited or charged to income. The Organization provides for depreciation of property and equipment using the straight-line method designed to amortize costs over estimated useful lives as follows: buildings and improvements, 15 to 40 years; equipment and fixtures, 3 to 10 years; vehicles, 3 to 5 years; and rental homes, 27.5 years.

Intangible Assets

Intangible assets with definite lives are amortized on the straight-line method over the useful life, seven to fifteen years. Amortizable intangible assets are reviewed for impairment whenever events or circumstances indicate the carrying amount of such assets may not be recoverable. The amortization period and method are reviewed at least at each financial year end.

Compensated Absences

Full-time employees accrue vacation leave at a rate established by the Organization. Upon separation of employment from the Organization, an employee will be compensated for any unused vacation leave accrued. Amounts accrued by employees have been included in accrued expenses in the accompanying consolidated statement of financial position.

Net Assets

The Organization reports information regarding its consolidated financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization had no permanently restricted net assets at June 30, 2017 and 2016.

- Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired.

- Temporarily restricted net assets contain donor-imposed restrictions that permit the Organization to use or expend the donated assets as specified and are satisfied either by the passage of time or by actions of the Organization.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Contributions

Gifts of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. A portion of the contributions received by the Organization are temporarily restricted for a specific purpose. It is the Organization’s policy to use such funds for the specified purpose as soon as practical and prudent.

Donated Assets

Donated property is recorded as a contribution at its estimated fair value at the date of donation. Subsequent permanent declines in value are expensed in the year the reduction in value occurs.

Contributed Services

A substantial number of volunteers have made significant contributions of their time to the Organization’s program and supporting services. The value of this contributed time is not reflected in the consolidated financial statements since it does not require a specialized skill and is not susceptible to objective measurement or valuation.

Income Taxes

The Organization is organized as a not-for-profit corporation under the Alabama Nonprofit Corporation Act. Additionally, the Organization has been granted tax-exempt status by the Internal Revenue Service for income tax purposes. The Organization is subject to unrelated business income tax (UBIT) only if it engages in activities subject to the UBIT regulations.

Tax positions are initially recognized in the consolidated financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. The Organization had no uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements as of June 30, 2017 and 2016 based on an assessment of many factors including experience and interpretations of tax laws applied to the facts of each matter for all open tax years.

Transfers to Homeowners

Transfers to homeowners represent the sale of houses. The resulting mortgages are non-interest bearing and have been discounted based upon prevailing market rates for low income housing at the inception of the mortgages. The transfers to homeowners presented in the consolidated statement of activities are net of this discount.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Home Construction Costs, Construction in Progress and Neighborhood Stabilization Program Properties

Costs incurred in conjunction with home construction and renovation are capitalized until each home is sold, at which time the construction and renovation costs are expensed and reported as home building supplies. Neighborhood Stabilization Program (NSP) properties represent existing foreclosed or abandoned homes that are purchased by the Organization, renovated, and used to provide affordable housing in keeping with their purpose.

Functional Allocation of Expenses

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

Advertising Costs

Advertising costs are expensed as incurred, and totaled $50,296 and $6,136 in 2017 and 2016, respectively. Advertising costs consist primarily of print media.

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2017, the Company adopted the requirements of ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, to present debt issuance costs as a reduction of the carrying amount of the debt rather than as an asset and include amortization of the debt issuance costs as interest expense. Notes payable as of June 30, 2016 was previously reported on the balance sheet as $8,022,336 with the associated $306,322 unamortized debt issuance costs included in other assets. Amortization of the debt issuance costs of $17,955 for the year ended June 30, 2016 has been reported as interest expense in the consolidated statement of activities and was previously presented as amortization expense.

NOTE 3 - INVESTMENT IN JOINT VENTURE

On June 29, 2010, the Organization, along with four other affiliates, invested in a joint venture (HFHI-SA Leverage V, LLC) with 39% ownership to participate in New Market Tax Credit (“NMTC”) financing. NMTC financing allows an entity to receive a loan or investment capital from outside investors, who will then receive new market tax credits to be applied against their federal tax liability. As a result, the Organization’s original investment totaled $4,385,247 and secured a 15-year loan in the amount of $5,758,276 payable to a community development entity (an affiliate of the joint venture). The loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low income residents.

NOTE 3 - INVESTMENT IN JOINT VENTURE - Continued

The loan accrues interest only for years 1 through 7 at a reduced rate of 0.76%. Beginning in year 8 through year 15, the principal balance of the loan is reduced by an 8-year amortization at the same rate of 0.76%. At June 30, 2017 and 2016, the Organization has recorded its 39% investment in HFHI-SA Leverage V, LLC at the cost of investment plus transaction costs, expendable construction funds, escrow cash, and program cost liabilities. During the years ended June 30, 2017 and 2016, the return on investment was equivalent to 99.98% of the interest payments on the resulting $5,758,276 debt, which was returned to the Organization as a return on investment. See Note 13 concerning a subsequent event related to this joint venture.

NOTE 4 - MORTGAGE LOANS RECEIVABLE

Mortgage loans receivable consisted of the following at June 30:

	2017	2016
Mortgages receivable at face value	$ 31,216,393	$ 32,366,327
Less unamortized discount based on imputed interest rates ranging from 6.00% to 9.00%	(15,014,964)	(15,999,816)
	$ 16,201,429	$ 16,366,511

The following table presents informative data by class of mortgage loans receivable regarding their age at June 30, 2017:

	Current	30-59 Days	60-89 Days	> 90 days	Total Financing Receivables
Mortgage loans	$ 23,829,552	$ 3,428,591	$ 299,435	$ 3,658,815	$ 31,216,393

These mortgages are expected to be received in future years as follows:

2018	$ 2,659,498
2019	2,611,093
2020	2,549,035
2021	2,514,704
2022	2,486,574
Thereafter	18,395,489
	$ 31,216,393

NOTE 4 - MORTGAGE LOANS RECEIVABLE - Continued

Mortgage loans receivable of $1,097,295 and $1,166,190 were pledged as security for notes payable at June 30, 2017 and 2016, respectively. Mortgage loans receivable are collateralized with real estate concentrated within the greater Birmingham area.

During the year ended June 30, 2017, Habitat entered into a loan swap with Alabama Housing Finance Authority (AHFA) for loans that were in need of foreclosure, but could not be processed by AHFA. Habitat received mortgage loans and a cash balance in the amount of the mortgage loans sold to AHFA. At June 30, 2017 and 2016, Habitat serviced $2,901,874 and $2,950,313, respectively, in mortgage loans for the benefit of AHFA.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2017	2016
Buildings and improvements	$ 470,513	$ 456,684
Rental properties	1,349,858	1,209,736
Outlet store	1,376,061	1,340,305
Office furniture and equipment	80,703	78,662
Tools and equipment	70,641	70,641
Vehicles	224,842	188,753
	3,572,618	3,344,781
Less accumulated depreciation	1,155,041	1,009,408
	$ 2,417,577	$ 2,335,373

Depreciation expense totaled $149,135 and $124,993 for the years ended June 30, 2017 and 2016, respectively.

NOTE 6 - INTANGIBLE ASSETS

Intangible assets at June 30, 2017 and 2016 consist of the New Market Tax Credit closing cost fee of $114,686, amortizable over 180 months (accumulated amortization was $53,520 and $45,874 at June 30, 2017 and 2016, respectively) and a Community Development Entity structuring fee of $217,087, amortizable over 84 months (accumulated amortization was $217,087 and $186,075 at June 30, 2017 and 2016, respectively).

NOTE 6 - INTANGIBLE ASSETS - Continued

Amortization expense totaled $38,657 and $38,657 for the years ended June 30, 2017 and 2016, respectively. Expected amortization of intangibles in the future consists of the following:

2018	$	7,646
2019		7,646
2020		7,646
2021		7,646
2022		7,646
Thereafter		22,936
	$	61,166

NOTE 7 - LINE OF CREDIT

At June 30, 2017 and 2016, the Organization had a $300,000 line of credit agreement with a bank secured by inventory, equipment and receivables. Interest is charged at the prime rate plus 1.00% (5.50% and 4.75% at June 30, 2017 and 2016, respectively). The line of credit will mature in February 2019. At June 30, 2017 and 2016, there was $0 outstanding on the line of credit.

NOTE 8 - NOTES PAYABLE

Notes payable consisted of the following at June 30:

	2017	2016
Promissory note payable to Habitat for Humanity International, Inc., due in monthly installments of $781 (0.00% interest) through December 2017.	$ 4,698	$ 14,070
Promissory note payable to Habitat for Humanity International, Inc., due in monthly installments of $529 (0.00% interest) through June 2019.	12,700	19,048
Promissory note payable to Habitat for Humanity International, Inc., due in monthly installments of $1,745 (0.00% interest) through June 2019.	15,339	43,755

NOTE 8 - NOTES PAYABLE - Continued

	2017	2016
Promissory note payable to Habitat for Humanity International, Inc., due in monthly installments of $847 (0.00% interest) through June 2018.	$ 15,290	$ 25,454
Promissory note payable to the UAB Educational Foundation, due in semi-annual installments of $3,000 (0.00% interest) through July 2038.	123,000	129,000
Qualified Low Income Community Investment Loan, interest only payments until June 2017 (interest at 0.76%). Loan matures in 2025. The loan is secured by substantially all assets acquired by Habitat from the project loan proceeds, and has a put option feature that is exercisable in 2017.	5,758,276	5,758,276
Revenue bond due in monthly installments (variable rate - see below).	-	715,507
Promissory note payable to Habitat for Humanity International, Inc., due in monthly installments of $548 (0.00% interest) through June 2020.	19,766	26,342
Promissory note payable to Habitat for Humanity International, Inc., due in monthly installments of $157 (0.00% interest) through June 2020.	5,668	7,552
Promissory note payable to Habitat for Humanity International, Inc., due in monthly installments of $456 (0.00% interest) through December 2021.	19,157	21,893
Promissory note payable to Habitat for Humanity International, Inc., due in monthly installments of $1,283 (0.00% interest) through June 2021.	61,625	61,625
Promissory note payable to Habitat for Humanity International, Inc., due in monthly installments of $981 (0.00% interest) through June 2021.	32,388	32,388

NOTE 8 - NOTES PAYABLE - Continued

	2017	2016
Promissory note payable to Habitat for Humanity International, Inc., due in monthly installments of $578 (0.00% interest) through December 2022.	$ 19,313	$ -
Promissory note payable from GBHFH Funding to PNC Community Development Company, LLC, due in monthly installments of $5,702 (0.00% interest) through June 2038, collateralized by assignment of mortgage notes.	1,099,000	1,167,426
	7,186,220	8,022,336
Less loan costs, net	288,368	306,322
	$ 6,897,852	$ 7,716,014

Future scheduled maturities of long-term debt for the next five years and thereafter are as follows:

2018	$ 5,910,351
2019	130,472
2020	119,588
2021	99,540
2022	76,399
Thereafter	849,870
	$ 7,186,220

During 2009, the Organization refinanced the note payable to New South Federal Savings Bank through financing with the Irondale Downtown Redevelopment Authority (IDRA), which issued new revenue bonds totaling $1,250,000. During the year ended June 30, 2017, the balance of the loan was paid off. The outstanding balance equaled $715,507 at June 30, 2016. The collateral for the bonds is the Habitat ReStore located in Irondale, Alabama.

In connection with the bond trust indenture, the Organization has executed a lease agreement dated November 1, 2008. Monthly lease payments, the principal portion of which range from $4,615 to $9,488, are required to be made for the period December 2008 through October 2023. Each payment is an amount equal to the debt service due on that date. Interest is computed at the one-month London Interbank Offered Rate (LIBOR) plus 1.25% multiplied by the tax equivalent factor equal to 72%. The Organization has an option to purchase the Habitat ReStore at any time following full payment of indebtedness for a purchase price of $10 plus all expenses incurred by IDRA in connection with the bond trust indenture or the affiliated lease agreement between IDRA and the Organization.

NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS

During the year ended June 30, 2009, the Organization entered into a derivative contract, known as an interest rate swap, to manage its interest rate risk. This contract hedged interest rate exposure for periods consistent with the underlying exposure and did not constitute an investment independent of this exposure. The Organization uses derivative financial instruments primarily to optimize borrowing costs under its financing strategy, and does not hold or issue financial instruments for trading purposes.

Beginning November 10, 2008, the Organization entered into an interest rate swap that converted its variable rate revenue bond debt into fixed rate debt on a notional amount of $1,250,000. The notional amounts of derivative financial instruments did not represent the actual amounts exchanged by the parties, but instead represented the amounts on which the contracts were based. The floating interest rate payment under this swap was based on the one-month LIBOR rate plus 1.25% multiplied by the tax equivalent factor equal to 72%. The agreement, which was retired in June 2017, effectively fixed the Organization's interest exposure at 4.39%. Interest paid or received on this contract adjusted interest expense.

At June 30, 2016, the Organization had entered into one derivative contract, which had been designated as a cash f1ow hedge. In accordance with accounting standards generally accepted in the United States of America, the Organization would have recognized its derivative on the consolidated statements of financial position at fair value at the end of the period. At June 30, 2016, the fair value was $72,270. The Organization deemed this amount not material and did not record it in the accompanying consolidated financial statements. The fair value estimate was based on information available to management at June 30, 2016, and was determined using quoted market prices and the discounted value of future cash f1ows. During 2017 and 2016, the Organization paid a net amount of $59,183 and $22,776, respectively, for settlement payments.

The counterparty to this agreement was a major financial institution with which the Organization also had other financial relationships. The Organization was exposed to credit loss in the event of non-performance by the counterparty. If the counterparty failed to meet the terms of this agreement, the Organization's exposure was limited to the net amount that would have been received, if any, over the agreement's remaining life. The Organization did not anticipate non-performance by the other party, given their high credit ratings and no material loss was expected from non-performance by the counterparty.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

The Organization received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under the terms of the grant or appropriation.

NOTE 10 - COMMITMENTS AND CONTINGENCIES - Continued

In October 2005, the Organization entered into an agreement with the Presbytery of Sheppards and Lapsley ("the Presbytery"), which commits the Organization to sponsor ten houses within the next fifteen years in conjunction with the Presbytery in exchange for title to the building that the Organization currently uses as an office building and an adjacent building in Fairfield, Alabama. Any remaining sponsorship obligation will expire at the end of the fifteen-year period, and the title of the buildings will be transferred to the Organization. During 2017 and 2016, the Presbytery and the Organization sponsored a house, which resulted in recognition of $15,000 of revenue as donated services in each year. The sponsorship commitment expired during the year ended June 30, 2017.

NOTE 11 - SUPPLEMENTAL CASH FLOW DISCLOSURES

Net cash used in operating activities reflects cash payments for interest totaling $129,105 and $77,747 for the years ended June 30, 2017 and 2016, respectively.

NOTE 12 - RELATED PARTY SALE OF MORTGAGES

During the year ended June 30, 2015, GBHFH Funding acquired twenty-four mortgages, at cost, from Habitat for a total of $646,705, resulting in no income recognized on the Organization's books for the removal of the unamortized discount on each original mortgage. These two entities are consolidated and all intercompany amounts are eliminated. GBHFH Funding then entered into a note purchase agreement with PNC Community Development Company, LLC (PNC). GBHFH Funding authorized the issuance and sale of a secured note in the amount of $1,252,958 (gross balance of mortgages receivable transferred from Habitat) to PNC for $924,193 on March 24, 2015. See Note 8 for terms and outstanding balance of the PNC note payable. The difference of $328,765 from the secured note with PNC was capitalized as deferred costs on the books of GBHFH Funding and amortized over the life of the loan (280 months).

NOTE 13 - SUBSEQUENT EVENT

In July 2017, HFHI-SA Leverage V, LLC, (the Fund), and the upstream effective owner of HFHI-SA NMTC III, LLC (holder of the promissory note due from the Organization) exercised its put option. Under the terms of the put option agreement, the Fund purchased the ownership interest of the Fund. Exercise of the option allowed the Organization to extinguish its outstanding debt owed to the Fund.

FEDERAL AWARDS PROGRAMS

BARFIELD MURPHY SHANK & SMITH LLC
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Directors
Greater Birmingham Habitat for Humanity, Inc. and Subsidiary
Fairfield, Alabama

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 consolidated financial statements of Greater Birmingham Habitat for Humanity, Inc. and Subsidiary (the Organization), which comprise the consolidated statements of financial position as of June 30, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 27, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the basic consolidated financial statements, we considered the Organization'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Organization's consolidated financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control 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 material weaknesses 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated 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 consolidated 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 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 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.

Barfield, Murphy, Shank & Smith, LLC

Birmingham, Alabama
November 27, 2017

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Greater Birmingham Habitat for Humanity, Inc. and Subsidiary
Fairfield, Alabama

Report on Compliance for Each Major Federal Program

We have audited Greater Birmingham Habitat for Humanity, Inc. and Subsidiary's (the Organization) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, Greater Birmingham Habitat for Humanity, Inc. and Subsidiary complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Barfield, Murphy, Shank & Smith, LLC

Birmingham, Alabama
November 27, 2017

BARFIELD MURPHY SHANK & SMITH LLC
CERTIFIED PUBLIC ACCOUNTANTS

GREATER BIRMINGHAM HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2017

Federal Grantor / Pass-through Agency / Program Title	Federal CFDA Number	Total Awards Expenditures
U.S. Department of Housing and Urban Development		
Pass-through program from the City of Birmingham - Community Development Block Grant for entitlement communities	14.218	$ 500,000
Pass-through program from the City of Birmingham - Home Investment Partnerships Program (HOME) Grant	14.239	440,000
Pass-through program from Habitat for Humanity International - Self-Help Homeownership Opportunity Program (SHOP) Grant	14.247	77,253
Total expenditures of federal awards		$ 1,017,253

See note to schedule of expenditures of federal awards and independent auditors' report.

GREATER BIRMINGHAM HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2017

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Greater Birmingham Habitat for Humanity, Inc. and Subsidiary and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

NOTE 2 - INDIRECT COST RATE

Greater Birmingham Habitat for Humanity, Inc. and Subsidiary has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the consolidated financial statements of Greater Birmingham Habitat for Humanity, Inc. and Subsidiary.

2. No material weaknesses in internal control over financial reporting were disclosed during the audit of the consolidated financial statements.

3. No instances of noncompliance material to the consolidated financial statements of Greater Birmingham Habitat for Humanity, Inc. and Subsidiary, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

4. No material weaknesses in internal control over major federal award programs are reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with the Uniform Guidance.

5. The auditors' report on compliance for the major federal award programs for Greater Birmingham Habitat for Humanity, Inc. and Subsidiary expresses an unmodified opinion on all major federal programs.

6. There are no audit findings that are required to be reported in accordance with 2 CFR section 200.516(a).

7. The program tested as a major program was the Community Development Block Grant for entitlement communities (CFDA number 14.218).

8. The threshold for distinguishing between Type A and B programs was $750,000.

9. Greater Birmingham Habitat for Humanity, Inc. and Subsidiary did not qualify as a low-risk auditee.

CONSOLIDATED FINANCIAL STATEMENT FINDINGS

There are no consolidated financial statement findings required to be reported in accordance with *Government Auditing Standards*.

GREATER BIRMINGHAM HABITAT FOR HUMANITY, INC. AND SUBSIDIARY
Schedule of Findings and Questioned Costs
Year ended June 30, 2017

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

There are no current findings or questioned costs that are considered material instances of noncompliance in accordance with Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.*

There were no prior year findings or questioned costs that were considered material instances of noncompliance in accordance with Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.*