November 28, 2018

To the Board of Directors
Highlands County Habitat for Humanity, Inc.
Sebring, Florida

We have audited the financial statements of Highlands County Habitat for Humanity, Inc. (the "Organization") for the year ended June 30, 2018, and have issued our report thereon dated November 21, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 3, 2018 and in our request lists. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the current fiscal year. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

> Management's estimate of the Statement of Functional Expenses is based on management's review of the detail of expense accounts in order to classify them between Program Services and Supporting Services. We evaluated the key factors and assumptions used to develop the Statement of Functional Expenses in determining that it is reasonable in relation to the financial statements taken as a whole.
>
> Management's estimates of discount rates for mortgages are based on the prevailing market rates at the inception of the mortgages. We evaluated the key factors and assumptions used to develop these estimates related to fair value in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

> The disclosure of Mortgages Receivable in Note 4 to the financial statements. As discussed above, the prevailing rate at the inception of the mortgage must be identified and used to discount the mortgages. Also included in this note is the process of selling constructed homes to qualified buyers, the number of mortgages the Organization holds in its mortgage portfolio, and the process, and frequency, of selling identified mortgages to financial institutions.
>
> The disclosure of the Investment in Joint Venture in Note 7 to the financial statements. Included in the note is a description of the New Market Tax Credit (the "NMTC") original transaction entered into by the Organization, the investment in the joint venture and low interest loan, and the method for which the Organization accounts for this investment.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The following misstatement was detected as a result of audit procedures. Though more than trivial, the misstatement is not material to the financial statements and was corrected by management:

One of the Organization's constructed homes that was sold during the year ended June 30, 2018 was recorded as a sale for $7,500 more than the amount of the first mortgage. The excess $7,500 represents the amount of the second mortgage which is not expected to be collected and therefore should not have been included as sales revenue in the current year.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 21, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Information in Documents Containing Audited Financial Statements

Our auditors' opinion, the audited financial statements, and the notes to the financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

This information is intended solely for the use of the Board of Directors and management of Highlands County Habitat for Humanity, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

[illegible]

HIGHLANDS COUNTY HABITAT FOR HUMANITY, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

AS OF JUNE 30, 2018 AND 2017

affinityCPA

affinityCPA

FINANCIAL STATEMENTS
AS OF JUNE 30, 2018 AND 2017

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affinityCPA

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Highlands County Habitat for Humanity, Inc.
Sebring, Florida

We have audited the accompanying financial statements of Highlands County Habitat for Humanity, Inc. (a Not-For-Profit Entity), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Opinion

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

Other Matter – June 30, 2017 Financial Statements

The financial statements of Highlands County Habitat for Humanity, Inc. as of June 30, 2017 were audited by a predecessor auditor. The predecessor auditor's report, dated January 16, 2018, expressed an unmodified opinion.

Tampa, Florida
November 21, 2018

HIGHLANDS COUNTY HABITAT FOR HUMANITY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents		
Unrestricted	$ 634,359	$ 416,288
Restricted	157,790	157,150
Mortgage notes receivable net of discounts and allowance for uncollectibles, due within one year	131,848	131,834
Other receivables	12,578	-
Inventory		
Construction in progress	248,351	99,154
Completed homes for sale	-	77,500
Land for development, current	444,264	401,576
Land for resale	69,687	75,277
Other assets	13,517	14,130
Total current assets	1,712,394	1,372,909
Non-current assets		
Property and equipment, net	430,977	399,688
Inventory - land held for development	267,175	267,175
Mortgage notes receivable net of discounts and allowance for uncollectibles, due after one year	1,844,252	1,843,127
Mortgages receivable - held for others	574,495	641,922
Investment in joint venture	1,581,553	1,556,861
Total non-current assets	4,698,452	4,708,773
Total assets	$ 6,410,846	$ 6,081,682
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 61,809	$ 29,334
Accrued expenses	32,551	22,488
Escrow funds payable	161,230	116,797
Deferred revenue	94,450	104,915
Current portion of long-term debt	9,592	9,127
Agency payable	574,495	641,922
Total current liabilities	934,127	924,583
Long-term liabilities		
Long-term debt net of current maturities and deferred loan costs	1,856,227	1,855,525
Total liabilities	2,790,354	2,780,108
Net assets		
Unrestricted	3,578,241	3,265,930
Temporarily restricted	42,251	35,644
Total net assets	3,620,492	3,301,574
Total liabilities and net assets	$ 6,410,846	$ 6,081,682

See independent auditors' report and accompanying notes to the financial statements.

HIGHLANDS COUNTY HABITAT FOR HUMANITY, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

	Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT AND OTHER REVENUES & GAINS			
Public support			
The ReStore sales	$ 603,119	$ -	$ 603,119
Contributions	59,631	325,462	385,093
Grants	-	229,779	229,779
In-kind contributions	97,672	-	97,672
Total public support	760,422	555,241	1,315,663
Other revenues and gains			
Sale of homes (mortgages received)	340,000	-	340,000
Imputed interest income on mortgages	97,101	-	97,101
Investment	39,196	-	39,196
Insurance proceeds	34,164	-	34,164
Gain on foreclosure of assets	10,876	-	10,876
Other	14,235	-	14,235
Total other revenues and gains	535,572	-	535,572
Net assets released from restrictions	548,634	(548,634)	-
Total public support and other revenues & gains	1,844,628	6,607	1,851,235
EXPENSES AND LOSSES			
Program services:			
Affordable housing construction costs	853,987	-	853,987
The ReStore	338,778	-	338,778
Total program services	1,192,765	-	1,192,765
Supporting services:			
General administration	287,939	-	287,939
Fundraising	51,613	-	51,613
Total supporting services	339,552	-	339,552
Total expenses and losses	1,532,317	-	1,532,317
Change in net assets	312,311	6,607	318,918
Net assets, beginning of year	3,265,930	35,644	3,301,574
Net assets, end of year	$ 3,578,241	$ 42,251	$ 3,620,492

See independent auditors' report and accompanying notes to the financial statements.

HIGHLANDS COUNTY HABITAT FOR HUMANITY, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT AND OTHER REVENUES & GAINS			
Public support			
The ReStore sales	$ 603,904	$ -	$ 603,904
Contributions	42,010	180,768	222,778
In-kind contributions	50,714	-	50,714
Grants	-	11,000	11,000
Total public support	696,628	191,768	888,396
Other revenues and gains			
Sale of homes (mortgages received)	302,438	-	302,438
Imputed interest income on mortgages	105,336	-	105,336
Investment	39,196	-	39,196
Other	42,423	-	42,423
Total other revenues and gains	489,393	-	489,393
Net assets released from restrictions	159,191	(159,191)	-
Total public support and other revenues & gains	1,345,212	32,577	1,377,789
EXPENSES AND LOSSES			
Program services:			
Affordable housing construction costs	686,610	-	686,610
The ReStore	346,599	-	346,599
Total program services	1,033,209	-	1,033,209
Supporting services:			
General administration	259,177	-	259,177
Fundraising	64,006	-	64,006
Total supporting services	323,183	-	323,183
Total expenses and losses	1,356,392	-	1,356,392
Change in net assets	(11,180)	32,577	21,397
Net assets, beginning of year	3,277,110	3,067	3,280,177
Net assets, end of year	$ 3,265,930	$ 35,644	$ 3,301,574

See independent auditors' report and accompanying notes to the financial statements.

HIGHLANDS COUNTY HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

	Program Services			Supporting Services			
	Affordable Housing Construction Costs	The ReStore	Total Program Services	General Administration	Fundraising	Total Supporting Services	TOTAL
Personnel expenses	$ 77,886	$ 243,025	$ 320,911	$ 170,472	$ 46,106	$ 216,578	$ 537,489
Other Expenses							
Construction costs	552,086	-	552,086	-	-	-	552,086
Professional	20,189	-	20,189	47,973	2,685	50,658	70,847
Interest	46,303	-	46,303	-	-	-	46,303
Telephone and utilities	665	23,279	23,944	12,524	240	12,764	36,708
Insurance	5,215	16,294	21,509	5,252	-	5,252	26,761
Office	1,401	393	1,794	21,659	1,075	22,734	24,528
Repairs, maintenance, and fuel	2,366	13,482	15,848	3,526	-	3,526	19,374
Conference and travel	-	-	-	3,159	449	3,608	3,608
Special events	279	-	279	-	784	784	1,063
Advertising	-	700	700	50	274	324	1,024
Other	1,371	16,406	17,777	13,593	-	13,593	31,370
Total expenses before other non-cash items	707,761	313,579	1,021,340	278,208	51,613	329,821	1,351,161
Mortgage discounts and amortization	106,096	-	106,096	-	-	-	106,096
Depreciation	-	25,199	25,199	9,731	-	9,731	34,930
Decline in market value of inventory	22,448	-	22,448	-	-	-	22,448
Bad debt	17,682	-	17,682	-	-	-	17,682
Total Functional Expenses	$ 853,987	$ 338,778	$ 1,192,765	$ 287,939	$ 51,613	$ 339,552	$ 1,532,317

See independent auditors' report and accompanying notes to the financial statements.

HIGHLANDS COUNTY HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	Program Services			Supporting Services			
	Affordable Housing Construction Costs	The ReStore	Total Program Services	General Administration	Fundraising	Total Supporting Services	TOTAL
Personnel expenses	$ 63,928	$ 242,390	$ 306,318	$ 142,743	$ 46,995	$ 189,738	$ 496,056
Other Expenses							
Construction costs	459,242	-	459,242	-	-	-	459,242
Professional	20,611	220	20,831	45,036	-	45,036	65,867
Interest	46,303	-	46,303	14,792	-	14,792	61,095
Telephone and utilities	1,234	20,054	21,288	11,017	-	11,017	32,305
Repairs, maintenance, and fuel	7,380	18,412	25,792	4,202	-	4,202	29,994
Insurance	5,193	17,208	22,401	4,307	-	4,307	26,708
Office	1,463	2,504	3,967	21,391	68	21,459	25,426
Special events	349	-	349	-	13,141	13,141	13,490
Advertising	214	1,975	2,189	119	2,669	2,788	4,977
Conference and travel	-	-	-	1,023	1,133	2,156	2,156
Other	4,711	16,475	21,186	8,660	-	8,660	29,846
Total expenses before other non-cash items	610,628	319,238	929,866	253,290	64,006	317,296	1,247,162
Mortgage discounts and amortization	48,458	-	48,458	-	-	-	48,458
Depreciation	-	27,361	27,361	5,887	-	5,887	33,248
Decline in market value of inventory	18,171	-	18,171	-	-	-	18,171
Bad debt	9,353	-	9,353	-	-	-	9,353
Total Functional Expenses	$ 686,610	$ 346,599	$ 1,033,209	$ 259,177	$ 64,006	$ 323,183	$ 1,356,392

See independent auditors' report and accompanying notes to the financial statements.

HIGHLANDS COUNTY HABITAT FOR HUMANITY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 318,918	$ 21,397
Adjustments to reconcile change in net assets		
to net cash flows from operating activities:		
Depreciation and amortization	44,547	42,864
Decline in market value of inventory	6,439	18,171
(Gain) Loss on disposal of assets	16,009	(110,147)
Gain on foreclosure of assets	(10,876)	-
Donated inventory and fixed assets	(89,782)	(11,400)
Investment income from investment in joint venture	(39,196)	(39,196)
(Increase) decrease in assets:		
Mortgage receivables, net	9,737	(58,783)
Other receivables	(12,578)	1,599
Inventory	(41,461)	220,137
Other assets	613	5,013
Increase (decrease) in liabilities:		
Accounts payable	32,475	(37,889)
Accrued expenses	10,063	(12,296)
Deferred revenue	(10,465)	79,924
Escrow funds payable	44,433	1,658
Net cash provided by operating activities	278,876	121,052
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(66,219)	(2,950)
Distributions received from investment in joint venture	14,504	14,505
Net cash provided by (used in) investing activities	(51,715)	11,555
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of mortgages	-	592,443
Payments on long-term debt	(8,450)	(625,415)
Net cash used in financing activities	(8,450)	(32,972)
Net change in cash and cash equivalents	218,711	99,635
Cash and cash equivalents, beginning of year	573,438	473,803
Cash and cash equivalents, end of year	$ 792,149	$ 573,438
SUPPLEMENTAL DISCLOSURE OF CASH PAID FOR INTEREST	$ 16,158	$ 29,298

See independent auditors' report and accompanying notes to the financial statements.

NOTE 1 NATURE OF ORGANIZATION

Highlands County Habitat for Humanity, Inc. ("Habitat" or the "Organization") became an affiliate of Habitat for Humanity International, Inc. ("HFHI") in 1990 and is a tax-exempt Not-for-Profit organization. Habitat's Program Services include its home construction program and a thrift retail operation (d.b.a. The ReStore), both of which are provided principally to residents in Highlands County.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of Habitat have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP") and, accordingly, reflect all significant receivables, payables and other liabilities.

Basis of Presentation

Habitat has adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 958, *Not-for-Profit Entities* ("ASC 958"). Under ASC 958, Habitat is required to provide financial statements which are prepared to focus on the Organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. As such, Habitat reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and, if applicable, permanently restricted net assets.

Revenue Recognition

Gifts and contributions are recorded at their fair market value on the date of receipt. Gifts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset categories. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Sale of homes represents homes built by Habitat. When homes are sold to qualified buyers who finance the purchase, the resulting mortgage notes are zero-interest bearing and discounted based upon prevailing market rates at the inception of the mortgages. The first mortgage gross sale amount is included as the sale of home in the statements of activities and the applicable discount from this note is presented as the mortgage discounts and amortization in the statements of functional expenses. When homes or land are sold to buyers in the form of a cash sale, the gross sale amount is included in the sale of home in the statements of activities. Habitat recognizes the income from the sale of homes on the completed contract method when home closings occur.

Habitat accounts for grants and contracts as exchange transactions. Revenue is recognized as an increase in the statements of activities as stipulated performance is executed, or as expenditures are incurred in accordance with applicable agreements under expenditure reimbursement contracts. A receivable is recorded to the extent contract revenue exceeds payment received. Advances in excess of costs incurred are deferred and recognized as revenue when the related expense is incurred.

Support arising from donated, or in-kind, goods, property, and services is recognized in the financial statements at its fair value. GAAP requires recognition of in-kind services, if such services (1) create or enhance nonfinancial assets or (2) require specialized skills and are provided by individuals possessing those skills, who would typically charge a fee. For the years ended June 30, 2018 and 2017, volunteers provided approximately 7,600 and 9,400, respectively, to assist the Organization in providing home construction services for which no amount has been recorded in the financial statements because the services did not meet the criteria for recognition under GAAP.

Additionally, Habitat utilizes the services of outside volunteers to perform a variety of tasks that assist the Organization in areas other than construction. The fair value of these services is not recognized in the accompanying financial statements since they do not meet the criteria for recognition under GAAP.

The ReStore sales are recognized as revenue at the time merchandise is transferred to the customer. Historically, sales returns have not been significant.

Cash and Cash Equivalents
Habitat considers all highly liquid instruments with maturities of three months or less when purchased to be cash equivalents.

Assets Held in Escrow
Habitat currently services the mortgage notes on the homes it sells. Included in assets held in escrow are cash amounts received for insurance and property taxes on such homes. These cash amounts are recorded as an asset, which is offset by a related liability.

Mortgage Notes Receivable
Sales of homes are recorded at the gross amount of payments to be received over the lives of the mortgages. These payments do not include interest. The notes have been discounted at various interest rates using the effective interest method over the lives of the mortgages. Mortgages are reported net of amortized cost.

Allowance for Mortgage Losses
The allowance for mortgage losses (allowance) is an estimate of mortgage losses inherent in the Habitat's mortgage portfolio. The allowance is established through a provision for mortgage losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after mortgage losses and mortgage growth. Mortgage losses are charged off against the allowance when management of Habitat determines the mortgage balance to be uncollectible. Cash received on previously charged off amounts is recorded as a recovery to the allowance.

The allowance consists of two primary components, general reserves and specific reserves related to impaired mortgages. The general component covers nonimpaired mortgages and is based on historical losses adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by Habitat over the most recent five years. Habitat places more emphasis, or weight, on the more current quarters in the loss history period. This actual loss experience is adjusted for economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired mortgages; levels of and trends in charge-offs and recoveries; trends in volume and terms of mortgages; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. These factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment.

A mortgage is considered impaired when, based on current information and events, it is known through legal correspondence that Habitat will be unable to collect the scheduled payments of principal when due according to the contractual terms of the mortgage agreement. Mortgages determined to be impaired are individually evaluated for impairment. When a mortgage is impaired, Habitat measures impairment based on the present value of expected future cash flows discounted at the imputed interest rate (which were the current market rates on the long-term loans at the inception date), except that as a practical expedient, it may measure impairment based on an observable market price, or the fair value of the collateral if collateral dependent. A mortgage is collateral dependent if the repayment is expected to be provided solely by the underlying collateral. Habitat did not identify any mortgages that were considered impaired as of June 30, 2018.

Under certain circumstances, Habitat will provide borrowers relief through mortgage restructurings. A restructuring of debt constitutes a troubled debt restructuring (TOR) if Habitat for economic or legal reasons related to the borrower's financial difficulties grants a concession to the borrower that it would not otherwise consider. Restructured mortgages typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Mortgages that are reported as TDRs are considered impaired and measured for impairment as described above. During the year ended June 30, 2018, there were no mortgages that were modified in troubled debt restructurings.

Habitat assigns a risk rating to all mortgages except pools of homogeneous mortgages and periodically performs detailed internal reviews of all such mortgages over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate and the fair values of collateral securing the mortgages. These credit quality indicators are used to assign a risk rating to each individual mortgage. The risk ratings can be grouped into five major categories, defined as follows:

Pass: A pass mortgage is a credit with no existing or known potential weaknesses deserving of management's close attention.

Special Mention: Mortgages classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, this potential weakness may result in deterioration of the repayment prospects for the mortgage or of Habitat's credit position at some future date. Special Mention mortgages are not adversely classified and do not expose Habitat to sufficient risk to warrant adverse classification.

Substandard: Mortgages classified as substandard are not adequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Mortgages classified as Substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Well defined weaknesses include a borrower's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time, or the failure to fulfill economic expectations. They are characterized by the distinct possibility that Habitat will sustain some loss if the deficiencies are not corrected.

Doubtful: Mortgages classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss: Mortgages classified as loss are considered uncollectible and charged off immediately.

If a foreclosure occurs, Habitat, historically, resells the home at cost plus incidental expenses for repairs and maintenance. Therefore, Habitat has not recorded an allowance for substandard or doubtful mortgages. The allowance for bad debt covers delinquent escrow payments for insurance and taxes. The allowance as of June 30, 2018 and 2017 was $104,000 in both years. Habitat maintains a separate general valuation allowance for each portfolio segment. As of June 30, 2018 and 2017, the only portfolio segment held by Habitat is residential real estate.

Residential Real Estate: The degree of risk in residential mortgage lending depends primarily on the mortgage amount in relation to collateral value, the interest rate and the borrower's ability to repay in an orderly fashion. These mortgages generally possess a lower inherent risk of loss than other real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these mortgages.

Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. At least quarterly, the board of directors (the "Board") reviews the adequacy of the allowance, including consideration of the relevant risks in the portfolio, current economic conditions and other factors. If the Board and management determine that changes are warranted based on those reviews, the allowance is adjusted.

Inventory

The ReStore inventory, which consists of merchandise donated by building supply stores and by individuals in the community, is stated at lower of cost or net realizable value. With few exceptions, the donated items are used, resulting in an undeterminable net realizable value. For these items, inventory is not recorded. The sale of these items, referred to as The ReStore sales on the statements of activities, is recorded at point of sale.

Habitat's inventory also includes completed homes for sale, construction in progress, land for development, and land held for resale. The inventory items are recorded at the lower of cost, as determined on a specific identification basis, or net realizable value. Construction in progress consists of lots and construction costs of houses not completed as of June 30, 2018 and 2017. Costs incurred in conjunction with home construction are capitalized and expensed when the home is sold.

Property and Equipment

Property and equipment are recorded at cost or, if donated, the estimated fair value at the date of donation. Habitat has a policy of capitalizing expenditures for property and equipment with costs greater than $1,000. Depreciation is provided using the straight-line method over the estimated useful lives of assets which range from five to 39 years. If donors stipulate how long the assets must be used or restrict the use of such assets for a specific purpose, the contributions are recorded as restricted support. In the absence of such stipulations, gifts of property are recorded as unrestricted support.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amounts of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment loss to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value.

Equity Method Investments

Equity method investments are recorded at cost and are subsequently adjusted to reflect Habitat's share of net profit or loss.

Debt Issuance Costs

The Organization has adopted the accounting guidance in FASB Accounting Standards Update (ASU) No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.* ASU 2015-03 requires organizations to present debt issuance costs as a direct deduction from the face amount of the related borrowings, amortized debt issuance costs using the effective interest method over the life of the debt, and record the amortization as a component of interest expense. The effect of adopting the new standard decreased the debt issuance costs asset to zero and decreased the debt liability by approximately $29,000 and $38,000 as of June 30, 2018 and 2017, respectively.

Fair Value Measurements

In accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, Habitat measures fair value using a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability, and are developed based on the best information available in the circumstances.

The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Habitat may use valuation techniques consistent with the market income and cost approaches to measure fair value.

The inputs used to measure fair value are categorized into the following three categories:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in inactive markets. Inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data are also included. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability

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

Habitat has the option to elect to measure financial instruments at fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. Habitat has not elected to measure any existing financial instruments at fair value at June 30, 2018 and 2017. However, Habitat may elect to measure newly acquired financial instruments at fair value in the future.

Net Assets
Habitat's net assets for the years ended June 30, 2018 and 2017 are classified into two categories: (1) unrestricted net assets, which include no donor-imposed restrictions and (2) temporarily restricted net assets, which include donor-imposed restrictions that will expire in the future.

The unrestricted net assets consist of operating funds available for any purpose authorized by the Board.

Temporarily restricted net assets consist of funds to be used for the construction of Habitat homes and The Restore repairs. These funds from gifts in which the donor has stipulated, as a condition of the gift, restrictions on how or when the gift may be spent. As of June 30, 2018 and 2017, Habitat had approximately $42,000 and $36,000 of temporarily restricted net assets.

Concentration of Credit Risk
Financial instruments that potentially subject Habitat to concentrations of credit risk

consist primarily of bank deposits and mortgages receivable.

Habitat maintains bank accounts with balances which, at times, may exceed federally insured limits. As of June 30, 2018, Habitat had approximately $540,000 of uninsured cash. Habitat has not experienced any losses on such accounts, and believes it is not exposed to any significant risk on bank deposit accounts.

Habitat has the ability to foreclose on delinquent mortgages, reducing the risk of loss to the Organization.

Use of Estimates
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional Allocation of Expenses
Certain direct, indirect, and administrative expenses are incurred which benefit more than one program. The Organization, therefore, allocates these expenses accordingly using time charged to employees and other various methods.

Reclassifications
Certain amounts in the prior year financial statements were reclassified to conform to the presentation in the current year. These reclassifications had no change on prior year reported changes in net assets or end of year net assets.

Federal Income Tax
Habitat is exempt from federal and state income taxes under Section 501(c)(3) and, accordingly, no provision for income taxes has been made in the accompanying financial statements. Management has evaluated Habitat's tax position and concluded that no uncertain tax positions have been taken that would require adjustment to the financial statements to comply with the provisions of the Income Tax Topic of the FASB ASC. With few exceptions, Habitat is subject to income tax examinations by the U.S. federal or state tax authorities up to three years after tax returns are filed.

Advertising
Advertising costs are charged to operations when incurred. During the years ended June 30, 2018 and 2017, Habitat incurred approximately $1,000 and $5,000, respectively, related to the advertisements for The Restore and various fundraising activities.

New Accounting Pronouncements

1. In May 2014, ASU No. 2014-09, "*Revenue from Contracts with Customers*" ("ASU 2014-09") was issued. The amendments in ASU 2014-09 affect any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in ASC 605, "*Revenue Recognition*," and most industry-specific guidance.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when or as the entity satisfies a performance obligation.

ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017. The Organization will adopt this new standard effective for the fiscal year ending June 30, 2019 and shall disclose qualitative and quantitative information on all of the following in regard to our contracts with customers:

a. Revenue recognized from contracts with customers.
b. Any impairment losses recognized on any receivables or contract assets arising from the firm's contracts with customers.
c. The opening and closing balances of receivables, contract assets, and contract liabilities from contracts with customers.
d. Revenue recognized in the reporting period that was included in the contract liability balance at the beginning of the period.
e. Revenue recognized in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods.
f. Significant changes in the contract asset or liability balances during the reporting period.
g. Performance obligation in contracts with customers

At this time, it is not known nor can it be reasonably estimated what the impact of this standard's adoption will have on the Organization. Management believes the effect on current accounting policies will be immaterial as the current accounting for revenue from customer contracts does not materially differ from the new standard.

2. In August 2016, ASU No. 2016-14, "*Presentation of Financial Statements of Not-for-Profit Entities*" ("ASU 2016-14") was issued. The amendments in ASU 2016-14 affect NFPs and the users of their general-purpose financial statements. These amendments are intended to improve the current net asset classification requirements and the information presented in financial statements and notes about a NFP's liquidity, financial performance, and cash flows. This ASU will supersede the financial statement presentation requirements in ASC 958 and most industry-specific guidance.

   ASU 2016-14 is effective for annual reporting periods beginning after December 15, 2017. Habitat will adopt this new standard effective for the fiscal year ending June 30, 2019. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

Subsequent Events

In accordance with FASB ASC 855, the Organization evaluated subsequent events through November 21, 2018, the date the financial statements were available for issue.

NOTE 3 RESTRICTED CASH AND CASH EQUIVALENTS

Habitat collects escrow payments from its mortgagees to pay real estate taxes and property insurance. Escrow payments are deposited into a bank account restricted to escrow transactions. Habitat also maintains a restricted reserve bank account in accordance with the terms of the Qualified Low Income Community Investment Loan (described in Note 8). The balances of these bank accounts as of June 30 were as follows:

	2018	2017
Escrow Deposits	$ 136,692	$ 116,803
Affiliate Guarantee Reserve	21,098	40,347
	$ 157,790	$ 157,150

NOTE 4 MORTGAGES RECEIVABLE

For the years ended June 30, 2018 and 2017, Habitat held 87 and 84 mortgages receivable, respectively, for properties it had sold to qualified buyers. As of June 30, 2018, these mortgages have maturity dates ranging from one to 28 years. The notes on these mortgages are non-interest bearing, payable in equal monthly installments, and are secured by deeds of trust on the properties. The payments collected on these mortgages are used to help fund future home construction. The notes have been discounted at the prevailing market rate at the inception of the mortgage using the effective interest method over the lives of the mortgages. As mortgage payments are made, Habitat recognizes the amortization of the discount as revenue.

Mortgages receivable as of June 30 were as follows:

	2018	2017
Mortgage notes receivable at face value	$ 2,833,529	$ 2,830,527
Less: Unamortized discounts on mortgage notes	(753,291)	(751,533)
Less: Allowance for uncollectibles	(104,138)	(104,033)
	1,976,100	1,974,961
Less: Amounts due within one year	(131,848)	(131,834)
Mortgage notes receivable, due after one year	$ 1,844,252	$ 1,843,127

Principal payments on the mortgages receivable balance are expected to be received as follows:

Year ending June 30,	
2019	$ 226,069
2020	223,124
2021	219,517
2022	217,335
2023	212,331
Thereafter	1,735,153
Total	$ 2,833,529

During the years ended June 30, 2018 and 2017, Habitat sold four properties and five properties, respectively, to qualified buyers at a zero-interest mortgage which the Organization is financing. For the year ended June 30, 2018, the sale and the resulting discount on the sale of these homes was approximately $340,000 and $128,000, respectively. For the year ended June 30, 2017, the sale and the resulting discount on the sale of these homes was approximately $302,000 and $71,000, respectively.

Periodically, Habitat sells individually identified mortgages receivable to a financial institution. Habitat continues to service these receivables by collecting payments from homeowners on behalf of the purchasing financial institutions. Homeowner payments are remitted by Habitat to the purchasing financial institutions in arrears. Accordingly, as of June 30, 2018 and 2017, Habitat has reported an agency payable liability of approximately $577,000 and $643,000, respectively. Habitat has reported a corresponding mortgages receivable – held for other account for these amounts on the statement of financial position.

During the years ended June 30, 2018 and 2017, Habitat sold zero and 25 of its mortgages, respectively. Upon the sale of the 25 mortgages during the year ended June 30, 2017, the proceeds exceeded the net mortgage receivable balance by approximately $110,000. This gain was deferred at the time of the sale and is being recognized over the life of the mortgages. As of June 30, 2018 and 2017, the amount deferred was approximately $94,000 and $105,000, respectively.

NOTE 5 FAIR VALUE MEASUREMENTS OF LAND INVENTORY

Building lots held for use in the construction of homes and sale with a carrying amount as of June 30 consisted of the following:

June 30, 2018	Significant Unobservable Inputs (Level 3)	Total Losses
Land for development	$ 711,439	$ (6,439)
Land for resale	69,687	-
Total inventory	$ 781,126	$ (6,439)

June 30, 2017	Significant Unobservable Inputs (Level 3)	Total Losses
Land for development	$ 668,751	$ (18,171)
Land for resale	75,277	-
Total inventory	$ 744,028	$ (18,171)

The table below is a summary of the changes in the fair value of Level 3 assets for the years ended June 30:

	2018	2017
Balances at beginning of year	$ 744,028	$ 804,537
Additions	34,335	11,400
Transfer of foreclosed home	55,000	-
Change in value	(6,439)	(18,171)
Sale or transfer to construction in progress	(45,798)	(53,738)
Balance at end of year	$ 781,126	$ 744,028

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2018	2017
Buildings and improvements	$ 497,501	$ 497,501
Fixtures and equipment	303,244	237,025
	800,745	734,526
Less: accumulated depreciation	(369,768)	(334,838)
Total property and equipment, net	$ 430,977	$ 399,688

Depreciation expense for the years ended June 30, 2018 and 2017 were approximately 35,000 and 33,000, respectively.

NOTE 7 INVESTMENT IN JOINT VENTURE

On May 24, 2012, Habitat entered into the New Markets Tax Credit (the "NMTC") program. NMTC programs were established as part of the Community Renewal Tax Relief Act of 2000. The goal of NMTC programs is to spur revitalization efforts of low-income and impoverished communities across the United States and its Territories by providing tax credit incentives to investors in a certified community development entity (the "CDE"). The tax credit for investors equals 39% of the investment, which is credited over a seven-year period. A CDE is required to participate and has the primary mission of providing financing for revitalization projects in low-income communities.

NMTC financing allows organizations such as affiliates of HFHI to receive low-interest loans or investment capital from CDEs, primarily financial institutions, which will allow their investors to receive tax credits. As a result of participation in the MNTC program, Habitat has obtained the low interest loan described in Note 8. The loan is guaranteed by Smith NMTC Associates, LLC, which also provides administrative support for the NMTC on behalf of affiliates participating in the NMTC program.

In connection with the NMTC program, Habitat and for other affiliates formed CCML Leverage I, LLC (the "Leveraged Lender"). The Leveraged Lender is a joint venture which allows the participating affiliates to take advantage of NMTC financing. Habitat's initial investment in the Leveraged Lender totaled approximately $1,450,000 and represents an approximate 10% ownership stake. The investment was composed of cash and construction in progress inventory of approximately $50,000 and $1,400,000, respectively.

Investments in joint ventures are accounted for under the equity method, with the Organization's share of the operating results of the joint venture reflected in investment income and distributions received from the Leveraged Lender. The distributions received are used to pay off the Qualified Low Income Community Investments Loan discussed in Note 8. Habitat's equity method investment in the Leveraged Lender consists of the following at June 30:

	2018	2017
Investment in Joint Venture, beginning of year	$ 1,556,861	$ 1,532,170
Investment income	39,196	39,196
Distributions received	(14,504)	(14,505)
Investment in Joint Venture, end of year	$ 1,581,553	$ 1,556,861

NOTE 8 NOTES PAYABLE

Note payable consists of the following as of June 30, 2018:

	2018	2017
Qualified Low Income Community Investment Loan	$ 1,880,000	$ 1,880,000
Vehicle Loan	14,570	23,020
	1,894,570	1,903,020
Less: Loan closing costs, net of amortization	(28,751)	(38,368)
Less: Current maturities	(9,592)	(9,127)
Notes payable net of current maturities and deferred loan costs	$ 1,856,227	$ 1,855,525

Future principal maturities on the note payable are as follows:

Year ending June 30,	Amount
2017	$ 9,592
2018	119,115
2019	229,598
2020	231,372
2021	233,160
Thereafter	1,071,733
Total	$ 1,894,570

Vehicle Note Payable
The Organization issued a note payable in the amount of $44,626 on December 4, 2014 to purchase a truck for The ReStore. The note bears interest at 4.99%. The principal is payable in monthly installments of $842 from January 2015 through December 2019. The note is collateralized by the truck purchased.

Qualified Low Income Community Investments Loan
On May 24, 2012, Habitat entered into the NMTC program (described in Note 7) and has obtained a Qualified Low Income Community Investments (the "QLICI") loan of $1,880,000 payable to CCM Community Development XVII, LLC, the sub-community development entity (the "sub-CDE"). The sub-CDE receives the tax credit allocation from the CDE. The loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low income residents. Semi-annual payments of interest only are required for the first seven years. Beginning November 5, 2020, principal and interest payments will be due based on an eight-year loan amortization. The stated interest rate is .77161% and the loan matures on May 23, 2028.

In connection with this arrangement, the debt has a put option feature that is exercisable on June 8, 2019. CCM CD XVII Investment Fund, LLC (the "Investment Fund"), the effective upstream owner of the sub-CDE, holder of the promissory note due from Habitat, is expected to exercise that option. As a result, the Leveraged Lender would purchase the Investment Fund's ownership interest. If that were to occur, Habitat, at that point. would own its own note to the sub-CDE and would thereby be able to extinguish its debt.

Habitat was in compliance with its debt covenants at June 30, 2018.

NOTE 9 LINE OF CREDIT

Habitat has a revolving line of credit with a lending institution. The line is in the amount of $750,000 and exists to be used for the construction of a single family housing project known as Mason's Ridge Homeowner's Association, Inc. ("Mason's Ridge", "Mason's Ridge Association", or the "Association"). The line of credit was issued on August 24, 2011 and originally matured on August 24, 2012. It has been renewed several times. The line of credit is collateralized by real estate held by Habitat at Mason's Ridge. There were no outstanding borrowings as of June 30, 2018 and 2017. Outstanding principal plus all accrued unpaid interest is due August 24, 2018. In addition, regular monthly payments of all accrued unpaid interest are due on the 24th of each month. The interest rate was 5.00% at June 30, 2018.

On August 24, 2018, the Organization renewed the line of credit through August 24, 2020. The renewal maintained an interest rate of 5.00%

NOTE 10 PROPERTY LIENS

Habitat has received funds from the State Housing Initiative Program, which is passed through Highlands County, to assist in the construction of homes. One tenth of this funding is forgiven each year over a 10-year period, provided that the property continues to be occupied by low-income individuals. Habitat has not recorded this lien as a liability since management considers it unlikely Habitat will ever have to repay these amounts.

Habitat holds a second mortgage receivable on the properties equal to the difference between the sale price of the home and the appraised value. The second mortgage receivable is reduced by 10% for each year the family lives in the home. Habitat has not recorded this second mortgage as a receivable since management considers it unlikely Habitat will ever receive these amounts.

NOTE 11 COMMITMENTS

In an effort to further Habitat's mission, the Organization entered into several contractual agreements, generally cancelable with 7 to 30 days written notice, with outside vendors and service providers.

NOTE 12 HURRICANE IRMA

In September 2017, many residences and businesses in Highlands County were severely impacted by the effects of Hurricane Irma. In response to Hurricane Irma, Habitat has begun construction on new homes and repaired the existing homes for qualifying families that either lost their homes or had their homes damaged in the hurricane. To assist the Organization in its efforts, HFHI has offered its "Habitat Hammers Back" initiative and other grants programs to reimburse Habitat for direct construction costs and other auxiliary expenses, such as additional personnel and transport vehicles, related to assisting the affected families. Total assistance provided by HFHI, through these programs, and from other individuals and corporations, through their donations, were approximately $264,000 and $141,000, respectively, during the year ended June 30, 2018.

NOTE 13 MASON'S RIDGE DEVELOPMENT

In 2010, Habitat began construction of the Mason's Ridge affordable housing development. At full build-out, Mason's Ridge plans to provide 60 homes to very low, low, and moderate income families in Highlands County. In 2010, the Board of County Commissioners of Highlands County donated a vacant parcel of land valued at approximately $231,000. In 2011, the Board of County Commissioners of Highlands

County contributed $500,000 to Habitat for the construction of infrastructure on the Mason's Ridge project. Habitat also received a $300,000 grant from HUD that was used to fund construction of the first 12 homes. Habitat provides assistance to potential homeowners with application processing and other administrative aspects of obtaining one of these homes. Upon completion of the home, however, the homeowner obtains financing from the United States Department of Agriculture, who completes the underwriting and services the loan.

Mason's Ridge Association was incorporated under the laws of the State of Florida as a not-for-profit corporation on February 4, 2011. The Association which operates under Chapter 720, Florida Statutes, is responsible for the management, maintenance, and operation of its common areas.

Habitat, the developer of Mason's Ridge, recorded the Declaration of Covenants, Conditions, Restrictions and Easements (the "Declaration") of Mason's Ridge on February 24, 2011. In accordance with Article IV, Section 12 of the Declaration, Habitat is obligated to pay the annual assessment, up to the amount required to operate the Association, created by the short fall in revenue from non-developer owned units. This arrangement, referred to as developer deficit funding, is allowed pursuant to Florida Statutes, Section 720.308. As of June 30, 2018, the Association has not budgeted for or levied assessments to its homeowners.

During the years ended June 30, 2018 and 2017, Habitat did not complete or sell any homes in Mason's Ridge.

NOTE 14 RELATED-PARTY TRANSACTIONS

As mentioned in Note 12, Habitat received approximately $264,000 from HFHI to assist in the aftermath of Hurricane Irma during the year ended June 30, 2018. Habitat received an additional $15,000 from HFHI for other purposes, totaling approximately $279,000 of contributions and grants received from HFHI during the year ended June 30, 2018.

Additionally, the Organization receives guidance in administration and program support from HFHI. As a result, HFHI recommends that its affiliates contribute a tithe equal to 10% of unrestricted contributions to an affiliate organization outside the United States. During the years ended June 30, 2018 and 2017, Habitat tithed $5,000 and $2,500, respectively.