# HABITAT FOR HUMANITY OF
# LEE AND HENDRY COUNTIES, INC.

## CONSOLIDATED FINANCIAL REPORT

## SEPTEMBER 30, 2018

# HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

# CONSOLIDATED FINANCIAL REPORT
# SEPTEMBER 30, 2018

---

## TABLE OF CONTENTS

MAULDIN & JENKINS

# INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors**
**Habitat for Humanity of Lee and Hendry Counties, Inc.**
**North Fort Myers, Florida**

We have audited the accompanying consolidated financial statements of **Habitat for Humanity of Lee and Hendry Counties, Inc.** (a non-profit organization) ("Habitat"), which comprise the consolidated statements of financial position as of September 30, 2018 and 2017, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

**Management's Responsibility for the 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.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 from 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 auditor's 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.

1401 MANATEE AVENUE WEST, SUITE 1200 • BRADENTON, FLORIDA 34205-7440 • 941-747-4483 • 855-891-0070 • FAX 941-747-6035
MEMBERS OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS • www.mjcpa.com

## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Lee and Hendry Counties, Inc. as of September 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 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 State Financial Assistance is presented for purposes of additional analysis as required by Chapter 10.650, *Rules of the Auditor General*, 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 December 11, 2018, on our consideration of Habitat for Humanity of Lee and Hendry Counties, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Habitat for Humanity of Lee and Hendry Counties, Inc.'s internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Bradenton, Florida
December 11, 2018

# HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
## SEPTEMBER 30, 2018 AND 2017

| **ASSETS** | **2018** | 2017 |
|---|---|---|
| Cash and cash equivalents | | |
| Operating | **$ 2,237,224** | $ 2,793,540 |
| Escrow funds | **364,163** | 175,669 |
| Accounts receivable | **409,619** | 152,325 |
| Grants receivable | **161,500** | 225,000 |
| Investments for gift annuity obligations | **188,214** | 191,557 |
| Prepaid expenses and deposits | **304,560** | 140,567 |
| Building materials inventory | **153,382** | 148,645 |
| First and second mortgages receivable, net of an allowance for loan losses of $2,392,723 and $2,608,949 for 2018 and 2017, respectively | **10,452,864** | 9,071,839 |
| Land held for home sites | **4,034,403** | 3,643,364 |
| Construction in progress | **3,533,839** | 3,662,140 |
| Property and equipment, net | **8,113,519** | 8,549,524 |
| **Total assets** | **$ 29,953,287** | $ 28,754,170 |
| **LIABILITIES AND NET ASSETS** | | |
| Liabilities | | |
| Accounts payable and other accrued liabilities | **$ 1,230,956** | $ 579,501 |
| Escrow accounts payable | **276,502** | 189,922 |
| Annuity obligations payable | **115,880** | 122,491 |
| Long-term debt | **3,223,223** | 3,701,894 |
| **Total liabilities** | **4,846,561** | 4,593,808 |
| Net assets | | |
| Unrestricted | | |
| Undesignated | **23,271,921** | 22,890,824 |
| Board designated for future projects | **1,112,793** | 1,269,538 |
| Total unrestricted | **24,384,714** | 24,160,362 |
| Temporarily restricted | **722,012** | - |
| **Total net assets** | **25,106,726** | 24,160,362 |
| **Total liabilities and net assets** | **$ 29,953,287** | $ 28,754,170 |

**See Notes to Consolidated Financial Statements.**

# HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

## CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
## YEAR ENDED SEPTEMBER 30, 2018

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| **Changes in unrestricted net assets** | | | |
| Revenue and support | | | |
| Contributions | | | |
| Cash and pledge contributions | $ 1,676,158 | $ 722,012 | $ 2,398,170 |
| Materials and services | 2,061,887 | - | 2,061,887 |
| Land donations | 193,146 | - | 193,146 |
| Special events (less direct expenses of $82,410) | 1,378,700 | - | 1,378,700 |
| Grants and subsidies | 3,039,352 | - | 3,039,352 |
| Application fees | 64,348 | - | 64,348 |
| Retail store sales | 2,667,327 | - | 2,667,327 |
| Amortization of mortgage discounts | 217,202 | - | 217,202 |
| Interest income | 6,612 | - | 6,612 |
| Rental income | 794,699 | - | 794,699 |
| Change in gift annuities | 17,260 | - | 17,260 |
| Gain on sale of land held for home sites | 23,777 | - | 23,777 |
| Gain on disposal of fixed assets | 16,595 | - | 16,595 |
| Miscellaneous revenue | 394,715 | - | 394,715 |
| | 12,551,778 | 722,012 | 13,273,790 |
| Transfers to homeowners for mortgage loans | 5,675,574 | - | 5,675,574 |
| Total revenue and support | 18,227,352 | 722,012 | 18,949,364 |
| **Expenses** | | | |
| Program services | | | |
| Construction | 13,810,514 | - | 13,810,514 |
| Retail stores | 1,868,367 | - | 1,868,367 |
| Family services | 662,810 | - | 662,810 |
| Rentals | 883,229 | - | 883,229 |
| Total program service expenses | 17,224,920 | - | 17,224,920 |
| Administrative and general | 459,944 | - | 459,944 |
| Fundraising | 296,210 | - | 296,210 |
| Total administrative and general and fundraising expenses | 756,154 | - | 756,154 |
| Impairment loss | 21,926 | - | 21,926 |
| **Changes in net assets** | 224,352 | 722,012 | 946,364 |
| **Net assets, beginning of year** | 24,160,362 | - | 24,160,362 |
| **Net assets, end of year** | $ 24,384,714 | $ 722,012 | $ 25,106,726 |

**See Notes to Consolidated Financial Statements.**

# HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

## CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
## YEAR ENDED SEPTEMBER 30, 2017

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| **Changes in unrestricted net assets** | | | |
| Revenue and support | | | |
| Contributions | | | |
| Cash and pledge contributions | $ 3,887,839 | $ - | $ 3,887,839 |
| Materials and services | 1,561,097 | - | 1,561,097 |
| Land donations | 222,174 | - | 222,174 |
| Special events (less direct expenses of $36,930) | 391,580 | - | 391,580 |
| Grants and subsidies | 1,913,231 | - | 1,913,231 |
| Application fees | 67,110 | - | 67,110 |
| Retail store sales | 2,387,059 | - | 2,387,059 |
| Amortization of mortgage discounts | 168,772 | - | 168,772 |
| Interest income | 6,382 | - | 6,382 |
| Rental income | 861,763 | - | 861,763 |
| Change in gift annuities | 16,421 | - | 16,421 |
| Gain on sale of land held for home sites | 59,528 | - | 59,528 |
| Loss on disposal of fixed assets | 5,230 | - | 5,230 |
| Miscellaneous revenue | 465,546 | - | 465,546 |
| Net assets released from restriction | 54,594 | (54,594) | - |
| | 12,068,326 | (54,594) | 12,013,732 |
| Transfers to homeowners for mortgage loans | 5,083,882 | - | 5,083,882 |
| Total revenue and support | 17,152,208 | (54,594) | 17,097,614 |
| **Expenses** | | | |
| Program services | | | |
| Construction | 10,656,033 | - | 10,656,033 |
| Retail stores | 1,747,588 | - | 1,747,588 |
| Family services | 540,698 | - | 540,698 |
| Rentals | 911,241 | - | 911,241 |
| Total program service expenses | 13,855,560 | - | 13,855,560 |
| Administrative and general | 407,121 | - | 407,121 |
| Fundraising | 266,796 | - | 266,796 |
| Total administrative and general and fundraising expenses | 673,917 | - | 673,917 |
| Impairment loss | 198,489 | - | 198,489 |
| **Changes in net assets** | 2,424,242 | (54,594) | 2,369,648 |
| **Net assets, beginning of year** | 21,736,120 | 54,594 | 21,790,714 |
| **Net assets, end of year** | $ 24,160,362 | $ - | $ 24,160,362 |

**See Notes to Consolidated Financial Statements.**

## HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

### CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
### YEAR ENDED SEPTEMBER 30, 2018

| | Program Services | | | | Total | Administrative | | |
|---|---|---|---|---|---|---|---|---|
| | Construction | Retail Stores | Family services | Rentals | Program Services | and General | Fundraising | Total |
| Construction costs | $ 13,075,105 | $ - | $ - | $ - | $ 13,075,105 | $ - | $ - | $ 13,075,105 |
| Direct program expenses | | | | | | | | |
| Volunteer department | 272,048 | - | - | - | 272,048 | - | - | 272,048 |
| Tithe to Habitat for Humanity International | 325,451 | - | - | - | 325,451 | - | - | 325,451 |
| Program indirect expenses | | | | | | | | |
| Communication | 70,997 | 70,997 | 70,997 | 70,997 | 283,988 | - | - | 283,988 |
| Development | - | - | - | - | - | - | 296,210 | 296,210 |
| Cost of retail store sales | - | 1,708,090 | - | - | 1,708,090 | - | - | 1,708,090 |
| Family services costs | - | - | 332,719 | - | 332,719 | - | - | 332,719 |
| Mortgage expenses | - | - | 259,094 | - | 259,094 | - | - | 259,094 |
| Rental costs | - | - | - | 606,843 | 606,843 | - | - | 606,843 |
| Office and other salaries | - | - | - | - | - | 250,394 | - | 250,394 |
| Insurance | - | - | - | - | - | 22,099 | - | 22,099 |
| Mortgage interest | - | - | - | - | - | 4,073 | - | 4,073 |
| Office operations | - | - | - | - | - | 54,394 | - | 54,394 |
| Maintenance | - | - | - | - | - | 17,223 | - | 17,223 |
| Real estate taxes and fees | - | - | - | - | - | 29,174 | - | 29,174 |
| Utilities | - | - | - | - | - | 19,857 | - | 19,857 |
| Miscellaneous | - | - | - | - | - | 22,591 | - | 22,591 |
| Total functional expenses before depreciation | 13,743,601 | 1,779,087 | 662,810 | 677,840 | 16,863,338 | 419,805 | 296,210 | 17,579,353 |
| Depreciation | 88,839 | 89,280 | - | 205,389 | 383,508 | 40,139 | - | 423,647 |
| Total functional expenses | $ 13,832,440 | $ 1,868,367 | $ 662,810 | $ 883,229 | $ 17,246,846 | $ 459,944 | $ 296,210 | $ 18,003,000 |

**See Notes to Consolidated Financial Statements.**

## HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

### CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
### YEAR ENDED SEPTEMBER 30, 2017

| | Program Services | | | | Total | Administrative | | |
|---|---|---|---|---|---|---|---|---|
| | Construction | Retail Stores | Family services | Rentals | Program Services | and General | Fundraising | Total |
| Construction costs | $ 10,193,203 | $ - | $ - | $ - | $ 10,193,203 | $ - | $ - | $ 10,193,203 |
| Direct program expenses | | | | | | | | |
| Volunteer department | 209,782 | - | - | - | 209,782 | - | - | 209,782 |
| Tithe to Habitat for Humanity International | 303,701 | - | - | - | 303,701 | - | - | 303,701 |
| Program indirect expenses | | | | | | | | |
| Communication | 60,008 | 60,008 | 60,008 | 60,008 | 240,032 | - | - | 240,032 |
| Development | - | - | - | - | - | - | 266,796 | 266,796 |
| Cost of retail store sales | - | 1,602,302 | - | - | 1,602,302 | - | - | 1,602,302 |
| Family services costs | - | - | 349,374 | - | 349,374 | - | - | 349,374 |
| Mortgage expenses | - | - | 131,316 | - | 131,316 | - | - | 131,316 |
| Rental costs | - | - | - | 639,359 | 639,359 | - | - | 639,359 |
| Office and other salaries | - | - | - | - | - | 205,401 | - | 205,401 |
| Insurance | - | - | - | - | - | 10,723 | - | 10,723 |
| Mortgage interest | - | - | - | - | - | 5,392 | - | 5,392 |
| Office operations | - | - | - | - | - | 61,336 | - | 61,336 |
| Maintenance | - | - | - | - | - | 12,538 | - | 12,538 |
| Real estate taxes and fees | - | - | - | - | - | 45,248 | - | 45,248 |
| Utilities | - | - | - | - | - | 15,186 | - | 15,186 |
| Miscellaneous | - | - | - | - | - | 12,126 | - | 12,126 |
| Total functional expenses before depreciation | 10,766,694 | 1,662,310 | 540,698 | 699,367 | 13,669,069 | 367,950 | 266,796 | 14,303,815 |
| Depreciation | 87,828 | 85,278 | - | 211,874 | 384,980 | 39,171 | - | 424,151 |
| Total functional expenses | $ 10,854,522 | $ 1,747,588 | $ 540,698 | $ 911,241 | $ 14,054,049 | $ 407,121 | $ 266,796 | $ 14,727,966 |

**See Notes to Consolidated Financial Statements.**

# HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS
## YEARS ENDED SEPTEMBER 30, 2018 AND 2017

| | 2018 | 2017 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash received from contracts and donations | **$ 18,560,464** | $ 16,818,137 |
| Cash payments for program and support services | **(21,514,156)** | (19,216,088) |
| Cash received for interest | **6,612** | 6,382 |
| Cash payments for interest | **(100,756)** | (123,615) |
| Net cash (used in) operating activities | **(3,047,836)** | (2,515,184) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of property and equipment | **(454,209)** | (68,772) |
| Proceeds from the sale of property and equipment | **25,411** | 7,000 |
| Proceeds from the sale of mortgages | **3,620,068** | 1,001,895 |
| Mortgage payments received | **(200,237)** | 582,029 |
| Net cash provided by investing activities | **2,991,033** | 1,522,152 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Annuity payments | **(20,842)** | (20,783) |
| Proceeds from notes payable | **30,000** | 666,947 |
| Principal payments on notes and mortgages payable | **(508,671)** | (645,658) |
| Net cash provided by (used in) financing activities | **(499,513)** | 506 |
| Decrease in cash and cash equivalents | **(556,316)** | (992,526) |
| Cash and cash equivalents, beginning of year | **2,793,540** | 3,786,066 |
| Cash and cash equivalents, end of year | **$ 2,237,224** | $ 2,793,540 |
| **SUPPLEMENTAL DATA FOR NONCASH INVESTING AND FINANCING ACTIVITIES** | | |
| Property and equipment acquired with debt financing | **$ -** | $ 110,280 |

**See Notes to Consolidated Financial Statements.**

# HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS
## YEARS ENDED SEPTEMBER 30, 2018 AND 2017

| | 2018 | 2017 |
|---|---|---|
| Changes in net assets | $ 946,364 | $ 2,369,648 |
| Adjustments to reconcile changes in net assets to net cash (used in) operating activities | | |
| Depreciation | 423,647 | 424,151 |
| Impairment loss | 21,926 | 198,489 |
| Loss on sale of mortgages receivable and foreclosures | - | (11,634) |
| Issuance of first and second mortgages receivable less discount | (4,800,856) | (5,148,048) |
| (Gain) loss on disposal of property and equipment | (16,595) | (5,230) |
| Gain on sale of land held for homesites | (23,777) | (59,528) |
| Donated land held for home sites | (193,146) | (222,174) |
| Donated materials and services | (251,222) | (293,569) |
| Donated stock investments | - | (75,420) |
| (Increase) decrease in assets | | |
| Accounts receivable | (359,208) | (35,132) |
| Grants receivable | 63,500 | (194,038) |
| Charitable annuity split-interest agreements | 24,185 | 83,149 |
| Prepaid expenses and deposits | (163,993) | (42,167) |
| Building materials inventory | 156,763 | 105,406 |
| Land held for home sites | (146,042) | 82,659 |
| Construction in progress | 625,774 | 298,658 |
| Increase (decrease) in liabilities | | |
| Accounts payable and other accrued liabilities | 651,455 | 20,552 |
| Annuity obligations payable | (6,611) | (10,956) |
| Net cash (used in) operating activities | $ (3,047,836) | $ (2,515,184) |

**See Notes to Consolidated Financial Statements.**

## NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

### Organization

Habitat for Humanity of Lee and Hendry Counties, Inc. (“Habitat”) is a non-profit organization funded by public contributions. Habitat was incorporated on October 8, 1982, and is dedicated to providing affordable home ownership in Lee County and Hendry County, Florida, for those families who cannot otherwise afford a decent place to live.

Habitat is an affiliate of Habitat for Humanity International, Inc. (“Habitat International”), a nondenominational Christian, not-for-profit organization whose purpose is to create 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, training, publications, prayer support, and in other ways, Habitat is primarily and directly responsible for its own operations. Habitat has chosen to contribute a tithe on undesignated revenue received to Habitat International, as part of the affiliation.

### Significant Accounting Policies

### Principles of Consolidation

The consolidated financial statements include all of the accounts and activity of Habitat for Humanity of Lee and Hendry Counties, Inc., Majorca Palms, LLC, HFHLHC Funding Company I, LLC, Habitat Harlem Heights, LLC, and Habitat McNeil, LLC. All transactions between the above entities have been eliminated in consolidation and the above entities are collectively referred to as the “Organization.”

Majorca Palms, LLC (formerly known as “Habitat for Humanity Senior Housing, LLC”) was incorporated under the laws of the state of Florida in 2007 for the purpose of operating the rental complexes. In 2014, Habitat changed the name of Habitat for Humanity Senior Housing, LLC to Majorca Palms, LLC. Habitat is the sole member of the Majorca Palms, LLC.

HFHLHC Funding Company I, LLC was incorporated under the laws of the state of Florida in 2014 for the purpose of securitizing twenty-one mortgage notes that were sold in 2014 (see Note 5). Habitat is the sole member of the HFHLHC Funding Company I, LLC.

Habitat Harlem Heights, LLC was incorporated under the laws of the state of Florida in 2016 for the purpose of developing and constructing future home-sites. Habitat is the sole member of the Habitat Harlem Heights, LLC.

Habitat McNeil, LLC was incorporated under the laws of the state of Florida in 2017 for the purpose of limiting liability exposure for the McNeil neighborhood land development project. Habitat is the sole member of the Habitat McNeil, LLC.

## NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Significant Accounting Policies (Continued)

### Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Organization considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

### Temporarily Restricted Net Assets

Temporarily restricted net assets are those resources currently available for use, but expendable only for purposes specified by the donor. Such resources originate from contributions restricted for specific purposes.

### Gifts and Contributions

Habitat records contributions upon receipt of an unconditional promise to give, less an allowance for uncollectible amounts and an allowance for the present value of gifts to be received over more than one year. Gifts, bequests, and other promises or receipts restricted by donors as to use or time period are recorded as temporarily restricted net assets until used in the manner designated or upon expiration of the time period. Donated property and equipment are recorded at fair market value at the date received as unrestricted or restricted net assets, based on the donor’s intent. When the assets are used for their intended purposes, the applicable amount is transferred to unrestricted net assets. Unrestricted contributions received are recorded as contribution revenue.

### Grants and Subsidies

Habitat recognizes grants and subsidies as revenue in the period earned. For grants that are reimbursement basis, Habitat records revenue and a receivable when the condition identified in the grant has been completed. As of September 30, 2018 and 2017, Habitat has grants receivable of $161,500 and $225,000, respectively.

### Investments for Gift Annuity Obligations

Habitat is a named beneficiary under certain charitable gift annuity arrangements. Under these arrangements, Habitat receives the contributed amounts upon the execution of the agreement and is required to pay a fixed annuity to the donor during the lifetime of the donor. Habitat has recorded the contributed assets based on fair value and the annuity obligation based on the present value of future cash flows expected to be paid. The difference between the fair value of amounts contributed and the annuity obligation is recognized as unrestricted contribution revenue. Changes in the recorded assets and annuity obligations due to changes in life expectancy, present value actuarial assumptions, or market value of assets are reflected as other revenue in the accompanying consolidated statements of activities and changes in net assets.

## NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Significant Accounting Policies (Continued)

### Investments for Gift Annuity Obligations (Continued)

Upon death of the grantor and the receipt of the monies, Habitat will recognize the revenues according to the donor restrictions, if any. A discount rate of 2% was used to determine the present value of all split interest agreements at September 30, 2018 and 2017.

### Building Materials Inventory

Building materials are stated at the lower of cost (utilizing the first-in, first-out method) or market.

### Mortgages Receivable

First mortgages from the sale of houses are interest free amounts due from the home buyer. Second mortgages on houses represent the difference between the cost of the house and the assigned value of the house when the residence is transferred to the occupant. Both mortgages are interest free to the homeowner but are discounted at an appropriate rate of interest for financial statement presentation purposes.

A loan is considered impaired when it is probable, based on current information and events, the Organization will be unable to collect all principal payments due in accordance with the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal payments when due.

Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Impaired loans are measured by the fair value of the collateral. The amount of impairment, if any, and any subsequent changes are included in the allowance for loan losses.

### Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense. Loan losses are charged against the allowance when management believes the collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance.

The allowance is an amount that management believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio, based on an evaluation of the collectability of existing loans and prior loss experience. This evaluation also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, concentrations and current economic conditions that may affect the borrower’s ability to pay.

## NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Significant Accounting Policies (Continued)

### Allowance for Loan Losses (Continued)

This evaluation does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions. For the years ending September 30, 2018 and 2017, the Organization's allowance for loan loss is $200,000.

The allowance consists of specific and general components. The specific components relate to loans that are impaired. For such loans that are classified as impaired, an allowance is established when the collateral value of the impaired loan is lower than the carrying value of that loan. The general component covers unimpaired loans and is based on historical experience adjusted for qualitative factors.

Second mortgages are held on most homes sold. The terms of the second mortgages range from 10 to 20 years, and must be satisfied if the home is sold within the term of the mortgage. The second mortgages are offset by second mortgage reserves of $2,192,723 and $2,408,949 as of September 30, 2018 and 2017, respectively, as reported on the consolidated statements of financial position, because payment on these mortgages is waived over the term of the mortgage. Second mortgages issued prior to January 2006 decrease on a pro-rata basis over the term of the mortgage. Second mortgages issued after January 2006 remain at the full balance until the end of the mortgage term.

### Foreclosed Assets

Foreclosed homes acquired through or in lieu of loan foreclosure are refurbished for future qualified residents and are initially recorded at the lower of cost or fair value. Any write-down to fair value at the time of transfer to foreclosed assets is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Costs of improvements are capitalized, whereas costs relating to holding foreclosed homes and subsequent adjustments to the value are expensed.

## NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Significant Accounting Policies (Continued)

### Land and Construction Inventory

#### Land Held for Home and Commercial Property Sites

Land purchased for homes and commercial property sites is recorded at cost unless it is determined to be impaired, in which case the impaired land is written down to fair value. Donated land is recorded at the donor's appraised amount or the property appraiser's value. All related carrying costs for these properties such as maintenance, any assessments, real estate taxes, etc. are capitalized into the cost of the properties. Habitat reviews land for impairment during each reporting period on a lot by lot basis. Generally accepted accounting principles require that if the undiscounted cash flows expected to be generated by an asset are less than its carrying amount, an impairment charge should be recorded to write down the carrying amount of such asset to its fair value.

#### Construction in Progress

Costs of construction in progress consist of a budgeted amount for the land transferred from land inventory to the construction account and direct home construction costs, unless it is determined to be impaired. In which case, the impaired construction in progress is written down to fair value. Construction overhead is expensed as incurred. Homes completed pending closing are classified as construction in progress until delivered. Habitat reviews construction in progress for impairment during each reporting period on a lot by lot basis. Generally accepted accounting principles require that if the undiscounted cash flows expected to be generated by an asset are less than its carrying amount, an impairment charge should be recorded to write down the carrying amount of such asset to its fair value.

Habitat estimates fair values of land and construction inventory evaluated for impairment under generally accepted accounting principles based on market conditions and assumptions made by management at the time they are evaluated, which may differ materially from actual results if market conditions or assumptions change. For example, further market deterioration or changes in assumptions may lead to Habitat incurring additional impairment charges on previously impaired land and construction inventory, as well as on land and construction inventory in progress not currently impaired but for which indicators of impairment may arise if further deterioration occurs.

### Property and Equipment

Property and equipment are recorded at cost or estimated fair market value on the date received. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from three to thirty-nine years.

## NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Significant Accounting Policies (Continued)

### Donated Property and Equipment

Donations of property and equipment (in-kind contributions) are recorded as revenue at their estimated fair value at the date of donation. Such donations are reported as unrestricted support, unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support.

### Revenue Recognition

It is Habitat's policy to sell affordable housing with interest free mortgages. In accordance with generally accepted accounting principles, the mortgages receivable have been discounted based upon the prevailing market rates at the inception of the mortgage.

### Impairment Loss

For assets to be held and used, generally accepted accounting principles require the recognition of an impairment loss whenever events or changes in circumstances have indicated that an asset may be impaired and the future cash flows from that asset are less than the asset's carrying amount. The impairment loss is measured as the difference between the asset's carrying amount and its fair value.

During the years ended September 30, 2018 and 2017, Habitat recorded impairment losses of $21,926 and $198,489, respectively, which was recognized in the consolidated statements of activities and changes in net assets. Of the total impairment losses for the years ended September 30, 2018 and 2017, $21,926 and $10,000, respectively, related to land held for home sites and $- and $188,489, respectively, related to construction in progress.

### Donated Materials and Services

Donations of building materials (in-kind contributions) are recorded at their estimated fair value at the date of donation.

Donated materials and professional services in the amount of $2,019,887 and $1,561,097 were recognized as contributed material and services for the years ended September 30, 2018 and 2017, respectively.

No amounts have been reflected in the consolidated statements of activities and changes in net assets for volunteer services because the criteria for recognition of such volunteer efforts under FASB guidance have not been satisfied. Nevertheless, volunteers have donated a substantial amount of their time to the program services of the Organization.

## NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Significant Accounting Policies (Continued)

### Program Services

Program services include construction, family services, senior housing, and providing affordable home furnishings in the retail stores. The cost of home building or rehabilitation is charged to program services as the homes are completed and sold.

### Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of functional expenses, and the consolidated statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

During the year ending September 30, 2018, Habitat implemented a Disaster Recovery Program ("DRP") for qualifying low income homeowners in Lee or Hendry Counties whose homes were damaged by Hurricane Irma. The program staffing and repair expenses totaled $1,296,651 for the year ended September 30, 2018, and are included on the Schedule of Functional Expenses under Construction. Habitat collected $1,077,618 in grants, donations and homeowner insurance proceeds specific to this program during the year ended September 30, 2018, and are included in the Statement of Activities under Grants and Subsidies.

### Income Taxes

The Internal Revenue Service has determined that the Organization is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3). Accordingly, no provision for income taxes has been made in these financial statements.

Management of Habitat considers the likelihood of changes by taxing authorities in its exempt organization returns and discloses potential significant changes that management believes are more likely than not to occur upon examination by tax authorities. Management has not identified any uncertain tax positions in filed returns that require disclosure in the accompanying financial statements.

Habitat files the Form 990 in the U.S. Federal Jurisdiction.

### Use of Estimates

The preparation of consolidated financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

## NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Significant Accounting Policies (Continued)

### Use of Estimates (Continued)

Material estimates that are particularly susceptible to significant change in the near term related to the determination of the allowance for loan losses, the valuation of land and construction in progress and the determination of accrued construction rehab costs.

## NOTE 2. ESCROW CASH

Funds received from homebuyers prior to closing are held in escrow and restricted to closing costs on home sales. Habitat also holds funds in escrow as security deposits for its rental units. These escrow funds are recorded as cash with a corresponding liability in the consolidated financial statements as escrow accounts payable.

As of September 30, 2018 and 2017, Habitat held $708,460 and $594,295, respectively, in tax and insurance escrow funds. These assets, along with the corresponding liability, are not included on the consolidated statements of financial position.

## NOTE 3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specified purpose. Temporarily restricted net assets consisted of cash in the amount of $722,012 as of September 30, 2018, and is to be used towards the Harlem Heights Project. There were no temporarily restricted net assets as of September 30, 2017.

During the years ended September 30, 2018 and 2017, $- and $54,594, respectively, was released from temporarily restricted net assets to unrestricted net assets.

## NOTE 4. MORTGAGES RECEIVABLE

There were first mortgages receivable on 199 and 183 homes at September 30, 2018 and 2017, respectively.

The following is a summary of mortgages receivable, presented net of the imputed interest amounts:

| | **2018** | 2017 |
|---|---|---|
| Balance, beginning of year | **$ 9,071,839** | $ 5,496,081 |
| New mortgages | **6,066,709** | 6,425,144 |
| | **15,138,548** | 11,921,225 |
| Payments | **(171,486)** | (580,175) |
| Change in discount rate | **(865,379)** | (1,063,961) |
| Foreclosures and deed in lieu | **(28,751)** | (92,033) |
| Sale of mortgages | **(3,620,068)** | (1,113,217) |
| | **$ 10,452,864** | $ 9,071,839 |

Maturities of first mortgage notes receivable are summarized as follows:

| | **2018** | 2017 |
|---|---|---|
| Gross amounts due in: | | |
| Less than one year | **$ 816,620** | $ 714,006 |
| 1 to 5 years | **3,170,418** | 2,756,529 |
| After 5 years | **10,118,998** | 8,389,097 |
| | **14,106,036** | 11,859,632 |
| Unamortized discount | **(3,453,172)** | (2,587,793) |
| Allowance for doubtful accounts | **(200,000)** | (200,000) |
| Net amounts due | **$ 10,452,864** | $ 9,071,839 |

## NOTE 4. MORTGAGES RECEIVABLE (Continued)

The following is a summary of information pertaining to impaired and non-impaired loans:

| | 2018 | 2017 |
|---|---|---|
| Gross non-impaired loans with a valuation allowance | **$ 12,545,855** | $ 10,870,654 |
| Valuation allowance for non-impaired loans | **(200,000)** | (200,000) |
| Net gross non-impaired loans | **$ 12,345,855** | $ 10,670,654 |
| | | |
| Gross impaired loans with a valuation allowance | **$ 1,560,181** | $ 988,978 |
| Valuation allowance for non-impaired loans | **-** | - |
| Net gross non-impaired loans | **$ 1,560,181** | $ 988,978 |
| | | |
| Second mortgages with a valuation allowance | **$ 2,192,723** | $ 2,408,949 |
| Valuation allowance for second mortgages | **(2,192,723)** | (2,408,949) |
| Net second mortgages | **$ -** | $ - |

During the year ended September 30, 2018, Habitat sold mortgages receivable with a book value of $4,142,730 for $3,620,068. During the year ended September 30, 2017, Habitat sold mortgages receivable with a book value of $1,113,217 for $1,001,895.

## NOTE 5. HOME BUILDING AND SITE PREPARATION ACTIVITY

During the year ended September 30, 2018, 64 homes were transferred to homeowners and 79 were under rehabilitation or completed at year-end. During the year ended September 30, 2017, 58 homes were transferred to homeowners and 73 were under rehabilitation or completed at year-end.

## NOTE 6. PROPERTY AND EQUIPMENT

At September 30, 2018 and 2017, the carrying value of property and equipment and the related accumulated depreciation are as follows:

| | 2018 | 2017 |
|---|---|---|
| Land | **$ 1,475,663** | $ 1,525,663 |
| Buildings and building improvements | **9,068,621** | 9,248,637 |
| Office fixtures and equipment | **86,534** | 86,534 |
| Computer equipment | **121,528** | 121,528 |
| Forklifts and other equipment | **125,927** | 126,693 |
| Vehicles | **1,090,907** | 1,022,532 |
| | **11,969,180** | 12,131,587 |
| Less accumulated depreciation | **(3,855,661)** | (3,582,063) |
| | **$ 8,113,519** | $ 8,549,524 |

## NOTE 7. LEASE OBLIGATIONS

### Operating Leases

Habitat leases office equipment and retail space for two retail store locations under non-cancelable operating leases with varying terms through September 2022. Rent expense under these leases were $253,092 and $252,830 for the years ended September 30, 2018 and 2017.

Minimum future rental payments under the non-cancelable operating leases having a remaining term in excess of one year as of September 30, 2018, are:

| Year ending September 30, | | |
|---|---|---|
| 2019 | $ | **263,387** |
| 2020 | | **432,850** |
| 2021 | | **312,056** |
| 2022 | | **270,152** |
| 2023 | | **249,636** |
| Thereafter | | **785,604** |
| | $ | **2,313,685** |

## NOTE 8. LINES OF CREDIT

In October 2016, the Organization renewed the line of credit of $1,000,000 with a financial institution. The renewed line of credit bears interest at 3.25%, and matured in October 2017. The Organization extended the line of credit until December 2017 and then again until March 2019. The renewed line of credit bears interest at Prime (5.25% at September 30, 2018), and matures in March 2019. There is no outstanding balance at September 30, 2018 and 2017.

In March 2016, the Organization renewed a secured line of credit of $1,000,000, originally entered into in 2015, with a financial institution to fund the single family affordable housing projects. The renewed line of credit bears interest at 3.50%, and matures in March 2017. In March 2017, the Organization renewed the line of credit of $1,000,000 with the same financial institution. The renewed line of credit bears interest at Prime (5.25% at September 30, 2018), and matures in March 2019. The line of credit is secured by the assignment of notes and mortgages receivable. There is no outstanding balance at September 30, 2018 and 2017.

## NOTE 9. LONG-TERM DEBT

| | | **2018** | | 2017 |
|---|---|---|---|---|
| Note payable secured by real estate, payable to a financial institution in monthly interest payments that bear interest at 4.25%, with the outstanding principal balance due in October 2021. | **$** | **1,798,854** | $ | 2,224,100 |
| Unsecured investment bond payable to a financial institution, quarterly interest payments of 0.25%, full balance due September 2023. | | **500,000** | | 500,000 |

## NOTE 9. LONG-TERM DEBT (Continued)

| | **2018** | 2017 |
|---|---|---|
| Note payable secured by real estate, payable to a financial institution at 3% interest and monthly payments of $1,367 beginning August 2017 with final payment due June 2023. | **73,745** | 86,349 |
| Note payable secured by the vehicle, to finance a vehicle purchase, payable to a finance company at 4.25% interest and monthly payments of $890 with final payment due October 2017. | **-** | 822 |
| Note payable secured by the vehicle, to finance a vehicle purchase, payable to a finance company at 4.45% interest and monthly payments of $1,349 with final payment due November 2019. | **-** | 6,965 |
| Note payable secured by the vehicle, to finance a vehicle purchase, payable to a finance company at 4.05% interest and monthly payments of $622 with final payment due December 2018. | **1,815** | 9,068 |
| Note payable secured by the vehicle, to finance a vehicle purchase, payable to a finance company at 1.90% interest and monthly payments of $774 with final payment due May 2020. | **15,217** | 24,117 |
| Note payable secured by the vehicle, to finance a vehicle purchase, payable to a finance company at 1.90% interest and monthly payments of $774 with final payment due May 2020. | **15,217** | 24,117 |
| Note payable secured by the vehicle, to finance a vehicle purchase, payable to a finance company at 3.75% interest and monthly payments of $950 with final payment due October 2020. | **-** | 7,222 |
| Note payable secured by the vehicle, to finance a vehicle purchase, payable to a finance company at 1.9% interest and monthly payments of $771 with final payment due November 2020. | **18,875** | 27,673 |
| Note payable secured by the vehicle, to finance a vehicle purchase, payable to a finance company at 1.9% interest and monthly payments of $771 with final payment due November 2020. | **18,875** | 27,673 |
| Note payable secured by the vehicle, to finance a vehicle purchase, payable to a finance company at 1.9% interest and monthly payments of $900 with final payment due December 2020. | **22,954** | 32,373 |

## NOTE 9. LONG-TERM DEBT (Continued)

| | **2018** | 2017 |
|---|---|---|
| Note payable secured by board designated funds, to fund sub-granting under the Self-Help Ownership Program (SHOP), payable to Habitat International at 0.00% interest and monthly payments of $416 with final payment due December 2021. | **16,256** | 20,000 |
| Note payable secured by board designated funds, to fund sub-granting under the Self-Help Ownership Program (SHOP), payable to Habitat International at 0.00% interest and monthly payments of $437 with final payment due July 1, 2023. | **21,000** | 21,000 |
| Note payable secured by board designated funds, to fund sub-granting under the Self-Help Ownership Program (SHOP), payable to Habitat International at 0.00% interest and monthly payments of $625 with final payment due December 1, 2023. | **30,000** | - |
| Note payable with an available borrowing limit of up to $750,000 to fund pre-development costs for the Harlem Heights project, payable to Florida Housing Finance Corporation (FHFC) at 1.00% interest and annual payments of $16,073 with final payment due July 2019. | **690,415** | 690,415 |
| | **$ 3,223,223** | $ **3,701,894** |

Principal maturities of long-term debt at September 30, 2018, are as follows:

| Year ending September 30, | |
|---|---|
| 2019 | **$ 765,146** |
| 2020 | **74,025** |
| 2021 | **1,836,470** |
| 2022 | **30,022** |
| 2023 | **517,560** |
| | **$ 3,223,223** |

## NOTE 10. FAIR VALUE MEASUREMENTS

Generally accepted accounting principles (GAAP), establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under GAAP are described as follows:

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

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- 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 by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially all of the full term of the asset or liability.

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

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

### Assets Measured at Fair Value on a Recurring Basis

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2018.

*Mutual funds*: Valued at the fair value of shares held by Habitat at year end.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Habitat believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

## NOTE 10. FAIR VALUE MEASUREMENTS (Continued)

The following table sets forth by level, within the fair value hierarchy, Habitat's assets at fair value as of September 30, 2018:

| | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Mutual Funds | **$ 188,214** | **$ -** | **$ -** | **$ 188,214** |
| Total assets at fair value | **$ 188,214** | **$ -** | **$ -** | **$ 188,214** |

The following table sets forth by level, within the fair value hierarchy, Habitat's assets at fair value as of September 30, 2017:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Mutual Funds | $ 191,557 | $ - | $ - | $ 191,557 |
| Total assets at fair value | $ 191,557 | $ - | $ - | $ 191,557 |

Following is a description of the valuation methodologies used for instruments measured at fair value on a non-recurring basis and recognized in the accompanying balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy.

*Impaired loans*: Loan impairment is reported when full payment under the loan terms is not expected. Impaired loans are carried at the fair value of collateral. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to require increase, such increase is reported as a component of the provision for loan losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan is confirmed. When the fair value of the collateral is based on an observable market price or a current appraised value, the Organization records the loan impairment as nonrecurring Level 2.

*Impaired land held for home sites*: Land held for home sites impairment are reported when the current tax appraised values are less than its carrying amount, an impairment charge should be recorded to write down the carrying amount of such assets to its fair value. When the fair values of such assets are based on current tax appraised values, the Organization records the land held for homes sites as nonrecurring Level 2.

## NOTE 11. MORTGAGE LOAN SERVICE AGREEMENT

Habitat services the mortgages it holds, handling the processing of mortgage payments and escrow accounts for the mortgages. In addition, Habitat also services mortgages totaling $27,155,214 as of September 30, 2018, and $25,309,566 as of September 30, 2017, that it sold to outside investors. These mortgages are not owned by Habitat and, therefore, are not reflected in the consolidated financial statements.

## NOTE 12. TITHE TO HABITAT INTERNATIONAL

Habitat annually remits a portion of its revenues to Habitat International. These funds are used to construct homes in economically depressed areas around the world. Habitat contributed $325,451 and $303,701 for the years ended September 30, 2018 and 2017, respectively. This amount is included in program services expense in the consolidated statement of functional expenses.

## NOTE 13. LEE COUNTY AND CITY OF CAPE CORAL CONTRACTS

During the years ending September 30, 2018 and 2017, Habitat entered into various contracts with Lee County and the City of Cape Coral to construct or rehabilitate 36 and 14 single-family homes, respectively. These contracts were funded through the Florida State Housing Initiative Partnership Program.

## NOTE 14. CONCENTRATION OF CREDIT RISK

Habitat maintains cash balances at several financial institutions located in Southwest Florida. Accounts in each institution are insured by the Federal Deposit Insurance Corporation up to the statutory limit. At September 30, 2018 and 2017, Habitat's uninsured cash balances totaled $1,531,589 and $1,557,715, respectively.

## NOTE 15. MORTGAGE LOAN COMMITMENTS

When Habitat sells mortgages to third parties, it agrees with the buyer to replace any delinquent mortgage loan with a mortgage of approximately the same amount. The buyer of the loans must request that this be done. The mortgages summarized in Note 4 are subject to this replacement requirement.

## NOTE 16. RELATED PARTY TRANSACTIONS

The Organization paid $271,042 and $91,769 to a law firm that has a board member as a stockholder during the years ended September 30, 2018 and 2017, respectively.

The Organization paid $885 and $890 to an accounting firm that has a board member as a stockholder during the years ended September 30, 2018 and 2017, respectively.

The Organization paid $3,821 to an organization that has a board member as a stockholder for an event during the year ended September 30, 2018.

## NOTE 16. RELATED PARTY TRANSACTIONS (Continued)

The Organization paid $363,248 and $10,750 to a construction company that has a board member as senior management during the years ended September 30, 2018 and 2017, respectively.

The Organization paid $20,587 and $32,952 to an auto insurance company that has a board member as management during the year ended September 30, 2018 and 2017, respectively.

The Organization maintains its operating account and money market account in a commercial bank that a board member is an executive vice president of the Organization also has an unsecured line of credit with the same commercial bank (see Note 9).

## NOTE 17. RETIREMENT PLAN

Habitat's employees participate in a defined contribution plan. Employees eligible to participate in the plan must be at least 21 years of age and have three months of service. The plan allows for employee contributions which Habitat may match up to a maximum of 4% of eligible compensation. The employer match expenses for the years ended September 30, 2018 and 2017, are $77,232 and $60,211, respectively.

## NOTE 18. CONTINGENCY

Habitat is involved in a number of legal actions relating to delinquent mortgages. It is the policy of Habitat to foreclose or receive the residence by way of a deed in lieu of foreclosure. Habitat does not anticipate any losses to be incurred from any of these legal actions.

## NOTE 19. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through December 11, 2018, the date on which the financial statements were available to be issued, noting no events that have occurred for disclosure in the financial statements.

# SUPPLEMENTARY INFORMATION

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

**Board of Directors**
**Habitat for Humanity of Lee and Hendry Counties, Inc.**
**North Fort Myers, Florida**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Habitat for Humanity of Lee and Hendry Counties, Inc. (a non-profit organization) ("Habitat"), which comprise the consolidated statement of financial position as of September 30, 2018, and the related consolidated statements of activities and changes in net assets, 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 December 11, 2018.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control 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.

1401 MANATEE AVENUE WEST, SUITE 1200 • BRADENTON, FLORIDA 34205-7440 • 941-747-4483 • 855-891-0070 • FAX 941-747-6035
MEMBERS OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS • www.mjcpa.com

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Habitat'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 financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

Mauldin & Jenkins, LLC

Bradenton, Florida
December 11, 2018

# INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY CHAPTER 10.650, *RULES OF THE AUDITOR GENERAL*

**Board of Directors**
**Habitat for Humanity of Lee and Hendry Counties, Inc.**
**North Fort Myers, Florida**

**Report on Compliance for Each Major State Project**

We have audited Habitat for Humanity of Lee and Hendry Counties, Inc. (a non-profit organization) ("Habitat")'s compliance with the types of compliance requirements described in the *Department of Financial Services State Projects Compliance Supplement* that could have a direct and material effect on each of Habitat's major state projects for the year ended September 30, 2018. Habitat's major state projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***
Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state projects.

***Auditor's Responsibility***
Our responsibility is to express an opinion on compliance for each of Habitat's major state projects 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 Chapter 10.650, *Rules of the Auditor General*. Those standards and Chapter 10.650, *Rules of the Auditor General*, 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 state project occurred. An audit includes examining, on a test basis, evidence about Habitat'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 state project. However, our audit does not provide a legal determination of Habitat's compliance.

***Opinion on Each Major State Project***
In our opinion, Habitat complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state projects for the year ended September 30, 2018.

1401 MANATEE AVENUE WEST, SUITE 1200 • BRADENTON, FLORIDA 34205-7440 • 941-747-4483 • 855-891-0070 • FAX 941-747-6035
MEMBERS OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS • www.mjcpa.com

## Report on Internal Control Over Compliance

Management of Habitat 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 Habitat's internal control over compliance with the types of requirements that could have a direct and material effect on each major state project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state project and to test and report on internal control over compliance in accordance with Chapter 10.650, *Rules of the Auditor General*, 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 Habitat'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 state project 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 state project will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. 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 Chapter 10.650, *Rules of the Auditor General*. Accordingly, this report is not suitable for any other purpose.

Mauldin & Jenkins, LLC

Bradenton, Florida
December 11, 2018

# HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.
## SCHEDULE OF EXPENDITURES OF
## STATE FINANCIAL ASSISTANCE
## SEPTEMBER 30, 2018

| State Grantor/State CSFA Program Title/ Contract Name | CSFA Number | Grant Contract Number | Total State Expenditures |
|---|---|---|---|
| Florida Housing Finance Corporation | | | |
| State Housing Initiatives Partnership Program | | | |
| Lee County Contract | 40.901 | C-7700 | $ 950,000 |
| Lee County Contract | 40.901 | C-7701 | 180,000 |
| Lee County Contract | 40.901 | C-7702 | 419,000 |
| Lee County Contract | 40.901 | C-7910 | 105,712 |
| Cape Coral Contract 2015-2016 | 40.901 | FY15-16 | 16,077 |
| Cape Coral Contract 2016-2017 | 40.901 | FY16-17 | 130,000 |
| Cape Coral Contract 2017-2018 | 40.901 | FY17-18 | 18,500 |
| | | | 1,819,289 |
| Total Expenditures of State Financial Assistance | | | **$ 1,819,289** |

There were no transfers of State Financial Assistance to sub-recipients during the year. This schedule includes the state grant activity of Habitat for Humanity of Lee and Hendry Counties, Inc. for the fiscal year ended September 30, 2018, and is presented using the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Chapter 10.650, *Rules of the Auditor General*. Therefore, some amounts presented in this schedule may differ from amounts in, or used in, the preparation of the basis consolidated financial statements.

### Section I - Summary of Auditor's Results

*Financial Statements*

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

| | | |
|---|---|---|
| • Material weaknesses identified? | ____ Yes | x No |
| • Significant deficiencies identified that are not considered to be material weakness? | ____ Yes | x None reported |
| • Noncompliance material to financial statements noted? | _____ Yes | x No |

*State Financial Assistance*

Internal control over major state projects:

| | | |
|---|---|---|
| • Material weakness(es) identified? | _____ Yes | x No |
| • Significant deficiencies identified that are not considered to be material weakness? | _____ Yes | x None reported |

Type of auditor's report issued on compliance for major state programs: Unmodified

| | | |
|---|---|---|
| Any audit findings disclosed that are required to be reported in accordance with Chapter 10.656, *Rules of the Auditor General*? | _____ Yes | x No |

Identification of major programs:

| CSFA Number(s) | Name of State Project |
|---|---|
| 40.901 | Florida Housing Finance Corporation<br>State Housing Initiatives Partnership Program |

Dollar threshold used to distinguish between Type A and Type B project: $300,000

### Section II - Financial Statement Findings

No matters reported.

### Section III – State Award Findings and Questioned Costs

No matters reported.

A separate management letter was not issued for the year ended September 30, 2018. The communications contained in the standard post audit communication required by generally accepted auditing standards does not contain any items pertaining to state award compliance.

### Section IV – Status of Prior Year Audit Findings

No prior year audit findings.