

**Habitat for Humanity of
Palm Beach County, Inc.**
Riviera Beach, Florida

FINANCIAL STATEMENTS

June 30, 2018 and 2017



Habitat for Humanity of Palm Beach County, Inc.
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June 30, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Habitat for Humanity of Palm Beach County, Inc.
Riviera Beach, Florida

We have audited the accompanying financial statements of Habitat for Humanity of Palm Beach County, Inc. (a nonprofit organization), 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Board of Directors
Habitat for Humanity of Palm Beach County, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Palm Beach County, 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.

Carly Riggs & Ingram, L.L.C.

33 S.W. Flagler Avenue
Stuart, Florida
December 11, 2018

Habitat for Humanity of Palm Beach County, Inc.
Statements of Financial Position

<i>June 30,</i>	2018	2017
ASSETS		
Cash and cash equivalents	\$ 793,627	\$ 860,451
Restricted cash - escrow liabilities	352,229	355,348
Unconditional promises to give, net	1,609,476	1,732,345
Accounts receivable	93,099	89,753
Mortgage notes receivable, net	3,824,330	3,538,164
Inventory - Restore and Thrift	709,791	641,956
Inventory - homes under construction	610,217	645,032
Inventory - homes held for resale	41,733	197,016
Inventory - land	10,200	10,200
Other assets	135,804	106,661
Restricted cash - Neighborhood Stabilization Program	448,727	384,151
Restricted cash - property and equipment	-	25,000
Property and equipment, net	1,576,862	2,012,853
Total assets	\$ 10,206,095	\$ 10,598,930
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 171,838	\$ 145,230
Accrued expenses	421,577	423,858
Escrow liabilities	352,229	355,348
Line of credit	1,044,118	1,313,338
Interest rate swap agreement	16,745	46,128
Debt	2,033,058	2,148,501
Total liabilities	4,039,565	4,432,403
Net assets:		
Unrestricted	4,667,568	4,071,365
Temporarily restricted	1,498,962	2,095,162
Total net assets	6,166,530	6,166,527
Total liabilities and net assets	\$ 10,206,095	\$ 10,598,930

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

Habitat for Humanity of Palm Beach County, Inc. Statements of Activities

<i>Years Ended June 30,</i>	2018	2017
Unrestricted net assets:		
Support:		
In-kind contributions	\$ 3,073,311	\$ 3,411,476
Contributions and gifts	1,105,990	341,317
Governmental grants	322,047	592,326
Special events	450,057	333,433
Sale of donated merchandise (less value of donated inventory sold of \$2,895,959 in 2018 and \$2,768,409 in 2017)	24	2,243
Total support	4,951,429	4,680,795
Revenue:		
Program service revenue:		
Homes sold (net of mortgage discounts of \$765,373 in 2018 and \$433,986 in 2017)	711,600	378,564
Discount amortization	231,255	228,698
Other	66,045	61,396
Gain on disposition of property and equipment	-	3,900
Gain on sale of mortgage notes receivable	-	221,109
Interest income	724	466
Total revenue	1,009,624	894,133
Satisfaction of program restrictions releasing temporarily restricted net assets	1,735,647	1,320,733
Total support, revenue and release of temporarily restricted net assets	7,696,700	6,895,661
Expenses and losses:		
Program services	3,601,591	3,043,924
Supporting services:		
Restore	1,795,095	1,809,550
Thrift store	339,661	307,506
Management and general	537,037	533,225
Fundraising and development	602,834	569,495
Total supporting services	3,274,627	3,219,776
Total expenses	6,876,218	6,263,700
Loss on sale of property and equipment	224,279	-
Total expenses and losses	7,100,497	6,263,700
Change in unrestricted net assets	596,203	631,961
Temporarily restricted net assets:		
Contributions	1,139,447	1,654,555
Net assets released from donor restrictions	(1,735,647)	(1,320,733)
Change in temporarily restricted net assets	(596,200)	333,822
Change in net assets	3	965,783
Net assets at beginning of year	6,166,527	5,200,744
Net assets at end of year	\$ 6,166,530	\$ 6,166,527

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

Habitat for Humanity of Palm Beach County, Inc.
Statement of Functional Expenses

Year Ended June 30,

2018

	Supporting Services						Total Supporting Services	Total
	Program Services	Restore	Thrift Store	Management and General	Fundraising and Development			
Personnel Costs:								
Salaries and contractors	\$ 568,449	\$ 815,072	\$ 188,284	\$ 372,506	\$ 264,834	\$ 1,640,696	\$ 2,209,145	
Employee benefits and taxes	109,310	176,467	33,653	43,801	34,719	288,640	397,950	
Subtotal	677,759	991,539	221,937	416,307	299,553	1,929,336	2,607,095	
Other Expenses:								
Home construction costs	2,302,129	-	-	-	-	-	2,302,129	
Rent	129,848	349,276	11,572	20,696	10,095	391,639	521,487	
Insurance expense	115,099	72,114	16,596	19,969	10,396	119,075	234,174	
Office expense	48,205	67,229	12,682	28,147	16,938	124,996	173,201	
Promotional	771	59,319	7,728	1,999	41,345	110,391	111,162	
Interest	95,897	18,873	8,122	-	-	26,995	122,892	
Repair and maintenance	30,306	73,211	9,936	13,864	10,128	107,139	137,445	
Professional fees	78,520	1,558	760	8,251	2,850	13,419	91,939	
Fundraising expense	10,520	-	114	28	183,444	183,586	194,106	
Utilities	13,459	59,016	13,379	3,839	1,965	78,199	91,658	
Telephone	19,726	20,593	14,999	3,666	5,787	45,045	64,771	
Travel	19,508	24,177	4,306	4,538	2,814	35,835	55,343	
Volunteer/education expense	15,768	3,115	379	7,035	2,223	12,752	28,520	
Miscellaneous	5,018	512	306	3,250	13,114	17,182	22,200	
Taxes and licenses	6,186	4,244	1,375	2,867	440	8,926	15,112	
Tithe and contribution	9,000	-	-	-	-	-	9,000	
Subtotal	2,899,960	753,237	102,254	118,149	301,539	1,275,179	4,175,139	
Total expenses before provision for depreciation	3,577,719	1,744,776	324,191	534,456	601,092	3,204,515	6,782,234	
Provision for depreciation	23,872	50,319	15,470	2,581	1,742	70,112	93,984	
Total expenses	\$ 3,601,591	\$ 1,795,095	\$ 339,661	\$ 537,037	\$ 602,834	\$ 3,274,627	\$ 6,876,218	

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

Habitat for Humanity of Palm Beach County, Inc.
Statement of Functional Expenses

Year Ended June 30,

2017

	Supporting Services						Total Supporting Services	Total
	Program Services	Restore	Thrift Store	Management and General	Fundraising and Development			
Personnel Costs:								
Salaries and contractors	\$ 606,155	\$ 804,963	\$ 168,585	\$ 395,339	\$ 265,493	\$ 1,634,380	\$ 2,240,535	
Employee benefits and taxes	144,363	237,031	33,711	8,817	40,755	320,314	464,677	
Subtotal	750,518	1,041,994	202,296	404,156	306,248	1,954,694	2,705,212	
Other Expenses:								
Home construction costs	1,745,759	-	-	-	-	-	1,745,759	
Rent	131,770	346,546	11,300	16,832	10,435	385,113	516,883	
Insurance expense	91,803	60,392	12,589	28,034	6,751	107,766	199,569	
Office expense	59,608	58,195	13,422	20,320	22,218	114,155	173,763	
Promotional	1,137	48,088	5,266	605	42,665	96,624	97,761	
Interest	80,543	6,544	9,679	-	-	16,223	96,766	
Repair and maintenance	24,246	80,141	10,168	10,865	9,700	110,874	135,120	
Professional fees	53,868	1,840	907	13,153	4,082	19,982	73,850	
Fundraising expense	567	83	38	-	137,217	137,338	137,905	
Utilities	11,959	57,164	10,183	2,699	1,624	71,670	83,629	
Telephone	15,967	15,785	8,691	8,961	4,496	37,933	53,900	
Travel	21,704	20,035	3,695	8,333	5,603	37,666	59,370	
Volunteer/education expense	21,888	3,816	179	5,546	4,642	14,183	36,071	
Contracted services	-	7,348	2,471	-	-	9,819	9,819	
Miscellaneous	697	618	362	10,662	12,026	23,668	24,365	
Taxes and licenses	4,124	3,920	1,179	199	52	5,350	9,474	
Tithe and contribution	4,800	-	-	-	-	-	4,800	
Subtotal	2,270,440	710,515	90,129	126,209	261,511	1,188,364	3,458,804	
Total expenses before provision for depreciation	3,020,958	1,752,509	292,425	530,365	567,759	3,143,058	6,164,016	
Provision for depreciation	22,966	57,041	15,081	2,860	1,736	76,718	99,684	
Total expenses	\$ 3,043,924	\$ 1,809,550	\$ 307,506	\$ 533,225	\$ 569,495	\$ 3,219,776	\$ 6,263,700	

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

Habitat for Humanity of Palm Beach County, Inc. Statements of Cash Flows

Years Ended June 30,	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 3	\$ 965,783
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Provision for depreciation	93,984	99,684
Amortization of discount on unconditional promises to give	(19,081)	(4,355)
Home sales through mortgage notes receivable	(1,264,765)	(721,000)
Net increase in mortgage discounts	534,118	205,288
Value of donated inventory (Restore and Thrift) received	(2,963,794)	(2,740,075)
Value of donated inventory (Restore and Thrift) sold	2,895,959	2,768,409
In-kind donation of inventory - homes held for resale	-	(197,016)
Write down of inventory - land	-	42,459
Contributions restricted for long-term purposes	-	(47,500)
In-kind donation of property and equipment	-	(387,000)
Decrease in interest rate swap agreement included in interest expense	(29,383)	(44,316)
Gain on sale of mortgage notes receivable	-	(221,109)
Loss (gain) on sale of property and equipment	224,279	(3,900)
Changes in assets and liabilities:		
(Increase) decrease in:		
Unconditional promises to give	141,950	(107,483)
Accounts receivable	(3,346)	(15,224)
Grant receivables	-	28,449
Inventory - land	-	23,082
Inventory - homes under construction	34,815	(45,097)
Inventory - homes held for resale	184,030	7,632
Other assets	(29,143)	(44,975)
Increase (decrease) in:		
Accounts payable	26,608	(3,839)
Accrued expenses	(2,281)	31,525
Net cash used in operating activities	(176,047)	(410,578)
Cash flows from investing activities:		
Payments received on mortgage notes receivable	351,158	272,277
Proceeds from sale of mortgage notes receivable	-	397,305
Proceeds from sale of property and equipment	162,721	3,900
Purchase of property and equipment	(44,993)	(32,387)
Decrease (increase) in cash restricted for the purchase of property and equipment	25,000	(25,000)
Net cash provided by investing activities	493,886	616,095
Cash flows from financing activities:		
Payments on line of credit	(778,963)	(486,792)
Advances on line of credit	509,743	855,000
Payments on debt	(115,443)	(108,679)
Contribution received for long-term purposes	-	47,500
Net cash (used in) provided by financing activities	(384,663)	307,029
Net (decrease) increase in cash and cash equivalents	(66,824)	512,546
Cash and cash equivalents at beginning of year	860,451	347,905
Cash and cash equivalents at end of year	\$ 793,627	\$ 860,451

Supplemental disclosures of cash flow information (Note 13)

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

Habitat for Humanity of Palm Beach County, Inc. Notes to Financial Statements

NOTE 1 - ORGANIZATION AND PURPOSE

Habitat for Humanity of Palm Beach County, Inc. (the "Organization") was founded in October 1986 as a nonprofit ecumenical Christian housing ministry affiliated with Habitat for Humanity International, Inc., an organization with affiliates worldwide that seeks to eliminate poverty housing and homelessness from the world, and to make decent shelter a matter of conscience and action. Through volunteer labor and donations of money and materials, the Organization builds simple decent houses with the help of low-income homeowner families. The Organization focuses its efforts in the areas of West Palm Beach, Lake Worth, Jupiter and western communities in the Glades area, Florida. The Organization also operates a thrift store and restores. The proceeds from these stores go towards the funding of the Organization's homebuilding efforts.

The houses built by the Organization and its volunteers are sold to partner families at no profit and are financed with affordable no-interest loans. The homeowner's monthly mortgage payments go into a revolving fund that is used to build more houses. In addition to a down payment and the monthly mortgage payment, each homeowner family invests hundreds of hours of their own labor into the building of their house as well as the houses of others.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The accompanying financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this basis, revenues are recognized when earned and expenses are recognized when the obligation is incurred.

Basis of presentation - The financial statement presentation follows the recommendation of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) No. 958 Not-for-Profit Entities. Under ASC No. 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets, as follows:

- Unrestricted net assets consist of net assets that are neither permanently nor temporarily restricted by donor-imposed stipulations.
- Temporarily restricted net assets represent net assets with a donor-imposed restriction that is satisfied either by the passage of time or by actions of the Organization. The Organization had temporarily restricted net assets of \$1,498,962 at June 30, 2018 and \$2,095,162 at June 30, 2017 (Note 8).
- Permanently restricted net assets result primarily from contributions and other inflows of resources whose use by the Organization is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Organization. As of June 30, 2018 and 2017, the Organization had no permanently restricted net assets.

Habitat for Humanity of Palm Beach County, Inc.
Notes to Financial Statements

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted and unrestricted revenue and support - Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction.

Donated assets are valued at the estimated fair-market value at the date of receipt. Donated services are recognized as revenue only if the service requires specific expertise and is provided by professionals. Volunteers have also donated significant amounts of time in building the houses; however, such services have not been recognized as revenue. Revenue from the sale of inventory-Thrift and Restore is recognized at the point-of-sale.

Revenues from the sale of houses are recognized upon the transfer to the homeowners and are based upon the amount the purchasers are able to pay. The revenues and related mortgages are recorded at the discounted value of payments to be received over the lives of the mortgage. Non-interest bearing mortgages have been discounted based upon prevailing market rates for low-income housing at inception of the mortgages. Discounts are amortized and recognized as program service revenues in the statements of activities using the effective interest method over the lives of the mortgages.

Grants from governmental agencies are recognized as revenue when the grant funds have been expended in accordance with the provisions of the respective agreements.

Cash Flows - The Organization presents its cash flows using the indirect method. The Organization considers all highly liquid investments with original maturities of 90 days or less when acquired to be cash equivalents and excludes restricted cash.

Restricted cash – Restricted cash consists of amounts not available for the Organization’s operations. Restricted cash-escrow liabilities are funds received from homeowners for the payment of property taxes and insurance included in the related escrow liabilities. Escrow liabilities may also include principal and interest payments received from homeowners and owed to financial institutions on mortgage notes receivable sold. Restricted cash-Neighborhood Stabilization Program (NSP2) consists of principal payments received on mortgage notes receivable from homeowners related to homes sold under the NSP2 grant (see Note 12). Restricted cash-property and equipment consists of contributions received for the purpose of purchasing property and equipment.

Habitat for Humanity of Palm Beach County, Inc.
Notes to Financial Statements

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Promises to give - Promises to give are stated at fair value, which represents the net present value of future payments. Promises to give with due dates extending beyond one year are discounted to present value using a risk-free interest rate with similar term investments with an added amount for economic uncertainty. Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Management records an allowance for uncollectible promises to give based on historical experience.

Mortgage notes receivable - When the Organization sells a home, it accepts two installment notes in return. The first is an interest-free monthly installment note based upon the amount the purchaser is able to pay for a term of 25 to 30 years with principal payments due monthly. The amount recorded is at the face amount of the note, less an unamortized discount and an allowance for uncollectible accounts. Management records an allowance for uncollectible accounts on mortgage notes receivable based on a factor of approximately 1.5% to 2% of mortgages less the unamortized discount. In addition, management periodically reviews the mortgage notes receivable balances and provides an additional allowance for accounts which may be uncollectible. As of June 30, 2018 and 2017, the allowance for uncollectible accounts for mortgage notes receivable for both years was \$68,616.

The second note is a trust deed. It is interest-free and for a similar term of years as the first note. The amount is based on the difference between the appraised value of the home and the face amount of the first note. It is issued to ensure that the homeowner will not transfer, sell or assign their title of interest in the property or to cease to occupy the property within a relatively short period of time. The second note is forgiven upon repayment of the first note. The second note and its resulting contingent gain are not recorded on either the statements of financial position or the statements of activities. An estimate of the gain on the second trust deed cannot be made. It is unlikely that any gain will be realized.

Inventory – Restore and Thrift – Substantially all inventories at Restore and Thrift stores are donated. Inventory includes donated household building materials, appliances, furniture and clothing that are sold at the Habitat Restore and Thrift stores. Donated merchandise is recorded at its estimated fair market value, which is determined based on the future economic benefit.

Inventory – land - Land is carried at cost when purchased or fair market value when acquired by gift. Land inventory is tracked by lot numbers and reduced when parcels are sold or when construction begins and the parcels are transferred to inventory-homes under construction.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory – homes under construction – Homes under construction are carried at cost or at market value when materials are donated. The carrying amount represents the accumulated costs of houses under construction and land improvements. Construction costs consist of direct materials and labor costs incurred. Construction costs are expensed when the property is completed and sold to the homeowner. Costs accumulated in excess of the anticipated sales price are recorded in home construction costs in the statement of functional expenses. During the years ended June 30, 2018 and 2017, costs incurred in excess of the actual or anticipated selling prices (net of unamortized discounts) recognized in home construction costs in the statements of functional expenses was \$1,563,606 and 1,367,195, respectively.

Inventory – homes held for resale – Homes held for resale are carried at cost when purchased or market value when acquired by gift. The balance is expensed in home construction costs in the statements of functional expenses when the property is sold to the homeowner. Homes held for resale are written down to the anticipated selling prices of the homes (net of unamortized discounts) when prequalified families are identified. At June 30, 2018, homes held for resale consist of one previously sold home purchased back from the homeowner carried at cost, and has not been written down as prequalified families have not been identified. At June 30, 2017, homes held for resale consist of three donated homes carried at fair value and had not been written down as prequalified families had not been identified.

Property and equipment - Property and equipment are carried at cost if purchased or, if donated, at fair value on the date of donation, less accumulated depreciation. The Organization capitalizes all long-lived assets with an estimated useful life of more than three years and original cost of \$800 or more. The Organization follows the policy of providing for depreciation using the straight-line method over the estimated useful life of each type of asset which is as follows:

Building and improvements	7 - 40 years
Furniture and fixtures	5 years
Vehicles	5 years
Machinery and equipment	5 years
Software	5 years
Leasehold improvements	4 - 10 years

Donations of property and equipment 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. Without donor stipulations regarding how long these donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated assets are placed in service, reclassifying temporarily restricted net assets to unrestricted net assets at that time.

Habitat for Humanity of Palm Beach County, Inc.
Notes to Financial Statements

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment (continued) - Maintenance and repairs to property and equipment are charged to expense when incurred. Additions and major renewals are capitalized. When assets are retired or otherwise disposed of, the cost or donated value and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period.

Derivative financial instruments - The Organization makes limited use of derivative instruments for the purpose of managing interest rate risks. An interest rate swap agreement is used to partially convert the Organization's variable rate debt to a fixed rate. In accordance with FASB ASC 815, *Derivatives and Hedging*, the interest rate swap agreement is measured at fair value as an asset or liability on the statements of financial position with corresponding changes being recorded in the statements of activities. Fair value is estimated based on a current market quote for a similar instrument.

Accrued compensated absences - Paid time off is accrued based on completed years of employment. Employees are paid for accrued paid time off as of the last day of employment subject to certain limitations. At June 30, 2018 and 2017, the amount of accrued paid time off was \$101,866 and \$111,464, respectively.

Functional expenses - Program and supporting services are charged with their direct expenses. Other expenses are allocated based on management's estimate of their proportionate share of total expenses.

Income Taxes - Income taxes are not provided for in the financial statements since the Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization is not classified as a private foundation.

The Organization adopted the provisions of FASB ASC 740-10, *Income Taxes*, which clarifies the accounting for uncertainty in income taxes by defining the criterion an individual tax position must meet for any part of the benefit of the tax position to be recognized in financial statements prepared in conformity with accounting principles generally accepted in the United States of America. The Organization has determined that it does not have any uncertain tax positions and thus has not recognized any liabilities, interest or penalties in these financial statements. With few exceptions, the Organization is no longer subject to examinations by taxing authorities for fiscal years ended prior to 2015.

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

Habitat for Humanity of Palm Beach County, Inc.
Notes to Financial Statements

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of credit risk - Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist primarily of cash maintained in financial institutions in excess of the FDIC insured limit of \$250,000. Although cash balances may exceed federally insured limits at times during the year, the Organization has not experienced and does not expect to incur any losses in such accounts. At June 30, 2018 and 2017, the Organization had \$813,572 and \$897,805, respectively, held in excess of the FDIC limits. Cash is maintained with what management believes to be high quality financial institutions to limit its risk.

Reclassification – Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 presentation. The reclassification occurred as a result of identifying restrictions on a cash account related to the Neighborhood Stabilization Program previously recognized in Cash in the 2017 statement of financial position (see Note 12). As of June 30, 2017, the effect of the reclassification was a decrease in Cash, and an increase in Restricted Cash – Neighborhood Stabilization Program, in the amount of \$384,151. The reclassification did not have an effect on the statements of activities for the years ended June 30, 2018 or 2017.

NOTE 3 - UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give are stated at fair value, which represents the net present value of future payments less an allowance for uncollectible accounts. At June 30, 2018 and 2017, an allowance was not considered necessary. The outstanding balances of unconditional promises to give consists of the following:

<i>June 30,</i>	2018	2017
Unconditional promises to give	\$ 1,670,900	\$ 1,812,850
Less unamortized discount	(61,424)	(80,505)
Unconditional promises to give, net	\$ 1,609,476	\$ 1,732,345

Details of unconditional promises to give are as follows:

<i>June 30,</i>	2018	2017
Due within one year	\$ 750,900	\$ 671,850
Due in one to five years	920,000	1,141,000
Total unconditional promises to give	\$ 1,670,900	\$ 1,812,850

Habitat for Humanity of Palm Beach County, Inc.
Notes to Financial Statements

NOTE 3 - UNCONDITIONAL PROMISES TO GIVE (CONTINUED)

For the years ended June 30, 2018 and 2017, unconditional promises to give were discounted using rates ranging from 0.8% to 2%. Discounts on promises to give received in prior years are recognized as increases to contribution revenue while discounts on promises to give received in the current year are recognized as decreases to contribution revenue. For the years ended June 30, 2018 and 2017, the net effect recognized in the statements of activities was an increase to contribution revenue of \$19,081 and \$4,355, respectively.

NOTE 4 - MORTGAGE NOTES RECEIVABLE

The mortgage notes receivable are recorded at the face amount less the unamortized discounts. The discount rate for the years ended June 30, 2018 and 2017 are 7.57% and 7.47%, respectively. The Organization has an allowance for uncollectible accounts of \$68,616 as of both June 30, 2018 and 2017.

The outstanding balances are as follows:

<i>June 30,</i>	2018	2017
Face amount of mortgage notes receivable	\$ 9,601,002	\$ 8,906,648
Unamortized discounts	(5,708,056)	(5,299,868)
Allowance for uncollectible accounts	(68,616)	(68,616)
Total mortgage notes receivable, net	\$ 3,824,330	\$ 3,538,164

At times, the Organization may sell mortgage notes receivable to financial institutions. During the year ended June 30, 2017, the Organization sold mortgage notes receivable with a net book value of \$176,196 (including \$265,254 of unamortized discounts). Subject to certain conditions, the Organization may be contingently liable to the financial institutions for non-performing mortgage notes receivable (see Note 12). For the year ended June 30, 2018, the Organization did not sell any mortgage notes receivables.

Habitat for Humanity of Palm Beach County, Inc.
Notes to Financial Statements

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment used in operations consists of the following:

<i>June 30,</i>	2018	2017
Building and improvements	\$ 1,940,616	\$ 2,323,836
Vehicles	170,801	137,472
Leasehold improvements	148,355	148,355
Land	75,000	75,000
Machinery and equipment	41,907	41,257
Furniture and fixtures	41,920	41,920
Software	5,703	5,703
Total property and equipment	2,424,302	2,773,543
Less - accumulated depreciation	847,440	760,690
Property and equipment, net	\$ 1,576,862	\$ 2,012,853

Depreciation expense for the years ended June 30, 2018 and 2017 totaled \$93,984 and \$99,684, respectively.

NOTE 6 - LINE OF CREDIT

The Organization has a revolving line of credit with a bank, which permits borrowings up to \$1,535,000 (subject to certain borrowing limits), bears interest at LIBOR plus 2.5%, with a maturity date of January 2018. In March 2018, the line was amended to increase available borrowings to \$1,650,000 and extend the maturity date to March 2019. At June 30, 2018 and 2017, the balance of the line of credit was \$1,044,118 and \$1,313,338, respectively. The line is collateralized by mortgage notes receivable with a net book value of \$895,135 including unamortized discounts of \$1,408,384 at June 30, 2018, and net book value of \$759,536 including unamortized discounts of \$1,211,931 at June 30, 2017.

Habitat for Humanity of Palm Beach County, Inc.
Notes to Financial Statements

NOTE 7 - DEBT

Debt consists of the following:

<i>June 30,</i>	2018	2017
Note payable to bank with interest only payments at a rate of LIBOR plus 2.5% with a floor of 3.5% and a ceiling of 5.5%, collateralized by mortgage notes receivable with a net book value of \$332,614 (including unamortized discounts of \$498,608) in 2018 and \$344,149 (including unamortized discounts of \$518,462) in 2017, due March 2019.	\$ 414,588	\$ 430,398
Note payable to bank with interest only payments at Prime less 0.25%, collateralized by mortgage notes receivable with a net book value of \$456,478 (including unamortized discounts of \$673,011) in 2018 and \$470,726 (including unamortized discounts of \$700,407) in 2017, due November 2018.	685,099	706,692
Mortgage payable to Bank, due in monthly principal payments of \$3,280 (increasing annually through maturity) plus interest of LIBOR plus 2.25% due March 2020, collateralized by certain real estate with a net book value of \$1,033,826 (2018) and \$1,067,538 (2017).	760,380	800,467
Mortgages payable to Bank, interest ranging from 4.38% to 5.99%, due in monthly installments ranging from \$1,169 to \$2,825, including interest, with maturities from 2022 to 2023, collateralized by certain real estate with a net book value of \$266,207 (2018) and \$276,253 (2017).	172,991	210,944
Total debt	\$ 2,033,058	\$ 2,148,501

In conjunction with the \$760,380 (2018) and \$800,467 (2017) mortgage note payable above, the Organization entered into an interest rate swap agreement with a bank that expires in March 2020. The agreement effectively converts variable interest rate debt to fixed interest rate debt on the notional amount equal to the balance of the corresponding note payable. Under the terms of the agreement, the Organization pays 3.85% per annum and receives the LIBOR price. The fair value of the interest rate swap agreement (see Note 11) is a liability based on a quote obtained from the primary financial lender, which was quoted at \$16,745 and \$46,128 as of June 30, 2018 and 2017, respectively. For the years ended June 30, 2018 and 2017, the change in fair value was a decrease to interest expense of \$29,383 and \$44,316, respectively.

Habitat for Humanity of Palm Beach County, Inc.
Notes to Financial Statements

NOTE 7 - DEBT (CONTINUED)

Annual maturities of long-term debt for the years following June 30, 2018 are as follows:

<i>Year ended June 30,</i>	Amount
2019	\$ 1,182,389
2020	759,267
2021	44,313
2022	28,178
2023	13,473
Thereafter	5,438
Total debt	\$ 2,033,058

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2018, temporarily restricted net assets consisting of cash and unconditional promises to give are available for the following purposes or periods:

	Time Restriction	Home Construction	Total
Cash and cash equivalents	\$ -	\$ 189,962	\$ 189,962
Unconditional promise to give, net	761,581	547,419	1,309,000
Total temporary restricted net assets	\$ 761,581	\$ 737,381	\$ 1,498,962

At June 30, 2017, temporarily restricted net assets consisting of cash and unconditional promises to give are available for the following purposes or periods:

	Time Restriction	Home Construction	Property and Equipment	Total
Cash and cash equivalents	\$ -	\$ 380,347	\$ -	\$ 380,347
Restricted cash	-	-	25,000	25,000
Unconditional promise to give, net	942,745	747,070	-	1,689,815
Total temporary restricted net assets	\$ 942,745	\$ 1,127,417	\$ 25,000	\$ 2,095,162

Habitat for Humanity of Palm Beach County, Inc.
Notes to Financial Statements

NOTE 9 - DONATIONS OF ASSETS, MATERIALS AND SERVICES

In-kind contributions consists of the following:

<i>Years ended June 30,</i>	2018	2017
Inventory - Thrift and Restore	\$ 2,963,794	\$ 2,740,075
Home construction costs	109,517	87,385
Inventory - homes for resale	-	197,016
Property and equipment - building	-	387,000
Total in-kind contributions	\$ 3,073,311	\$ 3,411,476

NOTE 10 - RELATED PARTY TRANSACTIONS

Habitat Housing Solutions, Inc. (HHSI) is a private nonprofit, community-based organization whose primary purpose is to provide in the communities it serves, decent, safe and sanitary housing to low income households. HHSI qualifies as a Community Housing Development Organization (CHDO). The Board of Directors of HHSI includes the Chief Executive Officer of Habitat for Humanity of Palm Beach County, Inc. (the "Organization"). In March 2016, HHSI and the Organization entered into an agreement with Palm Beach County to receive \$940,460 in funding from its HOME Investment Partnerships Program. The Organization and HHSI will use this funding to construct five homes to sell or lease to households having certain income levels. In May 2016, the above agreement was amended to include the construction of one additional home and also increased the funding amount to \$1,033,996. HHSI will act as the administrator of this funding and the Organization will act as the construction contractor. The Organization holds title to the six properties and has leased them to HHSI to provide HHSI site control thereby enabling them to undertake the construction of the desired housing units. Site control has been provided by the Organization to HHSI by means of a separate ground lease. These ground leases provide HHSI the ability to encumber the properties with the Organization and the leases will expire upon the issuance of a certificate of occupancy. Each ground lease requires HHSI, upon expiration of the lease, to transfer full ownership of the improvements to the Organization, at no cost to, or obligation by the Organization towards HHSI. The Organization shall, upon the completion of construction and the transfer of their ownership from HHSI to the Organization, sell the dwellings to a County approved income eligible household to be occupied as a principle place of residence, and if not sold within a specified period, shall be rented to a County approved income eligible household.

In November 2016, HHSI entered into an additional, similar agreement with Palm Beach County to receive funding from its HOME Investment Partnerships Program for the construction of two additional homes. On the same date, two construction contracts were signed between HHSI as the developer and the Organization as the construction contractor. The total of the two construction contracts was \$348,200. As of June 30, 2018 and 2017, no amounts are due from HHSI. For the years ended June 30, 2018 and 2017, the total amount of revenue received from the HOME grants through HHSI was \$309,391 and \$552,886, respectively, and is included in government grants on the statements of activities. As of June 30, 2018, three of the eight homes built are sold and five are currently being rented to families.

NOTE 10 - RELATED PARTY TRANSACTIONS (CONTINUED)

In order to facilitate the requirements under the HOME grant program, HHSI obtained lines of credit with a financial institution. The financial institution required the Organization to sign the loan agreements as co-borrower. See Note 12.

NOTE 11 - FAIR VALUE MEASUREMENTS

FASB ASC 820-10, *Fair Value Measurement*, established 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 FASB ASC 820-10 are described as follows:

- 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; 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; 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 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 unobservable inputs.

Following is a description of the valuation methodology used for the liabilities measured at fair value.

Level 2 - Fair Value Measurement

The fair value of the interest rate swap agreement is based on quoted market prices for similar instruments.

Habitat for Humanity of Palm Beach County, Inc.
Notes to Financial Statements

NOTE 11 - FAIR VALUE MEASUREMENTS (CONTINUED)

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 the Organization 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.

The following table sets forth by level, within the fair value hierarchy, the liabilities fair value as of June 30, 2018:

	Level 1	Level 2	Level 3	Total
Liabilities:				
Interest rate swap agreement	\$ -	\$ 16,745	\$ -	\$ 16,745

The following table sets forth by level, within the fair value hierarchy, the liabilities fair value as of June 30, 2017:

	Level 1	Level 2	Level 3	Total
Liabilities:				
Interest rate swap agreement	\$ -	\$ 46,128	\$ -	\$ 46,128

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Restricted cash – Neighborhood Stabilization Program:

In April 2010, the Organization entered into a Consortium Agreement with the Lake Worth Community Redevelopment Agency (Lake Worth CRA) to build and rehabilitate homes in the Lake Worth, Florida area. The project was funded by the Neighborhood Stabilization Program 2 (NSP2) under the American Recovery and Reinvestment Act of 2009 through the US Department of Housing and Urban Development (HUD). During the project, both grant funds and bank loan proceeds were used to build and rehabilitate homes. Upon completion, the homes were sold to homeowners meeting certain qualifications through long-term mortgage notes receivable.

Habitat for Humanity of Palm Beach County, Inc.
Notes to Financial Statements

NOTE 12 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Under the terms of the grant, income from the project received from the use of grant funds is required to be used in support of affordable housing in the Lake Worth CRA service area. Principal payments on mortgage notes receivable related to this project are deposited into one bank account segregated from the Organization's operating account. Approval from the Lake Worth CRA must be obtained in order to use these funds. Upon close out of the grant, Lake Worth CRA and HUD will determine the ultimate disposition of the remaining assets and liabilities, which may include returning program income to Lake Worth CRA. The identified assets and liabilities included in the statements of financial position as of June 30, 2018 and 2017 related to the Lake Worth CRA/NSP2 project are as follows:

<i>June 30,</i>	2018	2017
Assets:		
Restricted cash-Neighborhood Stabilization Program	\$ 448,727	\$ 384,151
Mortgage notes receivable, net	1,252,373	1,322,206
Total assets	1,701,100	1,706,357
Liabilities:		
Debt-note payable to bank	414,588	430,398
Debt-note payable to bank	685,099	706,692
Total liabilities	\$ 1,099,687	\$ 1,137,090

As of the date of management's review (see Note 15), the grant has not been closed out. The Organization has not received a notice from Lake Worth CRA regarding the final disposition of the assets and liabilities subject to the NSP2 grant restrictions. Management has evaluated its contingent liability related to this agreement. As of and for the years ended June 30, 2018 and 2017, no contingent amounts have been recognized in the statements of financial position or statements of activities.

Mortgage notes receivable:

The Organization entered into loan sale agreements with financial institutions which provided for the sale of certain mortgage notes receivable held by the Organization. Upon execution of the agreements, rights of ownership of specified mortgage notes receivable were transferred to the financial institutions in exchange for cash less a specified discount. The agreements contain provisions giving the financial institutions the unilateral right of recourse against the Organization for specific non-performing mortgages. At that time, the Organization may repurchase the non-performing mortgage at the current principal balance less the same percentage discount used when the mortgage was originally sold, or it may replace it with an unencumbered mortgage note receivable with a similar principal balance and remaining terms. At June 30, 2018 and 2017, the balance of mortgage notes receivable sold to and held by financial institutions that are subject to replacement or repurchase was \$2,474,983 and \$2,632,425, respectively. Management has evaluated its contingent liability related to these agreements. As of and for the years ended June 30, 2018 and 2017, no contingent amounts have been recognized in the statements of financial position or statements of activities.

Habitat for Humanity of Palm Beach County, Inc.
Notes to Financial Statements

NOTE 12 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Loan guarantee:

The Organization entered into agreements with Habitat Housing Solutions, Inc. (HHSI), a related party, for the construction of several homes under the HOME Investment Partnerships Program provided through Palm Beach County (see Note 10). As part of the grant program requirement, HHSI must request reimbursement from Palm Beach County after paying the Organization for construction services. To fulfill the requirement, HHSI obtained lines of credit with a financial institution. The financial institution required the Organization to sign the loan agreements as co-borrower. The first line of credit was signed in May 2016 for a maximum amount of \$750,000 and matured in May 2017. The second line of credit was signed in March 2017 for a maximum amount of \$353,679 and matures in December 2018. At June 30, 2018 and 2017, the balance of the line of credit owed by HHSI to the financial institution is \$0 and \$46,544, respectively. Management evaluated its contingent liability related to the line of credit. As of and for the years ended June 30, 2018 and 2017, no contingent amounts have been recognized in the statements of financial position or statements of activities.

Operating leases:

The Organization leases equipment and the premises it occupies at four locations for office space, retail facilities, and an education center. Certain rental agreements include various escalation clauses based on increased operating costs. In addition, one of the leases also provides for a lease incentive. Under this agreement, rent expense is recognized on a straight line basis. The difference between the base rent payments made and the amount of rent expense recognized is included in accrued expenses. At June 30, 2018 and 2017, the amount of the liability included in the statements of financial position is \$194,039 and \$180,380, respectively. The rental agreements having an original term of more than one year expire on various dates through November 2025. Rent expense totaled \$521,487 and \$516,883 for the years ended June 30, 2018 and 2017, respectively.

Future minimum base lease payments, excluding common area maintenance, in connection with the leases for the years following June 30, 2018 are as follows:

<i>Year ended June 30,</i>	<i>Amount</i>
2019	\$ 406,584
2020	419,059
2021	431,978
2022	346,676
2023	337,325
Thereafter	856,260
<hr/>	
Total future minimum base lease payments	\$ 2,797,882

Habitat for Humanity of Palm Beach County, Inc.
Notes to Financial Statements

NOTE 13 - SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental disclosure of cash flow information is as follows:

<i>Years ended June 30,</i>	2018	2017
Cash paid for interest during the year	\$ 152,275	\$ 141,082
(Decrease) increase in restricted cash - escrow related to escrow liabilities	\$ (3,119)	\$ 39,304
Supplemental schedules of non-cash investing and financing transactions:		
Acquisition of property and equipment through in-kind donation	\$ -	\$ 387,000
Acquisition of inventory - homes held for resale through in-kind donation	\$ -	\$ 197,016
Increase in inventory - homes held for resale received in exchange for forgiveness of mortgage note receivable	\$ 28,747	\$ -
Increase in restricted cash - neighborhood stabilization program from principal collected on mortgage notes receivable	\$ 64,576	\$ -

NOTE 14 – SUBSEQUENT EVENTS

On November 8, 2018, one of the Organization’s notes payable, with a balance of \$685,099 at June 30, 2018, matured. At the time of maturity, the agreement becomes a due on demand arrangement and is currently pending underwriting review by the financial institution for refinancing purposes. On November 29, 2018, the maturity date was extended to January 8, 2019.

NOTE 15 - DATE OF MANAGEMENT’S REVIEW

In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 11, 2018, the date that the financial statements were available to be issued.

