Habitat for Humanity of Greater Orlando and Osceola County, Inc. and Subsidiary

Consolidated Financial Statements
and Supplementary Information
Years Ended June 30, 2018 and 2017

Habitat for Humanity of Greater Orlando and Osceola County, Inc. and Subsidiary

Consolidated Financial Statements and Supplementary Information
Years Ended June 30, 2018 and 2017

Contents

BDO

Tel: 407-841-6930
Fax: 407-841-6347
www.bdo.com

201 South Orange Ave., Suite 800
Orlando, FL 32801

Independent Auditor's Report

Board of Directors
Habitat for Humanity of Greater Orlando and Osceola County, Inc. and Subsidiary

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Habitat for Humanity of Greater Orlando and Osceola County, Inc. and Subsidiary (the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

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 audits 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 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 federal awards, as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2018 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

BDO USA, LLP

BDO USA, LLP
Certified Public Accountants
December 12, 2018

Consolidated Financial Statements

Habitat for Humanity of Greater Orlando and Osceola County, Inc. and Subsidiary

Consolidated Statements of Financial Position

June 30,	**2018**	2017
Assets		
Cash and cash equivalents	**$ 1,596,380**	$ 1,265,540
Grants receivable	**161,329**	791,723
Contributions receivable, net (Note 2)	**55,231**	84,018
Home inventory	**681,579**	1,797,740
Homes in process	**514,188**	903,168
Land held for development	**2,248,655**	359,652
Other assets	**219,050**	273,651
Property and equipment, net (Note 3)	**2,003,898**	402,799
Mortgage loans receivable, net (Note 4)	**10,546,990**	8,543,710
	$ 18,027,300	$ 14,422,001
Liabilities and Net Assets		
Liabilities:		
Accounts payable	**$ 188,123**	$ 221,474
Accrued expenses	**218,269**	171,378
Deferred revenue	**608,225**	1,359,039
Line of credit (Note 5)	**1,156,755**	179,563
Notes payable and secured borrowings, net (Note 6)	**7,257,874**	3,596,244
Deferred rent	**31,714**	103,840
Total liabilities	**9,460,960**	5,631,538
Commitments (Note 7)		
Net assets:		
Unrestricted	**7,918,244**	8,195,324
Temporarily restricted (Note 9)	**648,096**	595,139
Total net assets	**8,566,340**	8,790,463
	$ 18,027,300	$ 14,422,001

See accompanying notes to consolidated financial statements.

Habitat for Humanity of Greater Orlando and Osceola County, Inc. and Subsidiary

Consolidated Statements of Activities

Year Ended June 30,	2018 Unrestricted	2018 Temporarily Restricted	2018 Total	2017 Unrestricted	2017 Temporarily Restricted	2017 Total
Revenue, support and gains:						
Sales to homeowners	**$ 4,175,987**	**$ —**	**$ 4,175,987**	$ 3,974,830	$ —	$ 3,974,830
Contributions	**1,242,027**	**—**	**1,242,027**	1,876,184	—	1,876,184
Grants	**1,903,843**	**327,548**	**2,231,391**	956,774	504,222	1,460,996
Thrift shop sales	**1,063,019**	**—**	**1,063,019**	1,278,864	—	1,278,864
In-kind contributions	**897,552**	**—**	**897,552**	549,436	—	549,436
Amortization of mortgage loan discounts	**248,494**	**—**	**248,494**	203,138	—	203,138
Other income	**33,716**	**—**	**33,716**	10,971	—	10,971
Interest income	**7,944**	**—**	**7,944**	4,261	—	4,261
Net assets released from restrictions (Note 9)	**274,591**	**(274,591)**	**—**	44,510	(44,510)	—
Total revenue, support and gains	**9,847,173**	**52,957**	**9,900,130**	8,898,968	459,712	9,358,680
Functional expenses:						
Program services	**8,547,809**	**—**	**8,547,809**	7,688,692	—	7,688,692
Fundraising	**623,615**	**—**	**623,615**	633,271	—	633,271
Management and general	**952,829**	**—**	**952,829**	582,922	—	582,922
Total functional expenses	**10,124,253**	**—**	**10,124,253**	8,904,885	—	8,904,885
Change in net assets	**(277,080)**	**52,957**	**(224,123)**	(5,917)	459,712	453,795
Net assets, beginning of year	**8,195,324**	**595,139**	**8,790,463**	8,201,241	135,427	8,336,668
Net assets, end of year	**$ 7,918,244**	**$ 648,096**	**$ 8,566,340**	$ 8,195,324	$ 595,139	$ 8,790,463

See accompanying notes to consolidated financial statements.

Habitat for Humanity of Greater Orlando and Osceola County, Inc. and Subsidiary

Consolidated Statements of Cash Flows

Year Ended June 30,	**2018**	2017
Cash flows from operating activities:		
Change in net assets	**$ (224,123)**	$ 453,795
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation and amortization	**92,020**	63,027
Donated property and equipment	**(140,179)**	–
Loss on disposal of equipment	**174,124**	–
Amortization of mortgage loan discounts	**(248,494)**	(203,138)
Issuance of mortgage loans upon sale of home inventory	**(3,181,120)**	(3,290,220)
Discounts on mortgage originations	**987,561**	591,585
Bad debt (recovery) expense	**(192,824)**	126,786
Cash provided by (used for):		
Grants and contributions receivable	**661,261**	(580,676)
Home inventory	**1,116,161**	231,060
Homes in process	**388,980**	619,068
Land held for development	**(1,889,003)**	(131,328)
Mortgage payments received	**629,517**	824,190
Other assets	**54,601**	(110,701)
Accounts payable and accrued expenses	**13,540**	84,909
Deferred rent	**(72,126)**	(40,824)
Deferred revenue	**(750,814)**	1,212,509
Net cash used for operating activities	**(2,580,918)**	(149,958)
Cash flows from investing activities:		
Purchases of property and equipment	**(1,728,664)**	(44,501)
Proceeds from sale of equipment	**1,600**	–
Net cash used for investing activities	**(1,727,064)**	(44,501)
Cash flows from financing activities:		
Proceeds from notes payable and secured borrowings, net of deferred financing costs and debt discounts	**4,460,518**	2,085,947
Repayments on notes payable and secured borrowings	**(798,888)**	(1,119,759)
Borrowings on line of credit	**1,156,000**	1,070,000
Repayments on line of credit	**(178,808)**	(1,765,433)
Net cash provided by financing activities	**4,638,822**	270,755
Net increase in cash and cash equivalents	**330,840**	76,296
Cash and cash equivalents, beginning of year	**1,265,540**	1,189,244
Cash and cash equivalents, end of year	**$ 1,596,380**	$ 1,265,540
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	**$ 101,911**	$ 65,399

See accompanying notes to consolidated financial statements.

Habitat for Humanity of Greater Orlando and Osceola County, Inc. and Subsidiary

Consolidated Statements of Functional Expenses

	2018				2017			
		Supporting Services				Supporting Services		
Year Ended June 30,	Program Services	Fundraising	Management and General	Total	Program Services	Fundraising	Management and General	Total
Cost of building materials and supplies sold	**$ 4,276,735**	**$ —**	**$ —**	**$ 4,276,735**	$ 3,881,645	$ —	$ —	$ 3,881,645
Payroll expenses	**1,781,929**	**474,405**	**590,296**	**2,846,630**	1,407,243	614,716	518,191	2,540,150
Discounts on mortgage originations	**987,561**	**—**	**—**	**987,561**	591,585	—	—	591,585
Rent and other occupancy costs	**410,162**	**2,410**	**(17,386)**	**395,186**	493,885	—	—	493,885
Professional fees	**126,026**	**4,235**	**48,109**	**178,370**	202,981	—	4,865	207,846
Bad debt (recovery) expense	**(190,744)**	**—**	**(2,080)**	**(192,824)**	126,786	—	—	126,786
Office expenses	**78,771**	**1,905**	**38,824**	**119,500**	100,040	1,716	15,548	117,304
Home repairs	**308,647**	**—**	**—**	**308,647**	114,345	—	—	114,345
Tithe to Habitat International (Note 8)	**49,799**	**—**	**—**	**49,799**	112,600	—	—	112,600
Interest and borrowing expenses	**108,614**	**12,490**	**24,594**	**145,698**	81,782	9,404	18,518	109,704
Other	**91,840**	**8,950**	**32,340**	**133,130**	98,006	—	8,869	106,875
Utilities	**76,142**	**2,091**	**5,329**	**83,562**	100,232	—	—	100,232
Depreciation and amortization	**77,133**	**6,130**	**8,757**	**92,020**	63,027	—	—	63,027
Promotional expenses	**27,231**	**89,018**	**1,295**	**117,544**	52,135	5,793	—	57,928
Transportation	**88,262**	**—**	**—**	**88,262**	53,902	—	2,665	56,567
Insurance	**80,953**	**5,775**	**5,679**	**92,407**	49,779	—	4,320	54,099
Property maintenance	**7,053**	**—**	**—**	**7,053**	38,061	—	—	38,061
Board/staff development	**5,629**	**3,890**	**8,955**	**18,474**	29,963	—	3,839	33,802
Printing and postage	**7,346**	**10,383**	**13,630**	**31,359**	27,908	1,642	3,283	32,833
Closing and mortgage servicing costs	**109,859**	**—**	**6,705**	**116,564**	28,335	—	—	28,335
Telephone	**7,211**	**175**	**10,300**	**17,686**	17,810	—	2,824	20,634
Property tax	**31,650**	**1,758**	**1,758**	**35,166**	16,642	—	—	16,642
Loss on disposal of property and equipment	**—**	**—**	**175,724**	**175,724**	—	—	—	—
Total functional expenses	**$ 8,547,809**	**$ 623,615**	**$ 952,829**	**$10,124,253**	$ 7,688,692	$ 633,271	$ 582,922	$ 8,904,885

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

Nature of Organization

Habitat for Humanity of Greater Orlando Area, Inc. ("Habitat") (a nonprofit corporation) was incorporated on May 12, 1986. On June 4, 2018, Habitat changed its name to Habitat for Humanity of Greater Orlando and Osceola County, Inc. Habitat is an affiliate of Habitat for Humanity International, Inc. ("Habitat International"), a nondenominational Christian nonprofit organization whose purpose is to create decent, affordable housing for those in need and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists with information resources, training, publications, prayer support and in other ways, Habitat is primarily and directly responsible for its own operations.

On October 20, 2015, Habitat formed a single member limited liability corporation, HFHGO Funding Company I, LLC ("Funding Company"), the sole member of which is Habitat (collectively, the "Organization"). Funding Company was formed for the purpose of entering into certain business transactions related to its mortgage loans on behalf and for the benefit of Habitat.

Principles of Consolidation

The consolidated financial statements include the accounts of Habitat and its wholly-owned subsidiary, Funding Company. All significant intercompany balances and transactions have been eliminated.

Basis of Accounting

The consolidated financial statements have been prepared under the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Liquidity

Assets are presented in the accompanying consolidated statements of financial position according to their nearness of conversion to cash and liabilities to their nearness of their maturity and resulting use of cash.

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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Contributions Receivable

Contributions receivable are unconditional promises to give and are recorded when the promises to give are made. Contributions receivable which are expected to be collected in more than one year are stated at the present value of estimated future receipts. The Organization provides an allowance for uncollectible pledges at the time contributions are recorded based on historical write-offs.

Net Assets

Unrestricted net assets consist of amounts that are available for use in carrying out the activities of the Organization. Temporarily restricted net assets represent those amounts which are not available until future periods or are donor restricted for specific purposes. Permanently restricted net assets result from gifts and bequests from donors who place restrictions on the use of the funds which mandate that the original principal be invested in perpetuity. The Organization did not have any permanently restricted net assets at June 30, 2018 and 2017.

Contributions and Restrictions

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Donor restricted contributions, whose restrictions are met in the same reporting period, are reported as unrestricted support.

The Organization reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Grant Revenue, Grants Receivable and Deferred Revenue

The majority of the Organization’s grants received for home construction are exchange transactions in which each party receives and sacrifices commensurate value. Funds from these exchange transactions are not considered contributions and, as such, are deemed to be earned and reported as revenue when such funds have been expended towards their designated purpose. Grants receivable consist of amounts due under these grants and the Organization considers all amounts to be fully collectible as of June 30, 2018. Deferred revenue represents reimbursement requests submitted to funding agencies for expenses incurred.

Land Held for Development, Home Inventory and Homes In Process

Land held for development, home inventory and homes in process are stated at lower of cost or fair value and consist of undeveloped land, and completed and in-process homes which have not yet been sold or transferred to homeowners.

The Organization reviews these assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of these assets is measured by a comparison of the carrying amount of an asset to its fair value. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. There were no impairments of these assets during fiscal 2018 or 2017.

Property and Equipment

Property and equipment acquisitions are capitalized at cost when purchased or at the fair value at the date of gift when donated. Expenditures for repairs and maintenance are expensed in the year incurred. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset and the remaining lease term.

Impairment of Long-Lived Assets

The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. There were no impairments of long-lived assets during fiscal 2018 or 2017.

Mortgage Loans Receivable

Mortgage loans receivable represent non-interest bearing loans upon the sale of a home and have been discounted based upon prevailing market rates at the inception of the mortgage obligations. The original discount is recorded as discounts on mortgage originations within program services on the consolidated statements of functional expenses at the date the mortgage is originated. Discounts are amortized to revenue using the effective interest method over the lives of the mortgage loans and are recorded as amortization of mortgage loan discounts within revenue and support in the consolidated statements of activities. The Organization reviews each mortgage for collectability, and based on actual and anticipated losses, records an allowance. Mortgages that become over 90 days delinquent are turned over to an attorney for collection. If the homeowner does not cure the default, the Organization forecloses on the home, at which time the mortgage receivable is written off and the home is put back into inventory for resale.

Transfers of Mortgage Loans Receivable

The Organization accounts for transfers of mortgage loans receivable as sales when it has surrendered control over the related assets. Whether control has been relinquished requires, among other things, an evaluation of relevant legal considerations and an assessment of the nature and extent of the Organization’s continuing involvement with the mortgage loans receivable transferred. Gains and losses stemming from transfers reported as sales are included in net gain on sale of mortgage loans receivable in the accompanying consolidated statements of activities. Assets obtained and liabilities incurred in connection with transfers reported as sales, if any, are initially recognized in the consolidated statements of financial position at fair value. There were no transfers of mortgage loans receivable that qualified as sales during the year ended June 30, 2018.

Transfers of mortgage loans receivable that do not qualify for sale accounting are reported as secured borrowings. Accordingly, the related assets remain on the Organization's consolidated statements of financial position and continue to be reported and accounted for as if the transfer had not occurred. Cash proceeds from these transfers are reported as liabilities, with attributable interest expense recognized over the life of the related transactions. During the year ended June 30, 2018, the Organization transferred mortgage loans receivable that qualified as secured borrowings (see Note 6).

Deferred Rent

Deferred rent represents tenant improvement allowances and periods of rent abatement related to the Organization's leases which are amortized as a reduction in rent expense over the terms of the related leases.

Deferred Financing Costs

Deferred financing costs are amortized using the effective interest method over the term of the debt into interest expense. Upon the early extinguishment of the related debt, any unamortized deferred financing costs are immediately expensed and included in change in net assets.

Debt issuance costs related to a recognized debt liability are presented in the consolidated statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The Organization is therefore presenting deferred financing costs net against notes payable on the accompanying consolidated statements of financial position.

Sales to Homeowners

Sales to homeowners are recorded at the gross mortgage amount plus down payment received. Non-interest bearing mortgages have been discounted based upon prevailing market rates for low income housing at the inception of the mortgages.

In-Kind Contributions

During fiscal 2018 and 2017, the Organization received $277,727 and $265,800, respectively, of donated construction materials to be used in home building projects, and $415,980 and $174,000, respectively, of land and completed homes donated by builders valued at estimated selling cost. These amounts were recorded as in-kind contributions in the accompanying consolidated statements of activities and either to homes in process on the accompanying consolidated statements of financial position or cost of building materials and supplies sold in the accompanying consolidated statements of functional expenses depending on the nature of the item.

Contributed services are recognized and recorded at fair market value only to the extent they create and enhance nonfinancial assets or require specialized skills, are provided by individuals possessing these skills, and would typically need to be purchased if not provided by donation. During 2018 and 2017, the Organization received contributed legal services of $45,436 and $84,598, respectively. These donations are included in in-kind contributions in the accompanying consolidated statements of activities and professional fees in the consolidated statements of functional expenses.

During fiscal 2018 and 2017, the Organization also received in-kind contributions for fundraising events in the amounts of $18,230 and $25,038, respectively, which are recorded at estimated fair value of items and services donated and are included in in-kind contributions in the accompanying consolidated statements of activities and promotional expenses in the consolidated statements of functional expenses.

During fiscal 2018, the Organization received in-kind contributions related to the renovation of its building in the amount of $140,179, which is recorded at estimate fair value and is included in in-kind contributions in the accompanying consolidated statements of activities and property and equipment in the accompanying consolidated statements of financial position.

Thrift Shop Sales

The Organization currently operates two retail thrift stores that specialize in selling surplus new and used building and home improvement materials, appliances and furniture to the public. The thrift stores receive donated goods and materials from businesses, contractors, individuals and other organizations which are recorded as thrift shop revenue at the time of sale when the cash is received. The donated thrift shop goods and materials are not recorded upon receipt since fair value is difficult to determine and amounts are not material to the Organization’s financial position or results of activities.

Advertising

Advertising costs are expensed the first time the advertising takes place. Total advertising costs were $91,012 and $47,212 during 2018 and 2017, respectively, and are included in promotional expenses on the consolidated statements of functional expenses.

Functional Allocation of Expenses

The cost of providing the program and other activities of the Organization have been summarized on a functional basis in the statements of activities. Salaries and related payroll expenses are allocated among functional categories based on the estimated proportion of time spent relative to each function. All other expenses are allocated based on management’s estimate of the relative functional activity.

Income Taxes

Habitat is exempt from Federal income tax under provisions of Section 501(c)(3) of the Internal Revenue Code and from state income taxes under similar provisions of the Florida Income Tax Code. Funding Company was incorporated under the Florida Revised Limited Liability Company Act and is considered a disregarded entity for federal and state income tax purposes. Therefore, no provision for income taxes has been included in the accompanying consolidated financial statements.

The Organization identifies and evaluates uncertain tax positions, if any, and recognizes the impact of uncertain tax positions for which there is a less than more-likely-than-not probability of the position being upheld when reviewed by the relevant taxing authority. Such positions are deemed to be unrecognized tax benefits and a corresponding liability is established on the consolidated statement of financial position. The Organization has not recognized a liability for uncertain tax positions. If there were an unrecognized tax benefit, The Organization would recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. The Organization's tax years subject to examination by the Internal Revenue Service generally remain open for three years from the date of filing.

Fair Value of Financial Instruments

The Organization reports its financial assets and liabilities using a three-tier hierarchy, which prioritizes the inputs used in measuring 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 are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs that are both significant to the fair value measurement and unobservable.

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management. The respective carrying value of certain on-balance-sheet financial instruments approximate their fair values due to the short-term nature of these instruments. These financial instruments include, grants and contributions receivable due within one year, accounts payable and accrued expenses. The fair value of notes payable and the line of credit is estimated based on current rates that would be available for debt of similar terms which is not significantly different from its stated value.

Contributions due beyond one year are recorded at their net present value using a risk-free interest rate available on U.S. Treasury issues at the date the contribution was made with an equivalent term equal to the number of years the contribution will be paid, which approximates fair value. Mortgage loans receivable are recorded at their net present value using a risk-free interest rate available on U.S. Treasury issues at the date the home was sold with an equivalent term equal to the term of the mortgage, which approximates fair value.

The Organization has no Level 1 or Level 3 financial assets or liabilities. The Organization's Level 2 financial assets include contributions receivable due beyond one year (see Note 2) and mortgage loans receivable (see Note 4).

Accounting Pronouncements Issued but Not Yet Adopted

Financial Statement Presentation of Not-for-Profit Entities

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954) – Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statements of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for fiscal years beginning after December 15, 2017. Early adoption is permitted. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for periods prior to adoption. Management is currently evaluating the impact of this ASU on their consolidated financial statements.

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP.

The standard is effective for annual periods beginning after December 15, 2018, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The new standard allows for early adoption for annual periods beginning after December 15, 2016. The Organization is currently evaluating the impact of its pending adoption of ASU 2014-09 on its consolidated financial statements and has not yet determined the method by which it will adopt the standard.

Contributions Received and Contributions Made

In June 2018 the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-08, Not-for-Profit Entities (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new standard clarifies and improves guidance about whether a transfer of assets is a contribution or an exchange transaction, as well as clarifying how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value In return for the resources transferred.

The new standard is effective for fiscal periods beginning after December 15, 2018, using either of the following transition methods: (i) a modified prospective in the first set of financial statements following the effective date to agreements that are either not completed as of the effective date or entered into after the effective date, or (ii) a full retrospective approach reflecting the application of the standard in each prior reporting period in the financial statements. Early adoption is permitted. The Organization is currently evaluating the impact of its pending adoption of the new standard on its consolidated financial statements.

Leases

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement.

This new standard is effective for fiscal years beginning after December 15, 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Organization is currently evaluating the impact of its pending adoption of the new standard on its consolidated financial statements.

2. Contributions Receivable, Net

Contributions receivable are due as follows:

June 30,	**2018**	2017
Amounts due in:		
Less than one year	**$ 30,050**	$ 30,917
One to five years	**30,000**	60,000
	60,050	90,917
Allowance for uncollectible accounts	**(3,003)**	(4,546)
Unamortized discount	**(1,816)**	(2,353)
Contributions receivable, net	**$ 55,231**	$ 84,018

Contributions receivable due in more than one year are discounted to net present value using interest rates ranging from 0.95% to 1.01%.

3. Property and Equipment, Net

Property and equipment consists of the following:

June 30,	Useful Life	**2018**	2017
Building	39 years	**$ 1,458,651**	$ —
Land	—	**289,250**	—
Leasehold improvements	5-15 years	**191,474**	465,104
Transportation equipment	5 years	**123,967**	65,466
Fixtures and office equipment	3-5 years	**97,466**	77,893
Warehouse equipment	5-10 years	**53,649**	34,905
Software	3 years	**14,747**	45,168
Construction in process	—	**—**	30,663
		2,229,204	719,199
Less accumulated depreciation and amortization		**(225,306)**	(316,400)
		$ 2,003,898	$ 402,799

4. Mortgage Loans Receivable, Net

Mortgage loans receivable consist entirely of non-interest bearing mortgage notes secured by residential real estate payable in monthly installments with maturities ranging from 15 to 40 years. These mortgages are originated through the Organization's home building program. The amounts presented in the consolidated statements of financial position are net of unamortized discounts arising from imputed interest as follows:

June 30,	**2018**	2017
Mortgages receivable (remaining face value)	**$ 14,481,958**	$ 11,988,602
Less: Unamortized discounts (2.08% – 6.67% imputed interest)	**(3,934,968)**	(3,254,148)
Allowance for uncollectible accounts	**—**	(190,744)
	$ 10,546,990	$ 8,543,710

At June 30, 2018, mortgage loans receivable mature as follows:

Year Ending June 30,	Amount
2019	$ 332,900
2020	328,254
2021	322,901
2022	326,910
2023	260,485
Thereafter	12,910,508
Total	$ 14,481,958

5. Revolving Line of Credit

The Organization has an unsecured revolving line of credit with a bank which provides for borrowings up to $2,000,000 at the 30-day LIBOR plus 3%, subject to a floor of 4.75% (5.07% at June 30, 2018). Interest-only payments are due monthly on the outstanding principal balance. The line of credit matured on August 25, 2018 and was renewed on the same date (see Note 10). There was $1,156,755 and $179,563 outstanding on this line of credit as of June 30, 2018 and 2017, respectively.

The line of credit agreement requires certain financial covenants be met. The Organization was in compliance with these financial covenants as of and for the year ended June 30, 2018.

6. Notes Payable and Secured Borrowings

Orange County Housing Finance Authority

On September 16, 2015, the Organization entered into a non-revolving promissory note and related construction loan agreement (the "OCHFA Agreement") with Orange County Housing Finance Authority for an amount of $2 million with interest accruing at a rate of 1.5% per annum with a maturity date of September 30, 2018. Commencing on October 1, 2015, interest payments became payable on a monthly basis. Simultaneously, with the closing of each home (as defined in the OCHFA Agreement), the Organization repaid a principal amount of $40,000. The loan was secured by all constructed homes not sold. During the years ended June 30, 2018 and 2017, the Organization borrowed $0 and $172,750, respectively, and repaid $520,000 and $1,000,000, respectively, leaving an outstanding balance of $0 and $497,534, net of unamortized deferred financing costs, at June 30, 2018 and 2017, respectively.

PNC Community Development Company, LLC

On October 22, 2015, Funding Company and PNC Community Development Company, LLC (“PNC”) entered into a Note Purchase Agreement whereby Funding Company will sell to PNC a note at a purchase price equal to the present value of the scheduled principal payments of 24 outstanding mortgages held by Habitat discounted at a rate of 3% per year. Funding Company acquired from Habitat all of its rights, title and interest in the related mortgages. In order to finance the purchase of the acquisition of these mortgages from Habitat, Funding Company entered into a Secured Note (“Note 1”) with PNC in the amount of $1,364,929 whereby it received cash in the amount of $1,059,131, which was subsequently transferred to Habitat. On March 31, 2017, Note 1 was amended to remove three mortgages and add 16. This modification resulted in additional cash being paid to Funding Company, which brought the principal amount borrowed to $2,279,086. The difference of $725,372 between the cash proceeds and the modified Note 1 amount was recorded as a discount and will be amortized over the life of Note 1. Installment payments on Note 1 are due monthly in accordance with an amortization schedule with the entire principal balance due and payable on March 1, 2047. As security for Note 1, Funding Company pledged all of its rights, title and interest in the related mortgage loans. As of June 30, 2018 and 2017, the outstanding balance due on Note 1, net of unamortized debt discount and deferred financing costs of $724,610 and $719,327, respectively, is $1,447,877 and $1,538,882, respectively.

On March 31, 2017, Funding Company and PNC entered into an additional Note Purchase Agreement whereby Funding Company will sell to PNC a note at a purchase price equal to the present value of the scheduled principal payments of 31 outstanding mortgages held by Habitat discounted at a rate of 3% per year. Funding Company acquired from Habitat all of its rights, title and interest in the related mortgages. In order to finance the purchase of the acquisition of these mortgages from Habitat, Funding Company entered into a Secured Note (“Note 2”) with PNC in the amount of $2,170,717 whereby it received cash in the amount of $1,615,683, which was subsequently transferred to Habitat. The difference of $505,034 between the cash proceeds and Note 2 amount was recorded as a discount and will be amortized over the life of Note 2. Installment payments on Note 2 are due monthly in accordance with an amortization schedule with the entire principal balance due and payable on March 1, 2047. As security for Note 2, Funding Company pledged all of its rights, title and interest in the related mortgage loans. As of June 30, 2018 and 2017, the outstanding balance due on Note 2, net of unamortized debt discount and deferred financing costs of $531,908 and $550,409, respectively, is $1,465,125 and $1,559,828, respectively.

Notes 1 and 2 were accounted for as secured borrowings in accordance with Accounting Standards Codification Topic 860, Transfers and Servicing.

IberiaBank

On October 20, 2017, Habitat entered into a Loan Purchase Agreement (“Agreement”) with IberiaBank (“Iberia”), whereby Habitat will sell certain residential mortgage loans. Each loan shall be secured by a mortgage creating a first lien or, if approved by Iberia, a second lien on a residential dwelling. In accordance with the Agreement, all loans are sold without recourse, however, if a loan sold under the Agreement defaults after the closing date and becomes a nonperforming loan, as defined, Habitat shall repurchase the loan at a repurchase price, as defined, and Iberia will be required to purchase another loan. On the same date, the parties entered into a Loan Purchase Commitment Letter whereby Habitat sold 18 loans to Iberia for $1,469,333. As of the closing date, these loans had an aggregate unpaid principal balance of $1,728,628. On April 17, 2018, the parties entered into a second Loan Purchase Commitment Letter whereby Habitat sold 9 loans to Iberia for $728,800. As of the closing date, these loans had an aggregate unpaid principal balance of $827,627. The difference between the cash proceeds and the aggregate unpaid principal balance of both loans of $358,122 was recorded as a debt discount and will be amortized over the life of the mortgage loans sold. Installment payments are due monthly in accordance with the amortization schedules of the underlying mortgage loans sold. As of June 30, 2018, the outstanding balance due to Iberia, net of unamortized debt discount of $350,671, is $2,205,584.

In connection with the Agreement, the parties also entered into a Loan Servicing Agreement, whereby Habitat will continue to be responsible for servicing the loans sold. Habitat will receive a servicing fee of $10 per loan per month, which will be netted against monthly loan payments collected by Habitat and remitted to Iberia. Servicing fees for the year ended June 30, 2018 were immaterial.

The transactions with Iberia were accounted for as secured borrowings in accordance with Accounting Standards Codification Topic 860, Transfers and Servicing.

LC Realty Associates, LLC

On July 25, 2017, the Organization entered into two separate promissory notes with LC Realty Associates, LLC to finance the purchase of its land and building. The first note was for $1,100,000, with monthly payments of $7,881, including interest of 6% per annum, commencing on August 25, 2017 with a maturity date of July 25, 2037. The second note was for $350,000, with monthly payments of $2,508, including interest of 6% per annum, commencing on August 25, 2017, with a maturity date of July 25, 2037. The balance outstanding on these notes at June 30, 2018 was $1,411,288. These notes are secured by the Organization’s land and building.

U.S. Development of Orlando, Inc.

On March 18, 2018, the Organization entered into a promissory note for $728,000 with U.S. Development of Orlando, Inc. to finance the purchase of land to be used for a future housing development. The note bears interest of 6% per annum and matured on September 15, 2018, at which time the entire principal balance plus any unpaid accrued interest was due. The balance due under this note was refinanced in August 2018 (see Note 10). The balance outstanding on this note at June 30, 2018 was $728,000. These notes are secured by the land purchased.

At June 30, 2018, future maturities on these notes payable and secured borrowings are as follows:

Year Ending June 30,		Amount
2019	$	1,104,581
2020		378,801
2021		377,479
2022		380,224
2023		383,243
Thereafter		6,240,735
Total future maturities		8,865,063
Less unamortized debt discount		(1,577,727)
Less unamortized loan costs		(29,462)
Total	$	7,257,874

7. Operating Leases

The Organization has entered into operating lease agreements for thrift store space and equipment which expire on various dates in November 2019. Rent expense under these agreements was approximately $286,000 and $422,000 for the years ended June 30, 2018 and 2017, respectively, and is included in rent and other occupancy costs in the accompanying consolidated statements of functional expenses. Future minimum payments under these lease agreements are approximated as follows:

Year Ending June 30,		Amount
2019	$	347,200
2020		132,100
Total	$	479,300

8. Transactions with Habitat International

The Organization remits a portion of its revenues to Habitat International, its affiliate, as further discussed in Note 1. These funds are used to construct homes in economically depressed areas around the world, and therefore these amounts are included as tithes to Habitat International within the Organization's program services on the consolidated statements of activities. For the years ended June 30, 2018 and 2017, the Organization contributed approximately $50,000 and $113,000, respectively, to Habitat International. The Organization also receives donations from Habitat International which were $2,438 and $1,677 for the years ended June 30, 2018 and 2017, respectively, and are included in contributions on the consolidated statements of activities.

9. Temporarily Restricted Net Assets

Restrictions on net assets consist of the following:

June 30,		**2018**		2017
Contributions for future periods	**$**	**120,118**	$	340,917
Home construction		**527,978**		254,222
	$	**648,096**	$	595,139

Net assets released from restrictions were as follows:

Year Ended June 30,		**2018**		2017
Contributions received for current period	**$**	**30,858**	$	44,510
Home construction		**243,733**		–
	$	**274,591**	$	44,510

10. Subsequent Events

The Organization has evaluated events and transactions occurring subsequent to June 30, 2018 as of December 12, 2018, which is the date the consolidated financial statements were available to be issued. Subsequent events occurring after December 12, 2018 have not been evaluated by management. No material events have occurred since June 30, 2018 that require recognition or disclosure in the consolidated financial statements, except as follows:

- On August 25, 2018, Habitat renewed its existing line of credit, which extends the maturity date to August 25, 2020. All other terms remained unchanged, except for the amount available will be limited to $1,500,000 during the life of the new $3,000,000 loan agreement.
- On August 29, 2018, Habitat entered into a loan agreement with a financial institution for up to $3,000,000 to provide up to $1,500,000 to refinance the original purchase of certain parcels of land with U.S. Development of Orlando, Inc. (see Note 6) and provide up to $1,500,000 in development financing to construct single family homes and a community clubhouse on that land. Interest will be charged at a rate of 30-day LIBOR plus 2.50%, with a floor of 3.00%. Monthly interest payments with principal curtailments of $28,250 will be due on the sale of completed homes, with further curtailments due on certain dates through the maturity date of the loan of August 29, 2022. The line of credit is secured by the related land and future mortgages on the constructed homes.
- On September 21, 2018, Habitat entered into a promissory note with Orange County Housing Finance Authority for up to $2,000,000 to be used for construction of single family homes built for low to very low income homebuyers. Interest will be charged at a rate of 1.5% per annum. Commencing on October 1, 2018, monthly payments of accrued interest will be due. Principal payments of $80,000 will be due upon the closing of each home. The note matures on September 21, 2021, at which time any unpaid principal and accrued interest will be due. The note is secured by the land and the homes to be constructed.
- On November 15, 2018, the Board of Directors passed a resolution to close the Organization's thrift shops during fiscal 2019 and cease its retail line of operations.

Reports Required by *Government Auditing Standards* and the Uniform Guidance

Tel: 407-841-6930
Fax: 407-841-6347
www.bdo.com

201 South Orange Ave., Suite 800
Orlando, FL 32801

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 Greater Orlando and Osceola County, Inc. and Subsidiary

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 Greater Orlando and Osceola County, Inc. and Subsidiary (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 12, 2018.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated 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. We did identify a deficiency in internal control, as described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Organization's Response to Findings

The Organization's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

BDO USA, LLP

BDO USA, LLP
Certified Public Accountants
December 12, 2018

Tel: 407-841-6930
Fax: 407-841-6347
www.bdo.com

201 South Orange Ave., Suite 800
Orlando, FL 32801

Independent Auditor's Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Board of Directors
Habitat for Humanity of Greater Orlando and Osceola County, Inc. and Subsidiary

Report on Compliance for Each Major Federal Program

We have audited Habitat for Humanity of Greater Orlando and Osceola County, Inc. and Subsidiary's (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended June 30, 2018. The Organization's major federal program is 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

Purpose of this Report

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

BDO USA, LLP

BDO USA, LLP
Certified Public Accountants
December 12, 2018

Habitat for Humanity of Greater Orlando and Osceola County, Inc. and Subsidiary

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Provided To Subrecipients	Total Federal Expenditures
U.S. Department of Housing and Urban Development				
Passed through Orange County, Florida:				
Community Development Block Grant, Neighborhood Stabilization Program 3	14.218	N/A	**$ —**	**$ 387,057**
Community Development Block Grant	14.218	N/A	**—**	**476,000**
				863,057
Passed through City of Orlando, Florida:				
Home Investment Partnership Program	14.239	N/A	**—**	**33,881**
Passed through Habitat for Humanity, International, Inc.:				
Self-Help Homeownership Opportunity Program	14.247	N/A	**—**	**11,068**
Total Expenditures of Federal Awards			**$ —**	**$ 908,006**

See accompanying notes to schedule of expenditures of federal awards.

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Habitat for Humanity of Greater Orlando and Osceola County, Inc. and Subsidiary under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Habitat for Humanity of Greater Orlando and Osceola County, Inc. and Subsidiary, it is not intended to and does not present the financial position, changes in net assets or cash flows of Habitat for Humanity of Greater Orlando and Osceola County, Inc. and Subsidiary.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

Habitat for Humanity of Greater Orlando and Osceola County, Inc. and Subsidiary has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with U.S. GAAP	Unmodified	
Internal control over financial reporting:		
• Material weakness(es) identified?	☐ Yes	☒ No
• Significant deficiency(ies) identified?	☒ Yes	☐ None Reported
Noncompliance material to financial statements noted?	☐ Yes	☒ No

Federal Awards

Internal control over major federal programs:		
• Material weakness(es) identified?	☐ Yes	☒ No
• Significant deficiency(ies) identified?	☐ Yes	☒ None Reported
Type of auditor's report issued on compliance for major federal programs	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	☐ Yes	☒ No

Identification of major federal programs:

CFDA Number	Federal Program or Cluster:
14.218	Community Development Block Grant

Dollar threshold used to distinguish between Type A and Type B programs:		$750,000
Auditee qualified as low-risk auditee?	☒ Yes	☐ No

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2018-001: Inadequate Controls Over Financial Reporting of Mortgage Discount Amortization Revenue

Criteria
In accordance with accounting principles generally accepted in the United States of America, unamortized discounts on mortgage loans receivable should be amortized and recognized as revenue over the term of the related mortgages.

Condition
An audit adjustment was required to properly state mortgage discount amortization revenue and unamortized mortgage discounts.

Cause
The Organization's consolidated financial statement close process did not detect errors made in the calculation of the mortgage discount amortization revenue to be recognized for the fiscal year.

Effect
The Organization's year-end consolidated financial statements included an overstatement of the mortgage discount amortization revenue in the amount of $146,099, which constitutes a significant deficiency in internal control over financial reporting.

Recommendation
We recommend that management thoroughly review the mortgage discount amortization revenue calculations prepared by the accounting staff to ensure that the proper amount of revenue is recorded.

Views of Responsible Officials and Planned Corrective Actions
The mortgage discounts for the current fiscal year were recorded on the books, however they were not taken in consideration for the year end adjustment. During the reconciliation with our mortgage servicer (AmeriNat), mortgage closings processed at the end of the month were not included in the mortgage discounts year end entry, since they were not recorded in Amerinat at the time. We will review the year end reconciliation and make sure those loans processed, but not recorded in Amerinat, are taken in consideration in the mortgage discount amortization calculation.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2018, there were no findings and questioned costs for federal awards as defined in Title 2 U.S. *Code of Federal Regulations (CFR)* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* that are required to be reported.