

**INDIAN RIVER COUNTY
HABITAT FOR HUMANITY, INC.
and Subsidiary**

**Consolidated Financial Statements
with
Independent Auditors' Report**

June 30, 2018
(With Corresponding Totals for 2017)

Table of Contents

	Page
Independent Auditors' Report	2 - 3
Financial Statements:	
Consolidated Statement of Financial Position.....	4
Consolidated Statement of Activities and Changes in Net Assets.....	5
Consolidated Statement of Functional Expenses.....	6
Consolidated Statement of Cash Flows.....	7
Notes to Consolidated Financial Statements.....	8 - 16



KMETZ • NUTTALL • ELWELL • GRAHAM, PLLC
Certified Public Accountants

Independent Auditors' Report

To the Board of Directors
Indian River County Habitat for Humanity, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Indian River County Habitat for Humanity, Inc. of Vero Beach, Florida and Subsidiary, which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

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.

Auditors' Responsibility

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

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

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

To the Board of Directors
Indian River County Habitat for Humanity, Inc.
Page two

Opinion

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

Report on Summarized Comparative Information

We have previously audited Indian River County Habitat for Humanity, Inc.'s 2017 financial statements, and our report dated August 22, 2017, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Kmetz, Nuttall, Elwell, Graham, PLLC
Certified Public Accountants

August 28, 2018

Indian River County Habitat for Humanity, Inc.

Consolidated Statement of Financial Position

June 30, 2018

(With corresponding totals as of June 30, 2017)

	2018	2017
Assets		
Current Assets:		
Cash and cash equivalents	\$ 954,717	\$ 652,105
Current portion of mortgage loans	246,642	225,341
Current portion of pledges receivable	28,500	28,500
Costs of homes under construction	468,673	569,638
Inventory	632,757	632,753
Other current assets	40,826	69,202
Total current assets	2,372,115	2,177,539
Other Assets:		
Restricted cash	352,135	418,345
Non-interest bearing mortgage loans, net of discount	4,607,308	4,144,835
Property and equipment, net	4,877,252	4,964,169
Land held for development	2,159,772	1,710,674
Other assets	3,853	3,958
Total other assets	12,000,320	11,241,981
Total assets	\$ 14,372,435	\$ 13,419,520
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 297,116	\$ 299,306
Escrow and warranty reserve	352,135	418,345
Line of credit	99,932	99,932
Current portion of notes payable	106,235	111,251
Total current liabilities	855,418	928,834
Long-Term Liabilities:		
SHOP notes payable	112,560	111,801
Note Payable	1,885,153	1,959,900
Less current portion of notes payable	(106,235)	(111,251)
Total long-term liabilities	1,891,478	1,960,450
Total liabilities	2,746,896	2,889,284
Net Assets:		
Unrestricted:		
Designated	1,875,749	1,970,925
Undesignated	9,614,805	8,316,546
Total unrestricted	11,490,554	10,287,471
Temporarily restricted	134,985	242,765
Total net assets	11,625,539	10,530,236
Total liabilities and net assets	\$ 14,372,435	\$ 13,419,520

See accompanying notes to financial statements.

Indian River County Habitat for Humanity, Inc.
Consolidated Statement of Activities and Changes in Net Assets
For the Year ended June 30, 2018
(With corresponding totals as of June 30, 2017)

	2018			2017
	Unrestricted	Temporarily Restricted	Total	All Funds Combined
Public Support and Revenue				
Contributions	\$ 2,273,530	\$ 46,677	\$ 2,320,207	\$ 1,389,836
Grants	250,700	64,326	315,026	350,140
Transfers to homeowners	2,007,418	-	2,007,418	2,062,854
ReStore revenue	1,822,553	-	1,822,553	1,996,542
Mortgage loan discount amortization	359,673	-	359,673	245,197
Mortgage loan discount on loans sold	51,351	-	51,351	6,577
Fundraising and other income	578,625	-	578,625	635,090
Gain on sale of assets	67,024	-	67,024	52,253
Net assets released from restriction	218,783	(218,783)	-	-
Total public support and revenue	7,629,657	(107,780)	7,521,877	6,738,489
Expenses				
Family support services	4,563,835	-	4,563,835	5,100,468
ReStore	1,144,312	-	1,144,312	1,201,991
Fundraising and development	509,352	-	509,352	503,772
Management and general	209,075	-	209,075	238,675
Total program and supporting services	6,426,574	-	6,426,574	7,044,906
Gain on forgiveness of debt	-	-	-	914,388
Increase (decrease) in net assets	1,203,083	(107,780)	1,095,303	607,971
Net assets, beginning of year	10,287,471	242,765	10,530,236	9,922,265
Net assets, end of year	\$ 11,490,554	\$ 134,985	\$ 11,625,539	\$10,530,236

See accompanying notes to financial statements.

Indian River County Habitat for Humanity, Inc.
Consolidated Statement of Functional Expenses
For the Year ended June 30, 2018
(With corresponding totals as of June 30, 2017)

	2018				2017	
	Program Services	Supporting Services			Total	All Funds Combined
	Family Support, Education and Construction	ReStore	Fundraising	Management and General		
Salaries and wages	\$ 656,122	\$ 561,779	\$ 243,716	\$ 141,847	\$ 1,603,464	\$ 1,575,240
Payroll taxes and benefits	172,975	122,690	45,415	25,671	366,751	394,399
Total payroll	829,097	684,469	289,131	167,518	1,970,215	1,969,639
Advertising	498	56,832	12,018	-	69,348	55,520
Cost of homes transferred	1,778,913	-	-	-	1,778,913	2,060,975
Other construction costs	461,739	-	-	-	461,739	405,987
Depreciation	31,016	145,423	12,311	6,394	195,144	168,531
Discount on mortgages	948,531	-	-	-	948,531	1,116,610
Insurance	35,021	46,371	9,778	6,231	97,401	97,693
Interest	7,204	-	-	-	7,204	73,333
Rent expense	3,533	36,490	2,968	767	43,758	39,617
Office expenses and miscellaneous	107,296	62,669	28,651	16,427	215,043	239,876
Postage and printing	2,379	1,205	15,154	462	19,200	24,081
Professional services	38,570	27,518	24,457	2,965	93,510	169,887
Property taxes	5,694	5,393	1,400	727	13,214	10,091
Public relations	-	-	15,653	-	15,653	4,019
Repairs and maintenance	25,118	36,039	4,555	2,559	68,271	101,939
Telephone	3,155	3,689	854	1,194	8,892	8,975
Tithe to International	255,468	-	-	-	255,468	207,941
Travel	1,213	15	1,689	2,535	5,452	5,944
Utilities	12,489	35,683	2,495	1,296	51,963	52,681
Volunteer recognition	16,901	1,508	5,675	-	24,084	10,875
Direct fundraising expense	-	1,008	82,563	-	83,571	109,668
New market tax credit expenses	-	-	-	-	-	111,024
Total expenses	\$ 4,563,835	\$ 1,144,312	\$ 509,352	\$ 209,075	\$ 6,426,574	\$ 7,044,906

See accompanying notes to financial statements.



Indian River County Habitat for Humanity, Inc.

Consolidated Statement of Cash Flows

For the Year ended June 30, 2018

(With corresponding totals as of June 30, 2017)

	2018	2017
Cash flows from operating activities:		
Increase in net assets	\$ 1,095,303	\$ 607,971
Adjustments to reconcile increase in net assets to net cash flows provided by (used for) operating activities:		
Transfers to homeowners, net of discount	1,002,177	1,242,505
Depreciation	195,144	168,531
Amortization of new market tax credits	-	73,595
Mortgage loan discount	(411,024)	(251,774)
Gain on sale of assets	(67,024)	(52,253)
In-kind contributions	(4,870)	-
Gain on forgiveness of debt	-	(914,388)
(Increase) decrease in:		
Restricted cash	66,210	(124,966)
Grant, pledges and other receivables	22,395	(2,441)
Land held for development and cost of homes under construction	(1,369,566)	(1,700,408)
Other assets	6,082	(216,863)
Increase (decrease) in:		
Accounts payable, escrow and accrued expenses	(68,400)	(184,590)
Net cash provided by (used for) operating activities	466,427	(1,355,081)
Cash flows from investing activities		
Purchase of fixed assets	(846,168)	(280,721)
Proceeds from sale of mortgage loans	175,300	-
Proceeds from sale of assets	22,376	37,051
Proceeds from securitization of note	-	55,857
Mortgage payments received	558,665	435,776
Net cash provided by (used for) investing activities	(89,827)	247,963
Cash flows from financing activities:		
Proceeds from note payable	-	1,959,900
Payments on note payable	(74,747)	-
Proceeds from SHOP notes and lines of credit	39,454	1,299,711
Payments on SHOP notes and lines of credit	(38,695)	(1,857,766)
Net cash provided by (used for) financing activities	(73,988)	1,401,845
Net increase in cash	302,612	294,727
Cash, beginning of year	652,105	357,378
Cash, end of year	\$ 954,717	\$ 652,105
Supplemental disclosure of cash flow information:		
Interest paid	\$ 7,204	\$ 73,333
Supplemental disclosure of noncash activities:		
Issuance of non-interest bearing mortgage loans	\$ 1,725,267	\$ 1,939,799
Discount on non-interest bearing mortgage loans	\$ (537,507)	\$ (864,836)
Forgiveness of debt under NMTC transaction	\$ -	\$ 6,000,000

See accompanying notes to financial statements.

Indian River County Habitat for Humanity, Inc.

Notes to Financial Statements

For the Year ended June 30, 2018

Note 1 – Nature of Organization and Summary of Significant Accounting Policies

Organization and Purpose

The Indian River County Habitat for Humanity, Inc. (“Habitat”) is a Florida nonprofit organization that was incorporated on March 19, 1990. Habitat is an affiliate of Habitat for Humanity International, Inc., 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 for Humanity International, Inc. assists with information resources, training, publications, prayer support and in other ways, Habitat is primarily and directly responsible for its own operations.

On June 21, 2017, Habitat filed articles of organization with the State of Florida to form its wholly owned subsidiary IRCHFH Funding Company, LLC. The Company’s purpose is to acquire and hold mortgage loans and related documents to comply with the terms of any note purchase agreement between the Company and any financial institution. As a single member LLC, the entity is disregarded for purposes of the Internal Revenue Code.

Basis of Accounting

The accompanying financial statements have been prepared in accordance with generally accepted accounting principals’, using the accrual basis of accounting.

Basis of Presentation

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Unconditional promises to give are recognized as revenue when the underlying promises are received by Habitat. Gifts of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. 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 statement of activities as net assets released from restrictions.

Cash Equivalents

Cash and cash equivalents include cash and investments that are readily convertible into cash and have original maturities of three months or less. Amounts held in individual financial institutions may exceed FDIC insured limits. Habitat has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash.

Inventory

Inventory consists of donated merchandise to the Restore, primarily household items and construction materials, held for sale and valued at estimated sale prices.

Indian River County Habitat for Humanity, Inc.

Notes to Financial Statements (continued)

Note 1 – Nature of Organization and Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment acquisitions greater than \$500 are capitalized and are stated at cost. Donated property and equipment is recorded at the fair market value at the date of the gift. Depreciation is provided on a straight-line basis over the estimated useful life of the asset, which ranges from 3 - 40 years.

Land Held for Development

Land held for development is recorded at cost and includes land under development, developed lots, and carrying costs incurred during the development period. Real estate assets are evaluated for impairment if impairment indicators are present. An impairment write-down to fair value occurs when management believes that events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss was recorded as of June 30, 2015 as disclosed further in Note 15. No additional impairment was recorded for the year ended June 30, 2018.

Land Available for Sale

Real estate assets are evaluated for impairment if impairment indicators are present. An impairment write-down to fair value less costs to sell occurs only if the estimated future undiscounted net cash flows from the real estate inventories are less than the carrying amount.

Escrow and Warranty Reserves

Habitat services certain mortgages on homes whereby cash amounts are received from homeowners in escrow for insurance, property taxes, and association maintenance. In addition, each home carries a one-year warranty and management has established reserves to cover estimated potential costs. Escrow funds and warranty reserves are used to pay costs as they become due. At June 30, 2018, restricted cash of \$352,135 is held to cover these reserves.

Revenue Recognition

- **Unconditional Promises to Give**

Unconditional promises to give (pledges), e.g., pledged capital campaign contributions, are recognized as revenue and as assets in the year the pledge is received. Unconditional promises to give that are scheduled to be collected in the succeeding twelve months are reflected as current promises to give and are recorded at their net realizable value. Unconditional promises to give that are scheduled to be collected beyond the succeeding twelve months are reflected as long-term promises to give and are recorded at the present value of their net realizable value. Management considers the unconditional promises receivable at year-end to be fully collectible, therefore, an allowance for uncollectible promises has not been recorded.

- **Restore**

Restore revenue includes the revenue collected on merchandise sold.

Indian River County Habitat for Humanity, Inc.

Notes to Financial Statements (continued)

Note 1 – Nature of Organization and Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

- **Transfers to Homeowners**

Transfers to homeowners are recorded at stipulated values that are comparable to market values, less the face value of second mortgages held (see Note 12). Non-interest bearing mortgages have been discounted based upon prevailing market rates for low income housing at the inception of the mortgages. Utilizing a straight-line basis, this discount is recognized as interest income over the term of the mortgage.

Contributed Services

Habitat receives a significant amount of donated services from unpaid volunteers who assist in fund-raising, administration and program services. However, these amounts have not been recognized in the accompanying financial statements because the criteria for recognition of such volunteer effort under ASC 958-605-25-16 have not been satisfied.

Functional Allocation of Expenses

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

Income Tax Status

Habitat is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code under a group exemption letter granted to Habitat for Humanity International by the Internal Revenue Service.

Use of Estimates

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

Prior Period Information

The financial statements include certain prior year corresponding totals intended to be read only in relation to the current period presentation. The corresponding information was derived from Habitat's audited financial statements for the year ended June 30, 2017, but herein, does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. The prior year corresponding totals may also reflect certain reclassifications of amounts to conform to current year presentations.

Note 2 – Concentrations of Credit Risk

Financial instruments which potentially subject Habitat to concentration of credit risk include mortgages receivable secured by real property. Habitat considers this risk to be nominal and that any such losses that might be sustained to be part of its mission.

Indian River County Habitat for Humanity, Inc.

Notes to Financial Statements (continued)

Note 3 – Non-Interest Bearing Mortgage Loans, net of discounts

Mortgages receivable consist of non-interest bearing mortgages which are secured by real estate and payable in monthly installments over the life of the mortgage. Mortgages have an original maturity ranging from 15 to 30 years, and have been discounted with rates ranging from 7.4% to 8.4%. Following is a summary of non-interest bearing mortgage loans at June 30, 2018, which management has estimated to be fully collectible or recoverable through foreclosure and re-sale:

Non-interest bearing mortgage loans at face value	\$ 10,866,130
Unamortized discount on mortgages	(6,012,180)
	<u>\$ 4,853,950</u>
Less than one year	\$ 246,642
Greater than one year	4,607,308
	<u>\$ 4,853,950</u>

Note 4 – Home Construction Activity

Following is a summary of home building activity for the year ended June 30, 2018:

	Number	Costs
New and Rehab homes under construction, July 1, 2017	15	\$ 569,638
Additional costs incurred on:		
beginning inventory of new homes		347,388
beginning inventory of Recycled / Rehab homes		123,462
New homes started during the year	16	1,206,953
New homes sold	(14)	(1,509,302)
Recycled / Rehab homes sold	(6)	(269,466)
Homes under construction, June 30, 2018	11	<u>\$ 468,673</u>

The eleven homes under construction on June 30, 2018 are detailed as follows:

	Number	Costs
New construction	9	\$ 340,746
Recycled / Rehab homes	2	127,927
Homes under construction, June 30, 2018	11	<u>\$ 468,673</u>

Indian River County Habitat for Humanity, Inc.

Notes to Financial Statements (continued)

Note 5 – Property and Equipment, net

The following is a summary of property and equipment at June 30, 2018:

Construction equipment	\$ 20,062
Furniture and fixtures	129,687
ReStore and warehouse	4,015,887
Computer equipment	61,788
Computer software	74,725
Other equipment	720
ReStore equipment	68,597
Vehicles	201,850
Land - office complex	585,417
Office and training center	1,017,175
Other real estate owned	116,160
	6,292,068
Accumulated depreciation	(1,414,816)
	\$ 4,877,252

Note 6 – Note Payable

On June 29, 2017, IRCHFH Funding Company, LLC established a secured promissory note due to Northern Trust in the principal amount of \$1,959,900. The note is non-interest bearing until maturity at January 1, 2047. Monthly principal payments begin July 2017 in the amount of \$6,229. Outstanding principal at June 30, 2018 amounts to \$1,885,153. The note is collateralized by mortgages as described in Note 13.

Note 7 - Line of Credit

On July 7, 2014, Habitat entered into a secured line of credit in the amount of \$1,000,000. The line of credit bears interest variable monthly at the London Interbank Offered Rate (LIBOR) plus 2.15%. The line is secured by substantially all the accounts and personal property of the entity and expires February 28, 2019. As of June 30, 2018, no amounts have been drawn against this line and there is no outstanding balance.

On September 28, 2012, Habitat received a secured line of credit in the amount of \$2,500,000, with an adjustable rate of interest. The interest rate will be adjusted based on the Eastern edition of the Wall Street Journal Prime Rate minus one percent, with a rate floor of 2.25%. This line of credit is secured by their campus located on U.S. Highway 1 in Indian River County, Florida. The line matures on November 24, 2018. As of June 30, 2018, the outstanding balance is \$99,932.

Indian River County Habitat for Humanity, Inc.

Notes to Financial Statements (continued)

Note 8 – Net Assets, Designated

Designated net assets consist of resources that have been voluntarily set aside by Habitat for the construction of homes that have been awarded to applicants.

Note 9 – Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2018 are restricted by purpose or time for the following:

Scholarships	\$ 105,685
Pledges receivable	28,500
Veteran Projects	800
	<hr/>
	\$ 134,985

Note 10 – Net Assets Released from Restriction

During the fiscal year ended June 30, 2018, net assets were released from donor restrictions due to the passage of time and usage as follows:

Meadows Field Project	\$ 138,326
Scholarships	73,051
Vehicle	5,156
Hurricane Relief	1,550
Other	700
	<hr/>
	\$ 218,783

Note 11 – Transactions with Habitat for Humanity International, Inc.

By covenant agreement with Habitat for Humanity International, Inc., Habitat remits 10% of its contributions (excluding in-kind and capital campaign contributions) to construct homes in economically depressed areas around the world. For the year ended June 30, 2018, Habitat contributed \$255,468 toward this effort.

Indian River County Habitat for Humanity, Inc.

Notes to Financial Statements (continued)

Note 12 – Transfers to Homeowners-Second Mortgages / Shared Appreciation Agreements

Habitat requires that, on the date of transfer, the homeowners sign a shared appreciation agreement in addition to any second mortgage which may be recorded. The intent of these instruments is to deter homeowners from immediately selling their newly acquired homes for a profit. The second mortgage represents the approximate difference between the fair market value of the home at the date of transfer less the amount equal to the funds needed to put the homeowners' monthly mortgage payment at 20% of the family's gross monthly income. The second mortgage amount generally ranges between \$10,000 to \$65,000 per home. The shared appreciation agreement systematically allocates a specific percentage of property appreciation to the homeowner and Habitat, on a declining basis over twenty years from the date of transfer. At such time, the shared appreciation agreement terminates. The payment of the second mortgage, and any amount which may be due under the shared appreciation agreement, are only due upon sale of property from the original homeowner to a non-qualifying party. Since this event will occur sometime in the unforeseeable future, and which will be beyond the organization's control, the present value of said mortgages cannot be readily determined. Accordingly, neither the face value nor present value of second mortgages held, are included in the financial statements. The face value of second mortgages held as of June 30, 2018 amounts to \$3,843,915.

Note 13 – Securitization of Mortgages and Commitment

On June 29, 2017, IRCHFH Funding Company, LLC acquired, under purchase agreement from Habitat, 25 mortgages receivable with principal balances totaling \$1,959,900. To fund the purchase of these subject mortgages, IRCHFH Funding authorized the issuance of a promissory note secured by the aforementioned mortgages and entered into a note purchase agreement with Northern Trust Bank for the securitized note. See Note 6 for the terms and outstanding balance of the Note payable at June 30, 2018. Under the securitization and collateralized loan transaction, if one of the collateralized mortgage loans becomes nonperforming, IRCHFH Funding is obligated to purchase that loan out of the collateral pool or substitute a substantially similar mortgage loan.

As discussed in Note 1, IRCHFH Funding Company, LLC is a wholly owned subsidiary of Habitat and as such the entities are consolidated. All intercompany amounts, including the effects of gains and losses, unamortized discounts, and any imputed interest related to transactions between the entities are eliminated in the accompanying financial statements.

Indian River County Habitat for Humanity, Inc.

Notes to Financial Statements (continued)

Note 14 – Fair Value Measurement

ASC Topic 820, “Fair Value Measurements and Disclosures”, defines fair value, establishes guidelines for measuring fair value, and expands disclosure regarding fair value measurements. ASC Topic 820 establishes a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three levels. A financial instrument’s categorization within the fair value hierarchy is based upon the lowest level of input that is available and significant to the fair value measurement. ASC Topic 820 establishes and prioritizes three levels of inputs that may be used to measure fair value.

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs that are generally unobservable and typically reflect management’s estimates of assumptions that market participants would use in pricing the asset or liability.

The following methods and assumptions were used by Habitat in estimating its fair value disclosures for financial instruments on a nonrecurring basis:

- Cash, cash equivalents, current portion of pledge receivable, accounts receivable, cost of homes under construction, accounts payable, notes payable and line of credit: The carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments. For long-term assets and liabilities, Habitat will continue to utilize the exemption from certain disclosure requirements for financial instruments provided by FASB ACS 825-10-50-3.
- Long-term unconditional promises to give: The fair value of promises to give that are due in more than one year is estimated by discounting expected future cash flows using a 4% rate of return.
- Mortgage loan receivable: The fair value of mortgage loan receivable is estimated by discounting expected future cash flows as more fully described in Note 3.
- Land held for development: The fair value of land held for development is estimated by management based on current tax appraised values and other information compiled from industry experts, historical real estate transactions, and Indian River County property records.

Indian River County Habitat for Humanity, Inc.

Notes to Financial Statements (continued)

Note 14 – Fair Value Measurement (continued)

The following table presents Habitat’s assets measured at fair value on a non-recurring basis at June 30, 2018:

	Level 1	Level 2	Level 3
Mortgage loans receivable	\$ -	\$ -	\$ 4,853,950
Pledges receivable	-	-	28,500
Land held for development	-	-	2,159,772
	\$ -	\$ -	\$ 7,042,222

Note 15 – Impairment Loss

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

The most recent impairment loss related to the fair value of land held for development was recorded during the year ended June 30, 2015. No further impairment has been determined. Land held for development is therefore presented at fair value at June 30, 2018, as per the following table:

	2018
Land held for development at cost	\$ 3,640,423
Allowance for impairment	(1,480,651)
Land held for development at fair value	\$ 2,159,772

Note 16 – Disclosure of Subsequent Events

On May 31, 2018, Habitat accepted a gift of unencumbered real property in Brevard County, Florida subject to a land exchange agreement ultimately resulting in the acquisition of 43.19 acres of developable property in Fellsmere, Florida. The land exchange transaction concluded on July 16, 2018. The value of the donation is recorded in the accompanying statements at \$691,040, the appraised fair market value of the ultimately received Fellsmere property.

Management has evaluated subsequent events through August 28, 2018, the date the financial statements were available to be issued. Management is not aware of any events subsequent to the statement of financial position date which would require additional adjustments to, or disclosure in, the accompanying financial statements.