Habitat for Humanity® of Metro Denver

Consolidated Financial Statements
and
Independent Auditors' Report
June 30, 2018 and 2017

EKS&H

HABITAT FOR HUMANITY OF METRO DENVER, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Habitat for Humanity of Metro Denver, Inc.
Denver, Colorado

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Habitat for Humanity of Metro Denver, Inc. (the "Habitat") (a non-profit corporation), which are comprised of the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 auditors consider 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 financial position of Habitat for Humanity of Metro Denver, Inc. as of June 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* 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 audits 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 schedule of expenditures of federal awards 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 October 23, 2018, on our consideration of the Habitat's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Habitat's internal control over financial reporting and compliance.

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Denver, Colorado
October 23, 2018

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Consolidated Statements of Financial Position

	June 30, 2018	June 30, 2017
Assets		
Assets		
Cash and cash equivalents	$ 3,531,946	$ 2,484,119
Investments held by The Denver Foundation (Notes 2 and 3)	4,756,346	4,424,616
Escrow deposits held in trust	264,125	195,350
Grants receivable	581,249	392,704
Construction in progress (Note 4)	9,171,610	6,804,217
Other assets	951,767	581,025
Mortgage notes receivable, net (Note 5)	15,880,116	14,172,989
Investment in HFHI-SA Leverage IX, LLC (Note 11)	4,111,082	4,082,867
Investment in CCML Leverage Lender I, LLC (Note 12)	1,598,151	1,573,459
Investment in HFHI NMTC SUB-CDE II, LLC (Note 13)	2,933,529	-
Property and equipment, net (Note 6)	3,982,507	3,995,623
Total assets	$ 47,762,428	$ 38,706,969
Liabilities and Net Assets		
Liabilities		
Line-of-credit (Note 7)	$ 250,000	$ -
Accounts payable	412,493	408,944
Other accrued expenses	606,702	617,917
Homeowner deposits	66,027	18,775
Deferred rent	129,460	155,038
Escrow deposits held in trust	264,125	195,350
Mortgage note payable (Note 8)	1,144,404	1,213,239
Notes payable, net (Note 9)	3,778,485	1,261,629
Notes payable HFHI (Note 10)	308,444	325,050
Note payable HFHI-SA NMTC VI, LLC (Note 11)	4,791,750	4,758,961
Note payable CCM Community Development XVII, LLC (Note 12)	1,851,249	1,841,632
Note payable HFHI NMTC SUB-CDE II, LLC (Note 13)	4,098,633	-
Forgivable notes payable (Note 14)	400,800	2,632,100
Total liabilities	18,102,572	13,428,635
Commitments and contingencies (Notes 7, 16, 18, and 19)		
Net assets (Note 15)		
Unrestricted		
Board-designated for land and infrastructure	2,000,000	2,000,000
Undesignated	25,752,431	22,129,534
Total unrestricted	27,752,431	24,129,534
Temporarily restricted	1,907,425	1,148,800
Total net assets	29,659,856	25,278,334
Total liabilities and net assets	$ 47,762,428	$ 38,706,969

See notes to consolidated financial statements.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Consolidated Statements of Activities

	For the Years Ended June 30,					
	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, gains, and support						
Contributions and grants	$ 3,716,432	$ 2,767,626	$ 6,484,058	$ 2,731,326	$ 2,698,053	$ 5,429,379
Donated goods and services	2,220,257	-	2,220,257	1,498,319	-	1,498,319
Home sales	4,566,859	-	4,566,859	3,375,061	-	3,375,061
Mortgage interest income	2,207,796	-	2,207,796	3,050,149	-	3,050,149
Second mortgage revenue	303,259	-	303,259	377,787	-	377,787
Sales from ReStores, net of cost of purchased inventory of $402,571 (2018) and $343,165 (2017) and refunds	5,648,832	-	5,648,832	5,371,819	-	5,371,819
Rental income	114,909	-	114,909	128,778	-	128,778
Other income	59,861	-	59,861	18,916	-	18,916
Forgiveness of debt	2,406,300	-	2,406,300	-	-	-
Net assets released from restrictions due to satisfaction of expenditure requirements	2,009,001	(2,009,001)	-	3,101,897	(3,101,897)	-
Total revenues, gains, and support	23,253,506	758,625	24,012,131	19,654,052	(403,844)	19,250,208
Expenses						
Program services						
Home construction	12,203,899	-	12,203,899	11,007,542	-	11,007,542
Family services	1,047,090	-	1,047,090	863,426	-	863,426
ReStores	4,297,669	-	4,297,669	4,480,989	-	4,480,989
Total program services	17,548,658	-	17,548,658	16,351,957	-	16,351,957
Supporting services						
Management and general	1,391,710	-	1,391,710	1,005,303	-	1,005,303
Fundraising activities	1,261,907	-	1,261,907	1,202,849	-	1,202,849
Total supporting services	2,653,617	-	2,653,617	2,208,152	-	2,208,152
Total expenses	20,202,275	-	20,202,275	18,560,109	-	18,560,109
Change in net assets before other income	3,051,231	758,625	3,809,856	1,093,943	(403,844)	690,099
Gain (loss) on sale of asset	500	-	500	(13,528)	-	(13,528)
Investment income	571,166	-	571,166	773,197	-	773,197
Change in net assets	3,622,897	758,625	4,381,522	1,853,612	(403,844)	1,449,768
Net assets at beginning of year	24,129,534	1,148,800	25,278,334	22,275,922	1,552,644	23,828,566
Net assets at end of year	$ 27,752,431	$ 1,907,425	$ 29,659,856	$ 24,129,534	$ 1,148,800	$ 25,278,334

See notes to consolidated financial statements.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2018

	Program Services				Supporting Services			
	Home Construction	Family Services	ReStores	Total Program Services	Management and General	Fundraising Activities	Total Supporting Services	Total Functional Expenses
Expenses								
Cost of homes sold	$ 7,709,750	$ 275	$ -	$ 7,710,025	$ -	$ -	$ -	$ 7,710,025
Salaries and wages	1,884,572	670,219	2,382,236	4,937,027	634,018	666,794	1,300,812	6,237,839
Volunteer labor on homes	988,711	-	-	988,711	-	-	-	988,711
Occupancy	236,024	19,819	556,256	812,099	22,120	17,375	39,495	851,594
Payroll taxes and benefits	168,508	60,551	177,798	406,857	102,570	68,333	170,903	577,760
Habitat for Humanity International tithe	261,816	-	-	261,816	-	-	-	261,816
Depreciation and amortization	114,086	17,211	115,961	247,258	21,261	16,706	37,967	285,225
Professional fees	8,211	83,803	21,115	113,129	270,657	4,236	274,893	388,022
Bank and investment fees	9	-	116,359	116,368	75,985	194	76,179	192,547
Insurance	62,096	22,291	135,157	219,544	31,726	21,963	53,689	273,233
Other construction costs	69,479	77,556	182,339	329,374	426	-	426	329,800
Marketing and communications	6,127	487	138,029	144,643	-	179,325	179,325	323,968
Office supplies	50,601	28,581	136,438	215,620	37,742	17,653	55,395	271,015
Vehicle expense	58,066	57	164,071	222,194	110	31	141	222,335
Interest expense	149,132	8,931	-	158,063	41,605	8,667	50,272	208,335
Volunteer expense	188,251	904	1,535	190,690	1,357	2,755	4,112	194,802
Telephone	18,554	5,832	49,720	74,106	16,212	3,208	19,420	93,526
Printing and postage	8,325	8,098	25,943	42,366	10,788	16,492	27,280	69,646
Miscellaneous	40,792	34,621	1,520	76,933	8,613	361	8,974	85,907
Donated goods and services	23,031	-	46,685	69,716	19,524	234,199	253,723	323,439
Administrative fees	72,902	-	325	73,227	35,378	14	35,392	108,619
Equipment purchase and repair expense	54,056	-	20,018	74,074	-	-	-	74,074
Staff development	20,596	5,495	10,951	37,042	39,202	1,319	40,521	77,563
Travel and transportation	10,204	2,359	15,213	27,776	22,416	2,282	24,698	52,474
Total expenses	$ 12,203,899	$ 1,047,090	$ 4,297,669	$ 17,548,658	$ 1,391,710	$ 1,261,907	$ 2,653,617	$ 20,202,275

See notes to consolidated financial statements.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2017

	Program Services				Supporting Services			
	Home Construction	Family Services	ReStores	Total Program Services	Management and General	Fundraising Activities	Total Supporting Services	Total Functional Expenses
Expenses								
Cost of homes sold	$ 7,266,852	$ -	$ -	$ 7,266,852	$ -	$ 12	$ 12	$ 7,266,864
Salaries and wages	1,524,609	508,745	2,539,949	4,573,303	372,254	708,216	1,080,470	5,653,773
Volunteer labor on homes	949,737	-	-	949,737	-	-	-	949,737
Occupancy	39,286	11,312	731,474	782,072	25,824	18,628	44,452	826,524
Payroll taxes and benefits	147,106	53,815	208,800	409,721	57,240	73,673	130,913	540,634
Habitat for Humanity International tithe	255,000	-	-	255,000	-	-	-	255,000
Depreciation and amortization	97,800	13,214	112,953	223,967	20,336	18,296	38,632	262,599
Professional fees	17,129	63,784	15,525	96,438	174,385	76,768	251,153	347,591
Bank and investment fees	36	-	99,318	99,354	65,126	5,835	70,961	170,315
Insurance	99,177	14,474	173,657	287,308	21,953	10,979	32,932	320,240
Other construction costs	124,699	59,749	-	184,448	9,129	-	9,129	193,577
Marketing and communications	16,924	1,602	210,241	228,767	-	174,110	174,110	402,877
Office supplies	43,319	48,738	127,132	219,189	28,862	25,564	54,426	273,615
Vehicle expense	42,612	127	144,553	187,292	252	97	349	187,641
Interest expense	121,571	7,778	-	129,349	16,815	12,210	29,025	158,374
Volunteer expense	102,078	60	6,793	108,931	886	6,033	6,919	115,850
Telephone	17,930	4,805	50,482	73,217	3,456	3,754	7,210	80,427
Printing and postage	10,106	6,043	21,646	37,795	6,081	17,474	23,555	61,350
Miscellaneous	39,866	19,577	417	59,860	10,716	1,825	12,541	72,401
Donated goods and services	8,856	41,554	-	50,410	65,616	44,615	110,231	160,641
Administrative fees	11,210	164	2,011	13,385	96,183	1	96,184	109,569
Equipment purchase and repair expense	56,052	7	15,498	71,557	(248)	313	65	71,622
Staff development	9,962	6,374	5,656	21,992	12,769	1,937	14,706	36,698
Travel and transportation	5,625	1,504	14,884	22,013	17,668	2,509	20,177	42,190
Total expenses	$ 11,007,542	$ 863,426	$ 4,480,989	$ 16,351,957	$ 1,005,303	$ 1,202,849	$ 2,208,152	$ 18,560,109

See notes to consolidated financial statements.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Consolidated Statements of Cash Flows

	For the Years Ended June 30, 2018	2017
Cash flows from operating activities		
Change in net assets	$ 4,381,522	$ 1,449,768
Adjustments to reconcile change in net assets to net cash used in operating activities		
Mortgages made to homeowners	(4,566,859)	(3,375,061)
Amortization of mortgage loan discounts	(2,207,796)	(3,050,149)
Depreciation and amortization expense	285,225	262,599
Amortization of New Market Tax Credit loan costs	68,723	42,407
(Gain) loss on sale of assets	(500)	13,528
Deferred rent	(25,578)	(1,812)
Net realized and unrealized gain on investments	(410,736)	(595,682)
Forgiveness of debt	(2,406,300)	-
Donated other assets	(437,202)	-
Changes in operating assets and liabilities		
Grants receivable	(188,545)	76,888
Construction in progress	(2,367,393)	(1,393,939)
Other assets	66,460	80,391
Distributions received from New Market Tax Credit investments	(52,907)	(126,308)
Accounts payable	3,549	145,202
Other accrued expenses	(11,215)	113,458
Homeowner deposits	47,252	4,925
	(12,203,822)	(7,803,553)
Net cash used in operating activities	(7,822,300)	(6,353,785)
Cash flows from investing activities		
Mortgage principal payments received	1,493,996	1,193,937
Second mortgage payoffs received	303,259	377,787
Proceeds from sale of mortgages	3,270,273	5,895,990
Distributions for fees paid to The Denver Foundation	79,006	64,846
Purchase of investment in HMFI NMTC SUB-CDE II, LLC	(2,933,529)	-
Payments for purchases of equipment	(272,609)	(132,410)
Proceeds from sale of equipment and land	1,000	1,975
Net cash provided by investing activities	1,941,396	7,402,125
Cash flows from financing activities		
Repayments of mortgage note payable	(68,835)	(65,350)
Repayments of notes payable	(480,632)	(396,776)
Proceeds from notes payable	3,172,488	-
Proceeds from note payable HFHI NMTC SUB-CDE II, LLC	4,351,669	-
Proceeds from line-of-credit	250,000	-
Repayments of notes payable HFHI	(40,764)	(35,641)
Proceeds from notes payable HFHI	24,158	97,500
Deferred loan costs	(279,353)	-
Net cash provided by (used in) financing activities	6,928,731	(400,267)
Net increase in cash and cash equivalents	1,047,827	648,073
Cash and cash equivalents at beginning of year	2,484,119	1,836,046
Cash and cash equivalents at end of year	$ 3,531,946	$ 2,484,119

(Continued on the following page)

See notes to consolidated financial statements.

(Continued from the previous page)

Supplemental disclosure of cash flow information:

Interest paid was $208,337 and $56,217 for the years ended June 30, 2018 and 2017, respectively.

Supplemental disclosure of non-cash activity:

	June 30, 2018	June 30, 2017
Issuance of non-interest-bearing mortgage loans	$ 7,237,780	$ 7,094,036
Discount on non-interest-bearing mortgage loans	(2,670,921)	(3,718,975)
Transfers to homeowners subject to non-interest-bearing mortgage loans	$ 4,566,859	$ 3,375,061

During 2017, Habitat transferred $1,071,001 from construction in progress to property and equipment.

See notes to consolidated financial statements.

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

Habitat for Humanity of Metro Denver, Inc. ("Habitat") is a non-profit corporation formed on April 20, 1979 to raise funds to build, rehabilitate, and repair affordable housing for low-income individuals who presently live in inadequate housing or cannot purchase housing through conventional sources. To qualify for housing, applicants must demonstrate need for housing, ability to pay for the services, and willingness to partner with Habitat. All Habitat partner families complete sweat equity, attend homeowner education classes, and pay for their home or repairs. Financing for individuals purchasing homes is provided by Habitat utilizing 0% and below-market interest rate financing, and monthly payments meet HUD's affordability standards.

Habitat operates five Home Improvement Outlets (the "ReStores") to provide the community with a source of low-cost materials for home improvement, to reduce the volume of materials going to landfills, and to generate funds for Habitat. Many Habitat homeowners volunteer at the ReStores to earn sweat equity hours and work experience.

Affordable Mortgage Solutions, LLC, ("AMS"), a not-for-profit, wholly-owned subsidiary of Habitat, commenced operations on July 10, 2018. All Habitat mortgage activities are expected to be transitioned to AMS by November 1, 2018. AMS's mission is to provide affordable home mortgages to low- and moderate-income families who lack adequate access to capital, with a purpose of providing services that expand homeownership opportunities to underserved individuals and families. AMS will provide mortgages for Habitat's traditional residential construction business for borrowers of up to 80% of Area Median Income ("AMI"), and it will expand its lending services to provide mortgages to low- and moderate-income families (up to 100% AMI) buying homes listed on the open market (not constructed by Habitat). AMS completed its first mortgage financing transaction on July 26, 2018.

Habitat capitalized AMS through the contribution of $1.0 million of cash and $6,973,958 of mortgages receivable (including an unamortized mortgage discount of $2,685,791). Habitat has also committed to contribute all of its remaining unencumbered mortgage receivables and the proceeds from the sale of any mortgage to AMS over time. AMS intends to raise additional capital in the form of loans or grants from banks, foundations, and other sources in the future.

On July 30, 2018, AMS submitted its application to the Department of the Treasury's Community Development Financial Institution Fund ("CDFI Fund") for certification as a Community Development Financial Institution, ("CDFI"). A CDFI certification provides eligibility for Financial Assistance (loans and grants) from the CDFI Fund, and is believed to enhance a financial institution's ability to attract private sector capital, including funding from foundations, state and local governments, and other banks and financial institutions.

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

Organization (continued)

Consistent with Habitat's historical underwriting practices, mortgages will be offered at a below-market interest rate, down payment requirements will be minimal, and private mortgage insurance ("PMI") will be waived. Total housing-related expenses (principal, interest, property taxes, homeowner's insurance, HOA if applicable, and utilities) will not exceed 30% of the borrower's gross household income. Additionally, all borrowers must be willing to partner with Habitat by committing their energy (through sweat-equity), time (by participating in financial literacy and home ownership classes), and financial resources (contributing to a down payment and closing costs). These partnership activities are deemed critical to the continued success of its lending to lower income families.

Although AMS is a distinct and separate legal entity from Habitat, it will be disregarded for tax purposes and included in Habitat's Form 990. Through a Shared Services Agreement, Habitat has committed to provide certain management and administrative and homebuyer program services to AMS, and AMS has committed to provide mortgage loan origination and loan servicing for Habitat. Habitat has also agreed to cover any AMS operating expenses in excess of its revenues for the foreseeable future.

Habitat Community Housing Development, Inc. ("HCHD") is a separately incorporated non-profit corporation, formed for the purpose of obtaining certain federal funds set aside for community housing development organizations that will be used by Habitat for the construction of affordable homes for low-income families. Habitat is the sole member of HCHD.

HFHMD Funding Company I, LLC ("HFCI") is a separately incorporated limited liability company, formed for the purpose of holding certain mortgages that have been sold to a bank. Habitat is the sole member of the HFCI.

Habitat is an affiliate of Habitat for Humanity International ("Habitat International" or "HFHI").

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Habitat, HCHD, HFCI, and AMS, collectively referred to as "Habitat." All significant interorganization balances and transactions have been eliminated.

Basis of Presentation

The accompanying consolidated financial statements of Habitat have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities. Habitat reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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

Basis of Presentation (continued)

Unrestricted amounts are those currently available at the discretion of the Board of Directors (the "Board") for use in Habitat's operations. Unrestricted amounts also include monies designated by the Board for a reserve fund for future land purchases and infrastructure development.

Temporarily restricted amounts are monies restricted by donors specifically for certain time periods, purposes, or programs.

Permanently restricted amounts are assets that must be maintained permanently by Habitat as required by the donor, but Habitat is permitted to use or expend part or all of any income derived from those assets. Habitat does not currently maintain any permanently restricted net assets.

Cash and Cash Equivalents

For the purposes of the consolidated statement of cash flows, Habitat considers all unrestricted highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments

Investments held by The Denver Foundation (the "Foundation") are stated at their fair values in the consolidated statement of financial position. Unrealized gains and losses are included in the change in net assets in the consolidated statement of activities.

In accordance with generally accepted accounting principles, non-controlling interests in HFHI-SA Leverage IX, LLC (Note 11), CCML Leverage Lender I, LLC (Note 12), and HFHI NMTC SUB-CDE II, LLC (Note 13) are accounted for under the equity method of accounting.

Habitat evaluates these investments annually for other-than-temporary declines in value. At June 30, 2018 and 2017, no such declines existed on these investments.

Concentrations of Credit Risk

Financial instruments, which potentially subject Habitat to concentrations of credit risk, consist of cash accounts that may, during the year, exceed the federally insured limit set by the FDIC, investments held by the Foundation, and mortgage notes receivable. Interest-bearing and non-interest-bearing accounts are guaranteed by the FDIC up to $250,000. At June 30, 2018, Habitat had deposits in excess of federally insured limits of approximately $2,697,000. Habitat reduces credit risk by placing its cash and temporary investments with creditworthy, high-quality financial institutions.

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

Concentrations of Credit Risk (continued)

Habitat finances the construction and ownership of homes to low-income individuals in the Denver Metro area. The mortgages are secured by a deed of trust. Habitat has established procedures to limit the risk of default by limiting the sale price of the homes and charging below-market interest, thereby designing the monthly mortgage payments of the owners to be manageable. Habitat homes are appraised for value prior to sale, with the sale price being set at appraised (or fair market) value. Habitat may utilize a subordinate second mortgage to bring the first mortgage down to an affordable level based on a specific family's financial situation. However, the values of homes that collateralize the mortgage notes receivable are subject to market value fluctuations beyond the control of management.

Credit risk with respect to contributions receivable is limited due to the number and creditworthiness of the corporations, foundations, churches, and individuals that comprise the contributor base.

Escrow Deposits Held in Trust

Habitat services the mortgages on the homes it sells. Certain mortgages are subsequently sold or pledged as collateral on notes payable to third parties, one of which services the loans it holds, and the other group of loans continue to be serviced by Habitat. Escrow deposits held in trust include amounts received for insurance, property taxes, and other fees on such loans that Habitat services.

Property and Equipment

Property and equipment are recorded at cost or, if donated, at fair value at the date of donation. Habitat capitalizes all property and equipment with a cost or donated value in excess of $5,000 and with an estimated useful life of three years or more. Depreciation is provided on the straight-line method based upon the estimated useful lives of the assets, which range from 3 to 30 years, and related lease terms for leasehold improvements.

Deferred Loan Costs

During 2018, 2012, and 2011, Habitat capitalized the costs associated with obtaining the New Market Tax Credit ("NMTC") loans. These deferred loan costs are being amortized over the life of the related notes payable using a method approximating the effective interest method. Amortization of deferred loan costs is included in interest expense in the accompanying consolidated statement of functional expenses. Amortization expense for the year ended June 30, 2018 was $68,723. The unamortized balance at June 30, 2018 was netted against the corresponding NMTC notes payable (Notes 11 to 13).

Deferred Rent

Habitat recognizes rent expense on a straight-line basis over the term of the lease. Deferred rent reflects the accumulated difference between actual rent payments and expense recognized.

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

Donated Services and Goods

Donated services are recognized as contributions at estimated fair value on the date of receipt if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by Habitat.

In 2018, Habitat estimated the cost of volunteer labor to be approximately $27,000 to $32,000 for a single-family home and $3,400 for a unit for a renovation or repossession. These volunteer costs are recognized as contribution revenue and cost of homes sold in the consolidated statement of activities when the home is sold.

Approximately $7,000 was recorded for donated materials and electrical services on each Habitat home during 2018.

Donated property utilized in the operations of Habitat is recorded at the estimated fair value at the date of the donation.

Consistent with the Habitat International *Affiliate Operations Manual*, goods donated to the ReStores are reflected as revenue at the time of sale when there is an objective, measurable basis for determining fair value. This accounting reflects the nature of many donations received by the ReStores wherein significant uncertainties exist about the realizability of the values; thus, fair value is not determinable within reasonable limits until the time of sale.

Contributions

Habitat records contributions as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. 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 consolidated statement of activities as net assets released from restrictions. Restrictions met in the same period in which the related contributions are received are recorded as unrestricted support.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses are allocated based upon estimated usage, square footage, or periodic time and expense studies, as is appropriate to the particular cost being allocated.

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

Income Taxes

Habitat, HCHD, HFCI, and AMS are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC"), and each organization qualifies for the charitable contribution deduction. However, income from activities not directly related to their tax-exempt purposes is subject to taxation as unrelated business income. There were no unrelated business income taxes in 2018.

Habitat applies a more-likely-than-not measurement methodology to reflect the consolidated financial statement impact of uncertain tax positions taken or expected to be taken in a tax return. After evaluating the tax positions taken, none were considered to be uncertain; therefore, no amounts have been recognized as of June 30, 2018 and 2017.

If incurred, interest and penalties associated with tax positions are recorded in the period assessed as other operating expense. No interest or penalties have been assessed as of June 30, 2018 and 2017.

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 disclosures 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.

Reclassification

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 presentation. These reclassifications had no effect on previously reported results of income or net assets.

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

Recently Issued Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendment applies to not-for-profit entities. The amendment reduces the classes of net assets to net assets with donor restrictions and net assets without donor restrictions; removes the reconciliation of cash flows to the indirect method if using the direct method; requires the reporting of investment returns, net of expenses, with no disclosure of netted expenses required; requires the use, in the absence of explicit donor stipulations, of the placed-in-service approach for reporting expirations of restrictions on cash or other asset donations; and requires disclosure of expenses by both their natural and functional classification on the face of the statement of activities, as a separate statement, or in the notes to the financial statements. In addition, the amendment provides enhanced disclosures on amounts and purposes of board designations and appropriations, composition of net assets with donor restrictions, discussion of liquidity for the year following year-end, discussion of liquidity of financial assets at year-end, methodology used to allocate costs between program and support functions, and underwater endowment funds. The amendment is effective for all fiscal years beginning after December 15, 2017. Entities should apply the amendment in this update retrospectively to all periods presented.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU No. 2014-09 will replace most existing revenue recognition guidance in accounting principles generally accepted in the United States of America when it becomes effective. The new standard is effective for all fiscal years beginning after December 15, 2018.

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 consolidated statements of financial position 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 consolidated statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. 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 consolidated financial statements, with certain practical expedients available.

Habitat is currently assessing the impact these ASUs will have on its consolidated financial statements.

Subsequent Events

Habitat has evaluated all subsequent events through the auditors' report date, which is the date the consolidated financial statements were available to be issued, and determined there were no material subsequent events that required recognition or additional disclosure in these consolidated financial statements, other than AMS activity disclosed in Note 1.

Note 2 - Investments Held by The Denver Foundation

Invested funds at the Foundation are pooled with other funds in a diversified portfolio maintained by the Foundation in order to realize the benefits of common administration, but Habitat retains all legal and equitable ownership rights.

The investment return on Habitat's pro rata share of the pooled investments held by the Foundation is summarized as follows:

	June 30, 2018	June 30, 2017
Ordinary income	$ 80,929	$ 68,635
Realized gains, net	172,959	93,408
Unrealized gains, net	156,848	433,639
Total unrestricted investment income	$ 410,736	$ 595,682

Note 3 - Fair Value Measurements

Habitat values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, the following fair value hierarchy prioritizes inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement. These classifications (Levels 1, 2, or 3) are intended to reflect the observability of the inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity.

The carrying amounts of financial assets required to be measured at fair value on a recurring basis include investments held by the Foundation, the fair value of which is based upon information determined and reported by the Foundation and corroborated with the Foundation's audited financial statements by management. Habitat's pro rata share of the pooled investments does not have an active market and is, therefore, classified under Level 3 in the fair value hierarchy.

Note 3 - Fair Value Measurements (continued)

Below is a reconciliation of the beginning and ending balance of assets held by the Foundation on behalf of Habitat measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	June 30, 2018	June 30, 2017
Beginning balance	$ 4,424,616	$ 3,893,780
Total investment income	410,736	595,682
Distributions for fees paid to the Foundation	(79,006)	(64,846)
Ending balance	$ 4,756,346	$ 4,424,616

Note 4 - Construction in Progress

Construction in progress consists of undeveloped land and infrastructure costs, as well as partially completed single-family and multi-family dwellings. At June 30, 2018 and 2017, 147 and 95 units, respectively, were under development beyond the land purchase phase. Included in the units under development are 60 and 56 home repair projects at June 30, 2018 and 2017, respectively.

Habitat's construction in progress is comprised of the following:

	June 30, 2018	June 30, 2017
Construction in progress	$ 4,764,038	$ 3,371,165
Land under development	2,536,316	1,250,727
Renovation units	1,871,256	1,503,875
Land acquired for development	-	678,450
	$ 9,171,610	$ 6,804,217

During the year ended June 30, 2017, 14 units were transferred from construction in progress to property and equipment. These units are now being rented to tenants by Habitat.

Note 5 - Mortgage Notes Receivable

Mortgage notes receivable consist of non-interest-bearing and below-market interest-bearing notes received from homebuyers in connection with the sale of homes constructed by Habitat. The notes are discounted to their present values using the market rate of interest at the closing date; the discount rate varies from 3.2% to 8.8%. For mortgages that include a below-market interest rate, the notes are discounted to their present values using the difference between the below-market rate and the market rate of interest at the closing date. The discount is amortized over the lives of the mortgages using the effective interest method.

Note 5 - Mortgage Notes Receivable (continued)

Habitat's mortgage notes receivable are as follows:

	June 30, 2018	June 30, 2017
Face value of outstanding mortgages receivable	$ 25,114,079	$ 23,217,372
Less discount	(9,233,963)	(9,044,383)
	$ 15,880,116	$ 14,172,989

Approximately $1,202,000 will be due in the year ending June 30, 2019 on the above notes.

All mortgage notes receivable are collateralized by the respective homes sold. A committee of the Board meets together with management on a regular basis to review delinquent loans and to consider if any foreclosure proceedings should be initiated. Receivable balances are considered to be delinquent based on contractual terms. The need for an allowance is based on past collection experience and on analysis of current mortgage receivable collectibility. Management believes that the fair value of each underlying mortgaged asset exceeds the value of the associated loan outstanding; therefore, no allowance for uncollectible mortgages is recorded.

Loans Sold to a Colorado Governmental Agency

In April and May of 2018, Habitat sold its interest in certain mortgages receivable to a Colorado Governmental Agency ("CGA"), receiving $2,023,795 in cash proceeds related to the sale. This transaction was recorded as a sale. Habitat continues to service these loans on CGA's behalf.

In a previous year, Habitat transferred its interest in certain mortgages receivable to the CGA in replacement of non-performing mortgages. Non-performing mortgages were retained by Habitat, and the unamortized discount on these mortgages was restored and netted with mortgage interest income in the accompanying consolidated statement of activities.

The current and previous years' sales agreement with CGA requires, among other things, that should a mortgagor default on the payment on a loan and the default is not cured within 60 days, Habitat is required to substitute one or more other mortgage loans, which have an aggregate principal balance at least equal to but not more than 125% of the outstanding balance of the mortgage loan being replaced. Habitat will be reimbursed for the excess of the outstanding principal balance of the replacement mortgage loan over the outstanding principal balance of the mortgage loan being replaced. No liability has been recorded for this substitution provision because management believes that the fair value of each underlying mortgaged asset exceeds the value of the associated loan. At June 30, 2018 and 2017, the outstanding principal balance of loans held by CGA that are guaranteed by Habitat was $8,078,559 and $6,883,048, respectively.

Note 5 - Mortgage Notes Receivable (continued)

Loans Sold to Banks

Habitat has entered into agreements to sell its interest in certain mortgages receivable to banks. These transactions are recorded as sales. Habitat continues to service these loans on the banks' behalf.

The sales agreements with banks require, among other things, that should a mortgagor default on the payment on a loan and the default is not cured within an established number of days per the agreements, Habitat is required to perform one of the following based on the underlying sales agreements: repurchase the loan; substitute with a performing loan of equitable terms, balance, and property; or substitute the mortgagor. Habitat will be reimbursed for the excess of the outstanding principal balance of the replacement mortgage loan over the outstanding principal balance of the mortgage loan being replaced. No liability has been recorded for this substitution provision because management believes that the fair value of each underlying mortgaged asset exceeds the value of the associated loan.

The following summarizes Habitat loans sold to banks:

Bank Acquiring Mortgage Loan	Fiscal Year of Sale	Received	Outstanding Principal Balance of Loans Guaranteed as of June 30, 2018	2017
Bank C	2018	$ 1,246,478	$ 1,519,698	$ -
Bank C	2017	$ 1,717,024	$ 1,850,075	$ 1,975,719
Bank B	2016	$ 4,178,966	$ 4,339,305	$ 4,811,324
Bank B	2015	$ 5,614,108	$ 5,830,326	$ 6,208,567
Bank A	2014	$ 1,032,467	$ 1,190,570	$ 1,243,645
Bank A	2013	$ 1,991,754	$ 1,976,369	$ 2,100,228

Loans Transferred to a Bank

In 2018 and 2014, Habitat transferred its interest in certain mortgages receivable to HFCI, which collateralized its interest in those mortgages receivable to Bank D, by entering into a note payable and receiving cash proceeds related to the transactions. These transactions were recorded as loans. Habitat continues to service these mortgages. See Note 9 for note payable to Bank D.

Bank Acquiring Transferred Loan	Fiscal Year of Sale	Habitat Proceeds Received	Outstanding Principal Balance of Mortgage Collateralized as of June 30, 2018	2017
Bank D	2018	$ 2,997,488	$ 2,914,135	$ -
Bank D	2014	$ 1,032,467	$ 798,504	$ 909,612

Note 6 - Property and Equipment

Habitat's property and equipment are comprised of the following:

	June 30, 2018	June 30, 2017
Buildings	$ 3,420,046	$ 3,420,046
Rental units	1,071,001	1,071,001
Leasehold improvements	1,072,400	842,413
Vehicles	292,754	280,554
Furniture and fixtures	129,538	129,538
Office equipment	24,400	24,400
Construction equipment	42,347	12,847
	6,052,486	5,780,799
Less accumulated depreciation	(2,069,979)	(1,785,176)
	$ 3,982,507	$ 3,995,623

For the years ended June 30, 2018 and 2017, Habitat recognized depreciation and amortization expense of $285,225 and $262,599, respectively.

Note 7 - Line-of-Credit

Habitat has a $1,000,000 line-of-credit agreement with a bank, due December 18, 2018. The line-of-credit agreement requires monthly interest payments at *The Wall Street Journal* prime rate less 0.25%, with a floor of 4.00% (the interest rate at June 30, 2018 was 4.75%). At June 30, 2018 and 2017, the outstanding balance on the line-of-credit was $250,000 and $0, respectively.

Note 8 - Mortgage Note Payable

Habitat's mortgage note payable consists of the following:

	June 30, 2018	June 30, 2017
Mortgage note due in equal monthly payments of principal and interest of $10,510 with remaining principal due in a balloon payment on June 30, 2020. The note is payable over 10 years, at a fixed rate of 4.8%, with payments amortized over a 20-year basis. The note is secured by a first deed of trust on the Eliot Street and Rio Grande Boulevard real properties, as well as all rents on such properties. The mortgage note is subject to certain financial covenants.	$ 1,144,404	$ 1,213,239

Note 8 - Mortgage Note Payable (continued)

Maturities of mortgage note payable obligations are as follows:

For the Year Ending June 30,	
2019	$ 72,020
2020	1,072,384
	$ 1,144,404

Note 9 - Notes Payable

Habitat's notes payable consist of the following:

	June 30, 2018	June 30, 2017
Note payable to Bank D bearing 0% interest; payable in equal monthly payments $3,898 through September 1, 2031; followed by declining payments ranging from $3,611 to $480; and maturing March 31, 2042. The note is secured by deeds of trust related to the underlying mortgage loans pledged by Habitat, see Note 5.	$ 864,853	$ 911,629
Note payable to Bank D bearing 0% interest; payable in equal monthly payments $10,482 through November 1, 2033; followed by declining payments ranging from $10,367 to $447; and maturing August 1, 2047. The note is secured by deeds of trust related to the underlying mortgage loans pledged by Habitat, see Note 5.	2,913,632	-
Note payable to a school district that was paid in full in March 2018.	-	350,000
Notes payable	$ 3,778,485	$ 1,261,629

Maturities of notes payable obligations are as follows:

For the Year Ending June 30,	
2019	$ 172,560
2020	172,560
2021	172,560
2022	172,560
2023	172,560
Thereafter	2,915,685
	$ 3,778,485

Note 10 - Notes Payable to HFHI

Habitat's notes payable to HFHI consist of the following:

	June 30,	
	2018	2017
Unsecured, non-interest-bearing notes payable to Habitat International; payable in monthly installments ranging from $78 to $1,328; maturing between July 2020 and January 2024.	$ 308,444	$ 325,050

Principal payments required under the above agreements are as follows:

For the Year Ending June 30,	
2019	$ 57,966
2020	89,106
2021	72,824
2022	51,326
2023	34,190
Thereafter	3,032
	$ 308,444

Note 11 - Investment in HFHI-SA Leverage IX, LLC

During 2011, Habitat entered into a NMTC program. The program provides funds to eligible organizations for investments in a qualified low-income community investment. As a participant in this program, Habitat invested in HFHI-SA Leverage IX, LLC ("HFHI-SA") with other affiliates of HFHI and also entered into a promissory note with HFHI-SA VI, LLC, a qualified community development entity ("CDE"). Habitat has invested in a 17.78% ownership of HFHI-SA, which was initially recorded at its cost of $3,687,447, and records its share of income or loss as an adjustment to the investment balance and investment income or loss. HFHI-SA invested these funds in an investment fund, which in turn made an investment in the CDE. During the years ended June 30, 2018 and 2017, Habitat increased its investment balance by $101,618 and $101,617, respectively, for Habitat's portion of HFHI-SA's earnings offset by $73,403 and $0, respectively, for distributions received from HFHI-SA.

Note 11 - Investment in HFHI-SA Leverage IX, LLC (continued)

The following is unaudited summarized financial information as to assets, liabilities, and results of operations of HFHI-SA:

	As of and for the Years Ended June 30,	
	2018	2017
Total assets	$ 23,128,682	$ 22,969,949
Total liabilities	$ -	$ -
Total revenue	$ 571,696	$ 571,691
Net income	$ 571,696	$ 571,691

In exchange for the investment and promissory note, Habitat received a net cash inflow of approximately $649,000, net of transaction expenses, which can be utilized to build homes or infrastructure, or acquire land. Habitat is required to maintain a separate accounting of the activities undertaken using the loan proceeds, build homes in qualified census tracts, and build one home per year from these funds for years two through seven. As of June 30, 2018 and 2017, Habitat is in compliance with these conditions.

Habitat has a promissory note due to the CDE of $4,858,200, net of loan costs as of June 30, 2018 and 2017 of $66,450 and $99,239, respectively. This note requires interest-only payments until November 2018 at 0.76%. The loan matures in July 2027 and is secured by certain depository and reserve bank accounts. The interest is paid to the CDE by Habitat and other affiliates of HFHI in proportion to their ownership of HFHI-SA, which is repaid to the investment fund. The interest is then returned to HFHI-SA, and, ultimately, 99.98% of the interest is returned to Habitat and other affiliates of HFHI based on their percentage ownership of HFHI-SA. In November 2018, the investment fund is planning to exercise a put option resulting in HFHI-SA holding the debt, thereby releasing Habitat from any obligation outstanding under the promissory note.

Habitat was in compliance with the tangible net worth ratio as required by the note agreement as of June 30, 2018 and 2017.

Note 12 - Investment in CCML Leverage Lender I, LLC

During 2012, Habitat participated in a second NMTC program. As a participant in this program, Habitat invested in CCML Leverage Lender I, LLC ("CCML") with other affiliates of HFHI and also entered into a promissory note with CCM Community Development XVII LLC, a qualified CDE. Habitat has invested in a 10.01% ownership of CCML, which was initially recorded at its cost of $1,450,464, and records its share of income or loss as an adjustment to the investment balance and investment income or loss. CCML invested these funds in an investment fund, which in turn made an investment in the CDE. During the years ended June 30, 2018 and 2017, Habitat increased its investment balance by $39,196 and $39,196, respectively, for Habitat's portion of CCML's earnings offset by $14,504 and $14,505, respectively, for distributions received from CCML.

Note 12 - Investment in CCML Leverage Lender I, LLC (continued)

The following is unaudited summarized financial information as to assets, liabilities, and results of operations of CCML:

	As of and For the Years Ended June 30, 2018	2017
Total assets	$ 15,972,708	$ 15,725,924
Total liabilities	$ -	$ -
Total revenue	$ 391,744	$ 391,754
Net income	$ 391,744	$ 391,754

In exchange for the investment and promissory note, Habitat received a net cash inflow of approximately $300,000, net of transaction expenses, which can be utilized to build homes or infrastructure, or acquire land. Habitat is required to maintain a separate accounting of the activities undertaken using the loan proceeds, build homes in qualified census tracts, and build one home per year from these funds for years two through seven. As of June 30, 2018 and 2017, Habitat is in compliance with these conditions.

Habitat has a promissory note due to the CDE of $1,880,000, net of loan costs as of June 30, 2018 and 2017 of $28,751 and $38,368, respectively. This note requires interest-only payments until November 2020 at 0.77%. The loan matures in May 2028 and is secured by substantially all the assets acquired from the loan proceeds. The interest is paid to the CDE by Habitat and other affiliates of HFHI in proportion to their ownership of CCML, which is repaid to the investment fund. The interest is then returned to CCML, and, ultimately, 99.99% of the interest is returned to Habitat and other affiliates of HFHI based on their percentage ownership of CCML. In June 2019, the investment fund may exercise a put option resulting in CCML holding the debt, thereby releasing Habitat from any obligation outstanding under the promissory note.

Habitat was in compliance with the tangible net worth and debt service coverage ratios as required by the note agreement as of June 30, 2018 and 2017.

Note 13 - Investment in HFHI NMTC Leveraged Lender 2016-1, LLC

During November 2017, Habitat participated in a third NMTC program. As a participant in this program, Habitat invested in HFHI NMTC Leverage Lender 2016-1, LLC ("HFHI NMTC") with other affiliates of HFHI and also entered into a promissory note with HFHI NMTC SUB-CDE II, LLC, a qualified CDE. Habitat has invested in a 13.58% ownership of HFHI NMTC, which was initially recorded at its cost of $2,933,529, and records its share of income or loss as an adjustment to the investment balance and investment income or loss. HFHI NMTC invested these funds in an investment fund, which in turn made an investment in the CDE. During the year ended June 30, 2018, Habitat increased its investment balance by $19,474 for Habitat's portion of HFHI NMTC's earnings offset by $19,474 for distributions received from HFHI NMTC.

Note 13 - Investment in HFHI NMTC Leveraged Lender 2016-1, LLC (continued)

The following is unaudited summarized financial information as to assets, liabilities, and results of operations of HFHI NMTC as of June 30, 2018:

	As of and For the Years Ended June 30, 2018	2017
Total assets	$ 21,601,829	$ -
Total liabilities	$ -	$ -
Total revenue	$ 143,400	$ -
Net income	$ 143,400	$ -

In exchange for the investment and promissory note, Habitat received a net cash inflow of approximately $1,057,000 net of transaction expenses, which can be utilized to build homes or infrastructure, or acquire land. Habitat is required to maintain a separate accounting of the activities undertaken using the loan proceeds, build homes in qualified census tracts, and build one home per year from these funds for years two through seven. As of June 30, 2018, Habitat is in compliance with these conditions.

Habitat has a promissory note due to the CDE of $4,351,669, net of loan costs as of June 30, 2018 of $253,036. This note requires semi-annual interest-only payments until November 2024 at 0.67%. The loan matures in November 2047 and is secured by substantially all the assets acquired from the loan proceeds. The interest is paid to the CDE by Habitat and other affiliates of HFHI in proportion to their ownership of HFHI NMTC, which is repaid to the investment fund. The interest is then returned to HFHI NMTC, and, ultimately, 99.99% of the interest is returned to Habitat and other affiliates of HFHI based on their percentage ownership of HFHI NMTC. In December 2024, the investment fund may exercise a put option resulting in HFHI NMTC holding the debt, thereby releasing Habitat from any obligation outstanding under the promissory note.

Habitat was in compliance with the solvency and debt service coverage ratios as required by the note agreement as of June 30, 2018.

Note 14 - Forgivable Notes Payable

Habitat's forgivable notes payable consist of the following:

	June 30, 2018	2017
Notes due to the Denver Housing Authority. No interest or principal payments required. The amounts were forgiven and recorded as forgiveness of debt during 2018.	$ -	$ 840,000

Note 14 - Forgivable Notes Payable (continued)

	June 30, 2018	June 30, 2017
Notes due to the City and County of Denver. No interest or principal payments required. The amounts will be forgiven and recorded as grants revenue upon the sale of the last units developed with these funds to qualifying homeowners. During 2018, $1,391,300 was forgiven and recorded as forgiveness of debt. As of June 30, 2018, Habitat is using the remaining funds for those specified purposes.	400,800	1,792,100
	$ 400,800	$ 2,632,100

Note 15 - Net Assets

Unrestricted Board-Designated

The Board has designated $2,000,000 of unrestricted net assets at June 30, 2018 and 2017 for future land and infrastructure costs expected on outstanding and planned projects.

Temporarily Restricted

Temporarily restricted net assets are entirely for home sponsorships as of June 30, 2018 and 2017.

Note 16 - Lease Agreements

Habitat has entered into five non-cancelable operating leases agreements, four of which are for ReStore buildings and one of which is for a production warehouse. The leases require escalating monthly payments ranging from approximately $1,300 to $18,700 and expire at various times ranging from November 2018 to December 2026. Habitat has also entered into non-cancelable operating lease agreements for vehicles. The lease agreements have monthly payments ranging from approximately $1,100 to $1,700, which include maintenance charges, and expire at various times ranging from October 2019 to March 2023. Lease expense for the year ended June 30, 2018 and 2017 was $731,857 and $755,311, respectively.

Note 16 - Lease Agreements (continued)

Future minimum lease payments, including estimated maintenance charges, are approximately as follows:

For the Year Ending June 30,	
2019	$ 744,000
2020	577,000
2021	430,000
2022	205,000
2023	185,000
Thereafter	537,000
	$ 2,678,000

Note 17 - Transactions with Habitat International and Habitat for Humanity of Colorado

Habitat voluntarily remits a portion of its contributions to Habitat International on an annual basis. These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2018 and 2017, Habitat contributed $261,816 and $255,000, respectively, to Habitat International. This amount is included in program services in the consolidated statement of activities.

Habitat is a sub-recipient of certain government grants received directly by Habitat International and Habitat for Humanity of Colorado.

Note 18 - Commitments and Contingencies

Guarantee Agreements

Habitat has entered into various grant agreements to receive funds for construction development costs. The grant arrangements require individuals who purchase homes funded by these grant monies to sign a promissory note payable to the grantor agency for a specified amount. The promissory note must be repaid to the grantor in the event of a sale, transfer, or other disposition of the home within a specified period of time. The promissory note is forgiven if a sale, transfer, or other disposition of the home does not occur within the time specified in the grant agreement.

Habitat has guaranteed these homeowners' promissory notes to the grantor agencies. Should Habitat need to foreclose on a home, it will pay the homeowner's promissory note from the proceeds arising from the resale of the home.

Note 18 - Commitments and Contingencies (continued)

Grant Awards

Financial awards from federal, state, and local governmental entities in the form of grants are subject to special audits. Such audits could result in claims against Habitat for disallowed costs or non-compliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits as Habitat management believes that the use of funds comply with the stipulated restrictions.

Claims and Litigation

Habitat is subject to litigation from time to time. Habitat has determined that there are no material claims outstanding as of June 30, 2018 and 2017. When necessary, to the extent not covered by insurance, Habitat will establish a reserve for loss contingencies that are considered probable and reasonably estimable.

Note 19 - Retirement Plan

Habitat maintains a tax-deferred annuity plan (the "Plan") qualified under IRC Section 401(k). The Plan covers all employees of Habitat. Habitat provides employees the opportunity to contribute a portion of their gross salaries to the Plan, up to the maximum amount established by the Plan. The Plan includes a safe harbor match of each participant's elective deferrals not exceeding 3% of the participant's compensation, plus 50% of the participant's elective deferrals in excess of 3% but not in excess of 5% of the participant's compensation. During the years ended June 30, 2018 and 2017, Habitat contributed $160,431 and $162,175, respectively, in matching contributions to the Plan.

SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITORS' 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*

To the Board of Directors
Habitat for Humanity of Metro Denver, Inc.
Denver, Colorado

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 Metro Denver, Inc. ("Habitat") (a non-profit organization), which are comprised of the consolidated statements of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 23, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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 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.

To the Board of Directors
Habitat for Humanity of Metro Denver, Inc.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Habitat's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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; accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standard*s.

PURPOSE OF THIS REPORT

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

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Denver, Colorado
October 23, 2018

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

To the Board of Directors
Habitat for Humanity of Metro Denver, Inc.
Denver, Colorado

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Habitat for Humanity of Metro Denver, Inc.'s (the "Habitat") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Habitat's major federal programs for the year ended June 30, 2018. The Habitat's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Habitat's major federal programs 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 non-compliance 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 Habitat's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

To the Board of Directors
Habitat for Humanity of Metro Denver, Inc.

Opinion on Each Major Federal Award

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

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Habitat is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Habitat's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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 Habitat's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, non-compliance 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 combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material non-compliance 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.

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Denver, Colorado
October 23, 2018

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued - *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☑ No
- Significant deficiencies identified that are not considered to be material weaknesses? ☐ Yes ☑ None reported

Non-compliance material to financial statements noted? ☐ Yes ☑ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☑ No
- Significant deficiencies identified that are not considered to be material weaknesses? ☐ Yes ☑ None reported

Type of auditors' report issued on compliance for major programs - *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Uniform Guidance? ☐ Yes ☑ No

Identification of major programs:

Name of Program	CFDA#
Home Investment Partnership	14.239

Dollar threshold used to distinguish between type A and B programs: $750,000

Auditee qualified as a low-risk auditee? ☐ Yes ☑ No

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings and Questioned Costs

None.

Section IV - Summary Schedule of Prior-Year Findings and Questioned Costs Related to Federal Awards

Finding No. 2017-001

Condition:	Habitat did not submit quarterly performance reports to comply with Federal regulations, including 24 CFR sections 135.3(a)(1) and 135.90, as required by Arapahoe County and HUD.
Status:	The finding was corrected during 2018 and was not repeated in fiscal 2018.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Federal Grantor/Pass Through Grantor	Program Title	Federal Number	Contract Number	Federal Expenditures June 30, 2018
U.S. Department of Housing and Urban Development/Community Planning and Development				
Passed through:				
Habitat for Humanity Colorado	Home Investment Partnership Program	14.239*	16-037	$ 220,000
Arapahoe County	Home Investment Partnership Program	14.239*	CSHC176356	460,917
				680,917
Passed through:				
Arapahoe County	Community Development Block Grants	14.218	SHPF1604	100,000
Passed through:				
Habitat for Humanity International	Self-Help Homeownership Opportunity Program	14.247	SH14 001, SH15 008	281,250
Passed through:				
City and County of Denver	Neighborhood Stabilization Program Funding I	14.256	OEDEV-201733166-00	25,000
				$ 1,087,167

* Major program

See notes to schedule of expenditures of federal awards.

Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

(1) **Basis of Presentation**

The supplemental schedule of expenditures of federal awards (the "Schedule") has been prepared on an accrual basis. The information in the Schedule is presented in accordance with the requirements of Uniform Guidance.

(2) **Indirect Rate**

Habitat did not elect to use the de minimis 10% indirect cost rate.

(2) **Reconciliation to the Consolidated Financial Statements**

Habitat receives grants from other government sources in addition to its federal awards. The following analysis reconciles expenditures in the accompanying schedule of expenditures of federal awards to contributions and grants revenue reflected in the Habitat's consolidated financial statements for the year ended June 30, 2018:

Government grants and contracts		
Federal expenditures	$	1,087,167
Other support		5,396,891
	$	6,484,058