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HABITAT FOR HUMANITY TUCSON, INC.

AUDITED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Habitat for Humanity Tucson, Inc.
Tucson, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of Habitat for Humanity Tucson, Inc. ("the Organization") which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets, cash flows and statements of expenses by function and nature for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of 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 Organization'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 Organization'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity Tucson, Inc. as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Keegan, Linscott & Kenon, PC

Tucson, Arizona
November 14, 2019

AUDITED FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30,

	2019	2018
Assets		
Current assets		
Cash and cash equivalents (See Note 2)	$ 2,925,740	$ 3,456,615
Grants and contracts receivable	20,221	43,515
Pledges receivable, current portion	115,001	70,751
Notes receivable, current	53,427	-
Mortgages receivable net of discount, due within one year (See Note 7)	979,969	927,354
Inventories (See Note 5)	3,329,062	3,172,860
Prepaid expenses and other current assets	120,575	51,845
Total current assets	7,543,995	7,722,940
Property and equipment, net (See Note 6)	3,492,510	3,631,984
Pledges receivable	30,000	-
Notes receivable	76,021	50,000
Mortgages receivable net of discount, due after one year (See Note 7)	6,994,030	6,577,380
Land held for investment	55,295	158,557
New markets tax credits joint venture - investments (See Note 8)	1,251,772	3,666,194
New markets tax credits joint venture - intangible assets (See Note 9)	132,147	178,090
Investments - restricted	27,805	27,363
Total assets	$ 19,603,575	$ 22,012,508
Liabilities		
Current liabilities		
Accounts payable	$ 165,210	$ 111,101
Accrued expenses and other current liabilities	281,616	351,228
Agency payable (See Note 7)	7,646	6,347
Deferred revenue	185,321	195,638
Current maturities of long-term debt	168,806	161,729
Total current liabilities	808,599	826,043
New markets tax credits joint venture - deferred revenue (See Note 2)	-	22,135
Long-term debt (See Note 10)	1,367,852	1,533,170
New markets tax credits joint venture - notes payable (See Note 11)	1,822,266	4,933,347
Total long-term debt	3,190,118	6,488,652
Total liabilities	3,998,717	7,314,695
Net assets		
Without donor restrictions		
Undesignated	14,552,073	13,718,121
Designated by the Board for capital reserves	358,230	358,075
	14,910,303	14,076,196
With donor restrictions	694,555	621,617
Total net assets	15,604,858	14,697,813
Total liabilities and net assets	$ 19,603,575	$ 22,012,508

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support			
Contributions	$ 934,996	$ 1,371,861	$ 2,306,857
Donated property, materials and services (See Note 14)	1,934,568	-	1,934,568
Net sales to homeowners (See Note 7)	962,332	-	962,332
Interest income - mortgages	655,030	-	655,030
Grant/contract revenues	702,280	-	702,280
HabiStore sales (See Note 16)	1,744,577	-	1,744,577
Interest and investment income	69,140	781	69,921
Other income	85,633	-	85,633
Net assets released from restrictions	1,299,704	(1,299,704)	-
Total revenues and other support	8,388,260	72,938	8,461,198
Expenses			
Program services - homes	4,502,047	-	4,502,047
Program - HabiStore (See Note 16)	2,694,435	-	2,694,435
Supporting services			
Management and general	662,324	-	662,324
Fundraising	430,937	-	430,937
Total expenses	8,289,743	-	8,289,743
Change in net assets before non-recurring item	98,517	72,938	171,455
Non-recurring item			
Gain on close-out of NMTC investments	735,590	-	735,590
Total change in net assets	834,107	72,938	907,045
Net assets, beginning of year	14,076,196	621,617	14,697,813
Net assets, end of year	$ 14,910,303	$ 694,555	$ 15,604,858

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support			
Contributions	$ 889,141	$ 930,964	$ 1,820,105
Donated property, materials and services (See Note 14)	1,879,275	-	1,879,275
Net sales to homeowners (See Note 7)	658,925	-	658,925
Interest income - mortgages	627,083	-	627,083
Grant/contract revenues	223,931	-	223,931
HabiStore sales (See Note 16)	1,587,811	-	1,587,811
Interest and investment income	43,081	32,555	75,636
Other income	86,180	-	86,180
Net assets released from restrictions	829,643	(829,643)	-
Total revenues and other support	6,825,070	133,876	6,958,946
Expenses			
Program services - homes	3,371,578	-	3,371,578
Program - HabiStore (See Note 16)	2,552,145	-	2,552,145
Supporting services			
Management and general	649,500	-	649,500
Fundraising	479,421	-	479,421
Total expenses	7,052,644	-	7,052,644
Total change in net assets	(227,574)	133,876	(93,698)
Net assets, beginning of year	14,303,770	487,741	14,791,511
Net assets, end of year	$ 14,076,196	$ 621,617	$ 14,697,813

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	2019	2018
Cash Flows From Operating Activities		
Total change in net assets	$ 907,045	$ (93,698)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Gain on disposal of land held for investment	(9,993)	-
Gain on close-out of NMTC investments	(735,590)	-
Donated land held for investment	(13,000)	(30,310)
Depreciation	175,907	182,231
New markets tax credits intangible assets amortization	45,943	59,379
New markets tax credits interest expense to amortize debt issuance costs	38,931	4,880
Unrealized gain on restricted investments, net of fees	(442)	(1,546)
Changes in operating assets and liabilities:		
Grants and contracts receivable	23,294	(4,240)
Pledges receivable	(74,250)	17,094
Mortgages receivable	(469,265)	(133,097)
Inventories	(156,202)	(117,800)
Prepaid expenses and other current assets	(68,730)	31,700
Accounts payable	54,109	(14,388)
Accrued expenses and other current liabilities	(69,612)	(1,409)
Agency payable	1,299	331
Deferred revenue	(10,317)	(63,783)
New markets tax credits joint venture - deferred revenue	(22,135)	(30,838)
Net cash used in operating activities	(383,008)	(195,494)
Cash Flows From Investing Activities		
Collections on notes receivable	552	-
Acquisition of property and equipment	(36,433)	(39,621)
New markets tax credits joint venture - investments	-	(1,251,772)
Cash paid for NMTC intangible assets	-	(162,045)
Proceeds from sale of donated land held for investment	46,255	18,310
Net cash provided by (used in) investing activities	10,374	(1,435,128)
Cash Flows From Financing Activities		
Proceeds from New markets tax credits joint venture - notes payable	-	1,850,866
Payment of New markets tax credits debt issuance costs	-	(30,552)
Proceeds from long-term debt	-	713,500
Principal payments on long-term debt	(158,241)	(94,673)
Net cash (used in) provided by financing activities	(158,241)	2,439,141
Net change in cash and cash equivalents	(530,875)	808,519
Cash and cash equivalents at beginning of year	3,456,615	2,648,096
Cash and cash equivalents at end of year	$ 2,925,740	$ 3,456,615
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	$ 106,439	$ 79,545
Supplemental Disclosure of Non-cash Information		
Donated land held for investment	$ 13,000	$ 30,310
Note receivable for sale on donated land held for investment	$ 80,000	$ -
Close-out of NMTC Investments	$ 735,590	$ -

STATEMENT OF EXPENSES BY FUNCTION AND NATURE
FOR THE YEAR ENDED JUNE 30, 2019

	Program Services - Homes	Program - HabiStore	Management and General	Fundraising	Total
Salaries, taxes & benefits	$ 735,314	$ 665,478	$ 483,894	$ 326,263	$ 2,210,949
Construction costs	3,012,886	-	-	-	3,012,886
Land development costs	6,336	-	-	-	6,336
HabiStore cost of goods sold	-	1,681,450	-	-	1,681,450
Habitat International tithe	120,800	-	-	-	120,800
Professional fees	66,440	6,357	76,023	1,734	150,554
Advertising and marketing	27,950	21,407	1,571	19,139	70,067
Office expenses	107,972	62,449	20,345	24,684	215,450
Information technology	23,997	9,499	6,411	7,008	46,915
Occupancy	39,643	41,237	14,664	7,729	103,273
Travel, conferences, and meetings	19,496	499	16,547	1,026	37,568
Insurance	20,715	60,666	8,448	4,286	94,115
Donor and volunteer cultivation	13,895	1,570	5,190	22,810	43,465
Equipment rent, repair, and maintenance	40,427	8,257	1,586	1,288	51,558
Vehicle expenses	5,400	37,378	3,536	395	46,709
Miscellaneous expenses	33,432	377	-	1,319	35,128
Total expenses before interest, depreciation, and amortization	4,274,703	2,596,624	638,215	417,681	7,927,223
					-
Interest	106,747	33,923	-	-	140,670
Depreciation and amortization	120,597	63,888	24,109	13,256	221,850
Total expenses	$ 4,502,047	$ 2,694,435	$ 662,324	$ 430,937	$ 8,289,743

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

STATEMENT OF EXPENSES BY FUNCTION AND NATURE
FOR THE YEAR ENDED JUNE 30, 2018

	Program Services - Homes	Program - HabiStore	Management and General	Fundraising	Total
Salaries, taxes & benefits	$ 786,933	$ 653,512	$ 474,634	$ 316,003	$ 2,231,082
Construction costs	1,955,161	-	-	-	1,955,161
Land development costs	8,588	-	-	-	8,588
HabiStore cost of goods sold	-	1,556,434	-	-	1,556,434
Habitat International tithe	120,000	-	-	-	120,000
Professional fees	64,150	15,216	67,535	45,770	192,671
Advertising and marketing	36,584	23,440	1,136	27,887	89,047
Office expenses	78,539	57,279	24,602	26,064	186,484
Information technology	18,623	7,972	5,941	7,310	39,846
Occupancy	19,366	41,783	11,057	4,388	76,594
Travel, conferences, and meetings	16,532	1,299	12,398	1,819	32,048
Insurance	20,267	45,380	9,958	4,030	79,635
Donor and volunteer cultivation	7,460	2,217	2,827	30,223	42,727
Equipment rent, repair, and maintenance	40,458	11,201	2,926	631	55,216
Vehicle expenses	4,491	37,665	2,041	131	44,328
Miscellaneous expenses	8,573	930	2,176	2,433	14,112
Total expenses before interest, depreciation, and amortization	3,185,725	2,454,328	617,231	466,689	6,723,973
					-
Interest	51,484	35,577			87,061
Depreciation and amortization	134,369	62,240	32,269	12,732	241,610
Total expenses	$ 3,371,578	$ 2,552,145	$ 649,500	$ 479,421	$ 7,052,644

NOTES TO FINANCIAL STATEMENTS

1. Organization

Habitat for Humanity Tucson, Inc., ("Habitat," or the "Organization") is an independently and locally governed affiliate of Habitat for Humanity International and was incorporated as a tax-exempt not-for-profit organization in the State of Arizona in 1980. Although Habitat International assists with information, resources, training, publications and other support, the Organization is primarily and directly responsible for its own operations. Creating a more compassionate and just world, Habitat for Humanity Tucson brings people together to build homes, communities and hope. Habitat builds market-quality homes utilizing volunteer labor and sells homes to qualified low-income families for minimal cash down with a non-interest bearing mortgage. Habitat requires each of its home buyers to provide 250 "sweat-equity" hours in its home construction program, and/or in some other form of service for the Organization. In addition, each buyer is provided pre-purchase and post-purchase homeowner education and counseling.

Habitat partners with the community and provides home renovation and rehabilitation services, homeowner educational services, community development, neighborhood partnership, volunteer engagement, and advocacy for affordable housing. Habitat's home renovation and rehabilitation services include providing assistance with roof replacements, updates to mechanical systems, minor repairs, painting and landscaping to qualified families.

In addition to home building activities, Habitat also operates a retail thrift operation (d.b.a. the HabiStore). The HabiStore specializes in selling surplus new and used building and home improvement materials, appliances and furniture to the public. The HabiStore receives donated usable materials from retail businesses, contractors, individuals and other organizations. Costs associated with operation of the HabiStore are expensed in Program-HabiStore in the accompanying statement of activities and changes in net assets. All net proceeds from the operation of the HabiStore help support and enhance Habitat's not-for-profit mission-related activities.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Organization follows accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB sets accounting principles generally accepted in the United States of America ("U.S. GAAP") that the Organization follows to ensure the consistent reporting of its financial condition, changes in net assets and cash flows. References to U.S. GAAP issued by the FASB in the accompanying footnotes are to the FASB Accounting Standards Codification ("ASC").

The Organization's financial statements have been prepared in accordance with standards of accounting and financial reporting under ASC 958, *Not-for-Profit Entities*. Under this authoritative guidance, the Organization is required to provide financial statements which are prepared to focus on the Organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets having similar characteristics have been combined into similar categories as follows:

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

- **Without Donor Restrictions** - Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. All contributions are considered available for use without restriction unless specifically restricted by the donor.

- **With Donor Restrictions** - Net assets whose use by the organization is subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire through the passage of time. Net assets with donor restrictions also includes net assets that are subject to donor-imposed stipulations such that assets must be maintained permanently by the Organization. The donors of these assets permit the Organization to use all or part of the investment return of these assets on continuing operations which may be subject to certain restrictions.

Expenses are generally reported as decreases in net assets without donor restrictions. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restriction. Gains and losses on investments and other assets and liabilities are reported as increases and decreases in net assets without restrictions unless their use is restricted by explicit donor stipulation or law.

Revenue Recognition

- **Contributions** – All contributions revenue is recognized when an unconditional promise to give is received by Habitat. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

- **Sales to Homeowners** – Homes are sold to buyers that meet the Organization's qualification guidelines. The resulting mortgages are non-interest bearing and have been discounted based upon prevailing market rates for low-income housing at the inception of the mortgages. The sales to homeowners in the statement of activities and changes in net assets are presented net of the applicable discount. Habitat recognizes the income from sales to homeowners on the completed contract method when home closings occur.

- **Grants and Contracts** – The Organization is partially funded through various grants and cost reimbursement contracts. The Organization accounts for its government funded grants and contracts as exchange transactions. Revenue is recognized as expenditures are incurred in accordance with applicable agreements under cost reimbursement contracts. A receivable is recorded in the amount the Organization expects to collect under the terms of the grant or contract. Advances in excess of costs incurred are deferred and recognized as revenue when the related expense is incurred.

Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

- **Donated Property, Materials and Services** – Contributions of donated property, materials and services are recognized in the financial statements at fair value at the date of donation. Absent explicit donor stipulations, contributions of long-lived assets or cash or other assets to be used to acquire or construct long-lived assets are reported as net assets without donor restrictions when placed in service. Donated services are recognized when the services received (a) Create or enhance non-financial assets, or (b) Require specialized skills, are performed by people with those skills, and would otherwise be purchased (See Note 14).

  The Organization utilizes the services of outside volunteers to perform a variety of tasks that assist the Organization. The fair value of these services is not recognized in the accompanying financial statements since they do not meet the criteria for recognition under U.S. GAAP. None of these volunteer hours were recognized as donated services. In 2019 and 2018, Habitat received 50,096 and 58,352 hours, respectively, donated from volunteers assisting the Organization.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in bank accounts and money market accounts with original maturities of three months or less. Cash equivalents are stated at cost plus accrued interest, which approximates fair value. The Organization places its cash and cash equivalents with high credit quality institutions. At times, amounts may exceed Federal Deposit Insurance Corporation ("FDIC") limits. As of June 30, 2019, and 2018, the Organization had $1,597,318 and $1,854,114 in excess of FDIC insured limits, respectively. The Organization has not experienced any losses and does not believe it is exposed to any significant credit risk on cash balances. All such cash accounts are monitored by management to mitigate risk.

Cash and cash equivalents also include New Markets Tax Credits ("NMTC") cash in bank accounts as part of the NMTC transactions. The separate cash accounts are necessary to separately track NMTC activity and transactions in order to comply with NMTC regulations. The NMTC cash balances as of June 30, 2019 and 2018 totaled $265,041 and $603,936, respectively.

Grants and Contracts Receivables

Grants and contracts receivables are stated at the amount the Organization expects to collect. Habitat maintains allowances for doubtful accounts for estimated losses resulting from the inability of its grantors and customers to make required payments. Management considers the following factors when determining the collectability of specific grantor accounts: grantor credit-worthiness, past transactions history with the grantor, current economic industry trends, and changes in grantor payment terms. If the financial condition of the Organization's grantors were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

As of June 30, 2019, and 2018, grants and contracts receivables are considered fully collectible by management; therefore, no allowance for doubtful accounts has been provided.

Pledges Receivable

The Organization accounts for contributions to be made in future years as unconditional promises to give in the year the pledge is made. Contributions to be received after one year are presented at their discounted present value at a risk-adjusted rate. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Pledges Receivable (continued)
As of June 30, 2019 and 2018, pledges receivable are considered fully collectible by management; therefore, no allowance for uncollectible amounts has been provided.

Mortgages Receivable
Mortgages receivable consist of non-interest bearing mortgages, which are secured by real estate and payable in monthly installments. The majority of the mortgages have an original maturity of 15-30 years. These mortgages have been discounted at various rates ranging from 6.07% to 8.62% based on the prevailing market rates for low-income housing at the inception of the mortgages. Interest income is recorded using the effective interest method over the lives of the mortgages. Receivables related to the mortgages are considered past-due or delinquent by the Organization when they are 30 days late.

Habitat's estimate for allowance for loan losses is based on historical collection experience and a review of the status of the mortgages receivable. Through its Homeowner Services program, Habitat performs extensive credit and work history evaluations prior to the sale of the home. The Organization maintains a security interest in all the homes they sell and works with delinquent homeowners to identify opportunities for financial budgeting improvement. The Organization has historically experienced great success in educating delinquent homeowners and structuring payment plans to cure delinquencies within a minimal amount of time. For these reasons, management has determined that all mortgage loan receivables are fully collectible as of June 30, 2019 and 2018. Accordingly, no allowance for loan losses is reported as of June 30, 2019 and 2018 in the accompanying financial statements.

Agency Receivable/Payable
Periodically, Habitat sells receivable residential mortgage loans to financial institutions and obtains servicing assets as a result of the sale. Gain or loss on sale of the receivables depends in part on both the previous carrying amount of the financial assets involved in the transfer and the proceeds received. Habitat continues to service the sold mortgage loans and remits related payment collections to the purchasing financial institutions in accordance with sale agreements. Due to the fact that payments are remitted in arrears in accordance with sales contracts, the Organization has reported an agency payable in the accompanying statements of financial position, reflective of the fact that certain collections related to the sold mortgages had not been remitted to the purchasing financial institutions as of June 30, 2019 and 2018.

Inventories
The Organization's inventories include land held for construction, construction-in-progress, and completed homes, and are stated at the lower of cost (specific identification) or net realizable value. The Organization reviews the carrying value of the land held for construction for possible impairment on an annual basis. Management has determined there was no impairment for the years ended June 30, 2019 and June 30, 2018 (see Note 5).

All direct material and equipment costs, construction labor, and allocated overhead costs related to home construction are recorded as construction-in-progress inventory on the statement of financial position as they are incurred. Land costs included in construction-in-progress are stated at the lower of cost or net realizable value. When revenue from the sale of a home is recognized, the corresponding costs are then expensed in the statement of activities and changes in net assets as program services.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Inventories (continued)
The HabiStore receives donations of building supplies, furniture, and appliances, and sells these items to the general public. The value of the donated items is not readily determinable until the merchandise is sold; therefore, donations and cost of sales are recorded after inventory is sold. Purchased inventories are stated at the lower of cost or net realizable value.

Property and Equipment
Property and equipment are stated at cost, if purchased, or fair value, if donated. Depreciation is calculated using the straight-line method over the following estimated useful lives of the assets:

Buildings	39 years
Building improvements	10-39 years
Vehicles	3-5 years
Equipment and furniture	3-15 years

The Organization's policy is to capitalize expenditures for property and equipment and donated property and equipment received that exceed $5,000 and have a useful life greater than one year. When items are retired or disposed, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the statement of activities and changes in net assets. Repairs or betterments in excess of $5,000 that materially prolong the useful life of assets are capitalized. Repairs and maintenance for normal upkeep are expensed as incurred.

In accordance with ASC 360-10, *Property, Plant and Equipment*, the Organization periodically reviews the carrying value of long-lived assets held and used, and assets to be disposed, for possible impairment when events and circumstances warrant such a review. Through June 30, 2019, the Organization had not experienced impairment losses on its long-lived assets.

Land Held for Investment
Land held for investment represents donated or purchased properties that are currently unavailable for the construction of homes. Land held for investment is reported at the lower of cost or fair value, and is initially measured at acquisition cost (including brokerage and other transaction fees) if purchased or at fair value if received as a contribution or through an agency transaction. The Organization reviews the carrying value of the land held for investment for possible impairment on an annual basis. Management has determined that there was no impairment for the year ended June 30, 2019.

New Markets Tax Credits Joint Venture - Investments
The investment in the NMTC joint ventures are accounted for using the cost method and distributions received from the joint venture are recorded as investment income in the statements of activities and changes in net assets. Habitat received distributions of $33,387 and $35,989 for the years ended June 30, 2019 and 2018, respectively.

New Markets Tax Credits Joint Venture - Deferred Revenue
The Organization recognizes deferred revenue associated with the NMTC transactions as revenue over the 7-year NMTC term. The NMTC deferred revenue as of June 30, 2019 and 2018 totaled $0 and $22,135 respectively. Fee revenue recognized for the years ended June 30, 2019 and 2018 totaled $22,135 and $30,839, respectively, and is included in interest and investment income in the statements of activities and changes in net assets.

Summary of Significant Accounting Policies (continued)

Debt Issuance Costs

Debt issuance costs represent financing costs associated with the Organization obtaining the NMTC notes payable and are amortized to interest expense over the life of the respective NMTC notes payable (See Note 11) using the straight-line method. The debt issuance costs are reported as a direct deduction from the face amount of the related debt on the accompanying statements of financial position. When a NMTC deal closes out, all remaining unamortized debt issuance costs are written off in the year of the transaction.

The Organization incurred $30,552 in direct closing costs associated with obtaining the HFHI 2016-01 NMTC notes payable and are presented net of accumulated amortization of $1,952 and $934 as of June 30, 2019 and 2018, respectively. The Organization incurred $63,148 in direct closing costs related to the HFHI-SA IX and CCML NMTC notes payable. These deals were closed out during fiscal year 2019. Consequently, for the year ended June 30, 2019, the Organization incurred $35,160 in interest expense to write-off the remaining unamortized debt issuance costs. Accumulated amortization for the debt issuance costs related to the HFHI-SA IX and CCML NMTC notes payable totaled $0 and $25,235 as of June 30, 2019 and 2018, respectively.

Fair Value Measurements

The Organization utilizes the fair value hierarchy required by ASC 820 which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1: Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.

Level 2: Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The restricted investments held at the Community Foundation for Southern Arizona are classified within Level 3 of the fair value hierarchy due to the lack of a market in which the Organization's units of participation in the Foundation's endowment pool could be bought or sold. The Organization measures the fair value of its restricted investments using the fair value of the underlying assets (net asset value).

A total realized/unrealized gain of $442 and $1,546 were recognized related to the restricted investments during 2019 and 2018, respectively. The ending balance of the restricted investments was $27,805 and $27,363 as of June 30, 2019 and 2018, respectively.

Endowment Funds

The Organization's endowment was established to support, further and enhance the mission of Habitat. This agency advised endowment is held and managed at the Community Foundation for Southern Arizona (the "Foundation").

The Organization has interpreted the "Management of Charitable Funds Act" (Arizona's version of the Uniform Prudent Management of Institutional Funds Act or UPMIFA) as requiring the preservation of the fair value of the original gift. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (1) the original value of gifts donated to the endowment, (2) the original value of subsequent gifts

Summary of Significant Accounting Policies (continued)

Endowment Funds (continued)

to the endowment, and (3) if applicable, accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is classified net assets with donor restrictions unless those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the law. The Organization has interpreted the Management of Charitable Funds Act to permit spending from underwater funds in accordance with the prudent measures required under the law.

The Organization is subject to the Foundation's investment and spending policies for endowment assets. These policies attempt to provide a predictable stream of funding to programs supported by the endowment funds while seeking to maintain the purchasing power of the endowment assets. The endowment assets are invested in a balanced portfolio comprised of fixed income securities and equities.

The Organization has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless precluded by donor intent or relevant laws and regulations. The Organization did not spend from underwater endowment funds during the year.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or current law requires the Organization to retain for a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. There were no such deficiencies as of June 30, 2019 and 2018.

Income Taxes

The Organization is exempt from federal income tax under Section 501(c)(3), as confirmed by a determination letter issued by the Internal Revenue Service and is classified as other than a private foundation under IRC Section 509(a)(1). Management is not aware of any matters which would cause the Organization to lose its tax-exempt status.

Management has considered its tax positions and believes that all of the positions taken in its federal and state tax exempt organization tax returns are more likely than not to be sustained upon examination. The Organization's returns are subject to examination by federal and state taxing authorities, generally for three years and four years respectively, after they are filed.

The Organization recognizes interest and penalties related to unrecognized tax benefits as accrued expenses in its accompanying financial statements. During the years ended June 30, 2019 and 2018, the Organization did not recognize any interest and penalties.

Advertising and Marketing Costs

Habitat expenses advertising and marketing costs as they are incurred.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Defined Contribution Plan

The Organization has a 401(k) defined contribution plan (the "Plan") to provide retirement and incidental benefits for its employees. Under the Plan, all full-time employees are permitted to make contributions to the Plan. The Organization makes discretionary matching contributions to the Plan that meet safe-harbor requirements as described by the Plan document. The Organization matches 3% of the employee's compensation for the Plan year, plus 50% of each eligible employee's contributions that exceed 3% of compensation for the Plan year, not to exceed 5% of the employee's compensation for the Plan year. Elective deferrals are vested upon entering the plan and employer contributions are 100% vested after three years of service. For the years ended June 30, 2019 and 2018, matching contributions totaled $37,567 and $31,909 respectively.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates made by management include the allowance for loan losses, valuation of donated services and goods, and valuations of inventory and land held for investment.

3. Recent Accounting Standards

Adopted as of June 30, 2019

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in ASU 2016-14 change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: Net Asset Classes; Investment Return; Expenses; Liquidity and Availability of Resources; and Presentation of Operating Cash Flows. ASU 2016-14 is effective for not-for-profit organizations for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application. Early application of the amendments is permitted. The Organization adopted ASU 2016-14 during fiscal year 2019. The adoption of this ASU primarily affected the grouping and presentation of the Organization's net assets as either with or without donor restrictions, disclosure of policies and related activity for the Organization's net assets with donor restrictions, including donor-restricted endowment funds, disclosure of liquidity and availability of financial assets, and disclosure of an analysis of expenses by function and nature as well as the Organization's related policy in allocating expenses among program and supporting services.

Not Yet Required to be Adopted as of June 30, 2019

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, and most industry-specific guidance, and creates Topic 606 *Revenue from Contracts with Customers*. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that

NOTES TO FINANCIAL STATEMENTS

Recent Accounting Standards (continued)

Not Yet Required to be Adopted as of June 30, 2019 (continued)

reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either the full retrospective or retrospective with cumulative effect transition method. Subsequent amendments have been issued for technical corrections (ASU No. 2016-20); narrow scope improvements and practical expedients (ASU No. 2016-12); identifying performance obligations and licensing arrangements (ASU No. 2016-10); and gross versus net revenue reporting (ASU No. 2016-08). ASU No. 2014-09 (and subsequent amendments) is effective for annual reporting periods beginning after December 15, 2018. Early adoption is permitted with certain restrictions. The Organization has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements and disclosures.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments clarify and improve the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations and business enterprises. The ASU clarifies and improves current guidance in the revenue recognition and other applicable standards. It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. ASU 2018-08 is effective for annual reporting periods beginning after December 15, 2018, and interim periods with fiscal years beginning after December 15, 2019. Application to interim financial statements is permitted but not required in the initial year of application. Early application of the amendments is permitted. The Organization is currently evaluating the effect that implementation of the new standard will have on the financial statements and disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. In July 2019, the FASB voted to delay the effective date one year for private companies; consequently, the new standard is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. A modified retrospective transition approach is required (see ASU 2018-11 for optional transition method) for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available.

In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*. This ASU is intended to reduce costs and ease implementation of the leases standard for financial statement preparers. ASU 2018-11 provides a new transition method and a practical expedient for separating components of a contract. The amendments ASU 2018-11 provide entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with current U.S. GAAP in Topic 840, *Leases*. The amendments in ASU 2018-11 also provide lessors with a practical expedient, by class of underlying asset, to not separate nonlease components from the

NOTES TO FINANCIAL STATEMENTS

Recent Accounting Standards (continued)

Not Yet Required to be Adopted as of June 30, 2019 (continued)

nonlease components otherwise would be accounted for under the new revenue guidance (Topic 606). The effective date and transition requirements for the amendments in this update related to separating components of a contract are the same as the effective date and transition requirements in ASU 2016-02 (i.e., fiscal years beginning after December 15, 2020). All entities, including early adopters, that elect the practical expedient related to separating components of a contract in this ASU must apply the expedient, by class of underlying asset, to all existing lease transactions that qualify for the expedient at the date elected. The Organization is currently evaluating the effect these standards will have on the financial statements and disclosures.

In August 2018, the FASB has issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The ASU applies the provisions of recently released Chapter 8, "*Notes to Financial Statements*," of the FASB's *Conceptual Framework for Financial Reporting*, resulting in the removal, modification and addition of certain disclosure requirements. The ASU also clarifies that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements. The ASU is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The Organization is currently evaluating the effect that the standard will have on the financial statements and disclosures.

4. Notes Receivable

In December 2013, the Organization advanced funds to assist an Arizona non-profit entity, the Nonprofit Loan Fund of Tucson and Southern Arizona. Under this agreement, interest-only installments at 2.0% per annum are due quarterly with all outstanding principal and any unpaid interest due January 2020. As of June 30, 2019, and 2018 the carrying amount of the note totaled $50,000.

In March 2019, the Organization sold land held for investment in exchange for a promissory note valued at $80,000. Under this agreement, monthly principal and interest payments of $675 are due with interest at 6.00% per annum through May 2024. As of June 30, 2019, the note receivable balance was $79,448.

5. Inventories

Inventories consist of the following as of June 30:

	2019	2018
Land held for construction	$ 1,350,747	$ 1,235,047
Construction-in-progress	1,429,873	1,309,315
Supplies and materials	53,184	52,231
Completed homes inventory	477,173	568,202
HabiStore inventory	18,085	8,065
	$ 3,329,062	$ 3,172,860

NOTES TO FINANCIAL STATEMENTS

6. Property and Equipment

Property and equipment consist of the following as of June 30:

	2019	2018
Land	$ 546,944	$ 546,944
Buildings	1,405,635	1,405,635
Building improvements	2,311,279	2,301,805
Vehicles	215,022	188,063
Office and construction equipment and furniture	355,170	355,170
	4,834,050	4,797,617
Less accumulated depreciation	(1,341,540)	(1,165,633)
	$ 3,492,510	$ 3,631,984

7. Mortgages Receivable

Habitat directly finances all of the homes that it sells. Each mortgage is issued as a zero-interest mortgage to the buyer. During fiscal years 2019 and 2018, sixteen (16) and ten (10) homes, respectively, were sold to qualifying applicants.

The resulting mortgages are non-interest bearing and the presentation of their book value has been discounted based upon the prevailing market rates for low-income housing at the inception of the mortgages (fiscal year 2019 and 2018 discount rates were 7.66% and 7.57%, respectively). Sales to homeowners for the years ended June 30 are as follows:

	2019	2018
Gross sales to homeowners	$ 1,995,500	$ 1,346,727
Less discount on sales to homeowners	(1,033,168)	(687,802)
Net sales to homeowners	$ 962,332	$ 658,925

Habitat discounts the mortgages using the prevailing market rates for low-income housing at the time the home is sold. The discount is amortized using the effective interest method. Mortgages receivable as of June 30 are as follows:

	2019	2018
Mortgages receivable at face value	$ 13,539,694	$ 12,692,293
Less unamortized discounts on mortgages	(5,565,695)	(5,187,559)
Total mortgages (both current and due after one year)	$ 7,973,999	$ 7,504,734

Mortgages Receivable (continued)

Future collections on these mortgages will be received over the next five years and thereafter as follows:

2020	$ 979,969
2021	972,528
2022	960,998
2023	942,526
2024	922,954
Thereafter	8,760,719
Total	$ 13,539,694

At times, Habitat will identify high performing mortgages receivable for sale to financial institutions. No such sales occurred during 2019 or 2018. To date, Habitat has executed the sale of seventy-eight (78) mortgages receivable. Habitat continues to service the sold mortgages receivable by collecting payments from homeowners on behalf of the purchasing financial institutions. Homeowner payments are remitted by Habitat to the purchasing financial institutions in arrears. Accordingly, the Organization has reported an agency payable liability in the amount of $7,646 and $6,347 in the accompanying financial statements reflective of the homeowner payments held by Habitat as of June 30, 2019 and 2018, respectively, which must be subsequently remitted to the purchasing financial institutions.

In accordance with ASC 860, *Transfers and Servicing*, the transfers of mortgages receivable by Habitat to purchasing financial institutions are accounted for as sales and result in the related receivables being excluded from the mortgages receivable balance on the statement of financial position. The agreements underlying sales of receivables contain provisions that indicate that Habitat is responsible for homeowner payment defaults on sold receivables, and in the event a loan is delinquent by ninety (90) days or more, Habitat shall use its best efforts to replace the non-performing loan with a substitute loan of substantially equal principal balance and a maturity date not longer than the non-performing loan, or re-purchase the loan. There were no non-performing loans re-purchased during 2019.

Habitat management does not believe that the servicing asset resulting from the sale of mortgages has any significant value. Accordingly, no servicing assets have been recognized in the accompanying financial statements as of June 30, 2019 and 2018.

8. New Markets Tax Credits Joint Venture - Investments

The Organization entered into NMTC transactions involving U.S. Bancorp Community Development Corporation ("USBCDC"), its related entities and agents. NMTCs are tax credits created by the federal government in 2000 and renewed each year thereafter to help encourage sustained investment in low-income communities. The purpose is to provide investors with a financial incentive (a tax credit) to invest in projects being built in, or businesses operating in, low-income communities. Investors receive a federal tax credit earned over a 7-year period. The NMTC transactions provide a mechanism for Habitat to receive funding to improve properties or to build homes, build infrastructure or acquire land in low income communities. Habitat receives this funding through qualified low-income community investment ("QLICI") loans, as described below and in Note 11. The following is a summary of the NMTC investments.

NOTES TO FINANCIAL STATEMENTS

New Markets Tax Credits Joint Venture – Investments (continued)

Investment in HFHI-SA Leverage IX, LLC ("HFHI-SA IX")

In September 2011, the Organization acquired a 14.44% membership interest in HFHI-SA IX in exchange for a capital contribution of $963,958. The remaining 85.56% of HFHI-SA IX is owned by two other affiliates of Habitat for Humanity International, Inc. HFHI-SA IX was formed to make a loan to the HFHI-SA Investment Fund, LLC ("Fund VI"), which is owned by USBCDC, the federal tax credit investor, to provide financing for USBCDC's equity investment in a community development entity - HFHI-SA NMTC VI, LLC ("sub-CDE1"). Accordingly, HFHI-SA IX entered into a Loan Agreement to lend $6.64 million to Fund VI. Once HFHI-SA IX made the loan, USBCDC invested the tax credit price of $2.46 million into the Fund VI. The Fund VI used the combination of the HFHI-SA IX loan proceeds and the USBCDC investment as its equity investment in the sub-CDE1, which in turn used the proceeds to fund the QLICI loans to the same Habitat affiliates that are members of HFHI-SA IX. The loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low-income residents. (See Note 11).

Simultaneous with these transactions, HFHI-SA IX entered into an Option Agreement with USBCDC, the sole member of the Fund VI, to put the ownership interest in the Fund VI for $1,000 commencing on November 2018 and continuing for 6 months, or call the ownership interest for a 12-month period following expiration of the Put Option at fair value. Exercise of the option will effectively extinguish the Organization's outstanding debt owed to the sub-CDE1. The Organization will recognize income in an amount approximating the difference in the book value of the investment and the debt. The investment and debt will then come off the Organization's books and all entities related to the joint venture including HFHI-SA IX, will then be dissolved effectively ending the structured financing deal. In November 2018, this investment closed out resulting in a net gain of $306,054 and is included in gain on close-out of NMTC investments in the statement of activities and changes in net assets.

Investment in CCML Leverage I, LLC ("CCML")

In May 2012, the Organization acquired a 20% membership interest in CCML in exchange for a capital contribution of $1,450,464. The remaining 80% of CCML is owned by four other affiliates of Habitat for Humanity International, Inc. The CCML was formed to make a loan to the CCM CDXVII Investment Fund, LLC ("XVII Fund"), which is owned by USBCDC, the federal tax credit investor, to provide financing for the USBCDC's equity investment in a community development entity – CCM Community Development XVII, LLC ("sub-CDE2"). Accordingly, CCML entered into a Loan Agreement to lend $7.25 million to XVII Fund. Once CCML made the loan, USBCDC invested the tax credit price of $2.89 million into the XVII Fund. The XVII Fund used the combination of the CCML loan proceeds and the USBCDC investment as its equity investment in the sub-CDE2, which in turn used the proceeds to fund the QLICI loans to the same Habitat affiliates that are members of CCML. The loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low-income residents (See Note 11).

Simultaneous with these transactions, CCML entered into an Option Agreement with USBCDC, the sole member of XVII Fund, to put the ownership interest in the XVII Fund for $1,000 commencing on June 2019 and continuing for 6 months, or call the ownership interest for a 12-month period following expiration of the Put Option at fair value. Exercise of the option will effectively extinguish the Organization's outstanding debt owed to sub-CDE2. The Organization will recognize income in an amount approximating the difference in the book value of the investment and the debt. The investment and debt will then come off the Organization's books and all entities related to the joint venture including CCML, will then be dissolved effectively ending the structured financing deal. In May 2019, this investment closed out resulting in a net gain of $429,536 and is included in gain on close-out of NMTC investments in the statement of activities and changes in net assets.

NOTES TO FINANCIAL STATEMENTS

New Markets Tax Credits Joint Venture – Investments (continued)

Investment in HFHI NMTC Leverage Lender 2016-01, LLC ("HFHI 2016-01")

In July 2017, the Organization acquired a 10.18% membership interest in HFHI-2016-1 in exchange for a capital contribution of $1,251,772. The remaining 89.82% of HFHI-2016-1 is owned by four other affiliates of Habitat for Humanity International, Inc. HFHI-2016-1 was formed to make a loan to the Twain Investment Fund 250, LLC ("Fund 250"), which is owned by USBCDC, the federal tax credit investor, to provide financing for USBCDC's equity investment in a community development entity – HFHI NMTC Sub-CDE II, LLC ("sub-CDE1"). Accordingly, HFHI-2016-1 entered into a Loan Agreement to lend $12.3 million to Fund 250. Once HFHI-2016-1 made the loan, USBCDC invested the tax credit price of $6.2 million into Fund 250. The Fund used the combination of the HFHI-2016-1 loan proceeds and the USBCDC investment as its equity investment in the sub-CDE1, which in turn used the proceeds to fund the QLICI loans to the same Habitat affiliates that are members of HFHI-2016-1. The loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low-income residents. (See Note 11).

Simultaneous with these transactions, HFHI-2016-1 entered into an Option Agreement with USBCDC, the sole member of Fund 250, to put the ownership interest in Fund 250 for $1,000 commencing on July 2024 and continuing for 6 months or call the ownership interest for a 12-month period following expiration of the Put Option at fair value. Exercise of the option will effectively extinguish the Organization's outstanding debt owed to the sub-CDE1. The Organization will recognize income in an amount approximating the difference in the book value of the investment and the debt. The investment and debt will then come off the Organization's books and all entities related to the joint venture including HFHI-2016-1, will then be dissolved effectively ending the structured financing deal.

9. New Markets Tax Credits Joint Venture – Intangible Assets

The Organization incurred structuring, guarantor and guarantee fees related to the NMTC deals. The guaranty and guarantor fees are amortized over 7 years. The structuring fees are amortized over a period to which the fee applies, which is between 7 and 30 years depending on the deal.

As of June 30, 2019, the balances of the NMTC intangible assets and accumulated amortization are as follows:

	HFHI SA-IX	CCML	HFHI 2016-1	Total
Affiliate guaranty fee	$ 60,606	$ 155,261	$ 93,110	$ 308,977
Guarantor fee	-	51,810	-	51,810
CDE structuring fee	47,879	-	68,935	116,814
	108,485	207,071	162,045	477,601
Less accumulated amortization	(108,485)	(207,071)	(29,898)	(345,454)
	$ -	$ -	$ 132,147	$ 132,147

NOTES TO FINANCIAL STATEMENTS

New Markets Tax Credits Joint Venture – Intangible Assets (continued)

Estimated annual NMTC amortization as of June 30, 2019 are as follows:

2020	$	15,599
2021		15,599
2022		15,599
2023		15,599
2024		15,599
Thereafter		54,152
Total	$	132,147

As of June 30, 2018, the balances of the NMTC intangible assets and accumulated amortization are as follows:

	HFHI SA-IX	CCML	HFHI 2016-1	Total
Affiliate guaranty fee	$ 60,606	$ 155,261	$ 93,110	$ 308,977
Guarantor fee	-	51,810	-	51,810
CDE structuring fee	47,879	-	68,935	116,814
	108,485	207,071	162,045	477,601
Less accumulated amortization	(105,256)	(179,956)	(14,299)	(299,511)
	$ 3,229	$ 27,115	$ 147,746	$ 178,090

10. Long-Term Debt

Long-term debt consists of the following as of June 30:

	2019	2018
Northern Trust Bank mortgage loan. Due in monthly principal and interest installments of $6,301 with interest at 4.00% per annum through July 2023 with a final balloon payment for all remaining principal and interest due in August 2023. Secured by a Deed of Trust. The agreement requires a specific debt coverage ratio be maintained as measured at fiscal year-end. The Organization was in compliance with this covenant as of June 30, 2019.	$ 817,102	$ 858,653

NOTES TO FINANCIAL STATEMENTS

Long-Term Debt (continued)

Habitat for Humanity International (as part of the FlexCap program), note payable. Secured by pledged mortgage loans. The agreement requires that the Organization pledge mortgage loans that have aggregate mortgage payments equal to or greater than 105% of the quarterly payment and have aggregate mortgage values equal to or greater than 125% of outstanding note principal balance. Due in quarterly installments of $16,006 with interest at 3.80% per annum through June 2020. The agreement contains various financial covenants, the most restrictive of which provide for minimum net assets and conditions on the number of pledged mortgage loans assigned. The Organization was in compliance with these debt covenants as of June 30, 2019.	62,533	122,746
Habitat for Humanity International (as part of the FlexCap program), note payable. Secured by pledged mortgage loans. The agreement requires that the Organization pledge mortgage loans that have aggregate mortgage payments equal to or greater than 105% of the quarterly payment and have aggregate mortgage values equal to or greater than 125% of outstanding note principal balance. Due in quarterly installments of $22,775 with interest at 5.00% per annum through June 2028. The agreement contains various financial covenants, the most restrictive of which provide for minimum net assets and conditions on the number of pledged mortgage loans assigned. The Organization was in compliance with these debt covenants as of June 30, 2019.	657,023	713,500
In January 2019, the Line of Credit at Northern Trust Bank for $1,500,000 was renewed. Interest is calculated at the LIBOR rate plus 2% secured by Deeds of Trust and beneficial interest in certain mortgage notes receivable. Interest payable in monthly installments. Line of credit matures in January 2020.	-	-
	1,536,658	1,694,899
Less current portion of long-term debt	(168,806)	(161,729)
	$ 1,367,852	$ 1,533,170

Long-Term Debt (continued)

The scheduled maturities of debt principal payments are summarized as follows as of June 30, 2019:

2020	$	168,806
2021		107,587
2022		112,633
2023		117,917
2024		701,280
Thereafter		328,435
Total	$	1,536,658

11. New Markets Tax Credits Joint Venture – Notes Payable

As a component of the HFHI-SA IX NMTC transaction, Habitat received a QLICI loan of $1,270,012, and entered into a Loan and Security Agreement (the "HFHI Agreement"), dated September 15, 2011, from the CDE1. The Organization is obligated under the HFHI Agreement and related Promissory Note to make semi-annual interest only payments until November 15, 2019 at 0.7556152%. Beginning in year 8 through year 15, the Organization is required to make semi-annual payments of principal and interest (at 0.7556152%) in an amount to fully amortize the loan by its maturity date. In November 2018, this deal was closed out resulting in the extinguishment of the debt owed to CDE1. The balance of the note payable totaled $0 and $1,254,066 (net of unamortized debt issuance costs of $0 and $15,945) of as of June 30, 2019 and 2018, respectively.

As a component of the CCML NMTC transaction, Habitat received a QLICI loan of $1,880,000 and entered into a Loan and Security Agreement (the "CCML Agreement"), dated May 24, 2012, from the CDE2. The Organization is obligated under the CCML Agreement and related Promissory Note to make semi-annual interest only payments until November 5, 2020 at 0.77161%. Beginning in year 8 through year 15, the Organization is required to make semi-annual payments of principal and interest (at 0.77161%) in an amount to fully amortize the loan by its maturity date. In May 2019, this deal was closed out resulting in the extinguishment of the debt owed to CDE2. The balance of the note payable totaled $0 and $1,858,033 (net of unamortized debt issuance costs of $0 and $21,967) as of June 30, 2019 and 2018, respectively.

As a component of the HFHI-2016-1 NMTC transaction, Habitat received a QLICI loan of $1,850,866, and entered into a Loan and Security Agreement (the "HFHI Agreement"), dated July 19, 2017, from the CDE1. The Organization is obligated under the HFHI Agreement and related Promissory Note to make semi-annual interest only payments until July 1, 2024 at 0.676452%. Beginning in year 8 through year 30, the Organization is required to make semi-annual payments of principal and interest (at 0.676452%) in an amount to fully amortize the loan by its maturity date. The loan matures in July 2047. The balance of the note payable totaled $1,822,266 (net of unamortized debt issuance costs of $28,600) as of June 30, 2019 and $1,821,248 (net of unamortized debt issuance costs of $29,618) of as of June 30, 2018. The HFHI Agreement requires a specific tangible net worth and debt service coverage ratio be maintained as measured at fiscal year-end. The Organization was in compliance with these debt covenants as of June 30, 2019.

NOTES TO FINANCIAL STATEMENTS

New Markets Tax Credits Joint Venture – Notes Payable (continued)

As set forth in the agreements, the Organization is required to comply with the NMTC requirements as generally set forth in the Internal Revenue Code ("IRC") Section 45D, including that the Organization maintain a Separate Business (which is aggregated within the Organization's financial statements) such that the Separate Business will qualify as a qualified active low-income community business as defined by IRC Section 45D. Only the Separate Business assets of the Organization were pledged as security under the agreements.

12. Net Assets with Donor Restrictions

Net assets with donor restrictions were restricted for the following purposes as of June 30:

	2019	2018
Subject to expenditure for a specified purpose:		
Construction and rehabilitation projects	$ 579,319	$ 546,675
Homeowner services	46,029	43,122
Community development and other	8,406	1,800
	633,754	591,597
Subject to passage of time:		
For periods after June 30, 2019	30,000	-
Subject to the Organization's spending policy and appropriation:		
Original donor-restricted endowment gift required to be maintained by donor	20,000	20,000
Accumulated investment earnings, which, once appropriated, are expendable	10,801	10,020
	30,801	30,020
Total	$ 694,555	$ 621,617

NOTES TO FINANCIAL STATEMENTS

13. Liquidity and Availability of Resources

The following table shows a determination of the Organization's financial assets that are available to meet needs for general expenditure within one year, as of June 30:

	2019	2018
Cash and cash equivalents	$ 2,925,740	$ 3,456,615
Grants and contracts receivable	20,221	43,515
Pledges receivable, current portion	115,001	70,751
Notes receivable, current	53,427	50,000
Mortgages receivable net of discount, due within one year	979,969	927,354
Investments, restricted	27,805	27,363
Total financial assets	4,122,163	4,575,598
Less amounts unavailable for general expenditure within one year, due to:		
Contractual or donor-imposed restrictions		
Contractual	314,601	294,075
Subject to expenditure for specified purpose	633,754	591,597
Subject to spending policy and appropriation	30,801	30,020
Board designations		
Capital reserve	358,230	358,075
Financial assets available to meet cash needs for general expenditures within one year	$ 2,784,777	$ 3,301,831

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization maintains a line of credit of $1.5 million in the event a liquidity need arises. Additionally, amounts set aside in investment accounts are either restricted by donors in endowment funds or designated by the governing board as a capital reserve. With approval from the governing board, the Organization can use the amounts set aside in the investment accounts for unanticipated liquidity needs if needed.

14. Donated Property, Materials and Services

Donated property, materials and services consisted of the following for the years ended June 30:

	2019	2018
Construction materials and equipment	$ 243,840	$ 306,136
Land and property	13,000	33,500
Other program supplies and services	73,587	37,087
HabiStore items for resale	1,604,141	1,502,552
	$ 1,934,568	$ 1,879,275

NOTES TO FINANCIAL STATEMENTS

15. Advertising and Marketing Costs

The following costs are included in advertising and marketing costs for the years ended June 30:

	2019	2018
Direct advertising and marketing	$ 40,354	$ 48,938
Direct mail campaigns	24,039	30,681
Donated in-kind advertising	4,178	8,292
Newsletters and annual report	1,496	1,136
	$ 70,067	$ 89,047

16. HabiStore Summarized Financial Information

HabiStore operating revenues and expenses consisted of the following for the years ended June 30:

	2019	2018
HabiStore sales	$ 1,744,577	$ 1,587,811
HabiStore donated items for resale	1,604,141	1,502,552
Total HabiStore revenues	3,348,718	3,090,363
HabiStore operating expenses	(2,694,435)	(2,552,145)
HabiStore revenues in excess of expenses	$ 654,283	$ 538,218

17. Methods Used for Allocation of Expenses Among Program and Supporting Services

The financial statements report certain categories of expenses that are attributable to one or more program or supporting services of the Organization. Expenses that can be identified with a specific program are allocated directly according to their natural classification. Other expenses that are common to several functions are allocated primarily based on labor costs or other applicable cost drivers.

18. Commitments and Contingencies

Collection of Second Mortgages

In addition to the non-interest bearing mortgage received from the sale of each home, Habitat may issue a contingent second mortgage. The second mortgages issued by Habitat represent the excess of the market value of the home over the original loan at the date the second mortgage is executed. Should the homeowner pay off the primary mortgage early or default on the mortgage, the second mortgage would become due. During the years ended June 30, 2019 and 2018, no second mortgages were paid off early.

Contract with the Pascua Yaqui Tribe

In May 2003, Habitat entered into a contract with the Pascua Yaqui tribe to build twenty-two homes for tribal members. Five homes were to be located on the reservation and sold directly to the tribe. Seventeen homes were to be located off of the reservation and sold directly to Pascua Yaqui homeowners. Half of the principal payments from the mortgages receivable received by Habitat from the Pascua Yaqui homeowners covered

NOTES TO FINANCIAL STATEMENTS

Commitments and Contingencies (continued)

Contract with the Pascua Yaqui Tribe (continued)
under this contract are deposited into an interest-bearing account, held by both Habitat and the Pascua Yaqui tribe. Monies in the account (which totaled $278,531 and $258,011 as of June 30, 2019 and 2018, respectively) are designated for future home building projects with the Pascua Yaqui tribe and are included in cash and cash equivalents in the accompanying statements of financial position. In 2009, Habitat and the Pascua Yaqui tribe agreed to reduce the target number of homes in the agreement to twenty homes.

Neighborhood Stabilization Program 2 ("NSP2") Agreement
On April 1, 2010, Habitat entered into a $1,225,000 NSP2 Consortium Funding Agreement with Pima County for the construction of thirty-five (35) homes in the Corazon del Pueblo subdivision, targeted to low, moderate, or middle household income homebuyers in Tucson, Arizona. The funds originate with the U.S. Department of Housing and Urban Development ("HUD") and are passed through Pima County. On September 1, 2012, an amendment to the Consortium Funding Agreement was executed for the construction of an additional four (4) homes in the Corazon del Pueblo subdivision, and six (6) homes in the Copper Vista I or II subdivisions. On November 1, 2012, an amendment to the Consortium Funding Agreement was executed for the construction of one (1) additional home in the Copper Vista I or II subdivisions. As of June 30, 2014, construction of all forty-six (46) homes was completed and all homes had been sold to qualified low, moderate, or middle household income homebuyers. Under the agreement, revenue directly generated by activities carried out with NSP2 funds is referred to as Program Income. Habitat, under an agreement with Pima County, applies and reports the program income earned under NSP2 to current new home construction. Under terms of the agreement with Pima County, Habitat may be required to repurchase the NSP2 homes unless the home is resold to a qualified buyer.

Credit and Operational Risk
Due to the fact that Habitat's programs are concentrated in Pima County, Arizona, the level of contributions, home sales and collections of mortgages receivable may be affected by changes in economic or other conditions which affect this locale.

In addition to geographic concentration risk, management also notes the following risk factors that may affect the Organization's future ability to carry out its mission, including: the Organization's ongoing dependency on contributions as a significant portion of total operating revenue; the rate at which the Organization collects its long-term mortgages receivable versus the obligations presented by the Organization's short-term liabilities; risk of loss due to loan defaults, the limited marketability of the mortgages receivable for resale; and the risk that an investor may mandate the Organization repurchase or replace a loan sold if the loan becomes delinquent.

Litigation
The Organization is involved in legal proceedings in the normal course of its business operations. The Organization does not believe that any pending or threatened proceeding would have a material adverse effect on its financial position or results of operations.

19. Subsequent Events

The Organization evaluated subsequent events through November 14, 2019, which represents the date the financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in the financial statements.