HABITAT FOR HUMANITY CENTRAL ARIZONA

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Habitat for Humanity Central Arizona
Peoria, Arizona

We have audited the accompanying consolidated financial statements of Habitat for Humanity Central Arizona (the Organization), which comprise the consolidated balance sheets as of June 30, 2019 and 2018, and the consolidated related 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 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. 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 auditor considers internal control relevant to the Organization'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 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 consolidated financial statements.

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

Board of Directors
Habitat for Humanity Central Arizona

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity Central Arizona as of June 30, 2019 and 2018, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
October 30, 2019

HABITAT FOR HUMANITY CENTRAL ARIZONA
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Cash and Cash Equivalents	$ 1,696,158	$ 3,782,120
Restricted Cash	90,040	182,123
Grants Receivable	257,438	158,595
Pledges Receivable	57,000	143,696
Other Receivables	329,649	560,792
Prepaid Expenses and Other Assets	317,806	263,401
New Market Tax Credit Fees	4,653	32,567
Inventory - Habitat ReStore	911,271	728,308
Deferred Gifts Receivable	133,149	142,716
Investments in Securities	8,527,183	3,862,035
Equity Method Investments	4,954,630	4,929,816
Homes Under Construction	2,355,867	2,953,326
Land Held for Development	1,419,369	708,439
Property and Equipment, Net	2,379,446	2,339,387
Nonforgivable Mortgage Notes Receivable	15,603,609	14,505,647
Transferred Mortgages Receivable	1,850,724	2,040,016
Total Assets	$ 40,887,992	$ 37,332,984
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	$ 915,138	$ 1,224,318
Due to Habitat International, Inc.	14,237	32,886
Deferred Revenue	1,959,414	2,136,869
Notes Payable, Net	9,406,940	6,530,309
Total Liabilities	12,295,729	9,924,382
NET ASSETS		
Without Donor Restriction	26,061,561	25,378,913
With Donor Restriction	2,530,702	2,029,689
Total Net Assets	28,592,263	27,408,602
Total Liabilities and Net Assets	$ 40,887,992	$ 37,332,984

See accompanying Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY CENTRAL ARIZONA
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2019 AND 2018

	2019		
	Without Donor Restrictions	With Donor Restriction	Total
OPERATING REVENUES AND SUPPORT			
Contributions	$ 1,403,256	$ 2,990,022	$ 4,393,278
In-Kind Contributions	113,191	162,166	275,357
Sales of Completed Homes	4,815,953	-	4,815,953
Discounts on New Home Mortgages	(2,631,172)	-	(2,631,172)
Amortization of Mortgage Discounts	1,183,220	-	1,183,220
Grants	-	150,273	150,273
Investment Return	73,433	-	73,433
Home Repair Program	904,108	-	904,108
ReStore Sales (Net of Operating Expenses of $6,429,618 and $5,190,668, Respectively)	561,618	-	561,618
Special Events (Net of Direct Expense of $62,986 and $40,673, Respectively)	1,977	-	1,977
Other Revenue	78,358	-	78,358
Total	6,503,942	3,302,461	9,806,403
Net Assets Released from Restrictions	2,799,312	(2,799,312)	-
Total Operating Revenue and Support	9,303,254	503,149	9,806,403
OPERATING EXPENSES			
Program Services	8,744,931	-	8,744,931
Management and General	1,056,708	-	1,056,708
Fundraising	770,131	-	770,131
Total Operating Expenses	10,571,770	-	10,571,770
OPERATING INCREASE (DECREASE) IN NET ASSETS	(1,268,516)	503,149	(765,367)
NONOPERATING ACTIVITIES			
Gain on Sale of Mortgages	-	-	-
Gain on Securitization	2,034,768	-	2,034,768
Gain on Sale of Land	-	-	-
Other Income	62,302	-	62,302
Change in Deferred Gifts	5,004	(2,136)	2,868
NONOPERATING INCREASE IN NET ASSETS	2,102,074	(2,136)	2,099,938
CONTRIBUTIONS TO HABITAT FOR HUMANITY INTERNATIONAL, INC.	(150,910)	-	(150,910)
CHANGE IN NET ASSETS	682,648	501,013	1,183,661
Net Assets - Beginning of Year	25,378,913	2,029,689	27,408,602
NET ASSETS - END OF YEAR	$ 26,061,561	$ 2,530,702	$ 28,592,263

See accompanying Notes to Consolidated Financial Statements.

2018		
Without Donor Restrictions	With Donor Restriction	Total
$ 1,687,979	$ 3,001,362	$ 4,689,341
153,103	93,858	246,961
4,139,150	-	4,139,150
(2,274,811)	-	(2,274,811)
1,222,334	-	1,222,334
-	809,186	809,186
35,950	-	35,950
1,015,228	-	1,015,228
(4,389)	-	(4,389)
143,785	-	143,785
396,490	-	396,490
6,514,819	3,904,406	10,419,225
3,291,072	(3,291,072)	-
9,805,891	613,334	10,419,225
8,266,727	-	8,266,727
974,751	-	974,751
748,632	-	748,632
9,990,110	-	9,990,110
(184,219)	613,334	429,115
11,652	-	11,652
-	-	-
3,047,421	-	3,047,421
54,730	-	54,730
5,001	1,418	6,419
3,118,804	1,418	3,120,222
(196,599)	-	(196,599)
2,737,986	614,752	3,352,738
22,640,927	1,414,937	24,055,864
$ 25,378,913	$ 2,029,689	$ 27,408,602

HABITAT FOR HUMANITY CENTRAL ARIZONA
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

	Program Services	Support Services: Management and General	Support Services: Fundraising	Subtotal	ReStore Operating Costs	Total
Cost of Home Sales	$ 4,430,921	$ -	$ -	$ 4,430,921	$ -	$ 4,430,921
Cost of Home Repairs	1,437,501	-	-	1,437,501	-	1,437,501
Transfers to Construction in Progress	(960,755)	-	-	(960,755)	-	(960,755)
Other	230,919	342,057	260,251	833,227	155,179	988,406
Salaries	1,638,143	893,946	543,164	3,075,253	1,322,297	4,397,550
Payroll Taxes and Employee Benefits	424,133	216,108	145,926	786,167	356,167	1,142,334
Cost of Goods Sold	-	-	-	-	3,535,377	3,535,377
Occupancy	-	92,627	-	92,627	666,390	759,017
Other Taxes and Insurance	122,689	38,416	-	161,105	94,832	255,937
Interest and Amortization	1,762	87,386	-	89,148	-	89,148
Depreciation and Amortization	35,148	62,565	630	98,343	112,785	211,128
Equipment and Maintenance	85,133	27,683	-	112,816	97,627	210,443
Mortgage Servicing	120,773	-	-	120,773	-	120,773
Special Mailings	-	-	44,640	44,640	-	44,640
Audit and Accounting	-	41,578	-	41,578	-	41,578
Telephone	9,188	14,246	3,642	27,076	26,981	54,057
Travel and Conference	41,197	25,545	25,799	92,541	11,996	104,537
Office Supplies	3,749	24,113	4,067	31,929	22,083	54,012
Legal	105,619	33,914	-	139,533	-	139,533
Postage and Shipping	249	7,573	-	7,822	415	8,237
Overhead Applied	1,018,562	(851,049)	(195,002)	(27,489)	27,489	-
Total	8,744,931	1,056,708	833,117	10,634,756	6,429,618	17,064,374
Special Event Expense	-	-	(62,986)	(62,986)	-	(62,986)
Total Functional Expenses	$ 8,744,931	$ 1,056,708	$ 770,131	$ 10,571,770	$ 6,429,618	$ 17,001,388

See accompanying Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY CENTRAL ARIZONA
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

		Support Services				
	Program Services	Management and General	Fundraising	Subtotal	ReStore Operating Costs	Total
Cost of Home Sales	$ 4,539,673	$ -	$ -	$ 4,539,673	$ -	$ 4,539,673
Cost of Home Repairs	1,172,114	-	-	1,172,114	-	1,172,114
Transfers to Construction in Progress	(821,213)	-	-	(821,213)	-	(821,213)
Other	204,275	256,911	173,166	634,352	171,904	806,256
Salaries	1,411,443	845,604	568,206	2,825,253	1,186,831	4,012,084
Payroll Taxes and Employee Benefits	373,696	188,899	145,881	708,476	361,685	1,070,161
Cost of Goods Sold	-	-	-	-	2,554,932	2,554,932
Occupancy	-	80,275	-	80,275	541,693	621,968
Other Taxes and Insurance	107,203	38,945	-	146,148	92,586	238,734
Interest and Amortization	7,227	95,152	-	102,379	25,213	127,592
Depreciation and Amortization	42,693	63,267	472	106,432	61,609	168,041
Equipment and Maintenance	55,026	28,959	-	83,985	98,215	182,200
Mortgage Servicing	133,367	-	-	133,367	-	133,367
Special Mailings	-	-	44,823	44,823	-	44,823
Audit and Accounting	-	35,132	-	35,132	-	35,132
Telephone	9,638	18,154	2,099	29,891	25,342	55,233
Travel and Conference	54,130	24,236	20,788	99,154	15,766	114,920
Office Supplies	7,211	26,790	839	34,840	26,773	61,613
Legal	79,368	14,716	210	94,294	-	94,294
Postage and Shipping	1,039	7,922	71	9,032	495	9,527
Overhead Applied	889,837	(750,211)	(167,250)	(27,624)	27,624	-
Total	8,266,727	974,751	789,305	10,030,783	5,190,668	15,221,451
Special Event Expense	-	-	(40,673)	(40,673)	-	(40,673)
Total Functional Expenses	$ 8,266,727	$ 974,751	$ 748,632	$ 9,990,110	$ 5,190,668	$ 15,180,778

See accompanying Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY CENTRAL ARIZONA
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 1,183,661	$ 3,352,738
Adjustment to Reconcile Change in Net Assets to Net Cash and Cash Equivalents Used by Operating Activities:		
Depreciation and Amortization	211,128	168,041
Interest Amortization	31,154	21,750
Gain on Sale of Fixed Assets	10,411	(1,498)
Gain on Sale of Land Available for Sale	-	(3,047,421)
Gain on Investments	(27,595)	(13,259)
Unrealized Gain on Equity Method Investments	(24,814)	(24,812)
Amortization of Mortgages Receivable Discount	(1,132,608)	(1,222,333)
Change in Deferred Gift	(2,868)	(6,419)
Increase (Decrease) in Assets:		
Grant Receivables	(98,843)	380,051
Pledges Receivable	86,696	165,653
Other Receivables	231,143	(398,094)
Prepaids	(54,405)	(101,022)
Inventory - Habitat ReStore	(182,963)	(439,124)
Deferred Gifts Receivable	12,435	12,211
Homes Under Construction	597,459	(710,162)
Homes Available for Sale	(1,786,604)	(1,370,409)
Land Held for Development	(710,930)	670,781
(Increase) Decrease in Liabilities:		
Accounts Payable	(309,180)	477,866
Due to Habitat International, Inc.	(18,649)	18,874
Deferred Revenue	(177,455)	(272,846)
Net Cash Used by Operating Activities	(4,188,153)	(2,339,434)
CASH FLOWS FROM INVESTING ACTIVITIES		
Mortgages Sold, Net of Discounts	50,295	61,417
Repurchases of Mortgages	(53,174)	(62,277)
Purchases of Property and Equipment	(258,854)	(465,915)
Proceeds from Sale of Fixed Assets	25,170	2,266
Proceeds from Sale of Land Available for Sale	-	4,773,177
Purchase of Investments in Securities	(5,272,536)	(3,924,714)
Proceeds from Sale of Investments in Securities	634,983	170,317
Payments Received on Mortgages Receivable	2,013,421	2,416,715
Net Cash Provided (Used) by Investing Activities	(2,860,695)	2,970,986

See accompanying Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY CENTRAL ARIZONA
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Long-Term Debt	$ 5,000,074	$ 187,767
Payments on Long-Term Debt	(129,271)	(1,489,985)
Change in Restricted Cash	92,083	90,510
Net Cash Provided (Used) by Financing Activities	4,962,886	(1,211,708)
DECREASE IN CASH AND CASH EQUIVALENTS	(2,085,962)	(580,156)
Cash and Cash Equivalents - Beginning of Year	3,782,120	4,362,276
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 1,696,158	$ 3,782,120
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	$ 57,994	$ 109,788

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Habitat for Humanity Central Arizona (the Organization) is an affiliate of Habitat for Humanity International, Inc. (Habitat International), an ecumenical nonprofit organization whose purpose is to create decent, affordable housing for those in need, and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists with information resources, training, publications, prayer support, and in other ways, the Organization is primarily and directly responsible for the legal, organizational, fundraising, family partnering and selection, financial, and construction aspects of the work.

Creating affordable homeownership is the primary program. The Organization builds or renovates homes in the Phoenix metropolitan area utilizing volunteer labor, donated materials and contributed funds. The homes are then sold to pre-qualified, low-income families. Homebuyers are selected based on need, ability to repay the Habitat mortgage, and willingness to partner. The Organization also tithes a portion of its general donations to Habitat for Humanity International for use in building homes outside the United States. The tithe is sufficient to build an equal number of homes overseas as are built locally.

Long-term mortgage financing is a key component which makes Habitat homes affordable. Homes sold to local low-income buyers are 100% financed by the Organization. Homebuyers are provided an affordable 0% interest, 20 to 40-year mortgage. Monthly mortgage payments collected by the Organization are added to the donation resources used for building additional homes for families in need.

On April 16, 2019, Habitat filed articles of organization with the State of Arizona to form its wholly owned subsidiary HFHCA Funding Company, LLC (the Company). The Company's purpose is to acquire and hold mortgage loans and related documents to comply with the terms of any note purchase agreement between the Organization and any financial institution. As a single member LLC, the Organization is disregarded for purposes of the Internal Revenue Code.

Financial Statement Presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation (Continued)

Net Assets With Donor Restrictions – Net Assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as restricted revenue when received and released from restriction when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as Net Assets Released from Restrictions.

Nonoperating activities include all noncash activities relating to impairment of assets and discounting contracts for deed, mortgages receivable, and debt. Also included in the nonoperating activities were the gains on securitization and the sale of mortgages and land.

Management's Use of Estimates

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

Cash and Cash Equivalents

The Organization considers all highly liquid investments purchased with an initial maturity of three months or less to be cash and cash equivalents. At times, amounts may exceed Federal Deposit Insurance Corporation insured limits.

Restricted Cash

Restricted cash consists of proceeds from New Markets Tax Credit arrangements (Note 7). Use of these proceeds is restricted as outlined in the associated agreements and is not available for on-going operations.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loan Origination Costs and New Market Tax Credit Fees

Fees paid to third parties for facilitating New Market Tax Credit arrangements are capitalized and amortized over the term of the arrangement. Amortization expense for new market tax credit fees was $44,992 for both years ended June 30, 2019 and 2018.

Donated Materials and Services

Donated materials and services are recognized as contributions in accordance with accounting standards at their estimated fair value if the services (a) create or enhance the Organization's nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased. Donated materials consist primarily of construction materials. No amounts have been reflected in the consolidated financial statements for certain donated volunteer services because they do not qualify for recording under the guidelines of accounting standards; however, a substantial number of volunteers have donated a significant amount of time in the Organization's program services and fundraising campaigns. The Organization estimates the fair value of volunteer service hours during the years ended June 30, 2019 and 2018 to be $1,471,915 and $1,602,365, respectively, representing 95,016 and 105,720 volunteer service hours, respectively.

Federal Grants

The Organization receives funding from several federal financial assistance programs that supplement its traditional funding sources. The Organization recognizes the award as revenue as the expenses stipulated in the grant agreement have been incurred. Grants received in a period prior to the period covered by the grant are included in deferred revenue in the consolidated statements of financial position. Funding sources may, at their discretion, request reimbursement for expenses or return of funds or both, as a result of noncompliance by the Organization with the terms of the grants or contracts.

Grants receivable are stated at the amount the Organization expects to collect under the terms of the individual accounts. On a periodic basis, management evaluates its receivable and determines the requirement for an allowance for doubtful accounts, based on its assessment of the current status of individual accounts. A receivable is written off when it is determined that all collection efforts have been exhausted. Grants receivable are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

Grants Receivables

Receivables primarily consist of construction cost reimbursements from the Federal Home Loan Bank (FHLB) and bequests receivable. Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables. At June 30, 2019 and 2018, no allowance for doubtful accounts was deemed necessary by management.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledges Receivable

The Organization's pledges consist of unconditional promises to give from individual donors. Pledges receivable within one year are recorded at expected net realizable value when the promise is received. Pledges receivable over multiple years are recorded at the present value of estimated future cash flows. Pledges receivable are discounted using fair value rates and they are written off when deemed uncollectible.

Inventory – Habitat ReStore

Inventory – Habitat ReStore consists of donated building supplies, purchased flooring, and other home improvement items. Purchased inventory is valued at cost. Donated inventory is valued at its estimated fair value based on its expected selling price.

Investments in Securities

The Organization reports investments in accordance with accounting standards. Under these standards, the Organization reports investments in equity securities that have readily determinable fair value, and all investments in debt securities, at fair value. The fair values of investments are based on quoted market prices. At June 30, 2019 and 2018, investments consisted of cash, mutual funds, and pooled investments consisting of stocks and bonds.

Equity Method Investments

Equity method investments are recorded at cost, and are subsequently adjusted to reflect the Organization's share of net profit or loss.

Land Held for Development and Homes Under Construction

Land held for development and homes under construction are stated at cost and include land under development, developed lots, direct and indirect costs of housing construction and capitalized interest, property taxes and overhead incurred during the development period. Cost is determined by the specific identification and per unit methods. Real estate assets are evaluated for impairment if impairment indicators are present. An impairment write-down to fair value less costs to sell occurs when management believes that events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss was recorded during the year; see Note 9. Land and offsite development costs associated with homes under construction are included in construction in progress in the accompanying consolidated statements of financial position.

Land Available for Sale

Real estate assets are evaluated for impairment if impairment indicators are present. An impairment write-down to fair value less costs to sell occurs only if the estimated future undiscounted net cash flows from the real estate inventories are less than the carrying amount. No impairment losses were recorded during 2019 or 2018.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Purchased property and equipment is valued at cost. Donated property and equipment is recorded at the fair value at the date of gift to the Organization. Maintenance and repairs are charged to operations when incurred. Betterments and renewals in excess of $1,000 are capitalized. When property and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations. Depreciation of property and equipment is computed on a straight-line basis over the following estimated useful lives:

	Years
Buildings and Improvements	5 to 40
Furniture and Equipment	3 to 10
Vehicles	5 to 7

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in net assets without donor restriction unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions absent donor stipulations regarding how long those donated assets must be maintained. The Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with restriction to net assets without restriction at that time.

Revenue Recognition and Sales

Homes are sold at market value to buyers that meet the Organization's qualification guidelines. Noninterest bearing mortgages, which are priced at the higher of the amount the family can afford to pay or the cost to build the home, but not more than the appraised value, are accepted as payment for the homes sold. The Organization may also obtain subordinate forgivable mortgages. Since the subordinate mortgages are expected to be forgiven, it is assumed they have no economic value and, accordingly, are not recognized in the Organization's consolidated financial statements.

Home sales are recorded at the discounted value of payments to be received over the lives of the mortgages. Noninterest bearing mortgages have been discounted at 7.57% and 7.47% for the years ended June 30, 2019 and 2018, respectively, based upon prevailing market rates for low-income housing at the inception of the mortgages. Discounts are amortized using the effective interest method over the lives of the mortgages. During both the years ended June 30, 2019 and 2018, 21 homes were sold by the Organization.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nonforgivable Mortgage Notes Receivable

The Organization's noninterest bearing mortgages consist of amounts due from homeowners. The Organization performs extensive credit and work history evaluations before the sale of a home. The Organization also has a perfected security interest in all homes they sell. The value of each home is generally greater than the respective carrying value of the mortgage due. Mortgage loans receivable are stated at the amount management expects to collect from outstanding balances.

Transferred Mortgages Receivable

Periodically the Organization transfers mortgages receivable to financial institutions. These transactions are accounted for in accordance with accounting standards for *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Under this standard, the Organization has maintained effective control over the assets transferred; accordingly, the transfer is accounted for as a secured borrowing.

There were no new transfers during the years ended June 30, 2019 or 2018. Related liabilities for previous years' sales of $1,850,724 and $2,040,016 as of June 30, 2019 and 2018, respectively, are included in deferred revenue on the consolidated statements of financial position. The proceeds from the secured borrowings were used to pay down long-term debt and to build up cash reserves for future operations.

Allowance for Credit Losses

The Organization's allowance for credit losses is that amount considered adequate to absorb probable losses in the portfolio based on management's evaluations of the size and current risk characteristics of the mortgage notes receivable portfolio. Such evaluations consider historical information and experience with clients. Specific allowances for credit losses are established for large impaired notes on an individual basis. A note is considered impaired when, based on current information and events, it is probable that the Organization will be unable to collect the scheduled payments when due according to the contractual terms of the promissory note. The specific allowances established for these loans are based on a thorough analysis of the most probable source of repayment, including the estimated fair value of the underlying collateral. General allowances are established for loans that can be grouped into pools based on similar characteristics. At June 30, 2019 and 2018, management believes mortgage loans receivable to be fully collectible, therefore no allowance has been recorded.

The Organization maintains a separate general valuation allowance for homogeneous portfolio segments. These portfolio segments and their risk characteristics are described as follows:

Nonforgivable Mortgage Notes Receivable – The degree of risk on residential mortgage lending is minimal due to the fact that all nonforgivable mortgage notes receivable are secured by property with fair values that exceed the uncollected balances. As such, no allowance has been deemed necessary for nonforgivable mortgage notes receivable at June 30, 2019 and 2018.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Credit Losses (Continued)

Transferred Mortgages Receivables – The degree of risk on transferred mortgages receivable is minimal due to the fact that all transferred mortgages receivable are secured by property with fair values that exceed the uncollected balances. As such, no allowance has been deemed necessary for transferred mortgages receivable as of June 30, 2019 and 2018.

Warranty Reserve

The Organization provides all homebuyers with mechanical and structural warranties ranging from one to ten years. The Organization's experience in warranty work claims has been very low.

An accrual for estimated future warranty expense is recorded in accounts payable and accrued expenses and evaluated on an annual basis. Actual warranty expenses are charged against the accrual as incurred. Warranty expense recorded for the years ended June 30, 2019 and 2018 was $13,099 and $12,933, respectively. The accrued warranty reserve for homes was $27,333 and $21,817, respectively. Because of the inherent uncertainties in estimating warranty costs, it is at least reasonably possible that the Organization's estimates of these costs will change in the near term.

Escrow Reserves

Either independent third parties or the Organization services the mortgages on homes the Organization sells. Included in cash are amounts received from homeowners for insurance, property taxes, and home maintenance (escrow funds). These amounts will be used to pay amounts as they become due. A corresponding liability is included in accounts payable and escrow reserves in the accompanying consolidated statements of financial position. At June 30, 2019 and 2018, escrow reserves totaled $22,515 and $120,530, respectively.

Special Event Revenues

The Organization conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct costs of the benefits received by the participant at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Organization. The direct costs of special events, which ultimately benefit the donor rather than the Organization, are recorded as costs of direct donor benefit in the accompanying consolidated statements of activities.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Expense Allocation

The Organization's primary mission is creating affordable homeownership. Costs related to this purpose are reported as program expenses on the consolidated statement of functional expenses. Activities performed by the Organization to generate funds and/or resources to support its programs and operations are reported as fundraising activities. All costs not identifiable with a specific program or fundraising activities, but indispensable to the conduct of such programs and activities and to the Organization's existence, are included as management and general expenses. This includes expenses for the overall direction of the Organization, business management, general recordkeeping, budgeting, financial reporting, and activities relating to these functions such as salaries and related expenses, occupancy, interest and amortization, audit and accounting, and other expenses.

Expenses that benefit more than one function of the Organization are allocated among the functions based generally on the amount of time spent by employees on each function.

ReStore Program

The Organization has established the ReStore program in order to generate net income to underwrite administrative and fundraising expenses as well as keep items that could be reused out of landfills. The table below summarizes the results of the ReStore program's impact on administrative and fundraising expenses for the years ended June 30, 2019 and 2018:

	2019	2018
Total Administrative and Fundraising Costs	$ 1,889,825	$ 1,764,056
Less ReStore Net (Income)/Loss	(561,618)	4,389
Net Administrative and Fundraising Costs	$ 1,328,207	$ 1,768,445

Concentrations of Credit Risk

The Organization's cash balances are maintained in bank deposit accounts. The balances of these accounts may be in excess of federally insured limits.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for federal income taxes. In addition, the Organization qualifies for the charitable contribution deduction under Section 170 of the Code and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income (UBI) would be taxable.

The Organization follows the accounting standard for uncertain tax positions. The Organization's policy prescribes a recognition threshold and measurement principles for the financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized. This policy has had no impact on the organization's consolidated financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

The Organization categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access. Fair values for these instruments are estimated using pricing models or quoted prices of securities with similar characteristics.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. Fair values for these instruments are estimated using appraised value.

Subsequent to initial recognition, the Organization may re-measure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Organization has not elected to measure any existing financial instruments at fair value. However, it may elect to measure newly acquired financial instruments at fair value in the future.

Fair values are measured using independent pricing models or other model-based valuation techniques such as appraised values, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss assumptions. The Organization does not have any assets or liabilities that are valued using Level 2 inputs.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in Accounting Principle – Adoption of ASU 2016-14

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statement of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has implemented ASU 2016-14 and has adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented, except for the liquidity and availability disclosure, which is only for 2019, as allowed by the standard.

NOTE 2 LIQUIDITY AND AVAILABILITY

The Organization regularly monitors the availability of resources required to meet its operating needs and other contractual commitments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities to be general expenditures.

The following table reflects the Organization's financial assets of June 30, 2019, available to meet general expenditures within one year of the consolidated statement of financial position date.

Financial Assets at Year-End:	
Cash and Cash Equivalents	$ 1,696,158
Grants Receivable	257,438
Pledges Receivable	57,000
Other Receivables	329,649
Investments in Securities	8,527,183
Nonforgiveable Mortgage Notes Receivable	15,603,609
Total Financial Assets	26,471,037
Less: Those Unavailable for General Expenditures Within One Year, Due to Maturities Greater than One Year:	
Nonforgiveable Mortgage Notes Receivable	(13,689,646)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	$ 12,781,391

At June 30, 2019, $2,409,122 of net assets with donor restrictions were restricted for home construction, the primary program of the Organization, therefore these net assets are available for the general operational needs of the Organization.

NOTE 3 PLEDGE RECEIVABLES

Contributions receivable include pledges that have been discounted at 1.6% during June 30, 2019 and 2018, respectively. The following is a summary of the Organization's pledge receivables at June 30:

	2019	2018
Total amounts due in:		
One Year	$ 57,000	$ 120,000
Two to Five Years	-	25,000
Gross Contributions Receivable	57,000	145,000
Less Allowance for Doubtful Accounts	-	-
Less Discount to Present Value	-	(1,304)
Pledges Receivable, Net	$ 57,000	$ 143,696

The pledge receivable balance as of June 30, 2019 and 2018 was due from one and two contributors, respectively.

NOTE 4 INVENTORY – HABITAT RESTORE

The Organization operates four discount home improvement centers (ReStores) in Phoenix, Peoria, Tempe, and Anthem. The ReStores receive donations of building supplies, furniture, and appliances and sell these items to the general public. The donated items are recorded in the consolidated statements of activities at their fair market value. The fair market value is determined by the selling price for that item. Total inventory at June 30, 2019 and 2018 consisted of the following:

	2019	2018
Donated Goods	$ 301,802	$ 280,842
Purchased Goods	609,469	447,466
Total Inventory - Habitat ReStore	$ 911,271	$ 728,308

NOTE 5 DEFERRED GIFTS RECEIVABLE

At June 30, 2019 and 2018, the Organization had amounts due from estates and trusts totaling $133,149 and $142,716, respectively.

NOTE 6 INVESTMENTS IN SECURITIES

The estimated market value of investments at June 30, 2019 and 2018 is as follows:

	2019	2018
Cash	$ 2,169	$ 7,380
Mutual Funds	259,313	236,924
Government Money Fund	4,591,291	-
Pooled Investments	3,674,410	3,617,731
Total	$ 8,527,183	$ 3,862,035

NOTE 7 EQUITY METHOD INVESTMENTS

Equity method investments consist of investments in two community development entities (CDEs), namely CCML Leverage II, LLC and Habitat Central AZ Leverage I, LLC. The Organization made investments in these entities during the year ended June 30, 2013. The CDEs participate in the New Markets Tax Credit (NMTC) program, which was established as part of the Community Renewal Tax Relief Act of 2000.

The goal of the NMTC program is to spur revitalization efforts of low-income and impoverished communities across the United States and its Territories by providing tax credit incentives to investors in a certified community development entity. The tax credit for investors equals 39% of the investment, which is credited over a seven-year period. A community development entity is required to participate and has a primary mission of providing financing for revitalization projects in low-income communities.

NMTC financing allows organizations such as affiliates of Habitat International to receive low-interest loans or investment capital from community development entities, primarily financial institutions, which will allow their investors to receive tax credits. As a result of participation in the NMTC program, the Organization has obtained low interest rate loans. The loans are guaranteed by Smith NMTC Associates, LLC, which also provides administrative support for the NMTC program on behalf of affiliates participating in the NMTC program.

Transactions with the CDEs for the years ending June 30, 2019 and 2018 are as follows:

CCML Leverage II, LLC

On August 30, 2012, the Organization contributed $100,000 in cash and construction in process valued at $1,330,133 for a 16.7% membership interest in CCML Leverage II, LLC. In addition, the Organization has a note payable to an affiliate of CCML Leverage II, LLC. The balance of the note was $1,880,000 at June 30, 2019 and 2018. This investments is classified as equity method as a matter of consistency with other NMTC arrangements.

NOTE 7 EQUITY METHOD INVESTMENTS (CONTINUED)

Habitat Central AZ Leverage I, LLC

On May 2, 2013, the Organization contributed $197,500 in cash and construction in process valued at $3,193,797 for 99% membership interest in Habitat Central AZ Leverage I, LLC. In addition, the Organization has a note payable to an affiliate of Habitat Central AZ Leverage I, LLC. The balance of the note was $4,702,500 at June 30, 2019 and 2018.

The Organization's activity in equity method investments consist of the following for the years ended June 30, 2019 and 2018:

	2019	2018
Equity Method Investments - Beginning of Year	$ 4,929,816	$ 4,905,004
Change in Value	24,814	24,812
Equity Method Investments - End of Year	$ 4,954,630	$ 4,929,816

The change in value of equity method investments is included in other revenue on the accompanying consolidated statements of activities.

The major assets of CCML Leverage II, LLC, and Habitat Central Arizona Leverage I, LLC at June 30, 2019 and 2018 were as follows:

	June 30, 2019		June 30, 2018	
	CCML Leverage II, LLC	Habitat Central Arizona Leverage I, LLC	CCML Leverage II, LLC	Habitat Central Arizona Leverage I, LLC
Assets:				
Notes Receivable	$ 15,735,842	$ 3,391,299	$ 15,735,842	$ 3,391,299
Other Assets	1,740,831	-	1,467,814	-
Total Assets	$ 17,476,673	$ 3,391,299	$ 17,203,656	$ 3,391,299

At June 30, 2019 and 2018, both CCML Leverage II, LLC and Habitat Central Arizona Leverage I, LLC had no liabilities and minimal activity for the years ended June 30, 2019 and 2018.

Subsequent to year-end, the seven-year tax credit period for the investors ended and CCML Leverage II, LLC, and Habitat Central Arizona Leverage I, LLC were liquidated.

NOTE 8 HOMES UNDER CONSTRUCTION

Homes currently under construction consist of:

	2019	2018
Homes Under Construction	$ 2,395,687	$ 3,056,469
Less: Loss on Impairment	(39,820)	(103,143)
Homes Under Construction, Net	$ 2,355,867	$ 2,953,326

NOTE 9 LAND HELD FOR DEVELOPMENT

Land held for development consists of:

	2019	2018
Land Held for Development	$ 1,419,369	$ 708,439

Land held for development includes an estimated 15 lots in Glendale, Phoenix, Mesa, Eloy, and Arizona City.

Land improvements represent the costs of preparing the land for development, which includes utilities and sewer connections, streets, sidewalks, and streetlights. A portion of land improvements are allocated to the homes when sold.

NOTE 10 PROPERTY AND EQUIPMENT

Property and equipment consists of:

	2019	2018
Buildings and Improvements	$ 2,659,027	$ 2,615,372
Furniture and Equipment	639,877	623,631
Vehicles	431,044	347,512
Total	3,729,948	3,586,515
Less Accumulated Depreciation	(1,350,502)	(1,247,128)
Property and Equipment, Net	$ 2,379,446	$ 2,339,387

Depreciation expense charged to operations was $183,213 and $136,790 as of June 30, 2019 and 2018, respectively.

NOTE 11 NONFORGIVABLE MORTGAGE NOTES RECEIVABLE

A home is considered sold when a formal closing transaction has been finalized. Homes are sold for market value with a nonforgivable (first) mortgage that approximates the cost to construct. Contract periods span 20 to 30 years, and monthly payments are no greater than 30% of the family’s income at the time of sale.

NOTE 11 NONFORGIVEABLE MORTGAGE NOTES RECEIVABLE (CONTINUED)

The mortgage loans receivable are noninterest-bearing mortgages. If the first mortgage on a home is less than market value, the Organization may obtain a subordinate forgivable mortgage(s) for the difference between the first mortgage and market value. Since the subordinate mortgage is expected to be forgiven, it is assumed to have no economic value and, accordingly, is not recognized in the Organization's consolidated financial statements. At June 30, 2019 and 2018, the nonforgivable mortgage notes receivable balances are as follows:

	2019	2018
Face Value	$ 28,858,408	$ 26,295,816
Less Unamortized Discount	(13,254,799)	(11,790,169)
Net Present Value	$ 15,603,609	$ 14,505,647

Annual collection of the nonforgivable mortgage notes receivable net of the unamortized discount at June 30, 2019 are due as follows:

Year Ending June 30,	Amount
2020	$ 1,913,963
2021	1,874,157
2022	1,832,516
2023	1,793,469
2024	1,759,020
Thereafter	19,685,283
Total	$ 28,858,408

The following table shows the homogeneous loan portfolio segments allocated by payment activity. Loans are deemed performing if they are less than 90 days delinquent:

	Consumer Credit Risk Profile by Payment Activity
Payment Activity:	
Performing	$ 27,879,793
Nonperforming	978,615
Total	$ 28,858,408

NOTE 11 NONFORGIVEABLE MORTGAGE NOTES RECEIVABLE (CONTINUED)

The following table shows an aging analysis of nonforgivable mortgage notes receivable by time past due at June 30, 2019 and 2018:

	2019			
	Current	30-89 Days Past Due	90 Days or More Past Due	Total
Nonforgivable Mortgage Notes Receivable	$ 26,421,118	$ 1,458,675	$ 978,615	$ 28,858,408

	2018			
	Current	30-89 Days Past Due	90 Days or More Past Due	Total
Nonforgivable Mortgage Notes Receivable	$ 23,902,937	$ 1,422,325	$ 970,554	$ 26,295,816

NOTE 12 TRANSFERRED MORTGAGES RECEIVABLE

For mortgages receivable that were transferred to a bank as of the years ended June 30, 2019 and 2018 (Note 1), the mortgage balances are as follows:

	2019	2018
Face Value	$ 2,447,809	$ 2,741,962
Less Unamortized Discount	(597,085)	(701,946)
Net Present Value	$ 1,850,724	$ 2,040,016

Annual collection of the transferred mortgage notes receivable net of the unamortized discount at June 30, 2019 are due as follows:

Year Ending June 30,	Amount
2020	$ 229,704
2021	230,424
2022	230,664
2023	230,664
2024	230,664
Thereafter	1,295,689
Total	$ 2,447,809

NOTE 12 TRANSFERRED MORTGAGES RECEIVABLE (CONTINUED)

The following table shows an aging analysis of first mortgages receivable by time past due at June 30, 2019 and 2018:

	2019			
	Current	30-89 Days Past Due	90 Days or More Past Due	Total
Transferred Mortgages Receivable	$ 2,325,918	$ 54,750	$ 67,141	$ 2,447,809

	2018			
	Current	30-89 Days Past Due	90 Days or More Past Due	Total
Transferred Mortgages Receivable	$ 2,670,161	$ -	$ 71,801	$ 2,741,962

NOTE 13 MORTGAGE RECEIVABLES HELD AS COLLATERALIZATION

On May 09, 2019, HFHCA Funding Company, LLC acquired, under purchase agreement from the Organization, 39 mortgages receivable with principal balances totaling $5,000,075. To fund the purchase of these subject mortgages, HFHCA Funding authorized the issuance of a promissory note secured by the mortgages and entered into a note purchase agreement with Northern Trust Bank for the securitized note. See Note 14 for the terms and outstanding balance of the Note payable at June 30, 2019. Under the securitization and collateralized loan transaction, if one of the collateralized mortgage loans becomes nonperforming, HFHCA Funding is obligated to purchase that loan out of the collateral pool or substitute a substantially similar mortgage loan.

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

NOTE 14 NOTES PAYABLE

Notes payable consists of:

Description	2019	2018
<u>Notes Payable to Banks and Financial Institutions</u>		
Loan payable to Nordstrom in the amount of $300,000. The proceeds from the loan are to be used solely for the neighborhood revitalization program. The note is payable in principal payments of $100,000 in year two, $100,000 in year five and $100,000 in year seven. The loan bore interest at 3-5%, and was repaid during the year ended June 30, 2019.	$ -	$ 100,000
On May 9, 2019, HFHCA Funding Company, LLC established a secured promissory note due to Northern Trust in the principle amount of $5,000,075. The note is noninterest bearing until maturity at April 1, 2047. Monthly principal payments began June 2019 in the amount of $20,848. Outstanding principal at June 30, 2019 amounts to $4,479,227. The note is collateralized by mortgages as described in Note 13.	4,979,227	-
Promissory note payable to CCM Community Development XXVII, LLC, a related party, (Note 7) in the amount of $1,880,000. Interest only payments are due semi-annually. Commencing in November 2020, principal payments are due semi-annually in an amount sufficient to fully amortize the remaining principal over the remaining eight years. The note bears interest at 0.7608% and matures in July 2028.	1,880,000	1,880,000
Promissory note payable to Enterprise Financial CDE, LLC, a related party, (Note 7) in the amount of $4,702,500. Interest only payments are due semi-annually. Commencing in September 2019, principal payments are due semi-annually in an amount sufficient to fully amortize the remaining principal over the remaining 7.5 years. The note bears interest at 0.7224% and matures in April 2028.	4,702,500	4,702,500

NOTE 14 NOTES PAYABLE (CONTINUED)

Description	2019	2018
Notes Payable to Habitat for Humanity International		
Promissory note payable to Habitat for Humanity International, Inc. as part of the SHOP. The proceeds from the note are required to be used for infrastructure costs. The note is payable in 47 monthly installments of principal of $546 and a final payment of $588. The note matures in January 2020. The note does not bear interest.	$ 6,594	$ 13,146
Promissory note payable to Habitat for Humanity International, Inc. as part of the SHOP. The proceeds from the note are required to be used for infrastructure costs. The note is payable in 47 monthly installments of principal of $156, with a final payment of $168. The note matures in July 2020. The note does not bear interest.	1,884	3,756
Total	11,570,205	6,699,402
Less: Discount on Noninterest Bearing Notes	(2,025,326)	-
Less: Unamortized Debt Issuance Costs	(137,939)	(169,093)
Total Notes Payable	$ 9,406,940	$ 6,530,309

Annual maturities of the notes payable outstanding at June 30, 2019 are as follows:

Year Ending June 30,	Amount
2020	$ 258,648
2021	250,170
2022	250,170
2023	250,170
2024	250,170
Thereafter	10,310,877
Total	$ 11,570,205

NOTE 15 CONTRIBUTION TO HABITAT FOR HUMANITY INTERNATIONAL, INC.

The Organization contributes 10% of the Organization's unrestricted annual cash contributions to Habitat for Humanity International for their international housing programs. In addition, the Organization pays a stewardship fee to Habitat for Humanity International as well. For the years ended June 30, 2019 and 2018, contributions and stewardship fees to Habitat for Humanity International were $150,910 and $202,778, respectively.

NOTE 16 OPERATING LEASES

The Organization leases buildings and equipment under various operating lease agreements expiring in various years through November 2027.

Future minimum rental payments under operating leases having remaining terms in excess of one year at June 30, 2019 are as follows:

Year Ending June 30,	Amount
2020	$ 477,722
2021	530,839
2022	546,737
2023	559,736
2024	367,649
Thereafter	750,055
Total Minimum Lease Payments	$ 3,232,738

In the normal course of business, operating leases are generally renewed or replaced by other leases. Total rental expense for operating leases with terms in excess of one month was $707,228 and $617,540 for the years ended June 30, 2019 and 2018, respectively.

NOTE 17 NET ASSETS

Net Assets With Donor Restrictions

Net assets with donor restriction are available for the following purposes or periods at June 30, 2019 and 2018:

	2019	2018
Subject to Expenditure for Specified Purpose:		
Home Construction	$ 2,409,122	$ 1,905,973
Endowments:		
Assets Held Under Split Interest Agreements Restricted to Endowment	121,580	123,716
Total Donor Restricted Net Assets	$ 2,530,702	$ 2,029,689

NOTE 18 RETIREMENT PLANS

The Organization established a 401(k) retirement savings plan (tax-deferred annuity) for its employees. The Organization makes its employees aware of the plan, withholds voluntary contributions from paychecks, and remits the contributions to an independent trustee. Each participant may contribute his or her eligible compensation on a pretax basis to the plan up to a maximum allowed by the Internal Revenue Code. Total employer contributions to the plan were $125,523 and $115,712 for the years ended June 30, 2019 and 2018, respectively.

NOTE 19 FAIR VALUE MEASUREMENTS

The Organization uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. For additional information on how the Organization measures fair value, refer to Note 1. The Organization has assets that are valued using the Level 1 and Level 3 inputs, there are no assets or liabilities valued using Level 2 inputs as of June 30, 2019 and 2018.

The following table presents the fair value hierarchy for the balances of the assets of the Organization measured at fair value on a recurring basis as of June 30, 2019 and 2018:

	2019			
	Level 1	Level 2	Level 3	Total
Assets:				
Deferred Gifts Receivable	$ -	$ -	$ 133,149	$ 133,149
Mutual Funds	259,313	-	-	259,313
Government Money Fund	4,591,291	-	-	4,591,291
Pooled Investments	-	-	3,674,410	3,674,410
Total	$ 4,850,604	$ -	$ 3,807,559	$ 8,658,163

	2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Deferred Gifts Receivable	$ -	$ -	$ 142,716	$ 142,716
Mutual Funds	236,924	-	-	236,924
Pooled Investments	-	-	3,617,731	3,617,731
Total	$ 236,924	$ -	$ 3,760,447	$ 3,997,371

<u>Level 3 Assets and Liabilities</u>

The following table provides a summary of changes in value of the Organization's Level 3 financial assets measured on a recurring basis for the years ended June 30, 2019 and 2018:

	Deferred Gifts Receivable		Pooled Investments	
	2019	2018	2019	2018
Beginning Balance	$ 142,716	$ 148,508	$ 3,617,731	$ -
Proceeds from Deferred Gifts	(12,435)	(12,211)	-	-
Purchases of Pooled Investments	-	-	-	3,617,731
Change in Value	2,868	6,419	56,679	-
Total	$ 133,149	$ 142,716	$ 3,674,410	$ 3,617,731

NOTE 20 SUBSEQUENT EVENTS

Subsequent to year-end, the Organization entered into an agreement to purchase a new building for $1.7 million. The purchase is expected to close in January 2020.