HABITAT FOR HUMANITY CENTRAL ARIZONA

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

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HABITAT FOR HUMANITY CENTRAL ARIZONA
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2023 AND 2022

INDEPENDENT AUDITORS' REPORT	**1**
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED BALANCE SHEETS	**4**
CONSOLIDATED STATEMENTS OF ACTIVITIES	**5**
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES	**7**
CONSOLIDATED STATEMENTS OF CASH FLOWS	**9**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	**10**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Habitat for Humanity Central Arizona
Phoenix, Arizona

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Habitat for Humanity Central Arizona (a nonprofit organization), which comprise the consolidated balance sheets as of June 30, 2023 and 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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, 2023 and 2022, 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2023 the Organization adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-of-use asset and corresponding liability for all operating and finance leases with lease terms greater than one year. Our opinion is not modified with respect to this matter.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Habitat for Humanity Central Arizona and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Habitat for Humanity Central Arizona's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Habitat for Humanity Central Arizona's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Habitat for Humanity Central Arizona's ability to continue as a going concern for a reasonable period of time.

Board of Directors
Habitat for Humanity Central Arizona

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
November 29, 2023

HABITAT FOR HUMANITY CENTRAL ARIZONA
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2023 AND 2022

	2023	2022
ASSETS		
Cash and Cash Equivalents	$ 841,878	$ 2,027,404
Grants Receivable	734,709	387,131
Pledges Receivable	1,376,134	1,627,820
Other Receivables	925,784	419,280
Prepaid Expenses and Other Assets	392,799	382,883
Inventory - Habitat ReStore	1,717,041	1,382,508
Deferred Gifts Receivable	126,828	121,910
Investments in Securities	9,961,910	13,849,178
Homes Under Construction	3,268,152	3,968,049
Land Held for Development	5,131,421	3,842,643
Property and Equipment, Net	4,485,639	4,516,250
Nonforgivable Mortgage Notes Receivable	18,179,527	18,039,914
Transferred Mortgages Receivable	1,058,520	1,245,483
Right-of-Use Assets - Operating	4,275,502	-
Total Assets	$ 52,475,844	$ 51,810,453
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	$ 1,369,671	$ 1,902,303
Due to Habitat International, Inc.	21,272	139,379
Transferred Mortgages Liability	1,065,677	1,264,848
Deferred Revenue	50,475	256,060
Notes Payable, Net	4,941,356	5,520,811
Lease Liability - Operating	4,560,306	-
Total Liabilities	12,008,757	9,083,401
NET ASSETS		
Without Donor Restriction	37,019,067	36,818,417
With Donor Restriction	3,448,020	5,908,635
Total Net Assets	40,467,087	42,727,052
Total Liabilities and Net Assets	$ 52,475,844	$ 51,810,453

See accompanying Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY CENTRAL ARIZONA
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2023 AND 2022

	2023		
	Without Donor Restrictions	With Donor Restriction	Total
OPERATING REVENUES AND SUPPORT			
Contributions	$ 2,236,132	$ 3,001,676	$ 5,237,808
In-Kind Contributions	33,561	170,955	204,516
Sales of Completed Homes	5,417,700	-	5,417,700
Discounts on New Home Mortgages	(3,079,748)	-	(3,079,748)
Amortization of Mortgage Discounts	1,534,588	-	1,534,588
Grants	-	1,072,483	1,072,483
Investment Return	456,004	-	456,004
Home Repair Program	1,638,593	-	1,638,593
ReStore Sales (Net of Operating Expenses of $7,374,669 and $7,997,148, Respectively)	170,679	-	170,679
Special Events (Net of Direct Expense of $188,677 and $118,514, Respectively)	514,592	-	514,592
Other Revenue	56,260	-	56,260
Total	8,978,361	4,245,114	13,223,475
Net Assets Released from Restrictions	6,710,647	(6,710,647)	-
Total Operating Revenue and Support	15,689,008	(2,465,533)	13,223,475
OPERATING EXPENSES			
Program Services	13,771,502	-	13,771,502
Management and General	1,616,997	-	1,616,997
Fundraising	1,135,477	-	1,135,477
Total Operating Expenses	16,523,976	-	16,523,976
OPERATING INCREASE (DECREASE) IN NET ASSETS	(834,968)	(2,465,533)	(3,300,501)
NONOPERATING ACTIVITIES			
Gain (Loss) on Sale of Mortgages	977,249	-	977,249
Gain on Sale of Land	30,789	-	30,789
Other Gains (Losses)	22,260	-	22,260
Change in Deferred Gifts	5,320	4,918	10,238
NONOPERATING INCREASE IN NET ASSETS	1,035,618	4,918	1,040,536
CHANGE IN NET ASSETS	200,650	(2,460,615)	(2,259,965)
Net Assets - Beginning of Year	36,818,417	5,908,635	42,727,052
NET ASSETS - END OF YEAR	$ 37,019,067	$ 3,448,020	$ 40,467,087

See accompanying Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY CENTRAL ARIZONA
CONSOLIDATED STATEMENTS OF ACTIVITIES (CONTINUED)
YEARS ENDED JUNE 30, 2023 AND 2022

2022		
Without Donor Restrictions	With Donor Restriction	Total
$ 10,729,079	$ 3,247,509	$ 13,976,588
81,248	354,305	435,553
5,786,139	-	5,786,139
(3,129,658)	-	(3,129,658)
1,710,580	-	1,710,580
-	522,611	522,611
(784,561)	-	(784,561)
1,242,281	-	1,242,281
198,460	-	198,460
220,067	-	220,067
551,697	-	551,697
16,605,332	4,124,425	20,729,757
4,326,567	(4,326,567)	-
20,931,899	(202,142)	20,729,757
11,274,245	-	11,274,245
2,034,923	-	2,034,923
925,748	-	925,748
14,234,916	-	14,234,916
6,696,983	(202,142)	6,494,841
(17,372)	-	(17,372)
54,140	-	54,140
15,421	-	15,421
5,187	(19,111)	(13,924)
57,376	(19,111)	38,265
6,754,359	(221,253)	6,533,106
30,064,058	6,129,888	36,193,946
$ 36,818,417	$ 5,908,635	$ 42,727,052

See accompanying Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY CENTRAL ARIZONA
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2023

	Program Services	Support Services: Management and General	Support Services: Fundraising	Subtotal	ReStore Operating Costs	Total
Cost of Home Sales	$ 6,193,112	$ -	$ -	$ 6,193,112	$ -	$ 6,193,112
Cost of Home Repairs	3,688,848	-	-	3,688,848	-	3,688,848
Transfers to Construction in Progress	(1,361,374)	-	-	(1,361,374)	-	(1,361,374)
Other	163,523	483,443	551,799	1,198,765	149,586	1,348,351
Salaries	2,290,474	1,224,553	762,015	4,277,042	1,578,365	5,855,407
Payroll Taxes and Employee Benefits	563,490	277,915	191,472	1,032,877	351,580	1,384,457
Cost of Goods Sold	-	-	-	-	3,708,768	3,708,768
Occupancy	-	58,816	-	58,816	1,011,771	1,070,587
Other Taxes and Insurance	161,775	68,094	991	230,860	80,656	311,516
Interest and Amortization	-	300,082	-	300,082	-	300,082
Depreciation and Amortization	41,819	82,246	157	124,222	239,256	363,478
Equipment and Maintenance	155,726	67,524	-	223,250	122,993	346,243
Mortgage Servicing	130,054	-	-	130,054	-	130,054
Special Mailings	-	-	49,023	49,023	-	49,023
Audit and Accounting	-	68,803	-	68,803	-	68,803
Telephone	10,323	31,279	2,523	44,125	14,312	58,437
Travel and Conference	100,854	73,164	15,367	189,385	14,104	203,489
Office Supplies	15,036	35,670	7,726	58,432	21,755	80,187
Legal	29,096	14,843	-	43,939	-	43,939
Postage and Shipping	86	6,327	58	6,471	40,469	46,940
Contributions to Habitat for Humanity International, Inc.	196,975	-	-	196,975	-	196,975
Overhead Applied	1,391,685	(1,175,762)	(256,977)	(41,054)	41,054	-
Total	13,771,502	1,616,997	1,324,154	16,712,653	7,374,669	24,087,322
Special Event Expense	-	-	(188,677)	(188,677)	-	(188,677)
Total Functional Expenses	$ 13,771,502	$ 1,616,997	$ 1,135,477	$ 16,523,976	$ 7,374,669	$ 23,898,645

See accompanying Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY CENTRAL ARIZONA
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2022

	Program Services	Support Services: Management and General	Support Services: Fundraising	Subtotal	ReStore Operating Costs	Total
Cost of Home Sales	$ 4,682,139	$ -	$ -	$ 4,682,139	$ -	$ 4,682,139
Cost of Home Repairs	2,697,555	-	-	2,697,555	-	2,697,555
Transfers to Construction in Progress	(1,161,578)	-	-	(1,161,578)	-	(1,161,578)
Other	178,458	972,708	344,959	1,496,125	224,498	1,720,623
Salaries	2,175,449	1,098,624	703,943	3,978,016	1,725,271	5,703,287
Payroll Taxes and Employee Benefits	501,412	237,386	184,808	923,606	393,556	1,317,162
Cost of Goods Sold	-	-	-	-	3,853,710	3,853,710
Occupancy	-	102,902	-	102,902	1,204,051	1,306,953
Other Taxes and Insurance	155,093	59,326	1,018.00	215,437	93,489	308,926
Interest and Amortization	-	318,646	-	318,646	-	318,646
Depreciation and Amortization	37,154	74,660	630	112,444	235,987	348,431
Equipment and Maintenance	152,427	57,728	-	210,155	122,080	332,235
Mortgage Servicing	104,152	-	-	104,152	-	104,152
Special Mailings	-	-	53,644	53,644	-	53,644
Audit and Accounting	-	45,029	-	45,029	-	45,029
Telephone	10,598	28,443	2,241	41,282	18,102	59,384
Travel and Conference	70,933	56,525	12,080	139,538	22,136	161,674
Office Supplies	19,017	20,748	6,224	45,989	20,559	66,548
Legal	56,260	20,121	-	76,381	-	76,381
Postage and Shipping	247	5,278	483	6,008	58,579	64,587
Contributions to Habitat for Humanity International, Inc.	291,090	-	-	291,090	-	291,090
Overhead Applied	1,303,839	(1,063,201)	(265,768)	(25,130)	25,130	-
Total	11,274,245	2,034,923	1,044,262	14,353,430	7,997,148	22,350,578
Special Event Expense	-	-	(118,514)	(118,514)	-	(118,514)
Total Functional Expenses	$ 11,274,245	$ 2,034,923	$ 925,748	$ 14,234,916	$ 7,997,148	$ 22,232,064

See accompanying Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY CENTRAL ARIZONA
CONSOLIDATED STATEMENTS OF CASH FLOWS
JUNE 30, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ (2,259,965)	$ 6,533,106
Adjustment to Reconcile Change in Net Assets to Net Cash and Cash Equivalents Provided (Used) by Operating Activities:		
Depreciation and Amortization	363,478	348,431
Interest and Amortization	291,916	160,004
Amortization of Right-of-Use Asset	416,058	-
Forgiveness of Long-Term Debt	(291,499)	(376,499)
Gain on Disposal of Property and Equipment	(12,455)	(848)
(Gain) Loss on Sale of Land Available for Sale	(30,789)	(54,140)
(Gain) Loss on Investments	(207,065)	895,788
Amortization of Mortgages Receivable Discount	(1,534,588)	(1,710,580)
Discount on Notes Payable	-	98,065
Change in Deferred Gift	(10,238)	13,924
Increase (Decrease) in Assets:		
Grant Receivables	(347,578)	(19,843)
Pledges Receivable	251,686	1,455,533
Other Receivables	(506,504)	(44,592)
Prepaids	(9,916)	(16,477)
Inventory - Habitat ReStore	(334,533)	(316,759)
Deferred Gifts Receivable	5,320	5,187
Homes Under Construction	730,686	(1,475,273)
Homes Available for Sale	(2,098,672)	(2,237,912)
Land Held for Development	(1,487,949)	(2,283,197)
(Increase) Decrease in Liabilities:		
Accounts Payable	(270,560)	613,564
Due to Habitat International, Inc.	(118,107)	133,992
Deferred Revenue	(205,585)	211,190
Lease Liability - Operating	(393,326)	-
Net Cash Provided (Used) by Operating Activities	(8,060,185)	1,932,664
CASH FLOWS FROM INVESTING ACTIVITIES		
Mortgages Sold, Net of Discounts	817,328	-
Purchases of Property and Equipment	(335,720)	(165,822)
Proceeds from Sale of Property and Equipment	15,308	4,115
Purchase of Investments in Securities	(396,940)	(3,790,036)
Proceeds from Sale of Investments in Securities	4,491,273	1,119,340
Payments Received on Mortgages Receivable	2,863,282	3,270,558
Net Cash Provided by Investing Activities	7,454,531	438,155
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Long-Term Debt	-	364,819
Payments on Long-Term Debt	(579,872)	(1,894,954)
Net Cash Used by Financing Activities	(579,872)	(1,530,135)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,185,526)	840,684
Cash and Cash Equivalents - Beginning of Year	2,027,404	1,186,720
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 841,878	$ 2,027,404
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	$ 11,088	$ 51,150

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 (IRC).

On January 8, 2020, Habitat filed articles of organization with the state of Arizona to form its wholly owned subsidiary 2830 West Glendale Avenue, LLC (West Glendale). West Glendale's purpose was to hold and maintain a new building for the Organization. An agreement and purchase were completed on January 15, 2020. As a single member LLC, the Organization is disregarded for purposes of the IRC.

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.

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.

Nonoperating activities include all noncash activities relating to deferred gifts, other income, and debt. Also included in the nonoperating activities were the gains on the sale of land and the sale of mortgages.

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.

Grants Receivable

Grants receivable primarily consist of construction cost reimbursements from the Federal Home Loan Bank (FHLB). 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, 2023 and 2022, 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.

Leases

The Organization determines if an arrangement is a lease at inception. Operating leases are included in right-of-use (ROU) assets – operating and lease liability – operating, and finance leases are included in ROU assets – financing and lease liability – financing in the consolidated statements of financial position.

ROU assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent the Organization's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Foundation will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease terms. The Organization has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right of use assets on the consolidated statements of financial position.

The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, the Organization has elected to use a risk-free discount rate determined using a period comparable with that of the lease term for computing the present value of lease liabilities.

The Organization has elected not to separate nonlease components from lease components and instead accounts for each separate lease component and the nonlease component as a single lease component.

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, 2023 and 2022, investments consisted of cash, mutual funds, and pooled investments consisting of stocks and bonds.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. At June 30, 2023 and 2022, no impairment loss was deemed necessary by management. 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 2023 or 2022.

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

Revenue Recognition

Contributions

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 statements of activities as “Net Assets Released from Restrictions.”

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Contributions (Continued)

Unconditional promises to give (pledges receivable) are recognized when the pledges are received in writing or when cash is received. Pledges receivable due within the next fiscal year are reflected as current receivables, while pledges due after one year are reflected as long-term receivables. An allowance for uncollectible pledges is provided based on management's evaluation of potential uncollectible pledges receivable at year-end. Management's evaluation may change based on future economic conditions and collection results. Long-term pledges receivable are carried at net present value.

Conditional promises to give are not recognized as contribution revenue and receivables until the conditions have been substantially met. Conditional promises outstanding for the years ended June 30, 2023 and 2022 was $4,459,005 and $2,162,902, respectively.

Grant revenues include grants that may be either contribution or exchange type transactions. Revenue is recognized for contribution grants as the conditions are met. Grant that are exchange based transactions are recognized as revenue as the services are provided over the grant period.

Donated Goods, 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, 2023 and 2022 to be $1,625,013 and $2,204,778, respectively, representing 51,101 and 73,615 volunteer service hours, respectively.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Home 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.

The Organization enters into contracts with customers to build homes, which are short-term contracts allowing for the satisfaction of all performance obligations in less than a year. Management has determined that the performance obligations under these contracts are highly interdependent and interrelated and are treated as a single performance obligation satisfied point in time when the homeowner takes possession of the property and executes note agreement.

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 7.49% and 7.23% for the years ended June 30, 2023 and 2022, 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 the years ended June 30, 2023 and 2022, 15 and 18 homes, respectively, were sold by the Organization.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Home Repair

The Organization enters into contracts with homeowners and cities to repair homes through emergency home repair program. Contracts with homeowners are generally short-term contracts allowing for the satisfaction of all performance obligations in less than a year. Contracts with cities are generally long-term contracts allowing for the satisfaction of all performance obligations within twelve to twenty-four months. Management has determined that the performance obligations under these contracts are highly interdependent and interrelated and are treated as a single performance obligation satisfied over time. Homeowner contracts are recognized once scope of work has been completed. City contracts are recognized as allowable expenses are incurred.

ReStore Sales

ReStore sales are recognized at the time the goods are transferred to the customer, which occurs at a point in time.

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.

The Organization transferred for $1,794,577 home mortgages receivable to one financial institution during the year ended June 30, 2023. There were no new transfers during the year ended June 30, 2022.

Related liabilities for previous years' sales of $1,065,677 and $1,688,482 as of June 30, 2023 and 2022, respectively. The proceeds from the secured borrowings were used to pay down long-term debt and to build up cash reserves for future operations.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2023 and 2022, 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, 2023 and 2022.

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, 2023 and 2022.

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, 2023 and 2022 was $1,226 and $1,787 respectively. The accrued warranty reserve for homes was $3,163 and $6,191, 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2023 and 2022, escrow reserves totaled $52,100 and $35,920, 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.

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, 2023 and 2022:

	2023	2022
Total Administrative and Fundraising Costs	$ 2,752,474	$ 2,960,671
Less: ReStore Net (Income) Loss	(170,679)	(198,460)
Net Administrative and Fundraising Costs	$ 2,581,795	$ 2,762,211

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 IRC and, therefore, has no provision for federal income taxes. In addition, the Organization qualifies for the charitable contribution deduction under Section 170 of the IRC 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.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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.

Adoption of Accounting Pronouncement

In February 2016, The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. This new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Organization adopted the requirements of the guidance effective July 1, 2022, and has elected to apply the provisions of this standard to the beginning of the period of adoption.

The Organization has elected to adopt the package of practical expedients available in the year of adoption. The Organization has elected to adopt the available practical expedient to use hindsight in determining the lease term and in assessing impairment of the Organization's ROU assets.

Lease disclosures for the year ended June 30, 2022 are made under prior lease guidance in FASB ASC 840.

Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 29, 2023, the date the consolidated financial statements were available to be issued.

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, 2023 and 2022, available to meet general expenditures within one year of the consolidated statement of financial position date.

	2023	2022
Financial Assets at Year-End:		
Cash and Cash Equivalents	$ 841,878	$ 2,027,404
Grants Receivable	734,709	387,131
Pledges Receivable	1,376,134	1,627,820
Other Receivables	925,784	419,280
Investments in Securities	9,961,910	13,849,178
Nonforgivable Mortgage Notes Receivable	18,179,527	18,039,914
Total Financial Assets	32,019,942	36,350,727
Less: Those Unavailable for General Expenditures Within One Year, Due to Maturities Greater than One Year:		
Pledges Receivable	(625,000)	(1,000,000)
Nonforgivable Mortgage Notes Receivable	(16,016,602)	(15,910,189)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	$ 15,378,340	$ 19,440,538

At June 30, 2023 and 2022, $3,321,192 and $5,786,726, respectively, 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 PLEDGES RECEIVABLE

Contribution receivables include pledges that have been discounted at 5.4% and 0.0% during June 30, 2023 and 2022, respectively. The following is a summary of the Organization's pledges receivable at June 30:

	2023	2022
Total Amounts Due in:		
One Year	$ 795,800	$ 627,820
Two to Five Years	625,000	1,000,000
Gross Pledges Receivable	1,420,800	1,627,820
Less: Allowance for Doubtful Accounts	-	-
Less: Discount to Present Value	(44,666)	-
Pledges Receivable, Net	$ 1,376,134	$ 1,627,820

NOTE 3 PLEDGES RECEIVABLE (CONTINUED)

One donor made up 97% and 92% of the pledge receivable balance at June 30, 2023 and 2022, respectively. The long-term portion of pledge receivables have been discounted at 5.4% at June 30, 2023. The long-term portion of pledge receivables have been discounted at % at June 30, 2022.

NOTE 4 INVENTORY – HABITAT RESTORE

The Organization operates five 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 consisted of the following at June 30:

	2023	2022
Donated Goods	$ 370,859	$ 397,234
Purchased Goods	1,346,182	985,274
Total Inventory - Habitat ReStore	$ 1,717,041	$ 1,382,508

NOTE 5 DEFERRED GIFTS RECEIVABLE

At June 30, 2023 and 2022, the Organization had amounts due from estates and trusts totaling $126,828 and $121,910, respectively.

NOTE 6 INVESTMENTS IN SECURITIES

The estimated market value of investments is as follows at June 30:

	2023	2022
Cash	$ 2,155,747	$ 3,809,797
Mutual Funds	475,017	465,416
Government Money Fund	1,179,688	3,152,806
Bond ETF Fund	1,809,519	5,842,962
Fixed Income	3,635,457	-
Equities	678,862	551,352
Pooled Investments	27,620	26,845
Total	$ 9,961,910	$ 13,849,178

NOTE 7 HOMES UNDER CONSTRUCTION

Homes currently under construction consist of:

	2023	2022
Homes Under Construction	$ 3,307,972	$ 4,007,869
Less: Loss on Impairment	(39,820)	(39,820)
Homes Under Construction, Net	$ 3,268,152	$ 3,968,049

NOTE 8 LAND HELD FOR DEVELOPMENT

Land held for development consists of:

	2023	2022
Land Held for Development	$ 5,131,421	$ 3,842,643

Land held for development includes 16 and 18 lots in Arizona City, Glendale, Peoria, Phoenix, Surprise and Tempe, at June 30, 2023 and 2022, respectively.

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 9 PROPERTY AND EQUIPMENT

Property and equipment consist of:

	2023	2022
Buildings and Improvements	$ 5,404,589	$ 5,262,163
Furniture and Equipment	808,034	773,727
Vehicles	587,687	458,172
Construction in Progress	11,120	-
Total	6,811,430	6,494,062
Less: Accumulated Depreciation	(2,325,791)	(1,977,812)
Property and Equipment, Net	$ 4,485,639	$ 4,516,250

Depreciation expense charged to operations was $363,478 and $348,431 as of June 30, 2023 and 2022, respectively.

NOTE 10 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 40 years, and monthly payments are no greater than 30% of the family's income at the time of sale.

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, 2023 and 2022, the nonforgivable mortgage notes receivable balances are as follows:

	2023	2022
Face Value	$ 34,992,387	$ 34,273,536
Less: Unamortized Discount	(16,812,860)	(16,233,622)
Net Present Value	$ 18,179,527	$ 18,039,914

Annual collection of the nonforgivable mortgage notes receivable net of the unamortized discount at June 30, 2023 are due as follows:

Year Ending June 30,	Amount
2024	$ 2,162,925
2025	2,120,817
2026	2,038,840
2027	1,973,433
2028	1,911,131
Thereafter	24,785,241
Total	$ 34,992,387

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	$ 34,755,539
Nonperforming	236,848
Total	$ 34,992,387

NOTE 10 NONFORGIVABLE MORTGAGE NOTES RECEIVABLE (CONTINUED)

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

	2023			
	Current	30-89 Days Past Due	90 Days or More Past Due	Total
Nonforgivable Mortgage Notes Receivable	$ 34,091,254	$ 664,285	$ 236,848	$ 34,992,387

	2022			
	Current	30-89 Days Past Due	90 Days or More Past Due	Total
Nonforgivable Mortgage Notes Receivable	$ 33,051,639	$ 773,993	$ 447,904	$ 34,273,536

NOTE 11 TRANSFERRED MORTGAGES RECEIVABLE

For mortgages receivable that were transferred to a bank as of the years ended June 30, 2023 and 2022 (Note 1), the mortgage balances are as follows:

	2023	2022
Face Value	$ 1,317,575	$ 1,568,028
Less: Unamortized Discount	(259,055)	(322,545)
Net Present Value	$ 1,058,520	$ 1,245,483

Annual collection of the transferred mortgage notes receivable net of the unamortized discount at June 30, 2023 are due as follows:

Year Ending June 30,	Amount
2024	$ 187,318
2025	179,599
2026	146,000
2027	119,417
2028	116,692
Thereafter	568,549
Total	$ 1,317,575

NOTE 11 TRANSFERRED MORTGAGES RECEIVABLE (CONTINUED)

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

	2023			
	Current	30-89 Days Past Due	90 Days or More Past Due	Total
Transferred Mortgages Receivable	$ 1,317,575	$ -	$ -	$ 1,317,575

	2022			
	Current	30-89 Days Past Due	90 Days or More Past Due	Total
Transferred Mortgages Receivable	$ 1,512,105	$ 55,923	$ -	$ 1,568,028

NOTE 12 MORTGAGE RECEIVABLE HELD AS COLLATERALIZATION

On May 9, 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 13 for the terms and outstanding balance of the note payable. 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.

On October 29, 2020, HFHCA Funding Company, LLC acquired, under purchase agreement from the Organization, 31 mortgages receivable with principal balances totaling $3,019,052. 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 13 for the terms and outstanding balance of the note payable. 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.

On May 13, 2021, HFHCA Funding Company, LLC acquired, under purchase agreement from the Organization, 14 mortgages receivable with principal balances totaling $1,176,169. 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 Foothills Bank for the securitized note. See Note 13 for the terms and outstanding balance of the note payable. 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.

NOTE 12 MORTGAGE RECEIVABLE HELD AS COLLATERALIZATION (CONTINUED)

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 13 NOTES PAYABLE

Notes payable consists of:

Description	2023	2022
Notes Payable to Banks and Financial Institutions		
On May 9, 2019, HFHCA Funding Company, LLC established a secured promissory note due to Northern Trust in the principal 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. The note is collateralized by mortgages as described in Note 12.	$ 3,752,139	$ 4,040,959
On October 29, 2020, HFHCA Funding Company, LLC established a secured promissory note due to Northern Trust in the principal amount of $3,019,052. The note is noninterest bearing until maturity at February 1, 2049. Monthly principal payments began November 2020 in the amount of $14,547. The note is collateralized by mortgages as described in Note 12.	2,553,551	2,728,114
On May 13, 2021, HFHCA Funding Company, LLC established a secured promissory note due to Foothills Bank in the principal amount of $1,176,169. The note is noninterest bearing until maturity at January 20, 2044. Monthly principal payments begin July 2021 in the amount of $6,369. The note is collateralized by mortgages as described in Note 12.	980,750	1,099,736
Notes payable to the City of Glendale and City of Peoria to fund the acquisition of real property. The loans bear interest at 0%. The loans shall be deemed forgiven when to the property is transferred to an eligible home owner, as long as the Organization has constructed single-family residences, whose designs have been approved by the City, and are sold to low-income families.	-	291,499
Total	7,286,440	8,160,308
Less: Discount on Noninterest Bearing Notes	(2,199,952)	(2,485,458)
Less: Unamortized Debt Issuance Costs	(145,132)	(154,039)
Total Notes Payable	$ 4,941,356	$ 5,520,811

NOTE 13 NOTES PAYABLE (CONTINUED)

Annual maturities of the notes payable outstanding at June 30, 2023 are as follows:

Year Ending June 30,	Amount
2024	$ 483,179
2025	483,127
2026	474,181
2027	473,646
2028	467,231
Thereafter	4,905,076
Total	$ 7,286,440

NOTE 14 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, 2023 and 2022, contributions and stewardship fees to Habitat for Humanity International were $196,975 and $291,090, respectively.

As of June 30, 2023 and 2022, the amount due to Habitat for Humanity International was $21,272 and $139,379, respectively.

NOTE 15 LEASES

Lease Agreements - ASC 842

The Organization leases store facilities for various terms under long-term, noncancelable lease agreements. The leases expire at various dates through 2027.

Subsequent to year-end, the Organization entered into a three-copier lease starting in August 2023 and terminating in August 2028 for a total payment of $151,942.

The following tables provides quantitative information concerning the Organization's leases.

Lease Cost:	
Operating Lease Cost	$ 557,848
Other Information:	
Cash Paid for Amounts Included in the Measurement of Lease Liability:	
Operating Cash Flows from Operating Leases	$ 535,117
Right-of-Use assets obtained in exchange for new operating lease liabilities:	$ 4,691,560
Weighted- Average Remaining Lease Term - Operating Leases	11.8 year
Weighted-Average Discount Rate - Operating Leases	3.01%

NOTE 15 OPERATING LEASES (CONTINUED)

Lease Agreements - ASC 842 (Continued)

A maturity analysis of annual undiscounted cash flows for lease liabilities as of June 30, 2023 is as follows:

Year Ending December 31,	Amount
2024	$ 546,163
2025	500,031
2026	395,221
2027	403,237
2028	412,442
Thereafter	3,208,663
Undiscounted Cash Flows	5,465,757
(Less) Imputed Interest	(905,451)
Total Present Value	$ 4,560,306

Lease Agreements – ASC 840

The Foundation is obligated under various capital and operating leases for offices and equipment, which expire at various dates through November 2027. As of June 30, 2022, the total rent expense for all operating leases for the year ended June 30, 2022 totaled $1,172,893.

NOTE 16 NET ASSETS

Net Assets With Donor Restrictions

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

	2023	2022
Subject to Expenditure for Specified Purpose:		
Home Construction and Repairs	$ 3,321,192	$ 5,786,725
Endowments:		
Assets Held Under Split Interest Agreements Restricted to Endowment	126,828	121,910
Total Donor-Restricted Net Assets	$ 3,448,020	$ 5,908,635

NOTE 17 CONTRIBUTED NONFINANCIAL ASSETS

For the years ended June 30, 2023 and 2022, contributed nonfinancial assets recognized within the consolidated statement of activities included:

Type	2023	2022
Clothing and Household Goods (ReStore)	$ 2,731,806	$ 2,953,908
Real Estate - Rent	-	189,850
Other: Special Events	86,985	47,044
Other: Building Materials	170,955	354,305
Other: Gift Cards	210	788
Other: Legal Services	29,096	68,460
Other: Professional Services	4,255	12,000
Total Contributed Nonfinancial Assets	$ 3,023,307	$ 3,626,355

Donated clothing and household goods (ReStore) received by the Organization are sold in the ReStore stores in Greater Phoenix. The Organization estimates the value of donated clothing and household goods using the sale price of the goods.

Donated rent recognized by the Organization comprise a warehouse rented at no cost during the year ended June 30, 2022. Monthly donated rent fees were recorded at fair value based on the current rates of similar warehouses in the area.

Donated special event revenue recognized comprise donated items or services donated to the Organization to be sold during the live auction of the special event. Donated goods and services were valued and reported at the estimated fair value based on the current rates for similar goods and services.

Donated building materials received by the Organization are used to repair or build homes. The Organization estimates the value of donated building materials using purchase price of similar materials.

Donated services recognized comprise professional consulting services provided to the Organization. Donated services were valued and reported at the estimated fair value based on current rates for similar consulting services.

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 IRC. Total employer contributions to the plan were $167,255 and $159,468 for the years ended June 30, 2023 and 2022, 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, 2023 and 2022.

The following tables present 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:

	2023			
	Level 1	Level 2	Level 3	Total
Assets:				
Deferred Gifts Receivable	$ -	$ -	$ 126,828	$ 126,828
Mutual Funds	475,017	-	-	475,017
Government Treasuries	-	1,179,688	-	1,179,688
Bond ETF Fund	1,809,519	-	-	1,809,519
Fixed Income	-	3,635,457	-	3,635,457
Equities	678,862	-	-	678,862
Pooled Investments	-	-	27,620	27,620
Total	$ 2,963,398	$ 4,815,145	$ 154,448	$ 7,932,991

	2022			
	Level 1	Level 2	Level 3	Total
Assets:				
Deferred Gifts Receivable	$ -	$ -	$ 121,910	$ 121,910
Mutual Funds	465,416	-	-	465,416
Government Money Fund	3,152,806	-	-	3,152,806
Bond ETF Fund	5,842,962	-	-	5,842,962
Equities	551,352	-	-	551,352
Pooled Investments	-	-	26,845	26,845
Total	$ 10,012,536	$ -	$ 148,755	$ 10,161,291

Level 3 Assets

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:

	Deferred Gifts Receivable		Pooled Investments	
	2023	2022	2023	2022
Proceeds from Deferred Gifts	$ (5,320)	$ (5,187)	$ -	$ -
Purchases of Pooled Investments	-	-	-	-
Transfer Out	-	-	-	(4,244,610)
Change in Value	10,238	(13,924)	776	(67,473)
	$ 4,918	$ (19,111)	$ 776	$ (4,312,083)

NOTE 19 FAIR VALUE MEASUREMENTS (CONTINUED)

Level 3 Assets (Continued)

The following table describes the valuation techniques used to calculate fair value for assets in Level 3. There were no changes in valuation techniques and related inputs from the prior year.

	Fair Value at June 30, 2023	Fair Value at June 30, 2022	Valuation Technique	Unobservable Inputs
Deferred Gifts Receivable	$ 126,828	$ 121,910	Percentage Ownership	Value of Underlying Assets
Pooled Investments	27,620	26,845	Percentage Ownership	Value of Underlying Assets

NOTE 20 COMMITMENTS AND CONTINGENCIES

The Organization has a $1.5 million-dollar revolving line of credit available to be drawn upon. The line is secured by certain real property of the Organization and bears interest at prime plus 0.3% with a 5% floor (8.55% at June 30, 2023). The line expires on January 1, 2024. There were no outstanding draws on the line as of June 30, 2023 and 2022.

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