Keegan Linscott & Associates, PC

Certified Public Accountants
Certified Fraud Examiners
Certified Insolvency & Restructuring Advisors

HABITAT FOR HUMANITY TUCSON, INC.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Habitat for Humanity Tucson, Inc. ("the Organization") which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities and changes in net assets, cash flows and consolidated statements of expenses by function and nature 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.

Auditor's 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 auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the 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.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity Tucson, Inc. as of June 30, 2020 and 2019, 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.

Emphasis of Matters

Adoption of New Accounting Pronouncements

As discussed in Note 3 to the consolidated financial statements, in 2020, the Organization adopted ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, and ASU 2016-18*, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*. Our opinion is not modified with respect to these matters.

Change in Reporting Entity

As discussed in Note 1 to the consolidated financial statements, a change in reporting entity has been reflected in the consolidated financial statements as of and for the year ended June 30, 2020. Our opinion is not modified with respect to this matter.

Keegan Linscott & Associates, PC

Tucson, Arizona
November 12, 2020

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30,

	2020	2019
Assets		
Current assets		
Cash and cash equivalents (See Note 2)	$ 4,790,041	$ 1,850,929
Restricted cash (See Note 2)	1,772,079	1,074,811
Grants and contracts receivable	99,221	20,221
Pledges receivable, current portion	113,601	115,001
Notes receivable, current	3,639	53,427
Mortgages receivable net of discount, due within one year (See Note 7)	1,038,507	979,969
Inventories (See Note 5)	3,256,274	3,329,062
Prepaid expenses and other current assets	92,483	120,575
Total current assets	11,165,845	7,543,995
Property and equipment, net (See Note 6)	3,405,305	3,492,510
Pledges receivable	-	30,000
Notes receivable	121,872	76,021
Mortgages receivable net of discount, due after one year (See Note 7)	7,315,301	6,994,030
Land held for investment	43,295	55,295
New markets tax credits joint venture - investments (See Note 9)	2,363,610	1,251,772
New markets tax credits joint venture - intangible assets (See Note 10)	281,833	132,147
Investments - restricted	28,254	27,805
Total assets	$ 24,725,315	$ 19,603,575
Liabilities		
Current liabilities		
Accounts payable	$ 177,778	$ 165,210
Accrued expenses and other current liabilities	330,079	281,616
Agency payable (See Note 7)	5,212	7,646
Deferred revenue	224,396	185,321
Current maturities of long-term debt	323,280	168,806
Total current liabilities	1,060,745	808,599
New markets tax credits joint venture - deferred revenue (See Note 2)	55,796	-
Long-term debt (See Note 11)	3,712,450	1,367,852
New markets tax credits joint venture - notes payable (See Note 13)	3,261,894	1,822,266
Total long-term debt	7,030,140	3,190,118
Total liabilities	8,090,885	3,998,717
Net assets		
Without donor restrictions		
Undesignated	15,749,222	14,552,073
Designated by the Board for capital reserves	381,500	358,230
	16,130,722	14,910,303
With donor restrictions	503,708	694,555
Total net assets	16,634,430	15,604,858
Total liabilities and net assets	$ 24,725,315	$ 19,603,575

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support			
Contributions	$ 1,486,003	$ 699,956	$ 2,185,959
Donated property, materials and services (See Note 16)	1,724,517	-	1,724,517
Net sales to homeowners (See Note 7)	897,422	-	897,422
Interest income - mortgages	654,620	-	654,620
Grant/contract revenues	360,723	-	360,723
HabiStore sales (See Note 18)	1,631,938	-	1,631,938
Interest and investment income	30,760	800	31,560
Other income	84,029	-	84,029
Net assets released from restrictions	891,603	(891,603)	-
Total revenues and other support	7,761,615	(190,847)	7,570,768
Expenses			
Program services - homes	3,918,438	-	3,918,438
Program - HabiStore (See Note 18)	2,522,802	-	2,522,802
Supporting services			
Management and general	677,516	-	677,516
Fundraising	403,244	-	403,244
Total expenses	7,522,000	-	7,522,000
Change in net assets before non-recurring item	239,615	(190,847)	48,768
Non-recurring item			
Gain on mortgages receivable securitization	980,804	-	980,804
Total change in net assets	1,220,419	(190,847)	1,029,572
Net assets, beginning of year	14,910,303	694,555	15,604,858
Net assets, end of year	$ 16,130,722	$ 503,708	$ 16,634,430

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

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support			
Contributions	$ 934,996	$ 1,371,861	$ 2,306,857
Donated property, materials			
and services (See Note 16)	1,934,568	-	1,934,568
Net sales to homeowners (See Note 7)	962,332	-	962,332
Interest income - mortgages	655,030	-	655,030
Grant/contract revenues	702,280	-	702,280
HabiStore sales (See Note 18)	1,744,577	-	1,744,577
Interest and investment income	69,140	781	69,921
Other income	85,633	-	85,633
Net assets released from restrictions	1,299,704	(1,299,704)	-
Total revenues and other support	8,388,260	72,938	8,461,198
Expenses			
Program services - homes	4,502,047	-	4,502,047
Program - HabiStore (See Note 18)	2,694,435	-	2,694,435
Supporting services			
Management and general	662,324	-	662,324
Fundraising	430,937	-	430,937
Total expenses	8,289,743	-	8,289,743
Change in net assets before non-recurring item	98,517	72,938	171,455
Non-recurring item			
Gain on close-out of NMTC investments	735,590	-	735,590
Total change in net assets	834,107	72,938	907,045
Net assets, beginning of year	14,076,196	621,617	14,697,813
Net assets, end of year	$ 14,910,303	$ 694,555	$ 15,604,858

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	2020	2019
Cash Flows From Operating Activities		
Total change in net assets	$ 1,029,572	$ 907,045
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Loss (gain) on disposal of land held for investment	425	(9,993)
Gain on disposal of fixed assets	(14,425)	-
Gain on close-out of NMTC investments	-	(735,590)
Gain on mortgages receivable securitization	(980,804)	-
Donated land held for investment	(16,000)	(13,000)
Depreciation	177,149	175,907
New markets tax credits intangible assets amortization	17,591	45,943
New markets tax credits interest expense to amortize debt issuance costs	1,364	38,931
Interest expense amortizing discount on long-term debt	31,808	-
Unrealized gain on restricted investments, net of fees	(449)	(442)
Changes in operating assets and liabilities:		
Grants and contracts receivable	(79,000)	23,294
Pledges receivable	31,400	(74,250)
Mortgages receivable	(379,809)	(469,265)
Inventories	(1,637)	(156,202)
Prepaid expenses and other current assets	28,092	(68,730)
Accounts payable	12,568	54,109
Accrued expenses and other current liabilities	48,463	(69,612)
Agency payable	(2,434)	1,299
Deferred revenue	39,075	(10,317)
New markets tax credits joint venture - deferred revenue	55,796	(22,135)
Net cash used in operating activities	(1,255)	(383,008)
Cash Flows From Investing Activities		
Collections on notes receivable	3,937	552
Acquisition of property and equipment	(96,701)	(36,433)
Proceeds from sale of property and equipment	21,182	-
New markets tax credits joint venture - investments	(1,111,838)	-
Cash paid for NMTC intangible assets	(167,277)	-
Proceeds from sale of land held for investment	102,000	46,255
Net cash (used in) provided by investing activities	(1,248,697)	10,374
Cash Flows From Financing Activities		
Proceeds from New markets tax credits joint venture - notes payable	1,521,250	-
Payment of New markets tax credits debt issuance costs	(82,986)	-
Proceeds from long-term debt	4,474,025	-
Principal payments on long-term debt	(1,025,957)	(158,241)
Net cash provided by (used in) financing activities	4,886,332	(158,241)
Net change in cash, cash equivalents, and restricted cash	3,636,380	(530,875)
Cash, cash equivalents, and restricted cash, beginning of year	2,925,740	3,456,615
Cash, cash equivalents, and restricted cash, end of year	$ 6,562,120	$ 2,925,740
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	$ 70,839	$ 106,439
Supplemental Disclosure of Non-cash Information		
Donated land held for investment	$ 16,000	$ 13,000
Note receivable for sale on donated land held for investment	$ -	$ 80,000
Close-out of NMTC Investments	$ -	$ 735,590
Discount on issuance of long-term debt	$ 980,804	$ -

CONSOLIDATED STATEMENT OF EXPENSES BY FUNCTION AND NATURE
FOR THE YEAR ENDED JUNE 30, 2020

	Program Services - Homes	Program - HabiStore	Management and General	Fundraising	Total
Salaries, taxes & benefits	$ 704,280	$ 626,187	$ 504,958	$ 279,977	$ 2,115,402
Construction costs	2,591,415	-	-	-	2,591,415
Land development costs	12,727	-	-	-	12,727
HabiStore cost of goods sold	-	1,561,073	-	-	1,561,073
Habitat International tithe	90,000	-	-	-	90,000
Professional fees	71,586	9,619	81,101	9,225	171,531
Advertising and marketing	31,315	19,202	1,618	28,141	80,276
Office expenses	90,038	56,843	19,466	26,472	192,819
Information technology	17,044	10,648	7,109	7,472	42,273
Occupancy	28,303	52,103	11,475	6,327	98,208
Travel, conferences, and meetings	19,037	1,088	12,805	1,375	34,305
Insurance	19,121	56,554	9,538	4,275	89,488
Donor and volunteer cultivation	7,825	2,002	1,427	23,983	35,237
Equipment rent, repair, and maintenance	26,953	6,170	1,210	678	35,011
Vehicle expenses	8,529	32,826	1,152	280	42,787
Miscellaneous expenses	30,893	181	6	1,463	32,543
Total expenses before interest, depreciation, and amortization	3,749,066	2,434,496	651,865	389,668	7,225,095
					-
Interest	79,617	21,579	969	-	102,165
Depreciation and amortization	89,755	66,727	24,682	13,576	194,740
Total expenses	$ 3,918,438	$ 2,522,802	$ 677,516	$ 403,244	$ 7,522,000

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

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

NOTES TO FINANCIAL STATEMENTS

1. Organization

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

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

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

In February 2020, Habitat filed articles of organization with the State of Arizona to form its wholly owned subsidiary, HFHT Funding Company, LLC, whose purpose is to acquire and hold mortgage loans and related documents to comply with the terms of any note purchase agreement between Habitat and any financial institution. As a single member LLC, the Organization is disregarded for purposes of the Internal Revenue Code.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Habitat and its wholly owned subsidiary HFHT Funding Company, LLC (the "LLC"), collectively, the "Organization". Except where the context otherwise indicates or requires, all references to "Habitat" or the "Organization" in these footnotes means the consolidated entity. All intercompany balances and transactions have been eliminated in consolidation.

Basis of Presentation

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

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

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

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

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

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

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

Revenue Recognition
Contributions - Government Grants and Contracts – Habitat accounts for its government grants by first determining whether the transaction is an exchange transaction or a contribution. If the transaction is one in which each party to the transaction directly receives commensurate value, then the transaction is considered an exchange transaction and Habitat recognizes revenue in accordance with ASC 605. Government grants revenues from exchange transactions are recognized as performance obligations are satisfied, which in most cases are as related costs are incurred or services are provided. If the transaction is considered a contribution, then Habitat recognizes revenue in accordance with ASC 958-605.

Contributions – Contributions are classified based on the existence or absence of donor-imposed restrictions as either conditional or unconditional as follows:

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)
Contributions (continued)

- **Conditional** – Includes all contributions with donor-imposed conditions or stipulations representing a barrier that must be overcome before the recipient is entitled to the assets being transferred or promised. A failure to overcome the barrier gives the contributor a right of return of the assets it has transferred or the ability to rescind an obligation to transfer.

- **Unconditional** – Includes all contributions that do not contain a barrier to use and therefore are recorded as revenue once cash or a contribution is received. Donor imposed restrictions for time and/or purpose are not considered a significant barrier and thus these contributions are recorded as unconditional.

Contribution revenue is recorded when the unconditional promise to give is received. Under this method, the recognition of support for financial statement purposes bears no relation to the period in which the expenses are incurred. Revenue related to conditional contributions is recognized once the relevant barriers of each contribution are met. If the funds are received from the donor before the relevant barriers are met, deferred revenue is recorded on the consolidated statements of financial position for the amount of funds provided by the donor. Consequently, government funded grants revenue which are considered contributions is recognized when the related barriers to provide services are delivered and/or expenditures are incurred.

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

Donated Property, Materials and Services – Contributions of donated property, materials and services are recognized in the consolidated financial statements at fair value at the date of donation. Absent explicit donor stipulations, contributions of long-lived assets or cash or other assets to be used to acquire or construct long-lived assets are reported as net assets without donor restrictions when placed in service. Donated services are recognized when the services received (a) Create or enhance non-financial assets, or (b) Require specialized skills, are performed by people with those skills, and would otherwise be purchased (See Note 16).

Habitat utilizes the services of outside volunteers to perform a variety of tasks that assist the Organization. The fair value of these services is not recognized in the accompanying consolidated financial statements since they do not meet the criteria for recognition under U.S. GAAP. None of these volunteer hours were recognized as donated services. In 2020 and 2019, Habitat received 40,126 and 50,096 hours, respectively, donated from volunteers assisting the Organization.

Cash, Cash Equivalents, and Restricted Cash
Cash and cash equivalents consist of cash in bank accounts and money market accounts with original maturities of three months or less. Cash equivalents are stated at cost plus accrued interest, which approximates fair value. The Organization places its cash and cash equivalents with high credit quality institutions. At times, amounts may exceed Federal Deposit Insurance Corporation ("FDIC") limits. As of June

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Cash, Cash Equivalents, and Restricted Cash (continued)
30, 2020, and 2019, the Organization had $4,728,161 and $1,597,318 in excess of FDIC insured limits, respectively. The Organization has not experienced any losses and does not believe it is exposed to any significant credit risk on cash balances. All such cash accounts are monitored by management to mitigate risk.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheets to total cash, cash equivalents, and restricted cash reported in the consolidated statements of cash flows as of June 30, 2020 and 2019:

	2020	2019
Cash and cash equivalents	$ 4,790,041	$ 1,850,929
Restricted cash	1,772,079	1,074,811
Total cash, cash equivalents, and restricted cash	$ 6,562,120	$ 2,925,740

Restricted Cash
Restricted cash includes New Markets Tax Credits ("NMTC") cash in bank accounts as part of the NMTC transactions. Restricted cash also includes contractual and donor imposed restricted cash accounts.

Grants and Contracts Receivables
Grants and contracts receivables are stated at the amount the Organization expects to collect. Habitat maintains allowances for doubtful accounts for estimated losses resulting from the inability of its grantors and customers to make required payments. Management considers the following factors when determining the collectability of specific grantor accounts: grantor credit-worthiness, past transactions history with the grantor, current economic industry trends, and changes in grantor payment terms. If the financial condition of the Organization's grantors were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. As of June 30, 2020, and 2019, grants and contracts receivables are considered fully collectible by management; therefore, no allowance for doubtful accounts has been provided.

Pledges Receivable
The Organization accounts for contributions to be made in future years as unconditional promises to give in the year the pledge is made. Contributions to be received after one year are presented at their discounted present value at a risk-adjusted rate. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions. As of June 30, 2020 and 2019, pledges receivable are considered fully collectible by management; therefore, no allowance for uncollectible amounts has been provided.

Mortgages Receivable
Mortgages receivable consist of non-interest bearing mortgages, which are secured by real estate and payable in monthly installments. The majority of the mortgages have an original maturity of 15-30 years. These mortgages have been discounted at various rates ranging from 6.07% to 8.62% based on the prevailing market rates for low-income housing at the inception of the mortgages. Interest income is recorded using the

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Mortgages Receivable (continued)

effective interest method over the lives of the mortgages. Receivables related to the mortgages are considered past-due or delinquent by the Organization when they are 30 days late.

Habitat's estimate for allowance for loan losses is based on historical collection experience and a review of the status of the mortgages receivable. Through its Homeowner Services program, Habitat performs extensive credit and work history evaluations prior to the sale of the home.

The Organization maintains a security interest in all the homes they sell and works with delinquent homeowners to identify opportunities for financial budgeting improvement. The Organization has historically experienced great success in educating delinquent homeowners and structuring payment plans to cure delinquencies within a minimal amount of time. For these reasons, management has determined that all mortgage loan receivables are fully collectible as of June 30, 2020 and 2019. Accordingly, no allowance for loan losses is reported as of June 30, 2020 and 2019 in the accompanying financial statements.

Periodically, Habitat sells receivable residential mortgage loans to financial institutions and obtains servicing assets as a result of the sale. Gain or loss on sale of the receivables depends in part on both the previous carrying amount of the financial assets involved in the transfer and the proceeds received. Habitat continues to service the sold mortgage loans and remits related payment collections to the purchasing financial institutions in accordance with sale agreements. Because payments are remitted in arrears in accordance with sales contracts, the Organization has reported an agency payable in the accompanying consolidated statements of financial position, reflective of the fact that certain collections related to the sold mortgages had not been remitted to the purchasing financial institutions as of June 30, 2020 and 2019.

Inventories

The Organization's inventories include land held for construction, construction-in-progress, and completed homes, and are stated at the lower of cost (specific identification) or net realizable value. The Organization reviews the carrying value of the land held for construction for possible impairment on an annual basis. Management has determined there was no impairment for the years ended June 30, 2020 and June 30, 2019.

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

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

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Property and Equipment

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

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

Property and Equipment (continued)

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

In accordance with ASC 360-10, *Property, Plant and Equipment*, the Organization periodically reviews the carrying value of long-lived assets held and used, and assets to be disposed, for possible impairment when events and circumstances warrant such a review. Through June 30, 2020, the Organization had not experienced impairment losses on its long-lived assets.

Land Held for Investment

Land held for investment represents donated or purchased properties that are currently unavailable for the construction of homes. Land held for investment is reported at the lower of cost or fair value, and is initially measured at acquisition cost (including brokerage and other transaction fees) if purchased or at fair value if received as a contribution or through an agency transaction. The Organization reviews the carrying value of the land held for investment for possible impairment on an annual basis. Management has determined that there was no impairment for the year ended June 30, 2020.

New Markets Tax Credits Joint Venture - Investments

The investment in the NMTC joint ventures are accounted for using the cost method and distributions received from the joint venture are recorded as investment income in the consolidated statements of activities and changes in net assets. Habitat received distributions of $12,517 and $33,387 for the years ended June 30, 2020 and 2019, respectively.

New Markets Tax Credits Joint Venture - Deferred Revenue

The Organization recognizes deferred revenue associated with the NMTC transactions as revenue over the 7-year NMTC term. The NMTC deferred revenue as of June 30, 2020 totaled $55,796, net of amortized fee revenue of $672. The NMTC deferred revenue as of June 30, 2019 totaled $0, net of amortized fee revenue of $22,135. The amortized fee revenue is included in interest and investment income in the consolidated statements of activities and changes in net assets.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Debt Issuance Costs

Debt issuance costs represent financing costs associated with the Organization obtaining the NMTC notes payable and are amortized to interest expense over the life of the respective NMTC notes payable (See Note 13) using the straight-line method. The debt issuance costs are reported as a direct deduction from the face amount of the related debt on the accompanying consolidated statements of financial position. When a NMTC deal closes out, all remaining unamortized debt issuance costs are written off in the year of the transaction.

The Organization incurred $82,986 in direct closing costs associated with obtaining the Harbor-III NMTC notes payable and is presented net of accumulated amortization of $346 as of June 30, 2020. The Organization incurred $30,552 in direct closing costs related to the HFHI 2016-01 NMTC notes payable and is presented net accumulated amortization of $2,970 and $1,952 as of June 30, 2020 and 2019, respectively.

Fair Value Measurements

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

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

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

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

The restricted investments held at the Community Foundation for Southern Arizona are classified within Level 3 of the fair value hierarchy due to the lack of a market in which the Organization's units of participation in the Foundation's endowment pool could be bought or sold. The Organization measures the fair value of its restricted investments using the fair value of the underlying assets (net asset value). A total realized/unrealized gain of $449 and $442 were recognized related to the restricted investments during 2020 and 2019, respectively. The ending balance of the restricted investments was $28,254 and $27,805 as of June 30, 2020 and 2019, respectively.

Endowment Funds

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

The Organization has interpreted the "Management of Charitable Funds Act" (Arizona's version of the Uniform Prudent Management of Institutional Funds Act or UPMIFA) as requiring the preservation of the fair value of the original gift. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (1) the original value of gifts donated to the endowment, (2) the original value of subsequent gifts to the endowment, and (3) if applicable, accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Endowment Funds (continued)

remaining portion of the donor-restricted endowment fund that is classified net assets with donor restrictions unless those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the law. The Organization has interpreted the Management of Charitable Funds Act to permit spending from underwater funds in accordance with the prudent measures required under the law.

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

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

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or current law requires the Organization to retain for a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. There were no such deficiencies as of June 30, 2020 and 2019.

Income Taxes

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

HFHT Funding Company, LLC is a single-member limited liability company which is a disregarded entity for income tax purposes. Accordingly, no provision for federal or state income taxes has been reflected in the accompanying consolidated financial statements for this entity.

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

The Organization recognizes interest and penalties related to unrecognized tax benefits as accrued expenses in its accompanying consolidated financial statements. During the years ended June 30, 2020 and 2019, the Organization did not recognize any interest and penalties.

Advertising and Marketing Costs

Habitat expenses advertising and marketing costs as they are incurred.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Defined Contribution Plan

The Organization has a 401(k) defined contribution plan (the "Plan") to provide retirement and incidental benefits for its employees. Under the Plan, all full-time employees are permitted to make contributions to the Plan. The Organization makes discretionary matching contributions to the Plan that meet safe-harbor requirements as described by the Plan document. The Organization matches 3% of the employee's compensation for the Plan year, plus 50% of each eligible employee's contributions that exceed 3% of compensation for the Plan year, not to exceed 5% of the employee's compensation for the Plan year. Elective deferrals are vested upon entering the plan and employer contributions are 100% vested after three years of service. For the years ended June 30, 2020 and 2019, matching contributions totaled $41,106 and $37,567 respectively.

Use of Estimates

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

3. Recent Accounting Pronouncements

Adopted as of June 30, 2020

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

The Organization adopted ASU 2018-08 during fiscal year 2020 on a modified prospective basis. The adoption of this ASU primarily affected the Organization's disclosure of revenue recognition policies and related activity. The adoption of this ASU did not have a material effect on the Organization's consolidated financial statements for the year ended June 30, 2020.

In November 2016, the FASB issued ASU 2016-18*, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the consolidated statement of cash flows. ASU 2016-18 was effective for the Organization beginning on July 1, 2019. ASU 2016-18 must be applied using a retrospective transition method. The Organization adopted ASU No. 2016-18 during fiscal year 2020 on a retrospective basis. The adoption of this ASU affected the total of cash, cash equivalents, and restricted cash reported on the consolidated statements of cash flows to include the Organization's restricted cash.

NOTES TO FINANCIAL STATEMENTS

Recent Accounting Pronouncements

Not Yet Required to be Adopted as of June 30, 2020

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, and most industry-specific guidance, and creates Topic 606 *Revenue from Contracts with Customers*. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either the full retrospective or retrospective with cumulative effect transition method. Subsequent amendments have been issued for technical corrections (ASU No. 2016-20); narrow scope improvements and practical expedients (ASU No. 2016-12); identifying performance obligations and licensing arrangements (ASU No. 2016-10); gross versus net revenue reporting (ASU No. 2016-08); and effective dates for certain entities (ASU No. 2020-05). ASU No. 2014-09 (and subsequent amendments) is effective for annual reporting periods beginning after December 15, 2019. Early adoption is permitted with certain restrictions.

The Organization expects to adopt ASU 2014-09 during fiscal year 2021 utilizing the modified retrospective method. As part of the adoption of the ASU, the Organization plans to elect the following transition practical expedients: ((i) to reflect the aggregate of all contract modifications that occurred prior to the date of initial application when identifying satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price; (ii) to apply the standard only to contracts that are not completed at the initial date of application; (iii) to apply the new revenue standard to a portfolio of contracts (or performance obligations) with similar characteristics if it is reasonably expected that the effects on the consolidated financial statements of applying this guidance to the portfolio would not differ materially from applying this guidance to the individual contracts (or performance obligations) within that portfolio; and (iv) to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less. The application of this ASU is not expected to have a material impact on the consolidated financial statements and will primarily affect the Organization's disclosure of policies and related activity for earned revenues.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2021. A modified retrospective transition approach is required (see ASU No. 2018-11 below for optional transition method) for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements, with certain practical expedients available.

In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*. This ASU is intended to reduce costs and ease implementation of the leases standard for financial statement preparers. ASU 2018-11 provides a new transition method and a practical expedient for separating components of a contract. The amendments ASU 2018-11 provide entities with an additional (and optional) transition method

NOTES TO FINANCIAL STATEMENTS

Recent Accounting Pronouncements (continued)

Not Yet Required to be Adopted as of June 30, 2020 (continued)

to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with current U.S. GAAP in Topic 840, *Leases*. The amendments in ASU 2018-11 also provide lessors with a practical expedient, by class of underlying asset, to not separate nonlease components from the associated lease component and, instead, to account for those components as a single component if the nonlease components otherwise would be accounted for under the new revenue guidance (Topic 606). The effective date and transition requirements for the amendments in this update related to separating components of a contract are the same as the effective date and transition requirements in ASU 2016-02 (i.e., fiscal years beginning after December 15, 2021). All entities, including early adopters, that elect the practical expedient related to separating components of a contract in this ASU must apply the expedient, by class of underlying asset, to all existing lease transactions that qualify for the expedient at the date elected. The Organization is currently evaluating the effect these standards will have on the consolidated financial statements and disclosures.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Organization does not intend to early adopt. The Organization is currently evaluating the impact of adopting this new guidance on its consolidated financial statements and disclosures.

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

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.* LIBOR and other interbank offered rates are widely used benchmark or reference rates in the United States and globally. Trillions of dollars in loans, derivatives, and

NOTES TO FINANCIAL STATEMENTS

New Accounting Pronouncements (continued)

Not Yet Required to be Adopted as of June 30, 2020 (continued)
other financial contracts reference LIBOR, the benchmark interest rate banks use to make short-term loans to each other. With global capital markets expected to move away from LIBOR and other interbank offered rates toward rates that are more observable or transaction based and less susceptible to manipulation, the FASB launched a broad project in late 2018 to address potential accounting challenges expected to arise from the transition.

The new guidance provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued.

The ASU is intended to help stakeholders during the global market-wide reference rate transition period. Therefore, it will be in effect for all entities as of March 12, 2020 through December 31, 2022. As part of the adoption the Organization plans to elect the optional expedient to apply any modifications to contracts within the scope of Topic 310, *Receivables* and Topic 470, *Debt* prospectively by adjusting the effective interest rate.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which is intended to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind, for not-for-profit organizations. Examples of contributed nonfinancial assets include fixed assets such as land, buildings, and equipment; the use of fixed assets or utilities; materials and supplies, such as food, clothing, or pharmaceuticals; intangible assets; and recognized contributed services. The ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. It also requires a not-for-profit to disclose: 1) contributed nonfinancial assets recognized within the statement of activities disaggregated by category that depicts the type of contributed nonfinancial assets; and 2) for each category of contributed nonfinancial assets recognized: i) qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period. If utilized, a description of the programs or other activities in which those assets were used; ii) the not-for-profit's policy (if any) about monetizing rather than utilizing contributed nonfinancial assets; iii) a description of any donor-imposed restrictions associated with the contributed nonfinancial assets; iv) the valuation techniques and inputs used to arrive at a fair value measure, in accordance with the requirements in Topic 820, *Fair Value Measurement*, at initial recognition; and v) the principal market (or most advantageous market) used to arrive at a fair value measure if it is a market in which the recipient not-for-profit organization is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets. The amendments in this ASU should be applied on a retrospective basis and are effective for annual reporting periods beginning after June 15, 2021, and interim periods with annual reporting periods beginning after June 15, 2022. Early adoption is permitted. The Organization is currently evaluating the effect that the standard will have on the consolidated financial statements and disclosures.

NOTES TO FINANCIAL STATEMENTS

4. Notes Receivable

The Organization advanced funds to assist an Arizona non-profit entity, Growth Partners Arizona. Under this agreement, interest-only installments at 2.0% per annum are due quarterly with all outstanding principal and any unpaid interest due January 2022. As of June 30, 2020, and 2019 the carrying amount of the note totaled $50,000.

In March 2019, the Organization sold land held for investment in exchange for a promissory note valued at $80,000. Under this agreement, monthly principal and interest payments of $675 are due with interest at 6.00% per annum through May 2024. As of June 30, 2020, the note receivable balance was $75,511.

5. Inventories

Inventories consist of the following as of June 30:

	2020	2019
Land held for construction	$ 1,239,097	$ 1,350,747
Construction-in-progress	1,951,654	1,429,873
Supplies and materials	50,466	53,184
Completed homes inventory	-	477,173
HabiStore inventory	15,057	18,085
	$ 3,256,274	$ 3,329,062

6. Property and Equipment

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

	2020	2019
Land	$ 546,944	$ 546,944
Buildings	1,405,635	1,405,635
Building improvements	2,360,282	2,311,279
Vehicles	235,690	215,022
Office and construction equipment and furniture	355,170	355,170
	4,903,721	4,834,050
Less accumulated depreciation	(1,498,416)	(1,341,540)
	$ 3,405,305	$ 3,492,510

7. Mortgages Receivable

Habitat directly finances all of the homes that it sells. Each mortgage is issued as a zero-interest mortgage to the buyer. During fiscal years 2020 and 2019, eleven (11) and sixteen (16) homes, respectively, were sold to qualifying applicants.

NOTES TO FINANCIAL STATEMENTS

Mortgages Receivable (continued)

The resulting mortgages are non-interest bearing and the presentation of their book value has been discounted based upon the prevailing market rates for low-income housing at the inception of the mortgages (fiscal year 2020 and 2019 discount rates were 7.38% and 7.66%, respectively). Sales to homeowners for the years ended June 30 are as follows:

	2020	2019
Gross sales to homeowners	$ 1,910,580	$ 1,995,500
Less discount on sales to homeowners	(1,013,158)	(1,033,168)
Net sales to homeowners	$ 897,422	$ 962,332

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

	2020	2019
Mortgages receivable at face value	$ 14,278,041	$ 13,539,694
Less unamortized discounts on mortgages	(5,924,233)	(5,565,695)
Total mortgages (both current and due after one year)	$ 8,353,808	$ 7,973,999

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

2021	$ 1,038,507
2022	1,025,604
2023	1,007,619
2024	985,695
2025	978,769
Thereafter	9,241,847
Total	$ 14,278,041

At times, Habitat will identify high performing mortgages receivable for sale to financial institutions. To date, Habitat has executed the sale of seventy-eight (78) mortgages receivable. Habitat continues to service the sold mortgages receivable by collecting payments from homeowners on behalf of the purchasing financial institutions. Homeowner payments are remitted by Habitat to the purchasing financial institutions in arrears.

Accordingly, the Organization has reported an agency payable liability in the amount of $5,212 and $7,646 in the accompanying consolidated financial statements reflective of the homeowner payments held by Habitat as of June 30, 2020 and 2019, respectively, which must be subsequently remitted to the purchasing financial institutions.

NOTES TO FINANCIAL STATEMENTS

Mortgages Receivable (continued)

In accordance with ASC 860, *Transfers and Servicing*, the transfers of mortgages receivable by Habitat to purchasing financial institutions are accounted for as sales and result in the related receivables being excluded from the mortgages receivable balance on the statement of financial position. The agreements underlying sales of receivables contain provisions that indicate that Habitat is responsible for homeowner payment defaults on sold receivables, and in the event a loan is delinquent by ninety (90) days or more, Habitat shall use its best efforts to replace the non-performing loan with a substitute loan of substantially equal principal balance and a maturity date not longer than the non-performing loan, or re-purchase the loan. There were no non-performing loans re-purchased during 2020.

Habitat management does not believe that the servicing asset resulting from the sale of mortgages has any significant value. Accordingly, no servicing assets have been recognized in the accompanying consolidated financial statements as of June 30, 2020 and 2019.

8. Mortgages Receivable Securitization

On February 13, 2020, the LLC acquired, through a loan purchase and sale agreement, 50 mortgages receivable with principal balances totaling $4,001,438 from Habitat. To fund the purchase of these subject mortgages, the LLC authorized the issuance of a promissory note with Northern Trust Company, secured by the mortgages. See Note 11 for the terms and outstanding balance of the promissory note payable as of June 30, 2020. Under the loan purchase and sale agreement, if one of the collateralized mortgage loans becomes nonperforming, the LLC is obligated to purchase that loan out of the collateral pool or substitute a similar, performing mortgage loan. There were no substitutions or purchases of mortgage loans during the year ended June 30, 2020. The balance of mortgages receivable held as collateral totaled $3,909,191 and is included in mortgages receivable in the consolidated statements of financial position as of June 30, 2020.

9. New Markets Tax Credits Joint Venture - Investments

The Organization entered into NMTC transactions involving U.S. Bancorp Community Development Corporation ("USBCDC"), its related entities and agents. NMTCs are tax credits created by the federal government in 2000 and renewed each year thereafter to help encourage sustained investment in low-income communities. The purpose is to provide investors with a financial incentive (a tax credit) to invest in projects being built in, or businesses operating in, low-income communities. Investors receive a federal tax credit earned over a 7-year period. The NMTC transactions provide a mechanism for Habitat to receive funding to improve properties or to build homes, build infrastructure or acquire land in low income communities. Habitat receives this funding through qualified low-income community investment ("QLICI") loans, as described below and in Note 13. The following is a summary of the NMTC investments.

Investment in Harbor Habitat Leverage III, LLC ("Harbor-III")

In June 2020, the Organization acquired a 25% membership interest in Harbor-III in exchange for a capital contribution of $1,111,838. The remaining 75% of Harbor-III is owned by three other affiliates of Habitat for Humanity International, Inc. Harbor-III was formed to make a loan to the USBCDC Investment Fund 346, LLC ("Fund 346"), which is owned by USBCDC, the federal tax credit investor, to provide financing for USBCDC's equity investment in a community development entity – Harbor Community Fund XXII, LLC ("sub-CDE"). Accordingly, Harbor-III entered into a Loan Agreement to lend $4.4 million to Fund 346. Once Harbor-III made the loan, USBCDC invested the tax credit price of $1.9 million into Fund 346. The Fund used the combination

NOTES TO FINANCIAL STATEMENTS

New Markets Tax Credits Joint Venture – Investments (continued)

Investment in Harbor Habitat Leverage III, LLC ("Harbor-III") (continued)
of the Harbor-III loan proceeds and the USBCDC investment as its equity investment in the sub-CDE, which in turn used the proceeds to fund the QLICI loans to the same Habitat affiliates that are members of Harbor-III. The loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low-income residents (See Note 13).

Simultaneous with these transactions, Harbor-III entered into an Option Agreement with USBCDC, the sole member of Fund 346, to put the ownership interest in Fund 346 for $1,000 commencing in June 2027 and continuing for 6 months or call the ownership interest for a 12-month period following expiration of the Put Option at fair value. Exercise of the option will effectively extinguish the Organization's outstanding debt owed to the sub-CDE. The Organization will recognize income in an amount approximating the difference in the book value of the investment and the debt. The investment and debt will then come off the Organization's books and all entities related to the joint venture including Harbor-III, will then be dissolved effectively ending the structured financing deal.

Investment in HFHI NMTC Leverage Lender 2016-01, LLC ("HFHI 2016-01")
In July 2017, the Organization acquired a 10.18% membership interest in HFHI-2016-1 in exchange for a capital contribution of $1,251,772. The remaining 89.82% of HFHI-2016-1 is owned by four other affiliates of Habitat for Humanity International, Inc. HFHI-2016-1 was formed to make a loan to the Twain Investment Fund 250, LLC ("Fund 250"), which is owned by USBCDC, the federal tax credit investor, to provide financing for USBCDC's equity investment in a community development entity – HFHI NMTC Sub-CDE II, LLC ("sub-CDE1"). Accordingly, HFHI-2016-1 entered into a Loan Agreement to lend $12.3 million to Fund 250. Once HFHI-2016-1 made the loan, USBCDC invested the tax credit price of $6.2 million into Fund 250. The Fund used the combination of the HFHI-2016-1 loan proceeds and the USBCDC investment as its equity investment in the sub-CDE1, which in turn used the proceeds to fund the QLICI loans to the same Habitat affiliates that are members of HFHI-2016-1. The loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low-income residents (See Note 13).

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

Investment in CCML Leverage I, LLC ("CCML")
In May 2012, the Organization acquired a 20% membership interest in CCML in exchange for a capital contribution of $1,450,464. In May 2019, this investment closed out resulting in a net gain of $429,536 and is included in gain on close-out of NMTC investments in the consolidated statement of activities and changes in net assets for the year ended June 30, 2019.

NOTES TO FINANCIAL STATEMENTS

New Markets Tax Credits Joint Venture – Investments (continued)

Investment in HFHI-SA Leverage IX, LLC ("HFHI-SA IX")
In September 2011, the Organization acquired a 14.44% membership interest in HFHI-SA IX in exchange for a capital contribution of $963,958. In November 2018, this investment closed out resulting in a net gain of $306,054 and is included in gain on close-out of NMTC investments in the consolidated statement of activities and changes in net assets for the year ended June 30, 2019.

10. New Markets Tax Credits Joint Venture – Intangible Assets

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

As of June 30, 2020, the balances of the NMTC intangible assets and accumulated amortization are as follows:

	Harbor-III	HFHI 2016-1	Total
Affiliate guaranty fee	$ 56,468	$ 93,110	$ 149,578
CDE structuring fee	-	68,935	68,935
SA recapture fee	13,971	-	13,971
Sub CDE audit fees	20,000	-	20,000
Asset management fee	53,554	-	53,554
Consulting fee	23,284	-	23,284
	167,277	162,045	329,322
Less accumulated amortization	(1,991)	(45,498)	(47,489)
	$ 165,286	$ 116,547	$ 281,833

Estimated annual NMTC amortization as of June 30, 2020 are as follows:

2021	$ 39,496
2022	39,496
2023	39,496
2024	39,496
2025	26,156
Thereafter	97,693
Total	$ 281,833

NOTES TO FINANCIAL STATEMENTS

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

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

	HFHI 2016-1	CCML	HFHI-SA-IX	Total
Affiliate guaranty fee	$ 93,110	$ 155,261	$ 60,606	$ 308,977
Guarantor fee	-	51,810	-	51,810
CDE structuring fee	68,935	-	47,879	116,814
	162,045	207,071	108,485	477,601
Less accumulated amortization	(28,898)	(207,071)	(108,485)	(345,454)
	$ 132,147	$ -	$ -	$ 132,147

11. Long-Term Debt

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

	2020	2019
Northern Trust Bank mortgage loan. Due in monthly principal and interest installments of $6,301 with interest at 4.00% per annum through July 2023 with a final balloon payment for all remaining principal and interest due in August 2023. Secured by a Deed of Trust. The agreement requires a specific debt coverage ratio be maintained as measured at fiscal year-end. The mortgage loan was paid off in February 2020.	$ -	$ 817,102
Habitat for Humanity International (as part of the FlexCap program), note payable. Secured by pledged mortgage loans. Due in quarterly installments of $16,006 with interest at 3.80% per annum through June 2020. The agreement contains various financial covenants, the most restrictive of which provide for minimum net assets and conditions on the number of pledged mortgage loans assigned. The note payable was paid off in February 2020.	-	62,533

NOTES TO FINANCIAL STATEMENTS

Long-Term Debt (continued)

	2020	2019
In February 2020, the LLC established a secured promissory note due to Northern Trust Company in the amount of $4,001,438. The note is non-interest bearing until maturity in April 2048. Monthly principal payments began March 2020 in the amount of $21,742. The issuance of the non-interest bearing note resulted in a $980,804 discount, which is being amortized to interest expense over the term of the note. As of June 30, 2020, the unamortized discount on the note totaled $948,996. The note is collateralized by mortgages as described in Note 8.	3,914,470	-
Habitat for Humanity International (as part of the FlexCap program), note payable. Secured by pledged mortgage loans. Due in quarterly installments of $22,775 with interest at 5.00% per annum through June 2028. The agreement contains various financial covenants, the most restrictive of which provide for minimum net assets and conditions on the number of pledged mortgage loans assigned. The Organization was in compliance with these debt covenants as of June 30, 2020	597,669	657,023
Paycheck Protection Program Promissory Note (see Note 12)	472,587	-
In January 2020, the Line of Credit at Northern Trust Bank for $1,500,000 was renewed. Interest is calculated at the LIBOR rate plus 2% secured by Deeds of Trust and beneficial interest in certain mortgage notes receivable. Interest payable in monthly installments. Line of credit matures in January 2021.	-	-
	4,984,726	1,536,658
Less discount on non-interest bearing notes	(948,996)	-
Less current portion of long-term debt	(323,280)	(168,806)
	$ 3,712,450	$ 1,367,852

NOTES TO FINANCIAL STATEMENTS

Long-Term Debt (continued)

The scheduled maturities of debt principal payments are summarized as follows as of June 30, 2020:

2021	$	323,280
2022		598,952
2023		529,892
2024		333,308
2025		336,997
Thereafter		2,862,297
Total	$	4,984,726

12. Paycheck Protection Program Promissory Note

In April 2020, Habitat entered into a promissory note agreement with a financial institution in the amount of $472,587. The loan was made pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which provided for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll and employee benefit expenses of the qualifying business. Per the loan agreement, Habitat is required to apply for loan forgiveness within a deferral period of ten months from the date of the loan agreement; however, due to the lender's administrative delays, as of November 12, 2020, Habitat was not yet able to apply for loan forgiveness. The loans and accrued interest may be fully or partially forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its employment levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the covered payroll period. If the Small Business Association ("SBA") does not confirm forgiveness of the loan or only partly confirms forgiveness of the loan, it will be required to be repaid. In that event, the financial institution would set the terms of repayment on a monthly schedule to begin in May 2021, with interest charged not to exceed 1.00% per annum, and a maturity date of two years from the date of the loan agreement. Although Habitat expects that it will meet the conditions for forgiveness of the loan, as of November 12, 2020, Habitat cannot assure that the loan will be fully or partly forgiven.

13. New Markets Tax Credits Joint Venture – Notes Payable

As a component of the Harbor-III NMTC transaction, Habitat received a QLICI loan of $1,521,250, and entered into a Loan and Security Agreement (the "Harbor Agreement"), dated June 4, 2020, from the CDE. The Organization is obligated under the Harbor Agreement and related Promissory Note to make semi-annual interest only payments until June 5, 2027 at 0.730945%. Beginning in year 8 through year 20, the Organization is required to make semi-annual payments of principal and interest (at 0.730945%) in an amount to fully amortize the loan by its maturity date. The loan matures in June 2040. The balance of the note payable totaled $1,438,610 (net of unamortized debt issuance costs of $82,640) as of June 30, 2020. Harbor Agreement requires a specific solvency and debt service coverage ratio be maintained as measured at fiscal year-end. The Organization was in compliance with these debt covenants as of June 30, 2020.

As a component of the HFHI-2016-1 NMTC transaction, Habitat received a QLICI loan of $1,850,866, and entered into a Loan and Security Agreement (the "HFHI Agreement"), dated July 19, 2017, from the CDE1. The Organization is obligated under the HFHI Agreement and related Promissory Note to make semi-annual interest only payments until July 1, 2024 at 0.676452%. Beginning in year 8 through year 30, the Organization

NOTES TO FINANCIAL STATEMENTS

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

is required to make semi-annual payments of principal and interest (at 0.676452%) in an amount to fully amortize the loan by its maturity date. The loan matures in July 2047. The balance of the note payable totaled $1,823,284 (net of unamortized debt issuance costs of $27,582) as of June 30, 2020 and $1,822,266 (net of unamortized debt issuance costs of $28,600) of as of June 30, 2019. The HFHI Agreement requires a specific tangible net worth and debt service coverage ratio be maintained as measured at fiscal year-end. The Organization was in compliance with these debt covenants as of June 30, 2020.

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

14. Net Assets with Donor Restrictions

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

	2020	2019
Subject to expenditure for a specified purpose		
Construction and rehabilitation projects	$ 398,849	$ 579,319
Homeowner services	55,477	46,029
Community development and other	17,781	8,406
	472,107	633,754
Subject to passage of time		
For periods after June 30, 2020	-	30,000
Subject to the Organization's spending policy and appropriation		
Original donor-restricted endowment gift required to be maintained by donor	20,000	20,000
Accumulated investment earnings, which, once appropriated, are expendable	11,601	10,801
	31,601	30,801
Total	$ 503,708	$ 694,555

NOTES TO FINANCIAL STATEMENTS

15. Liquidity and Availability of Resources

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

	2020	2019
Cash and cash equivalents	$ 4,790,041	$ 1,850,929
Restricted cash	1,772,079	1,074,811
Grants and contracts receivable	99,221	20,221
Pledges receivable, current portion	113,601	115,001
Notes receivable, current	3,639	53,427
Mortgages receivable net of discount, due within one year	1,038,507	979,969
Investments, restricted	28,254	27,805
Total financial assets	7,845,342	4,122,163
Less amounts unavailable for general expenditure within one year, due to:		
Contractual or donor-imposed restrictions		
Contractual	678,479	314,601
Subject to expenditure for specified purpose	472,107	633,754
Subject to spending policy and appropriation	31,601	30,801
Board designations		
Capital reserve	381,500	358,230
Financial assets available to meet cash needs for general expenditures within one year	$ 6,281,655	$ 2,784,777

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

16. Donated Property, Materials and Services

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

	2020	2019
Construction materials and equipment	$ 185,270	$ 243,840
Land and property	16,000	13,000
Other program supplies and services	64,600	73,587
HabiStore items for resale	1,458,647	1,604,141
	$ 1,724,517	$ 1,934,568

NOTES TO FINANCIAL STATEMENTS

17. Advertising and Marketing Costs

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

	2020	2019
Direct advertising and marketing	$ 46,887	$ 40,354
Direct mail campaigns	25,052	24,039
Donated in-kind advertising	6,720	4,178
Newsletters and annual report	1,617	1,496
	$ 80,276	$ 70,067

18. HabiStore Summarized Financial Information

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

	2020	2019
HabiStore sales	$ 1,631,938	$ 1,744,577
HabiStore donated items for resale	1,458,647	1,604,141
Total HabiStore revenues	3,090,585	3,348,718
HabiStore operating expenses	(2,522,802)	(2,694,435)
HabiStore revenues in excess of expenses	$ 567,783	$ 654,283

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

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

20. Commitments and Contingencies

Collection of Second Mortgages
In addition to the non-interest bearing mortgage received from the sale of each home, Habitat may issue a contingent second mortgage. The second mortgages issued by Habitat represent the excess of the market value of the home over the original loan at the date the second mortgage is executed. Should the homeowner pay off the primary mortgage early or default on the mortgage, the second mortgage would become due. During the years ended June 30, 2020 and 2019, no second mortgages were paid off early.

Contract with the Pascua Yaqui Tribe
In May 2003, Habitat entered into a contract with the Pascua Yaqui tribe to build twenty-two homes for tribal members. Five homes were to be located on the reservation and sold directly to the tribe. Seventeen homes

NOTES TO FINANCIAL STATEMENTS

Commitments and Contingencies (continued)

Contract with the Pascua Yaqui Tribe (continued)

were to be located off of the reservation and sold directly to Pascua Yaqui homeowners. Half of the principal payments from the mortgages receivable received by Habitat from the Pascua Yaqui homeowners covered under this contract are deposited into an interest-bearing account, held by both Habitat and the Pascua Yaqui tribe. Monies in the account (which totaled $264,335 and $278,531 as of June 30, 2020 and 2019, respectively) are designated for future home building projects with the Pascua Yaqui tribe and are included in restricted cash in the accompanying consolidated statements of financial position. In 2009, Habitat and the Pascua Yaqui tribe agreed to reduce the target number of homes in the agreement to twenty homes.

Neighborhood Stabilization Program 2 ("NSP2") Agreement

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

Credit and Operational Risk

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

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

Litigation

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

NOTES TO FINANCIAL STATEMENTS

21. Subsequent Events

The Organization evaluated subsequent events through November 12, 2020, which represents the date the consolidated financial statements were available to be issued and, with the exception of the matters discussed below, concluded that no additional disclosures are required.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Organization operates. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic. It is unknown how long the adverse conditions associated with the coronavirus will last and what the complete financial effect will be to the Organization.