Habitat for Humanity of Metro Denver, Inc.

Consolidated Financial Report

June 30, 2019

Contents

Plante & Moran, PLLC
Suite 600
8181 E. Tufts Avenue
Denver, CO 80237
Tel: 303.740.9400
Fax: 303.740.9009
plantemoran.com

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Habitat for Humanity of Metro Denver, Inc. (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2019 and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Metro Denver, Inc. as of June 30, 2019 and the results of its operations, functional expenses, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the consolidated financial statements, the Organization adopted the provisions under Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

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

Report on Prior Year Consolidated Financial Statements

The consolidated financial statements of Habitat for Humanity of Metro Denver, Inc. as of June 30, 2018 were audited by EKS&H LLLP, whose report dated October 23, 2018 expressed an unqualified opinion on those statements.

Plante & Moran, PLLC

November 22, 2019

Habitat for Humanity of Metro Denver, Inc.

Consolidated Statement of Financial Position

June 30, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	$ 5,072,088	$ 3,531,946
Investments held by The Denver Foundation	3,881,453	4,756,346
Mortgage notes receivable - Net	16,117,133	15,880,116
Grants receivable	319,743	581,249
Escrow deposits held in trust	363,580	264,125
Construction in progress	12,802,246	9,171,610
Investment in HFHI-SA Leverage IX, LLC	-	4,111,082
Investment in CCML Leverage Lender I, LLC	-	1,598,151
Investment in HFHI NMTC Leveraged Lender 2016-1, LLC	2,904,195	2,933,529
Other assets	941,573	951,767
Property and equipment - Net	3,942,064	3,982,507
Total assets	**$ 46,344,075**	**$ 47,762,428**
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 574,515	$ 412,493
Line of credit	-	250,000
Deferred rent	96,417	129,460
Homeowner deposits	105,247	66,027
Other accrued expenses	626,091	606,702
Escrow deposits held in trust	363,580	264,125
Mortgage notes payable	1,072,389	1,144,404
Notes payable	3,605,925	3,778,485
Forgivable notes payable	2,214,101	400,800
Notes payable HFHI	353,318	308,444
Note payable HFHI-SA NMTC VI, LLC	-	4,791,750
Note payable CCML Community Development XVII, LLC	-	1,851,249
Note payable HFHI NMTC SUB-CDE II, LLC	4,123,390	4,098,633
Total liabilities	13,134,973	18,102,572
Net Assets		
Without donor restrictions:		
Undesignated	28,180,607	25,752,431
Board-designated for land and infrastructure	2,000,000	2,000,000
Total net assets without donor restrictions	30,180,607	27,752,431
With donor restrictions	3,028,495	1,907,425
Total net assets	33,209,102	29,659,856
Total liabilities and net assets	**$ 46,344,075**	**$ 47,762,428**

See notes to consolidated financial statements.

Consolidated Statement of Activities and Changes in Net Assets

Years Ended June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support						
Contributions and grants	$ 2,957,575	$ 2,860,688	$ 5,818,263	$ 3,716,432	$ 2,767,626	$ 6,484,058
Donated goods and services	1,902,149	-	1,902,149	2,220,257	-	2,220,257
Home sales	6,476,679	-	6,476,679	4,566,859	-	4,566,859
Mortgage interest income	4,387,216	-	4,387,216	2,207,796	-	2,207,796
Second mortgage revenue	138,326	-	138,326	303,259	-	303,259
Forgiveness of debt	1,056,100	-	1,056,100	2,406,300	-	2,406,300
Sales from ReStores - Net of cost of purchased inventory and refunds	5,813,357	-	5,813,357	5,648,832	-	5,648,832
Other income	284,130	-	284,130	59,861	-	59,861
Rental income	66,780	-	66,780	114,909	-	114,909
Net assets released from restrictions	1,739,618	(1,739,618)	-	2,009,001	(2,009,001)	-
Total revenue, gains, and other support	24,821,930	1,121,070	25,943,000	23,253,506	758,625	24,012,131
Expenses						
Program services:						
Home construction	13,816,574	-	13,816,574	12,203,899	-	12,203,899
Family services	1,535,535	-	1,535,535	1,047,090	-	1,047,090
ReStores	4,346,981	-	4,346,981	4,297,669	-	4,297,669
Total program services	19,699,090	-	19,699,090	17,548,658	-	17,548,658
Support services:						
Management and general	1,523,267	-	1,523,267	1,391,710	-	1,391,710
Fundraising activities	1,372,621	-	1,372,621	1,261,907	-	1,261,907
Total support services	2,895,888	-	2,895,888	2,653,617	-	2,653,617
Total expenses	22,594,978	-	22,594,978	20,202,275	-	20,202,275
Increase in Net Assets - Before other income (loss)	2,226,952	1,121,070	3,348,022	3,051,231	758,625	3,809,856
Other Income (Loss)						
Investment income	204,048	-	204,048	571,166	-	571,166
(Loss) gain on sale of asset	(2,824)	-	(2,824)	500	-	500
Total other income	201,224	-	201,224	571,666	-	571,666
Increase in Net Assets	2,428,176	1,121,070	3,549,246	3,622,897	758,625	4,381,522
Net Assets - Beginning of year	27,752,431	1,907,425	29,659,856	24,129,534	1,148,800	25,278,334
Net Assets - End of year	**$ 30,180,607**	**$ 3,028,495**	**$ 33,209,102**	**$ 27,752,431**	**$ 1,907,425**	**$ 29,659,856**

See notes to consolidated financial statements.

Consolidated Statement of Functional Expenses

Year Ended June 30, 2019

	Program Services				Support Services			
	Home Construction	Family Services	ReStores	Total Program Services	Management and General	Fundraising Activities	Total Support Services	Total
Cost of homes sold	$ 9,041,443	$ -	$ -	$ 9,041,443	$ -	$ 121	$ 121	$ 9,041,564
Salaries and wages	1,933,249	930,154	2,521,171	5,384,574	778,991	753,208	1,532,199	6,916,773
Volunteer labor on homes	1,160,560	-	-	1,160,560	-	-	-	1,160,560
Occupancy	235,079	17,107	566,846	819,032	17,342	15,394	32,736	851,768
Payroll taxes and benefits	197,127	83,794	209,368	490,289	105,839	73,443	179,282	669,571
Habitat for Humanity International tithe	255,049	499	-	255,548	-	1,500	1,500	257,048
Depreciation and amortization	116,972	16,753	121,775	255,500	24,664	14,822	39,486	294,986
Professional fees	28,255	97,384	7,009	132,648	200,699	17,849	218,548	351,196
Bank fees	-	3,223	140,312	143,535	61,395	96	61,491	205,026
Insurance	79,122	27,197	137,722	244,041	31,651	25,897	57,548	301,589
Other construction costs	67,786	73,348	190,914	332,048	-	17,789	17,789	349,837
Marketing and communications	-	683	19,723	20,406	1,125	295,836	296,961	317,367
Office supplies	60,054	46,147	115,175	221,376	47,347	19,246	66,593	287,969
Vehicle costs	62,251	41	171,541	233,833	-	108	108	233,941
Interest	96,559	69,338	-	165,897	74,980	9,442	84,422	250,319
Volunteer costs	184,994	13,974	224	199,192	278	68	346	199,538
Telephone	29,844	10,814	40,985	81,643	5,171	7,111	12,282	93,925
Printing and postage	9,337	5,854	31,003	46,194	6,929	16,475	23,404	69,598
Miscellaneous	49,809	28,795	33,343	111,947	8,009	69	8,078	120,025
Donated goods and services	28,446	90,400	-	118,846	36,296	94,668	130,964	249,810
Administrative fees	111,872	1,192	26	113,090	46,507	-	46,507	159,597
Equipment purchase and repair	30,512	-	15,596	46,108	-	-	-	46,108
Staff development	28,623	13,753	9,519	51,895	45,812	5,143	50,955	102,850
Travel and transportation	9,631	5,085	14,729	29,445	30,232	4,336	34,568	64,013
	13,816,574	1,535,535	4,346,981	19,699,090	1,523,267	1,372,621	2,895,888	22,594,978
ReStore cost of purchased inventory netted against revenue	-	-	505,534	505,534	-	-	-	505,534
Total functional expenses	$ 13,816,574	$ 1,535,535	$ 4,963,515	$ 20,204,624	$ 1,523,267	$ 1,372,621	$ 2,895,888	$ 23,100,512

See notes to consolidated financial statements.

Consolidated Statement of Functional Expenses

Year Ended June 30, 2018

	Program Services				Support Services			
	Home Construction	Family Services	ReStores	Total Program Services	Management and General	Fundraising Activities	Total Support Services	Total
Cost of homes sold	$ 7,709,750	$ 275	$ -	$ 7,710,025	$ -	$ -	$ -	$ 7,710,025
Salaries and wages	1,884,572	670,219	2,382,236	4,937,027	634,018	666,794	1,300,812	6,237,839
Volunteer labor on homes	988,711	-	-	988,711	-	-	-	988,711
Occupancy	236,024	19,819	556,256	812,099	22,120	17,375	39,495	851,594
Payroll taxes and benefits	168,508	60,551	177,798	406,857	102,570	68,333	170,903	577,760
Habitat for Humanity International tithe	261,816	-	-	261,816	-	-	-	261,816
Depreciation and amortization	114,086	17,211	115,961	247,258	21,261	16,706	37,967	285,225
Professional fees	8,211	83,803	21,115	113,129	270,657	4,236	274,893	388,022
Bank fees	9	-	116,359	116,368	75,985	194	76,179	192,547
Insurance	62,096	22,291	135,157	219,544	31,726	21,963	53,689	273,233
Other construction costs	69,479	77,556	182,339	329,374	426	-	426	329,800
Marketing and communications	6,127	487	138,029	144,643	-	179,325	179,325	323,968
Office supplies	50,601	28,581	136,438	215,620	37,742	17,653	55,395	271,015
Vehicle costs	58,066	57	164,071	222,194	110	31	141	222,335
Interest	149,132	8,931	-	158,063	41,605	8,667	50,272	208,335
Volunteer costs	188,251	904	1,535	190,690	1,357	2,755	4,112	194,802
Telephone	18,554	5,832	49,720	74,106	16,212	3,208	19,420	93,526
Printing and postage	8,325	8,098	25,943	42,366	10,788	16,492	27,280	69,646
Miscellaneous	40,792	34,621	1,520	76,933	8,613	361	8,974	85,907
Donated goods and services	23,031	-	46,685	69,716	19,524	234,199	253,723	323,439
Administrative fees	72,902	-	325	73,227	35,378	14	35,392	108,619
Equipment purchase and repair	54,056	-	20,018	74,074	-	-	-	74,074
Staff development	20,596	5,495	10,951	37,042	39,202	1,319	40,521	77,563
Travel and transportation	10,204	2,359	15,213	27,776	22,416	2,282	24,698	52,474
	12,203,899	1,047,090	4,297,669	17,548,658	1,391,710	1,261,907	2,653,617	20,202,275
ReStore cost of purchased inventory netted against revenue	-	-	441,405	441,405	-	-	-	441,405
Total functional expenses	**$ 12,203,899**	**$ 1,047,090**	**$ 4,739,074**	**$ 17,990,063**	**$ 1,391,710**	**$ 1,261,907**	**$ 2,653,617**	**$ 20,643,680**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Increase in net assets	$ 3,549,246	$ 4,381,522
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:		
Mortgages made to homeowners	(8,308,109)	(4,566,859)
Amortization of mortgage loan discounts	(994,527)	(2,207,796)
Depreciation and amortization expense	294,986	285,225
Amortization of New Market Tax Credit loan costs	100,438	68,723
Loss (gain) on sale of assets	2,824	(500)
Deferred rent	(33,043)	(25,578)
Net realized and unrealized gain on investments	(189,526)	(410,736)
Forgiveness of debt	(1,056,100)	(2,406,300)
Donated other assets	-	(437,202)
Gain on sale of mortgage notes receivable	(2,228,476)	-
Changes in operating assets and liabilities that provided (used) cash and cash equivalents:		
Grants receivable	261,506	(188,545)
Construction in progress	(3,630,636)	(2,367,393)
Other assets	7,370	66,460
Distributions received from the New Market Tax Credit investments	75,987	(52,907)
Accounts payable	162,022	3,549
Other accrued expenses	19,389	(11,215)
Homeowner deposits	39,220	47,252
Net cash and cash equivalents used in operating activities	(11,927,429)	(7,822,300)
Cash Flows from Investing Activities		
Mortgage principal payments received	1,278,225	1,493,996
Second mortgage payoffs received	138,326	303,259
Proceeds from sale of mortgages	9,877,544	3,270,273
Distributions for fees paid to The Denver Foundation	64,419	79,006
Purchase of investment in HFHI NMTC SUB-CDE II, LLC	-	(2,933,529)
Payments for purchases of equipment	(254,543)	(272,609)
Proceeds from sale of equipment and land	-	1,000
Distributions from investments held by The Denver Foundation	1,000,000	-
Net cash and cash equivalents provided by investing activities	12,103,971	1,941,396
Cash Flows from Financing Activities		
Repayments of mortgage note payable	(72,015)	(68,835)
Repayments of notes payable	(172,560)	(480,632)
Proceeds from notes payable	-	3,172,488
Proceeds from note payable HFHI NMTC SUB-CDE II, LLC	-	4,351,669
Proceeds from line of credit	-	250,000
Repayments of notes payable HFHI	(51,216)	(40,764)
Proceeds from notes payable HFHI	96,090	24,158
Deferred loan costs	-	(279,353)
Payments on line of credit	(250,000)	-
Proceeds from forgivable note payable	1,813,301	-
Net cash and cash equivalents provided by financing activities	1,363,600	6,928,731
Net Increase in Cash and Cash Equivalents	1,540,142	1,047,827
Cash and Cash Equivalents - Beginning of year	3,531,946	2,484,119
Cash and Cash Equivalents - End of year	**$ 5,072,088**	**$ 3,531,946**
Supplemental Cash Flow Information - Cash paid for interest	$ 68,010	$ 68,920

See notes to consolidated financial statements.

Note 1 - Nature of Organization

Habitat for Humanity of Metro Denver, Inc.

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

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

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

Affordable Mortgage Solutions, LLC

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

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

On April 18, 2019, AMS received certification from Department of the Treasury's Community Development Financial Institution Fund (CDFI Fund) as a Community Development Financial Institution (CDFI). A CDFI certification provides eligibility for financial assistance (loans and grants) from the CDFI Fund and is believed to enhance a financial institution's ability to attract private sector capital, including funding from foundations, state and local governments, and other banks and financial institution.

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

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

Note 1 - Nature of Organization (Continued)

Habitat Community Housing Development, Inc.

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

HFHMD Funding Company I, LLC

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

Note 2 - Significant Accounting Policies

Adoption of New Accounting Pronouncement

During the year ended June 30, 2019 and retrospectively applied to all periods presented, Habitat adopted the Financial Accounting Standards Board’s (FASB) Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including net asset classification, liquidity and availability of resources, and details of expenses by natural and functional classification and methods of allocation. All applicable changes to the reporting model have been incorporated into Habitat's consolidated financial statements. Net assets previously reported as temporarily restricted net assets in the amount of $1,907,425 have been restated as net assets with donor restrictions.

Principles of Consolidation

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

Basis of Presentation

The consolidated financial statements of Habitat have been prepared on the basis of generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from those estimates.

Cash Equivalents

Habitat considers all investments with an original maturity of three months or less when purchased to be cash equivalents, unless held for reinvestment as part of the investment portfolio or otherwise encumbered.

Investments

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

In accordance with U.S. GAAP, noncontrolling interests in HFHI-SA Leverage IX, LLC (see Note 13), CCML Leverage Lender I, LLC (see Note 14), and HFHI NMTC SUB-CDE II, LLC (see Note 15) are accounted for under the equity method of accounting.

Habitat evaluates these investments annually for other-than-temporary declines in value. No impairment losses were recognized for 2019 and 2018.

Note 2 - Significant Accounting Policies (Continued)

Significant Concentrations of Credit Risk

Financial instruments, which potentially subject Habitat to concentrations of credit risk, consist of cash accounts that may, during the year, exceed the federally insured limit set by the FDIC, investments held by the Foundation, and mortgage notes receivable. Interest-bearing and non-interest-bearing accounts are guaranteed by the FDIC up to $250,000. At June 30, 2019, Habitat had deposits in excess of federally insured limits of approximately $5,027,000. Habitat reduces credit risk by placing its cash and temporary investments with creditworthy, high-quality financial institutions.

Habitat finances the construction and ownership of homes to low-income individuals in the Denver Metro area. The mortgages are secured by a deed of trust. Habitat has established procedures to limit the risk of default by charging below-market interest and setting the first mortgage such that the monthly payment is no more than 30 percent of gross monthly income, thereby designing the monthly mortgage payments of the owners to be manageable. Habitat homes are appraised for value prior to sale, with the sale price being set at appraised (or fair market) value. Habitat may utilize a subordinate second mortgage to bring the first mortgage down to an affordable level based on a specific family's financial situation. However, the values of homes that collateralize the mortgage notes receivable are subject to market value fluctuations beyond the control of management.

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

Escrow Deposits Held in Trust

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

Construction in Progress

Homes Under Construction

Costs incurred in conjunction with home construction are recorded as assets until the sale of the home. A reserve to bring them to the lower of cost or net realizable value would be recorded if cost exceeded future value. At June 30, 2019 and 2018, no reserve was considered necessary.

Property Held for Sale or Future Development

Property held for sale or future development consists of (a) homes that have been reacquired due to collection problems with homeowners and are expected to be transferred to new homeowners within the next year, (b) purchased or donated land that will be developed for future home construction, (c) homes that have been reacquired from previous homeowners that will be sold on the open market, and (d) properties acquired for renovations to be sold to new homeowners within the next year. Properties held are valued at the lower of cost or net realizable value.

Property and Equipment

Property and equipment in value in excess of $5,000 are recorded at cost. The straight-line method is used for computing depreciation and amortization. Assets are depreciated over their estimated useful lives, which ranges from 3 to 30 years. The cost of leasehold improvements is amortized over the lesser of the length of the related leases or the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred.

Note 2 - Significant Accounting Policies (Continued)

Impairment or Disposal of Long-lived Assets

Habitat reviews the recoverability of long-lived assets, including buildings, equipment, and other long-lived assets, when events or changes in circumstances occur that indicate the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the ability to recover the carrying value of the asset from the expected future cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to make estimates of these cash flows related to long-lived assets, as well as other fair value determinations.

Deferred Finance Charges

During 2018, 2012, and 2011, Habitat capitalized the costs associated with obtaining the New Market Tax Credit (NMTC) loans. These deferred loan costs are being amortized over the life of the related notes payable using a method approximating the effective interest method. Amortization of deferred loan costs is included in interest expense in the accompanying consolidated statement of functional expenses. Amortization expense for the years ended June 30, 2019 and 2018 was $119,958 and $68,723, respectively. The unamortized balance at June 30, 2019 and 2018 was netted against the corresponding NMTC notes payable (see Notes 13, 14, and 15).

Deferred Rent

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

Classification of Net Assets

Net assets of the Habitat are classified based on the presence or absence of donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Habitat.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Habitat or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions, unless specifically restricted by the donor or by applicable state law.

Donated Services and Assets

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

In 2019, Habitat estimated the cost of volunteer labor to be approximately $28,200 to $35,250 for a single-family home and $3,675 for a unit for a renovation or repurchase. These volunteer costs are recognized as contribution revenue and cost of homes sold in the consolidated statement of activities and changes in net assets when the home is sold.

Approximately $7,500 and $7,000 was recorded for donated materials and electrical services on each Habitat home during 2019 and 2018, respectively.

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

Note 2 - Significant Accounting Policies (Continued)

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

Contributions

Unconditional promises to give cash and other assets to Habitat are reported at fair value on the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value on the date the gift becomes unconditional or is received. The gifts are reported as contributions with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying financial statements.

Habitat reports gifts of property and equipment as contributions without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, Habitat reports the expiration of donor restrictions when the assets are placed in service.

Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. An allowance for uncollectible contributions is provided when evidence indicates amounts promised by donors may not be collectible.

Functional Allocation of Expenses

The costs of providing program and other activities have been summarized on a functional basis in the consolidated statements of activities and changes in net assets and functional expenses. Accordingly, certain costs have been allocated among the various programs and supporting services benefited. Such allocations are determined by management on an equitable basis, using such methods as estimated usage, square footage, or periodic time and expense studies. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Income Taxes

Habitat and HCHD are not-for-profit corporations and are exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3). HFCI and AMS are disregarded entities for tax purposes and are, therefore, included in the tax reporting of Habitat. Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by Habitat and recognize a tax liability if Habitat has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by Habitat and has concluded that, as of June 30, 2019 and 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the consolidated financial statements. Habitat is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

If incurred, interest and penalties associated with tax positions are recorded in the period assessed as other operating expenses in the consolidated statement of activities and changes in net assets. No interest or penalties have been assessed as of June 30, 2019 and 2018.

Note 2 - Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Upcoming Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of 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 ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for Habitat's year ending June 30, 2020. The ASU permits application of the new revenue recognition guidance using one of two retrospective application methods. Habitat plans to apply the standard using the modified retrospective method.

The FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for Habitat's year ending June 30, 2022 and will be applied using a modified retrospective transition method to either the beginning of the earliest period presented or the beginning of the year of adoption. Habitat is still evaluating which method it will apply. The new lease standard is expected to have a significant effect on Habitat’s consolidated financial statements as a result of Habitat's operating leases, as disclosed in Note 18, that will be reported on the consolidated statement of financial position at adoption. Upon adoption, Habitat will recognize a lease liability and corresponding right-to-use asset based on the present value of the minimum lease payments. The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for Habitat’s year ending June 30, 2020 and will be applied on a modified prospective basis. Habitat does not expect the standard to have a significant impact on the timing of revenue recognition for government grants and contracts but has not yet determined the impact on the timing of recognition of foundation and individual grants and contributions.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including November 22, 2019, which is the date the consolidated financial statements were available to be issued.

Note 3 - Liquidity and Availability of Resources

The following reflects Habitat's financial assets as of June 30, 2019, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated statement of financial position date:

Cash and cash equivalents	$ 5,072,088
Investments held by The Denver Foundation	3,881,453
Grants receivable	319,743
Mortgage notes receivable - Available for sale	3,969,806
Donor-imposed restrictions	(3,028,495)
Board-advised funds	(2,000,000)
Financial assets available to meet cash needs for general expenditures within one year	$ 8,214,595

Habitat manages its liquidity and reserves following four guiding principles:

- Operating within a prudent range of financial soundness and stability
- Maintaining adequate liquid assets to meet general expenditures expected within one year of the fiscal year end
- Monitoring potential changes in the Community Reinvestment Act that could adversely impact the market for low- and moderate-income mortgage loans

Habitat strives to maintain liquid assets in an amount equal to or greater than 120 percent of total general expenditures and cash and cash equivalents on hand equal to or greater than two months of operating expenses at all times.

In addition to the liquid assets described above, Habitat has a committed line of credit in the amount of $1,000,000 at June 30, which it could draw upon if needed, as further described in Note 9.

During the year ended June 30, 2019, the level of liquidity and reserves was managed within the policy requirements.

Note 4 - Investments Held by The Denver Foundation

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

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

	2019	2018
Ordinary income	$ 64,544	$ 80,929
Realized gains - Net	75,985	172,959
Unrealized gains - Net	48,997	156,848
Total	$ 189,526	$ 410,736

Note 5 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Note 5 - Fair Value Measurements (Continued)

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that Habitat has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. Habitat's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

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

Changes in Level 3 assets measured at fair value on a recurring basis for the years ended June 30, 2019 and 2018 are as follows:

	2019	2018
Beginning balance	$ 4,756,346	$ 4,424,616
Total investment income	189,526	410,736
Distributions	(1,000,000)	-
Distributions for fees paid to the Foundation	(64,419)	(79,006)
Ending balance	$ 3,881,453	$ 4,756,346

Note 6 - Construction in Progress

Construction in progress consists of undeveloped land and infrastructure costs, as well as partially completed single-family and multifamily dwellings. At June 30, 2019 and 2018, 188 and 147 units, respectively, were under development beyond the land purchase phase. Included in the units under development are 99 and 60 home repair projects at June 30, 2019 and 2018, respectively.

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

	2019	2018
Construction in progress	$ 5,662,450	$ 4,764,038
Land under development	3,653,960	2,536,316
Renovation units	3,485,836	1,871,256
Total	$ 12,802,246	$ 9,171,610

During the year ended June 30, 2018, 14 units were transferred from construction in progress to property and equipment. These units are now being rented to tenants by Habitat. There were no transfers to property and equipment during the year ended June 30, 2019.

Note 7 - Mortgage Notes Receivable

Mortgage notes receivable consist of non-interest-bearing and below-market interest-bearing notes received from homebuyers in connection with the sale of homes constructed by Habitat. Habitat has two classes of loans. The first class of notes is those that are discounted to their present values using the market rate of interest at the closing date; the discount rate varies from 1.9 to 8.8 percent. These notes are expected to be held to maturity. For mortgages that include a below-market interest rate, the notes are discounted to their present values using the difference between the below-market rate and the market rate of interest at the closing date. The discount is amortized over the lives of the mortgages using the effective interest method. The second class of notes is those that are classified as available for sale and held at their face value. Habitat determines the proper accounting for loans based upon the individual characteristics of the underlying mortgage and its ability to market the receivable. Funds received from sale of mortgage notes receivable is reinvested in Habitat. Gains on the sale of mortgage notes receivable is included in revenue, gains, and other support on the consolidated statement of activities and changes in net assets.

Habitat's mortgage notes receivable are as follows:

	2019	2018
Held to maturity - Net	$ 12,696,295	$ 15,880,116
Available for sale	3,420,838	-
Total	$ 16,117,133	$ 15,880,116

Habitat's held to maturity mortgage notes receivable are broken down as follows:

	2019	2018
Face value of outstanding held to maturity mortgage notes receivable	$ 18,268,202	$ 25,114,079
Less discount	(5,571,907)	(9,233,963)
Total	$ 12,696,295	$ 15,880,116

Approximately $1,100,000 will be due in the year ending June 30, 2020 on the above notes.

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

Loans Sold to a Colorado Governmental Agency

In April and May 2018, Habitat sold its interest in certain mortgages receivable to a Colorado Governmental Agency (CGA), receiving $2,023,795 in cash proceeds related to the sale. This transaction was recorded as a sale.

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

Note 7 - Mortgage Notes Receivable (Continued)

The current and previous years' sales agreement with CGA requires, among other things, that should a mortgagor default on the payment on a loan and the default is not cured within 60 days, Habitat is required to substitute one or more other mortgage loans, which have an aggregate principal balance at least equal to but not more than 125 percent of the outstanding balance of the mortgage loan being replaced, or repurchase the defaulted loan. Habitat will be reimbursed for the excess of the outstanding principal balance of the replacement mortgage loan over the outstanding principal balance of the mortgage loan being replaced. No liability has been recorded for this substitution provision because management believes that the fair value of each underlying mortgaged asset exceeds the value of the associated loan. At June 30, 2019 and 2018, the outstanding principal balance of loans held by CGA that are guaranteed by Habitat was $7,023,861 and $8,078,559, respectively. During the year ended June 30, 2019, Habitat repurchased one delinquent loan from CGA for $17,110. There were no repurchases during the year ended June 30, 2018.

Loans Sold to Banks

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

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

The following summarizes Habitat loans sold to banks and the outstanding principal balance of loans serviced by Habitat as of June 30, 2019 and 2018:

	Outstanding Principal Balance of Loans Guaranteed as of June 30			
Bank Acquiring Mortgage Loan	Fiscal Year of Sale	Habitat Proceeds Received	2019	2018
Bank E	2019	$ 1,929,688	$ 1,862,278	$ -
Bank E	2019	1,296,821	1,219,964	-
Bank B	2019	3,299,168	4,179,660	-
Bank B	2019	3,351,866	4,024,816	-
Bank C	2018	1,246,478	1,333,391	1,519,698
Bank C	2017	1,717,024	1,710,426	1,850,075
Bank B	2016	4,718,966	4,095,574	4,339,305
Bank B	2015	5,614,408	5,519,103	5,830,326
Bank A	2014	1,032,467	1,139,786	1,190,570
Bank A	2013	1,991,754	1,805,182	1,976,369

Loans Transferred to a Bank

In 2018 and 2014, Habitat transferred its interest in certain mortgages receivable to HFCI, which collateralized its interest in those mortgages receivable to Bank D, by entering into a note payable and receiving cash proceeds related to the transactions. These transactions were recorded as loans. Habitat continues to service these mortgages. See Note 11 for note payable to Bank D.

Subsequent to June 30, 2019, Habitat transferred its interest in certain mortgages receivable to HFCI, which collateralized its interest in those mortgages receivable to Bank D, by entering into a note payable and receiving cash proceeds related to the transaction. Habitat received proceeds of $2,974,252.

Note 7 - Mortgage Notes Receivable (Continued)

The following summarizes Habitat loans transferred a bank:

	Outstanding Principal Balance of Mortgage Collateralized as of June 30			
Bank Acquiring Transferred Loan	Fiscal Year of Sale	Habitat Proceeds Received	2019	2018
Bank D	2018	$ 2,997,488	$ 2,782,416	$ 2,914,135
Bank D	2014	1,032,467	815,467	898,297

Note 8 - Property and Equipment

Property and equipment are summarized as follows:

	2019	2018
Buildings and improvements	$ 3,420,046	$ 3,420,046
Leasehold improvements	1,295,293	1,072,400
Rental units	1,071,001	1,071,001
Vehicles	292,754	292,754
Furniture and fixtures	129,538	129,538
Office equipment	56,050	24,400
Construction equipment	42,347	42,347
Total cost	6,307,029	6,052,486
Accumulated depreciation	2,364,965	2,069,979
Property and equipment - Net	$ 3,942,064	$ 3,982,507

Depreciation and amortization expense for 2019 and 2018 was $294,986 and $285,225, respectively.

Note 9 - Line of Credit

Under a line of credit agreement with a bank, Habitat has available borrowings of approximately $1,000,000. Borrowings are subject to rates based on *The Wall Street Journal* with a floor of 4.00 percent. Interest is payable monthly at a rate of 0.25 percent below the prime rate (an effective rate of 5.25 and 4.75 percent at June 30, 2019 and 2018, respectively). At June 30, 2019, no balance was outstanding on the line of credit. At June 30, 2018, the outstanding balance on the line of credit was $250,000.

Note 10 - Mortgage Note Payable

Habitat's mortgage note payable is composed of the following as of June 30, 2019 and 2018:

	2019	2018
Mortgage note due in equal monthly payments of principal and interest of $10,510 with remaining principal due in a balloon payment on June 30, 2020. The note is payable over 10 years, at a fixed rate of 4.8 percent, with payments amortized over a 20-year basis. The note is secured by a first deed of trust on the Eliot Street and Rio Grande Boulevard real properties, as well as all rents on such properties. The mortgage note is subject to certain financial covenants	$ 1,072,389	$ 1,144,404

Note 10 - Mortgage Note Payable (Continued)

The maturity of Habitat's mortgage note payable obligations, for the year ending June 30, is as follows:

Year Ending June 30	Amount
2020	$ 1,072,384

Note 11 - Notes Payable

Habitat's notes payable at June 30 are as follows:

	2019	2018
Note payable to Bank D bearing 0 percent interest; payable in equal monthly payments of $3,898 through September 1, 2031; followed by declining payments ranging from $3,611 to $480; and maturing on March 31, 2042. These payments are equal to the payments due on the borrower's mortgage notes receivable. The note is secured by deeds of trust related to the underlying mortgage loans pledged be Habitat (see Note 7)	$ 818,077	$ 864,853
Note payable to Bank D bearing 0 percent interest; payable in equal monthly payments of $10,482 through November 1, 2033; followed by declining payments ranging from $10,367 to $447; and maturing on August 1, 2047. The note is secured by deeds of trust related to the underlying mortgage loans pledged by Habitat (see Note 7)	2,787,848	2,913,632
Total	$ 3,605,925	$ 3,778,485

The balance of the above debt matures as follows:

Years Ending June 30	Amount
2020	$ 172,560
2021	172,560
2022	172,560
2023	172,560
2024	172,560
Thereafter	2,743,125
Total	$ 3,605,925

Note 12 - Notes Payable to HFHI

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

	2019	2018
Unsecured, non-interest-bearing notes payable to Habitat International; payable in monthly installments ranging from $78 to $1,328; maturing between July 2020 and December 2025	$ 353,318	$ 308,444

Note 12 - Notes Payable to HFHI (Continued)

Principal payments under the above agreement are as follows:

Years Ending June 30	Amount
2020	$ 104,498
2021	94,251
2022	76,810
2023	56,177
2024	8,628
Thereafter	12,954
Total	$ 353,318

Note 13 - Investment in HFHI-SA Leverage IX, LLC

During 2011, Habitat entered into a NMTC program. The program provides funds to eligible organizations for investments in a qualified low-income community investment. As a participant in this program, Habitat invested in HFHI-SA Leverage IX, LLC (HFHI-SA) with other affiliates of HFHI and also entered into a promissory note with HFHI-SA VI, LLC, a qualified community development entity (CDE). Habitat has invested in a 17.78 percent ownership of HFHI-SA, which was initially recorded at its cost of $3,687,447, and records its share of income or loss as an adjustment to the investment balance and investment income or loss. HFHI-SA invested these funds in an investment fund, which in turn made an investment in the CDE.

In exchange for the investment and promissory note, Habitat received a net cash inflow of approximately $649,000, net of transaction expenses, which were utilized to build homes or infrastructure or acquire land.

As part of the transaction in 2011, Habitat entered into a promissory note due to the CDE of $4,858,200. This note requires interest-only payments until November 2018 at 0.76 percent. The loan matures in July 2027 and is secured by certain depository and reserve bank accounts. The interest is paid to the CDE by Habitat and other affiliates of HFHI in proportion to their ownership of HFHI-SA, which is repaid to the investment fund. The interest is then returned to HFHI-SA, and, ultimately, 99.98 percent of the interest is returned to Habitat and other affiliates of HFHI based on their percentage ownership of HFHI-SA. In November 2018, the investment fund exercised a put option, resulting in HFHI-SA holding the debt, thereby releasing Habitat from any future obligation outstanding under the promissory note. Upon release from future obligations under the promissory note, Habitat recognized $766,999 of debt forgiveness income included in the consolidated statement of activities and changes in net assets. As of June 30, 2019, there was no outstanding amount due on this promissory note. As of June 30, 2018, the balance of $4,858,200 was due, net of loan costs of $66,450.

Upon forgiveness of debt, the value of HFHI-SA and Habitat’s corresponding investment, was reduced to $0. During the year ended June 30, 2018, Habitat increased its investment balance by $101,618 for Habitat's portion of HFHI-SA's earnings, offset by $73,403 for distributions received from HFHI-SA.

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

	2019	2018
Total assets	$ -	$ 23,128,682
Total revenue	4,600,941	571,696
Net income	4,600,941	571,696

Note 14 - Investment in CCML Leverage Lender I, LLC

During 2012, Habitat participated in a second NMTC program. As a participant in this program, Habitat invested in CCML Leverage Lender I, LLC (CCML) with other affiliates of HFHI and also entered into a promissory note with CCM Community Development XVII LLC, a qualified CDE. Habitat has invested in a 10.01 percent ownership of CCML, which was initially recorded at its cost of $1,450,464, and records its share of income or loss as an adjustment to the investment balance and investment income or loss. CCML invested these funds in an investment fund, which in turn made an investment in the CDE.

In exchange for the investment and promissory note, Habitat received a net cash inflow of approximately $300,000, net of transaction expenses, that was utilized to build homes or infrastructure or acquire land.

As part of the transaction in 2012, Habitat entered into a promissory note due to the CDE of $1,880,000. This note requires interest-only payments until November 2020 at 0.77 percent. The loan matures in May 2028 and is secured by substantially all the assets acquired from the loan proceeds. The interest is paid to the CDE by Habitat and other affiliates of HFHI in proportion to their ownership of CCML, which is repaid to the investment fund. The interest is then returned to CCML, and, ultimately, 99.99 percent of the interest is returned to Habitat and other affiliates of HFHI based on their percentage ownership of CCML. In May 2019, the investment fund exercised a put option resulting in CCML holding the debt, thereby releasing Habitat from any future obligation outstanding under the promissory note. Upon release from future obligations under the promissory note, Habitat recognized $289,101 of debt forgiveness income included in the consolidated statement of activities and changes in net assets. As of June 30, 2019, there was no outstanding amount due on this promissory note. As of June 30, 2018, the balance of $1,880,000 was due, net of loan costs of $28,751.

Upon forgiveness of debt, the value of CCML, and Habitat’s corresponding investment, was reduced to $0. During the year ended June 30, 2018, Habitat increased its investment balance by $39,196, for Habitat's portion of CCML's earnings, offset by $14,504 for distributions received from CCML.

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

	2019	2018
Total assets	$ -	$ 15,972,708
Total revenue	2,747,736	391,744
Net income	2,747,736	391,744

Note 15 - Investment in HFHI NMTC Leveraged Lender 2016-1, LLC

During November 2017, Habitat participated in a third NMTC program. As a participant in this program, Habitat invested in HFHI NMTC Leverage Lender 2016-1, LLC (HFHI NMTC) with other affiliates of HFHI and also entered into a promissory note with HFHI NMTC SUB-CDE II, LLC, a qualified CDE. Habitat has invested in a 13.58 percent ownership of HFHI NMTC, which was initially recorded at its cost of $2,933,529, and records its share of income or loss as an adjustment to the investment balance and investment income or loss. HFHI NMTC invested these funds in an investment fund, which in turn made an investment in the CDE. During the year ended June 30, 2019, Habitat decreased its investment balance by $29,334 for distributions received from HFHI NMTC. During the year ended June 30, 2018, Habitat increased its investment balance by $19,474 for Habitat's portion of HFHI NMTC's earnings, offset by $19,474 for distributions received from HFHI NMTC.

Note 15 - Investment in HFHI NMTC Leveraged Lender 2016-1, LLC (Continued)

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

	2019	2018
Total assets	$ 21,385,825	$ 21,601,829
Total revenue	216,019	143,400
Net income	216,019	143,400
Total	$ 21,817,863	$ 21,888,629

In exchange for the investment and promissory note, Habitat received a net cash inflow of approximately $1,057,000 net of transaction expenses, which can be utilized to build homes or infrastructure or acquire land. Habitat is required to maintain a separate accounting of the activities undertaken using the loan proceeds, build homes in qualified census tracts, and build one home per year from these funds for years two through seven. As of June 30, 2019 and 2018, Habitat is in compliance with these conditions.

Habitat has a promissory note due to the CDE of $4,351,669, net of loan costs as of June 30, 2019 and 2018 of $218,915 and $253,036, respectively. This note requires semiannual interest-only payments until November 2024 at 0.67 percent. The loan matures in November 2047 and is secured by substantially all the assets acquired from the loan proceeds. The interest is paid to the CDE by Habitat and other affiliates of HFHI in proportion to their ownership of HFHI NMTC, which is repaid to the investment fund. The interest is then returned to HFHI NMTC, and, ultimately, 99.99 percent of the interest is returned to Habitat and other affiliates of HFHI based on their percentage ownership of HFHI NMTC. In December 2024, the investment fund may exercise a put option resulting in HFHI NMTC holding the debt, thereby releasing Habitat from any obligation outstanding under the promissory note.

Habitat was in compliance with the solvency and debt service coverage ratios, as required by the note agreement as of June 30, 2019 and 2018

Note 16 - Forgivable Notes Payable

Habitat has entered into certain notes payable due to the City and County of Denver, Colorado. No interest or principal payments are required so long as Habitat remains in compliance with the terms and conditions as stated in the loan agreements. The primary condition of the funding is that it is used for development of certain properties. The amounts will be forgiven and recorded as grants revenue upon the sale of the last units developed at each site with these finds to qualifying homeowners. As of June 30, 2019 and 2018, Habitat is using the remaining funds for those specified purposes and is in compliance with the terms of the note agreements.

As of June 30, 2019 and 2018, Habitat had $2,214,101 and $400,800, respectively, of notes outstanding to the City and County of Denver, Colorado. During 2018, $1,391,300 was forgiven and recorded as forgiveness of debt.

During the year ended June 2018, $840,000 of debt due to the Denver Housing Authority was forgiven and recorded as forgiveness of debt.

Note 17 - Net Assets

Net Assets without Donor Restrictions

Board Designated

The board has designated $2,000,000 of unrestricted net assets at June 30, 2019 and 2018 for future land and infrastructure costs expected on outstanding and planned projects.

Net Assets with Donor Restrictions

Net assets with donor restrictions are entirely for home sponsorships as of June 30, 2019 and 2018.

Note 18 - Leases

Habitat is obligated under five operating leases for four ReStore buildings and one production warehouse, expiring at various dates from March 2021 to December 2026. The leases require escalating monthly payments ranging from approximately $1,300 to $18,700.

Habitat has also entered into noncancelable operating lease agreements for vehicles. The lease agreements have monthly payments ranging from approximately $1,100 to $1,700, which include maintenance charges, and expire at various times from October 2019 to March 2023.

Habitat has also entered into noncancelable operating lease agreement for certain office equipment. The lease agreement has a monthly payment of $2,686, which includes certain maintenance charges, and expires in June 2024.

Total lease expense under these leases was $772,979 and $731,857 for 2019 and 2018, respectively.

Future minimum annual commitments, including estimated maintenance charges, under these operating leases are approximately as follows:

Years Ending June 30	Amount
2020	$ 748,000
2021	550,000
2022	293,000
2023	204,000
2024	170,000
Thereafter	362,000
Total	$ 2,327,000

Note 19 - Transactions with Habitat International and Habitat for Humanity of Colorado

Habitat voluntarily remits a portion of its contributions to Habitat International on an annual basis. These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2019 and 2018, Habitat contributed $257,048 and $261,816, respectively, to Habitat International. This amount is included in program services in the consolidated statement of activities and changes in net assets.

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

Note 20 - Commitments and Contingencies

Guarantee Agreements

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

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

Grant Awards

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

Claims and Litigation

Habitat is subject to litigation from time to time. Habitat has determined that there are no material claims outstanding as of June 30, 2019 and 2018. When necessary, to the extent not covered by insurance, Habitat will establish a reserve for loss contingencies that are considered probable and reasonably estimable.

Note 21 - Retirement Plans

Habitat maintains a tax-deferred annuity plan (the "Plan") qualified under IRC Section 401(k). The Plan covers all employees of Habitat. Habitat provides employees the opportunity to contribute a portion of their gross salaries to the Plan, up to the maximum amount established by the Plan. The Plan includes a safe harbor match of each participant's elective deferrals, not exceeding 3 percent of the participant's compensation, plus 50 percent of the participant's elective deferrals in excess of 3 percent but not in excess of 5 percent of the participant's compensation. Contributions to the Plan totaled $176,145 and $160,431 for the years ended June 30, 2019 and 2018, respectively.