PIKES PEAK HABITAT FOR HUMANITY, INC.

FINANCIAL STATEMENTS

JUNE 30, 2018

(Together with Independent Auditors' Report)

WIPFLi LLP
CPAs and Consultants

C O N T E N T S

INDEPENDENT AUDITORS' REPORT

Board of Directors
Pikes Peak Habitat for Humanity, Inc.

We have audited the accompanying financial statements of Pikes Peak Habitat for Humanity, Inc. (a Not-for-Profit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

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

Opinion

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

Report on Summarized Comparative Information

The financial statements of Pikes Peak Habitat for Humanity, Inc., as of June 30, 2017, were audited by Bauerle and Company, P.C., who merged with Wipfli LLP as of February 1, 2018, and whose report dated October 16, 2017, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Wipfli LLP

Wipfli LLP
Denver, Colorado

October 22, 2018

PIKES PEAK HABITAT FOR HUMANITY, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018
(With Comparative Totals as of June 30, 2017)

ASSETS

	2018	2017
CURRENT ASSETS		
Cash and Cash Equivalents	$ 906,192	$ 2,214,269
Escrow Deposits Held in Trust	111,660	69,910
Insurance Settlement Receivable	144,094	-
Contributions and Grants Receivable	61,648	201,414
Current Portion of Mortgages Receivable - Net of Unamortized Discount	56,486	39,958
Inventory - ReStore	16,216	22,830
Investments	1,098,982	100,414
Other Current Assets	4,034	30,818
Land Held for Development and Construction-in-Progress	894,432	887,942
Total Current Assets	3,293,744	3,567,555
PROPERTY AND EQUIPMENT - AT COST		
Land	260,270	260,270
Building and Improvements	1,594,220	1,588,530
Equipment and Furniture	97,937	101,135
Vehicles	60,770	60,770
Software	5,613	5,613
	2,018,810	2,016,318
Less: Accumulated Depreciation	477,955	410,730
Property and Equipment - Net	1,540,855	1,605,588
LONG-TERM ASSETS		
Long-Term Portion of Mortgages Receivable - Net of Unamortized Discount	2,423,762	2,049,389
TOTAL ASSETS	$ 7,258,361	$ 7,222,532

The accompanying notes are an integral part of the financial statements.

PIKES PEAK HABITAT FOR HUMANITY, INC.

STATEMENTS OF FINANCIAL POSITION (CONTINUED)
JUNE 30, 2018
(With Comparative Totals as of June 30, 2017)

LIABILITIES AND NET ASSETS

	2018	2017
CURRENT LIABILITIES		
Accounts Payable	$ 113,073	$ 54,574
Accrued Liabilities	86,425	78,900
Escrow Holdings	111,660	69,910
Notes Payable - Due Within One Year	54,298	73,528
Forgivable Note Payable - Due Within One Year	-	115,105
Total Current Liabilities	365,456	392,017
LONG-TERM LIABILITIES		
Notes Payable - Due After One Year	747,511	1,024,985
Forgivable Notes Payable - Due After One Year	266,710	266,710
Total Long-Term Liabilties	1,014,221	1,291,695
Total Liabilities	1,379,677	1,683,712
NET ASSETS		
Unrestricted	5,805,736	5,245,367
Temporarily Restricted	72,948	293,453
Total Net Assets	5,878,684	5,538,820
TOTAL LIABILITIES AND NET ASSETS	$ 7,258,361	$ 7,222,532

The accompanying notes are an integral part of the financial statements.

PIKES PEAK HABITAT FOR HUMANITY, INC.

STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)

	Unrestricted	Temporarily Restricted	Total 2018	Total 2017
REVENUES AND SUPPORT				
Operating Revenues:				
Sales to Homeowners	$ 1,084,974	$ -	$ 1,084,974	$ 874,247
Mortgage Discount Amortization	173,561	-	173,561	161,631
Discount Earned on Sale of Mortgages Receivable	73,509	-	73,509	96,228
Proceeds From Forgivable Mortgages	46,969	-	46,969	44,776
ReStore Revenue, net of cost of purchased inventory of $124,248 and $122,818, respectively	1,611,001	-	1,611,001	1,528,000
Other Income	44,974	-	44,974	33,035
Investment Income (Loss)	(15,712)	-	(15,712)	11,592
Total Operating Revenues	3,019,276	-	3,019,276	2,749,509
Support:				
Contributions and Grants	422,858	84,800	507,658	744,964
Loan Forgiveness Income	115,105	-	115,105	-
In-Kind Donations	350,467	-	350,467	199,196
Net Assets Released from Restrictions	305,305	(305,305)	-	-
Total Support	1,193,735	(220,505)	973,230	944,160
TOTAL REVENUES AND SUPPORT	4,213,011	(220,505)	3,992,506	3,693,669
EXPENSES				
Program Services				
Home Construction	2,110,451	-	2,110,451	1,920,374
ReStore	1,091,555	-	1,091,555	1,112,579
Total Program Services	3,202,006	-	3,202,006	3,032,953
Supporting Services				
Management and General	157,149	-	157,149	180,358
Fundraising	293,487	-	293,487	299,705
Total Support Services	450,636	-	450,636	480,063
TOTAL EXPENSES	3,652,642	-	3,652,642	3,513,016
CHANGE IN NET ASSETS	560,369	(220,505)	339,864	180,653
NET ASSETS - BEGINNING OF YEAR	5,245,367	293,453	5,538,820	5,358,167
NET ASSETS - END OF YEAR	$ 5,805,736	$ 72,948	$ 5,878,684	$ 5,538,820

The accompanying notes are an integral part of the financial statements.

PIKES PEAK HABITAT FOR HUMANITY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)

	Home Construction	ReStore	Management and General	Fundraising	Total 2018	Total 2017
Expenses:						
Salaries, Payroll Taxes and Benefits	$ 356,745	$ 650,059	$ 91,567	$ 198,122	$ 1,296,493	$ 1,351,422
Construction Costs	972,128	7,026	-	-	979,154	889,685
Discount to Net Present Value	575,375	-	-	-	575,375	507,131
Advertising, Printing and Publications	15,249	90,240	311	27,903	133,703	108,371
Tithe	83,314	-	-	-	83,314	70,310
Insurance	22,119	44,855	6,237	6,913	80,124	62,934
Telephone and Utilities	6,924	57,726	3,504	3,843	71,997	65,026
Depreciation	15,131	53,406	-	1,887	70,424	69,364
Vehicle Expenses	8,933	51,432	-	-	60,365	44,477
Occupancy	9,984	28,095	7,522	7,510	53,111	58,188
Interest	8,590	37,877	-	-	46,467	53,123
Office Supplies and Expenses	4,483	8,463	8,807	16,992	38,745	61,550
Professional Fees	10,566	5,427	30,136	-	46,129	35,291
Bank and Credit Card Fees	751	26,828	995	6,631	35,205	25,258
Conference, Meals and Entertainment	13,125	10,853	2,008	8,686	34,672	36,661
Dues and Subscriptions	5,011	10,724	3,270	3,150	22,155	19,046
Fundraising Activities	-	-	-	10,760	10,760	42,435
Miscellaneous	1,681	2,314	2,546	844	7,385	4,887
Repairs and Maintenance	342	5,980	246	246	6,814	7,782
Property Taxes	-	250	-	-	250	75
TOTAL EXPENSES	$ 2,110,451	$ 1,091,555	$ 157,149	$ 293,487	$ 3,652,642	$ 3,513,016

The accompanying notes are an integral part of the financial statements.

PIKES PEAK HABITAT FOR HUMANITY, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	$ 339,864	$ 180,653
Adjustments to Reconcile Change in Net Assets to		
Net Cash (Used In) Operating Activities:		
Mortgage Loans Issued -		
Net of Discount to Net Present Value	(501,599)	(367,116)
Amortization of Discount on Mortgage Loans	(173,561)	(161,631)
Discount Earned on Sale of Mortgages	(73,509)	(96,228)
Realized and Unrealized Losses (Gains) on Investments	40,418	(369)
Loan Forgiveness Income	(115,105)	-
Depreciation Expense	70,424	69,364
Changes in Operating Assets and Liabilities:		
(Increase) Decrease in Assets:		
Escrow Deposits Held in Trust	(41,750)	(19,835)
Insurance Settlement Receivable	(144,094)	-
Contributions and Grants Receivable	139,766	(199,921)
Other Current Assets	26,784	2,141
Inventory - ReStore	6,614	(8,301)
Construction-in-Progress	(6,490)	178,777
Increase (Decrease) in Liabilities:		
Accounts Payable	58,499	11,696
Accrued Liabilities	7,525	(42,307)
Escrow Holdings	41,750	19,835
Net Cash (Used In) Operating Activities	(324,464)	(433,242)
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Purchase of) Property and Equipment	(5,691)	(73,996)
Mortgage Payments Received	233,579	272,489
Proceeds from Sale of Mortgages Receivable	124,189	141,002
(Purchase of) Investments	(1,199,930)	(115,166)
Sales of Investments	160,944	15,121
Net Cash Provided By (Used In) Investing Activities	(686,909)	239,450
CASH FLOWS (USED IN) FINANCING ACTIVITIES:		
(Payments on) Notes Payable	(296,704)	(68,508)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,308,077)	(262,300)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,214,269	2,476,569
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 906,192	$ 2,214,269
SUPPLEMENTAL DISCLOSURE:		
Interest Paid	$ 46,467	$ 53,123
NON-CASH FINANCING ACTIVITIES:		
Forgiveness of Notes Payable	$ 115,105	$ -

The accompanying notes are an integral part of the financial statements.

1 Summary of Significant Accounting Policies.

Nature of Organization. Pikes Peak Habitat for Humanity, Inc. (the "Organization") was formed on January 27, 1986, and is an affiliate of Habitat for Humanity International, Inc. ("Habitat International"), an ecumenical Christian Not-for-Profit organization whose purpose is 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 for Humanity. All Habitat future homeowners and partner families complete sweat equity, attend homeowner education classes, and pay an affordable mortgage for their home or a portion of the external home repairs. Financing for individuals purchasing homes is provided by the Organization through an affordable mortgage with monthly payments meeting HUD's affordability standards. The Organization serves Colorado Springs and El Paso County, Colorado.

The Organization operates a Habitat for Humanity ReStore, a retail operation where home furnishings, appliances, and other miscellaneous items are sold to the community to provide the community with a source of low-cost materials for home improvements, to reduce the volume of materials going to landfills, and to generate funds for the Organization. Many of the Organization's existing and future homeowners volunteer at the ReStore to earn sweat equity hours and work experience.

Prior to July 1, 2016, Pikes Peak Habitat for Humanity, Inc., Pikes Peak Habitat for Humanity ReStore, LLC (Restore), and Pikes Peak Habitat for Humanity Properties, LLC (Properties) were separate legal entities. Effective July 1, 2016, the Organization's Board of Directors approved the dissolution of both ReStore and Properties as part of a business structure reorganization. Upon dissolution the assets and operations of ReStore and Properties were merged into Pikes Peak Habitat for Humanity, Inc.

On May 23, 2018, the Organization formed PPHFH Community Housing Development, Inc. (PPHFH) for purposes of administering Home Investment Partnership Act (HOME) funding awarded to the Organization in September 2018 by the City of Colorado Springs. The Organization is the sole shareholder of PPHFH. For the year ended June 30, 2018, PPHFH did not have any operating activity.

1 Summary of Significant Accounting Policies. (Continued)

Income Tax Status. The Organization is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from activities not directly related to the Organization's tax exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(ii) and has been classified as an organization other than a private foundation under Section 509(a)(1).

In accordance with accounting principles generally accepted in the United States ("GAAP"), a private entity is required to disclose any material uncertain tax positions that management believes does not meet a "more-likely-than-not" standard of being sustained under an income tax audit, and to record a liability for any such taxes including penalty and interest. Management of the Organization has not identified any uncertain tax positions that require the recording of a liability mentioned above or further disclosure.

Basis of Presentation. The financial statements of the Organization are prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other assets and liabilities. The Organization reports information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted amounts are those currently available at the discretion of the Board of Directors ("Board") for use in the Organization's operations.

Temporarily restricted amounts are monies restricted by donors specifically or certain time periods, purposes, or program.

Permanently restricted amounts are assets that must be maintained permanently by the Organization as required by the donor, but the Organization is permitted to use or expend part or all of any income derived from those assets. The Organization does not currently maintain any permanently restricted net assets.

Comparative Financial Information. The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. The prior year presentation does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the audited financial statements for the year ended June 30, 2017, from which the summarized information was derived.

1 Summary of Significant Accounting Policies. (Continued)

Use of Estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Recognition of Revenue and Support. The Organization records unconditional contributions in accordance with the requirements of GAAP for Not-for-Profit Organizations. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as Net Assets Released from Restrictions.

Conditional promises to give are recognized as support when the conditions on which they depend are substantially met. Assets received with a conditional promise for use of those assets are accounted for as refundable advances until the conditions on which they depend are substantially met.

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

Consistent with the Habitat International *Affiliate Operations Manual*, goods donated to the ReStore 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 ReStore wherein significant uncertainties exist about the realizability of the values; thus, fair value is not determinable within reasonable limits until the time of sale.

Donated Materials and Services. Donated services are recognized as contributions in accordance with GAAP for Not-for-Profit Organizations, if the services (a) create or enhance non-financial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Volunteers also provided assistance with specific programs and fund-raising events throughout the year that were not recognized as contributions in the financial statements because the recognition criteria were not met.

Cash and Cash Equivalents. For purpose of the Statements of Cash Flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

1 Summary of Significant Accounting Policies. (Continued)

Fair Value of Financial Instruments. The Organization's financial instruments include cash and cash equivalents, accounts receivable, contributions and grants receivable, mortgages receivable, investments, accounts payable, and short-term borrowings. The fair value of these financial instruments approximates their carrying amounts based on current market indicators such as prevailing interest rates and their nearness to maturity.

Contributions and Grants Receivable. Contributions and grants receivable are reviewed for collectability by management and an allowance for doubtful accounts is recorded as needed based on collection history and customer attributes. The Organization considers all contributions and grants receivable to be collectible and, therefore, no allowance for uncollectible amounts has been recorded.

Inventory – ReStore. ReStore Inventory consists of purchased items. During the year ended June 30, 2018, the Organization adopted Accounting Standards Update (ASU) 2015-11, “Inventory - Simplifying the Measurement of Inventory,” which changed how inventory is valued. Inventories as of June 30, 2018, are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonable predictable cost of completion, disposal, and transportation. The adoption of ASU 2015-11 did not have a material impact on the Organization’s financial statements.

Construction-in-Progress. All costs incurred in constructing a home are capitalized. These costs include donated goods and services associated with the individual project. These accumulated costs are not subject to depreciation.

Investments. The Organization carries investments with readily determinable fair values at their fair values based on quoted prices in active markets in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

Mortgages Receivable. The Organization constructs homes to be sold with interest-free mortgages. These mortgages are discounted to their present value based upon the prevailing market interest rates at the inception of the mortgage. The discount is amortized over the life of the loan using the interest method. The rates determined by the Internal Revenue Service used to discount the mortgages funded for the years ended June 30, 2018 and 2017, were 7.57% and 7.47%, respectively. From time to time, the Organization may sell mortgages rather than hold them to term. In this situation, the gain or loss on the sale of mortgages is recorded in the year in which the mortgage is sold.

1 Summary of Significant Accounting Policies. (Continued)

Mortgages Receivable. (Continued)

All mortgages 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 collectability. Management believes that the fair value of each underlying mortgaged property exceeds the value of the associated outstanding mortgage loan and, therefore, no allowance for uncollectible mortgages is recorded.

Property and Equipment. Property and equipment is carried at cost or fair market value at date of contribution. Property and equipment acquired with an estimated useful life in excess of one year and a cost of $5,000 or more is capitalized and depreciated using the straight-line method over the estimated useful lives of the assets.

Donations of assets are recorded at estimated fair market value. Long-lived assets are recorded without implying a time restriction, therefore, increasing unrestricted net assets at the fair market value in the year which the assets are received.

Long-Lived Assets. The Organization reviews their long-lived assets periodically to determine potential impairment by comparing the carrying value of those assets with the estimated future undiscounted cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected future undiscounted cash flows be less than the carrying value, the Organization would recognize an impairment loss at that time. No impairment loss was recognized during the years ended June 30, 2018 and 2017.

Escrow Deposits Held in Trust. The Organization services the mortgages on the homes it sells. Included in escrow deposits held in trust are amounts received for insurance, property taxes, and homeowner association dues to such homes. Certain mortgages subsequently sold to third parties, one of which services the loans it holds, and the other group of loans continue to be serviced by the Organization.

Advertising. The Organization uses advertising to promote among the audience it serves. The production costs of advertising are expensed as incurred. Advertising costs totaled $94,166 and $81,883, respectively, during the years ended June 30, 2018 and 2017.

1 Summary of Significant Accounting Policies. (Continued)

Functional Allocation of Expenses. The costs of providing various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Program activities are those that are conducted in accordance with the Organization's nature of operations and certain necessary costs. These costs primarily include all construction-related expenses, including land development and building expenditures as well as handling of fiduciary responsibilities related to existing, potential, and new mortgages. Management and general activities are those that are not identifiable with a single program or fundraising activity, but that are indispensable to the conduct of those activities and to an organization's existence. Fundraising activities involve inducing potential donors to contribute money, securities, services, materials, facilities, other assets, or time. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Concentrations of Credit Risk. Financial instruments which potentially subject the Organization to credit risk consist of cash accounts that may, during the year, exceed the federally insured limit set by the FDIC, and mortgage notes receivable. Since the Organization places cash in individual financial institutions in excess of FDIC insured limits, the Organization periodically reviews the financial condition of the financial institutions to reduce the Organization's credit risk associated with cash and cash equivalents.

The Organization finances the construction and ownership of homes to low-income individuals in El Paso County, Colorado. The mortgages are secured by a deed of trust. The Organization has established procedures to limit the risk of default by limiting the sales prices of the homes and not charging interest in order to establish a monthly mortgage payment that is manageable by the owner. Homes are appraised for value prior to sale and the original sales price may be set below the appraised value. The values of the mortgaged homes that collateralize the mortgage notes receivable are subject to market value fluctuations beyond the control of the Organization.

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.

Subsequent Events. In preparing its financial statements, the Organization has evaluated subsequent events through October 22, 2018, which is the date the financial statements were available to be issued. Management of the Organization has not identified any material subsequent events that require reporting or disclosure, except as discussed in Notes 8 and 14.

1 Summary of Significant Accounting Policies. (Continued)

Reclassifications. Certain 2017 amounts have been reclassified to conform with the 2018 financial statement presentation. Total net assets and changes in total net assets are not affected by these reclassifications.

Recently Issued Accounting Pronouncements. In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*. This ASU is meant to eliminate diversity in practice and increase comparability among Not-for-Profit entities. The FASB believes that certain requirements of the ASU will increase transparency around a Not-for-Profit's available financial resources and flexibility. This ASU is effective for fiscal years beginning after December 15, 2017; however, early adoption of this ASU is permitted. Management is currently evaluating the potential impact of this ASU on the Organization's financial statements.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU, as amended, provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services, guidance on accounting for certain contract costs, and new disclosures. The new standard supersedes current revenue recognition requirements in FASB Accounting Standards Codification (ASC) Topic 605 Revenue Recognition, and most industry specific guidance. When adopted, the amendments in the ASU must be applied using either a full or modified retrospective method. ASU No. 2014-09 is effective for nonpublic companies for fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact of the provisions of ASC 606 on its financial statements.

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842), which requires lessees to recognize on the balance sheet a right-of-use asset and a lease liability for most lease arrangements with a term greater than one year. The new standard also requires new disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from the leases. ASU 2016-02 is effective for nonpublic companies for fiscal years beginning after December 15, 2019. Early adoption is permitted. The amendments in this update should be applied using a modified retrospective approach. The Company is currently evaluating the effect that ASU 2016-02 will have on its financial statements.

Management has evaluated other recently issued accounting pronouncements and does not believe that any of these pronouncements will have an impact on the Organization's financial statements.

2 Construction-in-Progress.

Construction-in-progress consists of undeveloped land and infrastructure costs, as well as partially completed single-family dwellings. At June 30, 2018 and 2017, 6 and 5 units, respectively, were under development beyond the land purchase date, and 12 and 19 units were in land acquired for development, respectively. There were no completed homes ready for use at June 30, 2018. The following is a summary of construction-in-progress for the years ended June 30, 2018 and 2017:

	2018	2017
Construction-in-Progress	$ 617,535	$ 457,635
Land Acquired for Development	276,897	430,307
	$ 894,432	$ 887,942

3 Mortgages Receivable.

Mortgages receivable at June 30, 2018 and 2017, are as follows:

	2018	2017
Mortgages Receivable at Face Value	$ 5,235,041	$ 4,515,836
Less: Unamortized Discount	(2,754,793)	(2,426,489)
Net Mortgages Receivable	2,480,248	2,089,347
Less: Current Portion, Net of Unamortized Discount	56,486	39,958
Long Term Portion, Net of Unamortized Discount	$ 2,423,762	$ 2,049,389

The following are future principal payments due under the mortgages receivable for the years ending June 30:

2019	$ 258,356
2020	251,312
2021	247,391
2022	240,807
2023	230,871
Thereafter	4,006,304
	$ 5,235,041

3 Mortgages Receivable. (Continued)

At June 30, 2018 and 2017, the Organization had 73 and 68, respectively, outstanding mortgages receivable with applicable discount rates ranging from 7.39% to 9.00%, respectively. The discount rates are set by Habitat for Humanity International based on the annual simple average of the rates published by the Internal Revenue Service under 2011-5 Section 42(B)(2) for buildings placed into service during the period. The rate in effect at the time the loan is made is the rate that is used to discount the mortgage.

In addition to the reported mortgage loans receivable described above, a forgivable promissory note is established at the closing of each home for the difference between the appraised value and the actual sales price of the home. The forgivable loan is forgiven ratably over the life of the mortgage note. No amounts associated with the forgivable note are reflected in these financial statements as the balance is only due in the instance that the homeowner sells the house prior to maturity of the mortgage note. During the year ended June 30, 2018 and 2017, the Organization received $46,969 and $44,776, respectively, of proceeds from forgivable mortgages.

Loans Sold to CHFA: During the years ended June 30, 2018 and 2017, the Organization sold one loan each year to Colorado Housing and Finance Authority (CHFA), receiving $115,909 and $118,942, respectively, in cash proceeds from the sale. For the years ended June 30, 2018 and 2017, the Organization recorded revenue of $73,509 and $ 71,355, arising from the recognition of the unamortized discount on the mortgage notes sold.

As of June 30, 2018 and 2017, the Organization had sold a total of 18 and 17 mortgages, respectively, to CHFA. According to the agreement between Organization and CHFA, if a homeowner defaults on a mortgage note sold, the Organization will be obligated to substitute another mortgage of equal or greater value. The outstanding principal balance of the mortgage notes that had been sold to CHFA at June 30, 2018 and 2017, was approximately $1,190,835 and $1,067,000, respectively.

4 Investments.

The following summarizes investments held at June 30, 2018:

	Cost	Fair Value
Mutual Funds	$ 666,017	$ 651,057
Common Stocks & Exchange Traded Funds	463,971	447,925
Total Investments	$ 1,129,988	$ 1,098,982

The following summarizes investments held at June 30, 2017:

	Cost	Fair Value
Mutual Fund	$ 36,090	$ 36,240
Common Stocks & Exchange Traded Funds	64,165	64,174
Total Investments	$ 100,255	$ 100,414

For the years ended June 30, 2018 and 2017, investment income (loss) was composed of the following:

	2018	2017
Realized Gains (Losses)	($ 4,020)	$ 210
Unrealized Gains (Losses)	(36,398)	159
Interest and Dividends	24,705	11,223
	($ 15,713)	$ 11,592

For comparison purposes, the key reason for the decrease in cash and cash equivalents for the year ending June 30, 2018, is due to the changing of the asset allocation mix of the investment portfolio from primary cash and cash equivalents to primarily fixed income and equity securities. The combined total of cash and cash equivalents and investment balances at June 30, 2018, is comparable to the prior year.

5 Fair Value Measurements.

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The levels of the fair value hierarchy are described as follows:

Level 1 Fair Value Measurements.

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

5 Fair Value Measurements. (Continued)

Level 2 Fair Value Measurements.

Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 Input must be observable for substantially the full term of the asset or liability.

Level 3 Fair Value Measurements.

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Mutual funds, common stock and exchange traded funds are valued at quoted market prices in active markets.

The following table sets forth, by level within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2018:

Assets at Fair Value as of June 30, 2018

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Mutual Funds	$ 651,057	$ -	$ -	$ 651,057
Common Stock and Exchange Traded Funds	447,925	-	-	447,925
Total Assets in the Fair Value Hierarchy	$ 1,098,982	$ -	$ -	$ 1,098,982

5 Fair Value Measurements. (Continued)

The following table sets forth, by level within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2017:

Assets at Fair Value as of June 30, 2017

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Mutual Funds	$ 36,240	$ -	$ -	$ 36,240
Common Stock and Exchange Traded Funds	64,174	-	-	64,174
Total Assets in the Fair Value Hierarchy	$ 100,414	$ -	$ -	$ 100,414

6 Property and Equipment.

Property and equipment, net of accumulated depreciation, consisted of the following at June 30, 2018 and 2017:

	2018	2017
Land	$ 260,270	$ 260,270
Building and Improvements	1,216,889	1,260,181
Equipment and Furniture	36,606	49,776
Vehicles	25,219	31,619
Software	1,871	3,742
	$ 1,540,855	$ 1,605,588

Depreciation expense charged to operations for the years ended June 30, 2018 and 2017, was $70,424 and $69,364, respectively.

7 Notes Payable.

The following is a summary of the notes payable at June 30, 2018 and 2017:

	2018	2017
Loan from a commercial bank payable in monthly installments of $7,480, including interest at 4.5%; matures December 2029; secured by real estate	$ 801,809	$ 853,690
Loan from a commercial bank payable in monthly installments of $2,657, including interest at the Wall Street Journal prime rate plus 1.0%, with a floor rate of 5.0%; paid-off in March 2018; secured by mortgages	-	244,823
	801,809	1,098,513
Less: Current Portion	54,298	73,528
Notes Payable – Due After One Year	$ 747,511	$ 1,024,985

The following are future maturities of notes payable for the years ending June 30:

2019	$ 54,298
2020	56,738
2021	59,471
2022	62,242
2023	65,141
Thereafter	503,919
	$ 801,809

8 Line-of-Credit.

The Organization entered into a $200,000 line-of-credit agreement with a bank. The line bears interest at the Wall Street Journal prime rate plus .25%, with a floor rate of 4.5%, and is secured by mortgages receivable. The line matured on September 18, 2018. At June 30, 2018 and 2017, there were no outstanding balances on the line-of-credit.

On August 16, 2018, the Organization renegotiated its line-of-credit and increased the available line to $400,000. The new line bears interest at the Wall Street Journal prime rate plus .25%, with a floor rate of 5.25%, and matures on September 18, 2020.

9 Forgivable Notes Payable.

The Organization received grant funding in the form of forgivable promissory notes from the City of Colorado Springs for the construction and sale of affordable housing. The promissory notes will be forgiven on the maturity date of the note if the property constructed is used for affordable housing as stipulated in the note agreement. If at any time the property is not used for affordable housing, the entire note becomes due and payable to the City of Colorado Springs. The following is a summary of the forgivable notes payable at June 30, 2018 and 2017:

	2018	2017
Note payable to the City of Colorado Springs; No payments of principal or interest are required. The note will be forgiven in July 2028	$ 166,710	$ 166,710
Note payable to the City of Colorado Springs; No payments of principal or interest are required. The note will be forgiven in March 2032	100,000	100,000
Note payable to the City of Colorado Springs; No payments of principal or interest are required. The note was forgiven in August 2015	-	115,105
	266,710	381,815
Less: Current Portion	-	115,105
Notes Payable – Due After One Year	$ 266,710	$ 266,710

10 Operating Leases.

The Organization leases a vehicle and office space under non-cancelable operating leases which expire between 2020 and 2022. The minimum future lease payments for the years ending June 30, are as follows:

2019	$ 34,635
2020	34,635
2021	12,635
2022	9,749
	$ 91,654

For the years ended June 30, 2018 and 2017, rent expense was $34,635 and $25,326, respectively.

11 Temporarily Restricted Net Assets.

As of June 30, 2018 and 2017, temporarily restricted net assets are comprised of the following:

	2018	2017
Contributions and grants receivable	$ 61,648	$ 201,414
Outreach repairs	6,300	15,000
Home construction	5,000	67,039
Veterans	-	10,000
	$ 72,948	$ 293,453

12 Pension Plan.

The Organization established a Savings Incentive Match Plan (SIMPLE) for all eligible employees. The Organization matches the voluntary contributions of its employees up to 3% of their annual compensation. For the years ended June 30, 2018 and 2017, the Organization contributed $13,248 and $13,125, respectively.

13 Transactions with Habitat International.

The Organization 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, 2018 and 2017, the Organization contributed $83,314 and $70,310, respectively, to Habitat International. These amounts are included in Program Services in the Statements of Activities.

14 Pikes Peak Habitat for Humanity Community Development, Inc.

On May 23, 2018, PPHFH Community Housing Development, Inc. was formed with the purpose of administering HOME Investment Partnerships Program (HOME) funding awarded to the Organization by the City of Colorado Springs. As a condition to being awarded the funds, the Organization was required to submit evidence that it qualified as a Community Housing Development Organization (CHDO) pursuant to 24 CFR part 92.

HOME grant funding was awarded to the Organization on September 11, 2018, in the amount of $400,000. The funds were awarded in the form of a non-interest bearing forgivable loan which will be forgiven after a period of 20 years as long as the properties constructed with the funding are used for affordable housing.