HABITAT FOR HUMANITY CENTRAL ARIZONA

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

HABITAT FOR HUMANITY CENTRAL ARIZONA
TABLE OF CONTENTS
YEARS ENDED YEARS ENDED JUNE 30, 2011 AND 2010

LarsonAllen LLP

CPAs, Consultants & Advisors
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Habitat for Humanity Central Arizona
Peoria, Arizona

We have audited the accompanying balance sheets of Habitat for Humanity Central Arizona (the Organization) as of June 30, 2011 and 2010, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity Central Arizona as of June 30, 2011 and 2010, and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

LarsonAllen LLP

LarsonAllen LLP

Mesa, Arizona
September 16, 2011

HABITAT FOR HUMANITY CENTRAL ARIZONA
BALANCE SHEETS
JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
Cash and Cash Equivalents	$ 2,618,064	$ 2,943,932
Grants Receivable	1,213,170	1,356,008
Pledges Receivable	-	60,150
Other Receivables	126,117	275,624
Prepaid Expenses and Other Assets	189,242	98,938
Inventory - Habitat ReStore	226,343	157,458
Deferred Gifts Receivable	93,329	71,371
Investments	180,044	151,863
Homes Under Construction	2,512,547	2,811,140
Homes Available for Sale	-	739,710
Land Held for Development	1,768,928	1,438,547
Land Available for Sale	1,715,135	1,710,017
Property and Equipment, Net	2,316,667	2,258,643
First Mortgage Notes Receivable	12,086,822	11,926,021
Transferred Mortgage Receivable	2,919,957	1,705,061
Total Assets	$ 27,966,365	$ 27,704,483
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	$ 780,217	$ 691,009
Due to Habitat International, Inc.	14,288	15,371
Deferred Revenue	3,631,761	2,054,166
Land Held for the City of Glendale	402,752	366,410
Notes Payable	2,625,774	2,662,854
Total Liabilities	7,454,792	5,789,810
NET ASSETS		
Unrestricted	19,643,319	20,653,143
Temporarily Restricted	793,093	1,194,763
Permanently Restricted	75,161	66,767
Total Net Assets	20,511,573	21,914,673
Total Liabilities and Net Assets	$ 27,966,365	$ 27,704,483

See accompanying Notes to Financial Statements.

HABITAT FOR HUMANITY CENTRAL ARIZONA
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2011 AND 2010

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES AND SUPPORT				
Contributions	$ 753,016	$ 2,031,958	$ 8,394	$ 2,793,368
In-Kind Contributions	2,500	487,495	-	489,995
Sales of Completed Homes	2,075,802	-	-	2,075,802
Amortization of Mortgage Discounts	979,826	-	-	979,826
Grants	-	1,245,117	-	1,245,117
Investment Return	22,217	-		22,217
ReStore Sales (Net of Operating Expenses of $3,827,853 and $3,217,519, respectively)	474,207	-	-	474,207
Gain (Loss) on Sale of Asset	(852)	-	-	(852)
Special Events (Net of Direct Expense of $48,351 and $45,367, respectively)	67,380	-	-	67,380
Other Revenue	59,989	-	-	59,989
Total	4,434,085	3,764,570	8,394	8,207,049
Net Assets Released from Restrictions	4,166,240	(4,166,240)	-	-
Total Operating Revenue and Support	8,600,325	(401,670)	8,394	8,207,049
OPERATING EXPENSES				
Program Services	7,713,726	-	-	7,713,726
Management and General	556,471	-	-	556,471
Fundraising	620,423	-	-	620,423
Total Operating Expenses	8,890,620	-	-	8,890,620
OPERATING INCREASE (DECREASE) IN NET ASSETS	(290,295)	(401,670)	8,394	(683,571)
NONOPERATING ACTIVITIES				
Gain on Sale of Mortgages	34,240	-	-	34,240
Gain on Casualty Loss	-	-	-	-
Other Income	11,823	-	-	11,823
Loss on Impairment	(684,711)	-	-	(684,711)
NONOPERATING DECREASE IN NET ASSETS	(638,648)	-	-	(638,648)
CONTRIBUTIONS TO HABITAT FOR HUMANITY INTERNATIONAL, INC.	(80,881)	-	-	(80,881)
CHANGE IN NET ASSETS	(1,009,824)	(401,670)	8,394	(1,403,100)
NET ASSETS - BEGINNING OF YEAR	20,653,143	1,194,763	66,767	21,914,673
NET ASSETS - END OF YEAR	$ 19,643,319	$ 793,093	$ 75,161	$ 20,511,573

See accompanying Notes to Financial Statements.

2010			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 1,301,937	$ 1,848,404	$ 66,767	$ 3,217,108
116,846	1,094,979	-	1,211,825
1,492,971	-	-	1,492,971
762,050	-	-	762,050
-	2,617,554	-	2,617,554
25,788	-	-	25,788
488,541	-	-	488,541
51	-	-	51
76,445	-	-	76,445
28,236	-	-	28,236
4,292,865	5,560,937	66,767	9,920,569
5,594,610	(5,594,610)	-	-
9,887,475	(33,673)	66,767	9,920,569
6,407,355	-	-	6,407,355
625,535	-	-	625,535
684,727	-	-	684,727
7,717,617	-	-	7,717,617
2,169,858	(33,673)	66,767	2,202,952
2,167	-	-	2,167
59,089	-	-	59,089
-	-	-	-
(2,679,548)	-	-	(2,679,548)
(2,618,292)	-	-	(2,618,292)
(97,825)	-	-	(97,825)
(546,259)	(33,673)	66,767	(513,165)
21,199,402	1,228,436	-	22,427,838
$ 20,653,143	$ 1,194,763	$ 66,767	$ 21,914,673

HABITAT FOR HUMANITY CENTRAL ARIZONA
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2011 AND 2010

	2011					
		Support Services				
	Program Services	Management and General	Fundraising	Subtotal	ReStore Operating Costs	Total
Cost of Home Sales	$ 6,117,098	$ -	$ -	$ 6,117,098	$ -	$ 6,117,098
Transfers to Construction in Progress	(506,219)	-	-	(506,219)	-	(506,219)
Other	187,058	36,230	67,288	290,576	59,463	350,039
Salaries	851,449	514,629	449,061	1,815,139	671,621	2,486,760
Payroll Taxes and Employee Benefits	236,930	150,994	106,299	494,223	213,070	707,293
Cost of Goods Sold	-	-	-	-	2,114,711	2,114,711
Occupancy	-	102,531	-	102,531	522,481	625,012
Other Taxes and Insurance	80,113	28,499	-	108,612	44,712	153,324
Interest	14,431	43,315	-	57,746	58,386	116,132
Depreciation	11,277	29,400	5,672	46,349	50,351	96,700
Equipment and Maintenance	38,669	46,259	-	84,928	56,030	140,958
Mortgage Servicing	89,576	-	-	89,576	-	89,576
Special Mailings	-	-	54,425	54,425	-	54,425
Audit and Accounting	-	26,949	-	26,949	-	26,949
Telephone	10,251	27,243	2,133	39,627	12,418	52,045
Travel and Conference	25,767	7,005	12,872	45,644	2,829	48,473
Office Supplies	2,226	14,329	2,025	18,580	11,698	30,278
Legal	7,203	-	-	7,203	-	7,203
Postage and Shipping	744	6,897	51	7,692	24	7,716
Overhead Applied	547,153	(477,809)	(79,403)	(10,059)	10,059	-
Total	$ 7,713,726	$ 556,471	$ 620,423	$ 8,890,620	$ 3,827,853	$ 12,718,473

See accompanying Notes to Financial Statements.

HABITAT FOR HUMANITY CENTRAL ARIZONA
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2011 AND 2010

	2010					
		Support Services				
	Program Services	Management and General	Fundraising	Subtotal	ReStore Operating Costs	Total
Cost of Home Sales	$ 5,133,210	$ -	$ -	$ 5,133,210	$ -	$ 5,133,210
Transfers to Construction in Progress	(530,883)	-	-	(530,883)	-	(530,883)
Other	43,349	47,426	60,017	150,792	48,082	198,874
Salaries	773,333	607,420	436,059	1,816,812	613,544	2,430,356
Payroll Taxes and Employee Benefits	208,348	115,065	92,543	415,956	189,638	605,594
Cost of Goods Sold	-	-	-	-	1,701,766	1,701,766
Occupancy	-	140,946	-	140,946	454,645	595,591
Other Taxes and Insurance	72,182	21,490	-	93,672	39,964	133,636
Interest	15,834	39,448	-	55,282	60,413	115,695
Depreciation	7,142	52,275	7,635	67,052	43,723	110,775
Equipment and Maintenance	16,833	38,954	-	55,787	44,723	100,510
Mortgage Servicing	78,458	-	-	78,458	-	78,458
Special Mailings	-	-	73,205	73,205	-	73,205
Audit and Accounting	-	44,479	-	44,479	-	44,479
Telephone	10,904	27,986	2,258	41,148	10,580	51,728
Travel and Conference	18,249	7,589	9,941	35,779	2,733	38,512
Office Supplies	1,305	17,353	2,961	21,619	7,708	29,327
Legal	8,415	4,687	-	13,102	-	13,102
Postage and Shipping	591	10,502	108	11,201	-	11,201
Overhead Applied	550,085	(550,085)	-	-	-	-
Total	$ 6,407,355	$ 625,535	$ 684,727	$ 7,717,617	$ 3,217,519	$ 10,935,136

See accompanying Notes to Financial Statements.

HABITAT FOR HUMANITY CENTRAL ARIZONA
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ (1,403,100)	$ (513,165)
Adjustment to Reconcile Change in Net Assets to Net Cash and Cash Equivalents Used by Operating Activities:		
Depreciation	96,700	110,775
(Gain) Loss on Sale of Fixed Assets	852	(51)
Unrealized Gains on Investments	(1,849)	(14,340)
Realized Gains on Investments	(16,250)	(8,113)
Donated Stock	(7,651)	(7,059)
Loss on Impairment - Homes Under Construction	(80,830)	(1,433,621)
Loss on Impairment - Homes Available for Sale	-	(194,657)
Loss on Impairment - Land Held for Development	(603,881)	(1,051,270)
Amortization of Mortgages Receivable Discount	(979,826)	(762,050)
Discount on Notes Payable	431	2,783
Permanently Restricted Contributions	(8,394)	(66,767)
Changes in Operating Assets and Liabilities:		
Decrease (Increase) in:		
Grant Receivables	142,838	(498,923)
Pledges Receivable	60,150	(35,933)
Other Receivables	149,507	126,374
Prepaids	(90,304)	80,908
Inventory - Habitat ReStore	(68,885)	17,175
Deferred Gifts Receivable	(13,564)	1,725
Homes Under Construction	379,423	(777,808)
Homes Available for Sale	(1,150,812)	(1,701,344)
Land Held for Development	309,842	5,019,363
Land Available for Sale	(5,118)	(2,444)
Increase (Decrease) in:		
Accounts Payable	89,208	(92,273)
Due to Habitat International, Inc.	(1,083)	15,371
Deferred Revenue	1,577,595	(615,383)
Net Cash and Cash Equivalents Used by Operating Activities	(1,625,001)	(2,400,727)

See accompanying Notes to Financial Statements.

HABITAT FOR HUMANITY CENTRAL ARIZONA
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM INVESTING ACTIVITIES		
Mortgages Sold (Repurchased), Net of Discounts	170,833	(42,119)
Purchases of Property and Equipment	(155,975)	(61,918)
Proceeds from Sales of Property and Equipment	399	-
Purchase of Investments	(162,883)	(105,900)
Payments Received on Mortgages Receivable	1,323,818	1,178,333
Proceeds from Sale of Investments	160,452	113,126
Net Cash and Cash Equivalents Provided by Investing Activities	1,336,644	1,081,522
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Long-Term Debt	237,404	77,500
Payments on Long-Term Debt	(274,915)	(84,025)
Net Cash and Cash Equivalents Used by Financing Activities	(37,511)	(6,525)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(325,868)	(1,325,730)
Cash and Cash Equivalents - Beginning of Year	2,943,932	4,269,662
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 2,618,064	$ 2,943,932
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	$ 57,746	$ 55,282

See accompanying Notes to Financial Statements.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Long-term mortgage financing is a key component which makes Habitat homes affordable. Homes sold to local low-income buyers are 100% financed by the Organization. Homebuyers are provided an affordable 0% interest, 30 year mortgage. Monthly mortgage payments collected by the Organization are added to the donation resources used for building additional homes for families in need.

Financial Statement Presentation

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

Unrestricted – Resources over which the board of directors has discretionary control.

Temporarily Restricted – Those resources subject to donor imposed restrictions which will be satisfied by actions of the Organization or passage of time.

Permanently Restricted – Those resources subject to a donor imposed restriction that they be maintained permanently by the Organization.

The Organization has elected to present temporarily restricted contributions, which are fulfilled in the same time period, within the unrestricted net asset class.

Non-operating activities include all non-cash activities relating to impairment of assets and discounting contracts for deed, mortgages receivable and debt.

Management's Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

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

Contributions

The Organization accounts for contributions in accordance with accounting standards. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All 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 or permanently restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restricted support, where restrictions are met in the same period as the donation is made, is shown as additions to unrestricted support.

Donated Materials and Services

Donated materials and services are recognized as contributions in accordance with accounting standards at their estimated fair value if the services (a) create or enhance the Organization's non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased. Donated materials consist primarily of construction materials. No amounts have been reflected in the financial statements for certain donated volunteer services because they do not qualify for recording under the guidelines of accounting standards; however, a substantial number of volunteers have donated a significant amount of time in the Organization's program services and fundraising campaigns. The Organization estimates the fair value of volunteer service hours during the years ended June 30, 2011 and 2010 to be approximately $1,200,000 and $1,365,000, respectively, representing over 90,000 and 105,000 volunteer service hours, respectively.

Federal Grants

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Grants (Continued)

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

Receivables

Receivables primarily consist of construction cost reimbursements from the Federal Home Loan Bank (FHLB) and bequests receivable. Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables. At June 30, 2011 and 2010, no allowance for doubtful accounts was deemed necessary by management.

Inventory – Habitat ReStore

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

Investments

The Organization reports investments in accordance with accounting standards. Under these standards, the Organization reports investments in equity securities that have readily determinable fair value, and all investments in debt securities, at fair value. The fair values of investments are based on quoted market prices. At June 30, 2011 and 2010, investments consisted of cash, bonds, equities, and mutual funds.

Land Held for Development and Homes Under Construction

Land held for development and homes under construction are stated at cost and include land under development, developed lots, direct and indirect costs of housing construction and capitalized interest, property taxes and overhead incurred during the development period. Cost is determined by the specific identification and per unit methods. During the years ended June 30, 2011 and 2010, the Organization capitalized $-0- and $4,667, respectively, of interest related to land held for development. Real estate assets are evaluated for impairment if impairment indicators are present. An impairment write-down to fair value less costs to sell occurs when management believes that events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss was recorded during the year; see Note 8. Land and offsite development costs associated with homes under construction are included in construction in progress in the accompanying statement of financial position.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Land Available for Sale

During 2008, the Organization entered into negotiations to sell land located in Phoenix, Arizona. Land available for sale is stated at cost. Real estate assets are evaluated for impairment if impairment indicators are present. An impairment write-down to fair value less costs to sell occurs only if the estimated future undiscounted net cash flows from the real estate inventories are less than the carrying amount. No impairment losses were recorded during 2011, and management does not believe impairment indicators are present based on appraised value.

Property and Equipment

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

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

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions absent donor stipulations regarding how long those donated assets must be maintained. The Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Revenue Recognition and Sales

Homes are sold to qualified buyers at approximately the cost to build the home. Non-interest bearing mortgages are accepted as payment for the homes sold. Home sales are recorded at the discounted value of payments to be received over the lives of the mortgages. Non-interest bearing mortgages have been discounted at 7.69% and 7.81% for the years ended June 30, 2011 and 2010, respectively, based upon prevailing market rates for low income housing at the inception of the mortgages. Discounts are amortized using the effective interest method over the lives of the mortgages. During the years ended June 30, 2011 and 2010, 50 and 31 homes, respectively, were sold by the Organization.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Mortgage Loans Receivable

The Organization's non-interest bearing mortgages consist of amounts due from homeowners. The Organization performs extensive credit and work history evaluations before the sale of a home. The Organization also has a perfected security interest in all homes they sell. The value of each home is generally greater than the respective carrying value of the mortgage due.

Mortgage loans receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to mortgages receivable. At June 30, 2011 and 2010, management believes mortgage loans receivable to be fully collectible, therefore no allowance has been recorded.

Warranty Reserve

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

An accrual for estimated future warranty expense is recorded and evaluated on an annual basis. Actual warranty expenses are charged against the accrual as incurred. No warranty expense was recorded for the years ended June 30, 2011 and 2010. The accrued warranty reserve for homes was $12,750 for both years. Because of the inherent uncertainties in estimating warranty costs, it is at least reasonably possible that the Organization's estimates of these costs will change in the near term.

Escrow Reserves

Either independent third parties or the Organization services the mortgages on homes the Organization sells. Included in cash are amounts received from homeowners for insurance, property taxes and home maintenance (escrow funds). These amounts will be used to pay amounts as they become due. A corresponding liability is included in accounts payable and escrow reserves in the accompanying statement of financial position. At June 30, 2011 and 2010, escrow reserves totaled approximately $295,000 and $257,000, respectfully.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transferred Mortgages Receivable

During the year ended June 30, 2009, the Organization transferred $1,285,345 (net of discount of $663,727) of mortgages receivable to a bank. Furthermore, during the year ended June 30, 2011, the Organization transferred an additional $1,723,532 (net of discount of $758,276) to the same bank. These transactions were accounted for in accordance with accounting standards for *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Under this standard, the Organization has maintained effective control over the assets transferred; accordingly, the transfer is accounted for as a secured borrowing. Related liabilities of $3,631,761 and $2,054,166 as of June 30, 2011 and 2010, respectively, are included in deferred revenue on the statement of financial position. The proceeds from the secured borrowings were used to pay down long-term debt and to build up cash reserves for future operations.

Special Event Revenues

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

Functional Expense Allocation

Expenses are charged to programs and supporting services on the basis of periodic time and expense studies. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

ReStore Program

The Organization has established the ReStore program in order to generate net income to underwrite administrative and fundraising expenses. The table below summarizes the results of the ReStore program's impact on administrative and fundraising expenses for the years ended June 30, 2011 and 2010:

	2011	2010
Total Administrative and Fundraising Costs	$ 1,176,894	$ 1,310,262
Less: ReStore Net Income	(474,207)	(488,541)
Net Administrative and Fundraising Costs	$ 702,687	$ 821,721

Concentrations of Credit Risk

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

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

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

The Organization files as a tax-exempt organization. As of June 30, 2011, its 2008 through 2010 fiscal year tax returns are open for examination by the IRS.

Fair Value Measurements

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

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

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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

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

Reclassifications

Certain reclassifications have been made in the 2010 financial statements to conform to the 2011 presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through September 16, 2011, the date the financial statements were available to be issued.

NOTE 2 INVENTORY – HABITAT RESTORE

The Organization operates three discount home improvement centers ("ReStores") in Phoenix, Peoria and Mesa. The ReStores receive donations of building supplies, furniture and appliances and sell these items to the general public. The donated items are recorded in the statement of activities at their fair market value. The fair market value is determined by the selling price for that item. Total inventory at June 30, 2011 and 2010, consisted of the following:

	2011	2010
Donated Goods	$ 223,010	$ 156,213
Purchased Goods	3,333	1,245
Total Inventory - Habitat ReStore	$ 226,343	$ 157,458

NOTE 3 DEFERRED GIFTS RECEIVABLE

At June 30, 2011 and 2010, the Organization had amounts due from estates and trusts totaling $93,329 and $71,371, respectively.

NOTE 4 INVESTMENTS

The estimated market value of investments at June 30, 2011 and 2010, is as follows:

	2011	2010
Investments:		
Cash	$ 3,503	$ 10,595
Bonds	-	10,477
Equities	5,180	5,037
Mutual Funds	171,361	125,754
Total	$ 180,044	$ 151,863

Investment return is made up of the following:

Investment Return:	2011	2010
Interest and Dividends	$ 4,118	$ 3,335
Realized Gain on Investments	16,250	8,113
Unrealized Gain on Investments	1,849	14,340
Total	$ 22,217	$ 25,788

NOTE 5 HOMES UNDER CONSTRUCTION

Homes currently under construction consist of:

	2011	2010
Homes Under Construction	$ 3,337,479	$ 4,244,761
Less: Loss on Impairment	(824,932)	(1,433,621)
Homes Under Construction	$ 2,512,547	$ 2,811,140

NOTE 6 HOMES AVAILABLE FOR SALE

Homes available for sale consist of:

	2011	2010
Homes Available for Sale	$ -	$ 934,367
Less: Loss on Impairment	-	(194,657)
Homes Available for Sale	$ -	$ 739,710

NOTE 7 LAND HELD FOR DEVELOPMENT

Land held for development consists of:

	2011	2010
Land Held for Development	$ 2,900,207	$ 2,489,817
Less: Loss on Impairment	(1,131,279)	(1,051,270)
Land Held for Development	$ 1,768,928	$ 1,438,547

Land held for development includes an estimated 72 lots in Glendale, Peoria, Chandler, Phoenix, Avondale, Mesa, Buckeye, and Surprise. Land improvements represent the costs of preparing the land for development, which includes utilities and sewer connections, streets, sidewalks and streetlights. A portion of land improvements are allocated to the homes when sold.

NOTE 8 LOSS ON IMPAIRMENT

The Organization determined that homes under construction, homes available for sale and land held for development costs have been impaired. Therefore, the Organization was required to make a fair value determination. This fair value determination was based on appraised values. This fair value measurement was based on level 3 inputs; see Note 1. The Organization recorded an impairment adjustment of $684,711 and $2,679,548 at June 30, 2011 and 2010, respectively, which is reflected in the statement of activities as “Loss on Impairment”

NOTE 9 FAIR VALUE MEASUREMENTS

The Organization uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. For additional information on how the Organization measures fair value refer to Note 1 – Significant Accounting Principles. The Organization has assets that are valued using the level 1 and level 3 inputs, there are no assets or liabilities valued using level 2 inputs as of June 30, 2011 and 2010.

NOTE 9 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents the fair value hierarchy for the balances of the assets of the Organization measured at fair value on a recurring basis as of June 30, 2011 and 2010:

	2011			
	Level 1	Level 2	Level 3	Total
Assets:				
Deferred Gifts Receivable	$ -	$ -	$ 93,329	$ 93,329
Common Stocks and Mutual Funds	176,541	-	-	176,541
	$ 176,541	$ -	$ 93,329	$ 269,870

	2010			
	Level 1	Level 2	Level 3	Total
Assets:				
Deferred Gifts Receivable	$ -	$ -	$ 71,371	$ 71,371
Common Stocks and Mutual Funds	141,268	-	-	141,268
Total	$ 141,268	$ -	$ 71,371	$ 212,639

Level 3 Assets and Liabilities

The following table provides a summary of changes in value of the Organization's level 3 financial assets measured on a recurring basis for the years ended June 30, 2011 and 2010:

	2011	2010
Deferred Gifts Receivable:		
Beginning Balance	$ 71,371	$ 6,329
New Deferred Gifts Received	26,563	66,767
Change in Value of Deferred Gifts Receivable	(4,605)	(1,725)
Total Deferred Gifts Receivable	$ 93,329	$ 71,371

NOTE 9 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents the fair value hierarchy, measuring fair value at quoted prices in active markets for identical assets (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3). Assets measured at fair value on a non-recurring basis as of June 30, 2011 and 2010 are as follows:

Description	June 30, 2011	(Level 1)	(Level 2)	(Level 3)	Total Losses
Homes Under Construction	$2,512,547	$ -	$ -	$ 2,512,547	$ (824,932)
Land Held for Development	1,768,928	-	-	1,768,928	(1,131,279)
		$ -	$ -	$ 4,281,475	$ (1,956,211)

Description	June 30, 2010	(Level 1)	(Level 2)	(Level 3)	Total Losses
Homes Under Construction	$2,811,140	$ -	$ -	$ 2,811,140	$(1,433,621)
Homes Available for Sale	739,710	-	-	739,710	(194,657)
Land Held for Development	1,438,547	-	-	1,438,547	(1,051,270)
		$ -	$ -	$ 4,989,397	$ (2,679,548)

For the year ended June 30, 2011, homes under construction and land held for development with a carrying value of $3,337,479, and $2,900,207, respectively, were written down to their fair values above, resulting in an impairment loss of $684,711, which was included in nonoperating activities on the statement of activities.

For the year ended June 30, 2010, homes under construction, homes available for sale and land held for development with a carrying value of $4,244,761, $934,367 and $2,489,817, respectively, were written down to their fair values above, resulting in an impairment loss of $2,679,548, which was included in nonoperating activities on the statement of activities.

NOTE 10 PROPERTY AND EQUIPMENT

Property and equipment consists of:

	2011	2010
Buildings and Improvements	$ 2,452,743	$ 2,373,471
Furniture and Equipment	373,316	316,549
Vehicles	163,165	151,698
	2,989,224	2,841,718
Less: Accumulated Depreciation	(672,557)	(583,075)
Property and Equipment, Net	$ 2,316,667	$ 2,258,643

Depreciation expense charged to operations was $96,700 and $110,775 as of June 30, 2011 and 2010, respectively.

NOTE 11 FIRST MORTGAGE RECEIVABLE

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

The mortgage loans receivable are non-interest-bearing mortgages. Since the first mortgage on each home is less than the market value, the Organization also obtains a second mortgage for the difference between the first mortgage and market value. The second mortgage, which is forgiven at the end of the first mortgage term, is assumed to have no economic value and, accordingly, is not recognized in the Organization's financial statements. At June 30, 2011 and 2010, the first mortgage balances are as follows:

	2011	2010
Face Value	$ 21,616,715	$ 21,929,521
Less: Unamortized Discount	(9,529,893)	(10,003,500)
Net Present Value	$ 12,086,822	$ 11,926,021

Annual collection of the mortgage notes receivable net of the unamortized discount at June 30, 2011 are due as follows:

Year Ending June 30,	
2012	$ 1,285,888
2013	1,275,800
2014	1,256,682
2015	1,234,476
2016	1,220,166
Thereafter	15,343,703
Total	$ 21,616,715

NOTE 12 TRANSFERRED MORTGAGES RECEIVABLE

For mortgages receivable that were transferred to a bank as of the years ended June 30, 2011 and 2010, (refer to Note 1 – Significant Accounting Principles) the mortgage balances are as follows:

	2011	2010
Face Value	$ 5,373,844	$ 3,172,086
Less: Unamortized Discount	(2,453,887)	(1,467,025)
Net Present Value	$ 2,919,957	$ 1,705,061

NOTE 12 TRANSFERRED MORTGAGE RECEIVABLE (CONTINUED)

Annual collection of the transferred mortgage notes receivable net of the unamortized discount at June 30, 2011 are due as follows:

Year Ending June 30,	
2012	$ 279,829
2013	279,829
2014	279,829
2015	279,829
2016	279,829
Thereafter	3,974,699
Total	$ 5,373,844

NOTE 13 LINE OF CREDIT

The Organization has a $1,500,000 line of credit with a bank with interest calculated at the bank's prime rate minus .5% with a floor of 3% (3.0% at June 30, 2011 and 2010, respectively). The line is secured by the Organization's mortgages, contains various financial covenants, and matures in April 2012. There were no amounts outstanding under the line of credit as of June 30, 2011.

NOTE 14 NOTES PAYABLE

Notes payable consists of:

	2011	2010
Notes Payable to Banks and Financial Institutions:		
Note payable to GE Government Finance, Inc., secured by a building. The proceeds from the note were used to purchase the building being pledged as security. The note is payable in monthly principal and interest installments of $12,374, bears interest at 5.9%, and is payable in June 2028.	$ 1,591,388	$ 1,644,278
Unsecured note payable to Wells Fargo Bank to fund the development of infrastructure in the 12th Street development named Oro Vista. The note is payable in monthly interest only payments at 2% and is payable in March 2013.	700,000	700,000
Notes payable to the City of Chandler to fund the acquisition of two units of real property. The City of Chandler loaned the Organization $57,500 and $72,500 for the units of real property. The loans bear interest at 0%. The loans shall be deemed forgiven after three years, as long as the Organization has constructed single-family residences, whose designs have been approved by the City of Chandler, and are sold to low-income families.	226,403	207,500

NOTE 14 NOTES PAYABLE (CONTINUED)

	2011	2010
Note payable to a bank, secured by a vehicle. The proceeds from the note were used to purchase the vehicle being pledged as security. The note is payable in monthly principal and interest payments of $600, bears interest at 10.51%, and is payable in November 2011.	2,349	8,525
Notes Payable to Habitat for Humanity International:		
Promissory note payable to Habitat for Humanity International, Inc. as part of the Self-Help Homeownership Opportunity Program ("SHOP"). The proceeds from the note are required to be used for infrastructure costs. The note bears interest at 0% and has a discount of $3,309. Beginning in July 2009, the note is payable in 47 monthly installments of principal of $1,171, and a final payment of $1,213 maturing in July 2011.	28,146	42,198
Promissory note payable to Habitat for Humanity International, Inc. as part of the Self-Help Homeownership Opportunity Program ("SHOP"). The proceeds from the note are required to be used for infrastructure costs. The note bears interest at 0% and has a discount of $3,132. A portion of the note (70%) is payable beginning in January 2010 with the remainder payable within thirty-six (36) months of receipt of award.	33,297	46,605
Promissory note payable to Habitat for Humanity International, Inc. as part of the Self-Help Homeownership Opportunity Program ("SHOP"). The proceeds from the note are required to be used for infrastructure costs. The note is payable in forty-seven (47) monthly installments of principal of $562 and a final payment upon maturity of $586. The note matures in July 2012. The note does not bear interest and has a discount of $1,226.	10,140	16,884
Promissory note payable to Habitat for Humanity International, Inc. as part of the Self-Help Homeownership Opportunity Program ("SHOP"). The proceeds from the note are required to be used for infrastructure costs. The note is payable in forty-six (46) monthly installments of principal of $781, and a final payment upon maturity of $793. The note matures in July 2017. The note does not bear interest and has a discount of $2,205.	37,500	-
Promissory note payable to Habitat for Humanity International, Inc. as part of the Self-Help Homeownership Opportunity Program ("SHOP"). The proceeds from the note are required to be used for infrastructure costs. The note is payable in forty-seven (47) monthly installments of principal of $62, and a final payment upon maturity of $86. The note matures in July 2013. The note does not bear interest and has a discount of $137.	1,140	1,884
Total	2,630,363	2,667,874
Less: Discount on Non-Interest Bearing Notes	(4,589)	(5,020)
Total Notes Payable	$ 2,625,774	$ 2,662,854

NOTE 14 NOTES PAYABLE (CONTINUED)

Annual maturities of the notes payable outstanding at June 30, 2011 are as follows:

Year Ending June 30,	
2012	$ 119,794
2013	95,336
2014	836,699
2015	76,302
2016	80,359
Thereafter	1,421,873
Total	$ 2,630,363

NOTE 15 CONTRIBUTION TO HABITAT FOR HUMANITY INTERNATIONAL, INC.

The Organization contributes 10% of the Organization's unrestricted annual cash contributions to Habitat for Humanity International for their international housing programs. For the years ended June 30, 2011 and 2010, contributions to Habitat for Humanity International were $80,881 and $97,825, respectively.

NOTE 16 OPERATING LEASES

The Organization leases buildings and equipment under various operating lease agreements expiring in various years through April 2021. Minimum future rental payments under operating leases having remaining terms in excess of one year at June 30, 2011 are as follows:

Year Ending June 30,	
2012	$ 502,366
2013	501,152
2014	369,778
2015	297,791
2016	236,962
Thereafter	698,344
Total Minimum Lease Payments	$ 2,606,393

In the normal course of business, operating leases are generally renewed or replaced by other leases. Total rental expense for operating leases with terms in excess of one month was $507,967 and $428,697 for the years ended June 30, 2011 and 2010, respectively.

NOTE 17 TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted and permanently restricted net assets are available for the following purposes at June 30, 2011 and 2010:

	2011	2010
Temporarily Restricted Net Assets:		
Home Construction	$ 793,093	$ 1,194,763
Permanently Restricted Net Assets:		
Future Operations	$ 75,161	$ 66,767

NOTE 18 RETIREMENT PLANS

The Organization established a 401(k) retirement savings plan (tax deferred annuity) for its employees. The Organization makes its employees aware of the plan, withholds voluntary contributions from paychecks and remits the contributions to an independent trustee. Each participant may contribute his or her eligible compensation on a pretax basis to the plan up to a maximum allowed by the Internal Revenue Code. Total employer contributions to the plan were $71,184 and $69,718 for the years ended June 30, 2011 and 2010, respectively.