

HABITAT FOR HUMANITY CENTRAL ARIZONA
FINANCIAL STATEMENTS
AND
SINGLE AUDIT COMPLIANCE REPORTS
YEARS ENDED JUNE 30, 2016 AND 2015

**HABITAT FOR HUMANITY CENTRAL ARIZONA
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YEARS ENDED JUNE 30, 2016 AND 2015**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Habitat for Humanity Central Arizona
Peoria, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of Habitat for Humanity Central Arizona, which comprise the balance sheets as of June 30, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years 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 of America; 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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 auditors' 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 Habitat for Humanity Central Arizona as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is also presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2016, on our consideration of Habitat for Humanity Central Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Habitat for Humanity Central Arizona's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Phoenix, Arizona
October 3, 2016

**HABITAT FOR HUMANITY CENTRAL ARIZONA
BALANCE SHEETS
JUNE 30, 2016 AND 2015**

ASSETS	<u>2016</u>	<u>2015</u>
Cash and Cash Equivalents	\$ 2,306,232	\$ 3,472,437
Restricted Cash	362,963	452,870
Grants Receivable	844,331	824,560
Pledges Receivable	32,829	39,725
Other Receivables	258,135	380,977
Prepaid Expenses and Other Assets	161,220	238,456
Loan Origination Costs and New Market Tax Credit Fees, Net	291,041	336,032
Inventory - Habitat ReStore	303,042	262,149
Deferred Gifts Receivable	117,830	137,571
Investments in Securities	64,598	133,119
Equity Method Investments	4,880,191	4,855,377
Homes Under Construction	2,557,008	1,273,730
Homes Available for Sale	1,290,673	308,999
Land Held for Development	1,164,165	1,513,708
Land Available for Sale	1,717,858	1,717,858
Property and Equipment, Net	2,046,530	2,084,158
Non-Forgivable Mortgage Notes Receivable	15,050,691	14,587,843
Transferred Mortgages Receivable	<u>2,631,500</u>	<u>2,830,547</u>
Total Assets	<u><u>\$ 36,080,837</u></u>	<u><u>\$ 35,450,116</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 1,047,867	\$ 878,374
Due to Habitat International, Inc.	27,198	58,738
Deferred Revenue	2,736,493	2,950,352
Land Held for the City of Glendale	-	122,694
Lines of Credit	750,000	-
Notes Payable	<u>8,422,620</u>	<u>8,693,343</u>
Total Liabilities	12,984,178	12,703,501
NET ASSETS		
Unrestricted	22,091,688	21,498,860
Temporarily Restricted	887,142	1,122,299
Permanently Restricted	<u>117,829</u>	<u>125,456</u>
Total Net Assets	<u><u>23,096,659</u></u>	<u><u>22,746,615</u></u>
Total Liabilities and Net Assets	<u><u>\$ 36,080,837</u></u>	<u><u>\$ 35,450,116</u></u>

See accompanying Notes to Financial Statements.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
OPERATING REVENUES AND SUPPORT				
Contributions	\$ 1,538,702	\$ 2,028,018	\$ -	\$ 3,566,720
In-Kind Contributions	227,106	228,367	-	455,473
Sales of Completed Homes	3,115,920	-	-	3,115,920
Discounts on New Home Mortgages	(1,532,445)	-	-	(1,532,445)
Amortization of Mortgage Discounts	1,247,622	-	-	1,247,622
Grants	-	1,256,847	-	1,256,847
Investment Return	(4,649)	-	-	(4,649)
Home Repair Program	667,633	-	-	667,633
ReStore Sales (Net of Operating Expenses of \$5,449,682 and \$5,286,595, Respectively)	146,605	-	-	146,605
Special Events (Net of Direct Expense of \$74,988 and \$54,477, Respectively)	83,371	-	-	83,371
Other Revenue	203,295	-	-	203,295
Total	<u>5,693,160</u>	<u>3,513,232</u>	<u>-</u>	<u>9,206,392</u>
Net Assets Released from Restrictions	<u>3,748,389</u>	<u>(3,748,389)</u>	<u>-</u>	<u>-</u>
Total Operating Revenue and Support	9,441,549	(235,157)	-	9,206,392
OPERATING EXPENSES				
Program Services	6,956,068	-	-	6,956,068
Management and General	1,018,595	-	-	1,018,595
Fundraising	622,056	-	-	622,056
Total Operating Expenses	<u>8,596,719</u>	<u>-</u>	<u>-</u>	<u>8,596,719</u>
OPERATING INCREASE (DECREASE) IN NET ASSETS	844,830	(235,157)	-	609,673
NONOPERATING ACTIVITIES				
Gain on Sale of Mortgages	(41,683)	-	-	(41,683)
Other Income	72,713	-	-	72,713
Change in Deferred Gifts	(10,440)	-	(7,627)	(18,067)
Loss on Impairment	(130,348)	-	-	(130,348)
NONOPERATING INCREASE (DECREASE) IN NET ASSETS	(109,758)	-	(7,627)	(117,385)
CONTRIBUTIONS TO HABITAT FOR HUMANITY INTERNATIONAL, INC.	<u>(142,244)</u>	<u>-</u>	<u>-</u>	<u>(142,244)</u>
CHANGE IN NET ASSETS	592,828	(235,157)	(7,627)	350,044
Net Assets - Beginning of Year	<u>21,498,860</u>	<u>1,122,299</u>	<u>125,456</u>	<u>22,746,615</u>
NET ASSETS - END OF YEAR	<u>\$ 22,091,688</u>	<u>\$ 887,142</u>	<u>\$ 117,829</u>	<u>\$ 23,096,659</u>

See accompanying Notes to Financial Statements.

2015

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 1,228,935	\$ 1,864,978	\$ -	\$ 3,093,913
167,100	211,839	-	378,939
4,828,835	-	-	4,828,835
(2,245,611)	-	-	(2,245,611)
1,109,444	-	-	1,109,444
-	1,739,023	-	1,739,023
2,167	-	-	2,167
869,243	-	-	869,243
179,461	-	-	179,461
118,709	-	-	118,709
47,539	-	-	47,539
6,305,822	3,815,840	-	10,121,662
3,654,729	(3,654,729)	-	-
9,960,551	161,111	-	10,121,662
9,174,716	-	-	9,174,716
997,433	-	-	997,433
631,497	-	-	631,497
10,803,646	-	-	10,803,646
(843,095)	161,111	-	(681,984)
478,372	-	-	478,372
67,113	-	-	67,113
2,878	-	(3,705)	(827)
(35,362)	-	-	(35,362)
513,001	-	(3,705)	509,296
(164,655)	-	-	(164,655)
(494,749)	161,111	(3,705)	(337,343)
21,993,609	961,188	129,161	23,083,958
<u>\$ 21,498,860</u>	<u>\$ 1,122,299</u>	<u>\$ 125,456</u>	<u>\$ 22,746,615</u>

**HABITAT FOR HUMANITY CENTRAL ARIZONA
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016**

2016

	Support Services			Subtotal	ReStore Operating Costs	Total
	Program Services	Management and General	Fundraising			
Cost of Home Sales	\$ 3,822,632	\$ -	\$ -	\$ 3,822,632	\$ -	\$ 3,822,632
Cost of Home Repairs	741,326	-	-	741,326	-	741,326
Transfers to Construction in Progress	(863,609)	-	-	(863,609)	-	(863,609)
Other	169,425	219,890	88,390	477,705	55,829	533,534
Salaries	1,318,965	864,901	453,327	2,637,193	1,002,146	3,639,339
Payroll Taxes and Employee Benefits	386,832	239,783	128,131	754,746	316,422	1,071,168
Cost of Goods Sold	-	-	-	-	2,815,673	2,815,673
Occupancy	-	100,153	-	100,153	936,977	1,037,130
Other Taxes and Insurance	112,507	35,333	-	147,840	73,763	221,603
Interest	16,082	90,807	-	106,889	45,241	152,130
Depreciation and Amortization	38,861	66,757	36	105,654	54,286	159,940
Equipment and Maintenance	51,286	28,866	-	80,152	62,106	142,258
Mortgage Servicing	128,842	-	-	128,842	-	128,842
Special Mailings	-	-	106,376	106,376	-	106,376
Audit and Accounting	-	33,989	-	33,989	-	33,989
Telephone	10,419	20,962	2,792	34,173	37,900	72,073
Travel and Conference	40,184	18,240	21,202	79,626	2,894	82,520
Office Supplies	5,995	27,985	1,688	35,668	21,050	56,718
Legal	66,282	15,500	218	82,000	-	82,000
Postage and Shipping	1,478	8,113	305	9,896	863	10,759
Overhead Applied	908,561	(752,684)	(180,409)	(24,532)	24,532	-
Total	\$ 6,956,068	\$ 1,018,595	\$ 622,056	\$ 8,596,719	\$ 5,449,682	\$ 14,046,401

See accompanying Notes to Financial Statements.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2015**

2015

	Support Services			Subtotal	ReStore Operating Costs	Total
	Program Services	Management and General	Fundraising			
Cost of Home Sales	\$ 6,022,194	\$ -	\$ -	\$ 6,022,194	\$ -	\$ 6,022,194
Cost of Home Repairs	796,743	-	-	796,743	-	796,743
Transfers to Construction in Progress	(737,083)	-	-	(737,083)	-	(737,083)
Other	144,335	252,893	81,110	478,338	45,244	523,582
Salaries	1,283,288	794,659	426,050	2,503,997	977,624	3,481,621
Payroll Taxes and Employee Benefits	397,413	238,297	118,976	754,686	355,419	1,110,105
Cost of Goods Sold	-	-	-	-	2,735,170	2,735,170
Occupancy	-	94,270	-	94,270	831,013	925,283
Other Taxes and Insurance	118,153	33,605	-	151,758	76,250	228,008
Interest	18,735	91,758	-	110,493	48,935	159,428
Depreciation and Amortization	39,920	69,375	216	109,511	64,207	173,718
Equipment and Maintenance	44,961	35,674	-	80,635	70,699	151,334
Mortgage Servicing	129,376	-	-	129,376	-	129,376
Special Mailings	-	-	104,496	104,496	-	104,496
Audit and Accounting	-	32,977	-	32,977	-	32,977
Telephone	9,228	16,533	2,011	27,772	38,653	66,425
Travel and Conference	46,675	16,310	29,540	92,525	1,430	93,955
Office Supplies	8,750	23,042	736	32,528	20,169	52,697
Legal	33,697	-	-	33,697	-	33,697
Postage and Shipping	829	4,616	18	5,463	1,052	6,515
Overhead Applied	817,502	(706,576)	(131,656)	(20,730)	20,730	-
Total	\$ 9,174,716	\$ 997,433	\$ 631,497	\$ 10,803,646	\$ 5,286,595	\$ 16,090,241

See accompanying Notes to Financial Statements.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 350,044	\$ (337,343)
Adjustment to Reconcile Change in Net Assets to Net Cash and Cash Equivalents Used by Operating Activities:		
Depreciation and Amortization	159,940	173,718
Gain on Sale of Fixed Assets	(11,040)	(4,858)
Forgiveness of Debt	(225,000)	(408,784)
Unrealized (Gain) Loss on Investments	477	(133)
Unrealized Gain on Equity Method Investments	(24,814)	(19,213)
Realized Loss on Investments	4,651	-
Loss on Impairment - Homes Under Construction	130,348	35,362
Amortization of Mortgages Receivable Discount	(1,225,152)	(1,109,444)
Discount on Notes Payable	257	786
Change in Deferred Gift	18,067	6,204
Increase (Decrease) in Assets:		
Grant Receivables	(19,771)	372,236
Pledges Receivable	6,896	6,493
Other Receivables	122,842	(165,378)
Prepays	77,236	(39,988)
Inventory - Habitat ReStore	(40,893)	(2,156)
Deferred Gifts Receivable	1,674	-
Homes Under Construction	(1,283,278)	367,001
Homes Available for Sale	(2,399,968)	(851,010)
Land Held for Development	226,849	(140,095)
(Increase) Decrease in Liabilities:		
Accounts Payable	169,493	(101,051)
Due to Habitat International, Inc.	(31,540)	46,250
Deferred Revenue	(213,859)	(132,704)
Net Cash and Cash Equivalents Used by Operating Activities	(4,206,541)	(2,304,107)
CASH FLOWS FROM INVESTING ACTIVITIES		
Mortgages Sold, Net of Discounts	476,719	1,472,580
Repurchases of Mortgages	(241,728)	(100,287)
Purchases of Property and Equipment	(78,080)	(67,930)
Proceeds from Sale of Fixed Assets	11,799	7,220
Purchase of Investments in Securities	(133,420)	(320,813)
Proceeds from Sale of Investments in Securities	196,813	252,268
Payments Received on Mortgages Receivable	2,014,306	1,742,002
Net Cash and Cash Equivalents Provided by Investing Activities	2,246,409	2,985,040

See accompanying Notes to Financial Statements.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Long-Term Debt	\$ 456,119	\$ 95,555
Payments on Long-Term Debt	(502,099)	(318,042)
Line of Credit Advancements	750,000	-
Change in Restricted Cash	89,907	123,058
Net Cash and Cash Equivalents Provided	793,927	(99,429)
(Used) by Financing Activities	793,927	(99,429)
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 (1,166,205)	 581,504
 Cash and Cash Equivalents - Beginning of Year	 3,472,437	 2,890,933
 CASH AND CASH EQUIVALENTS - END OF YEAR	 \$ 2,306,232	 \$ 3,472,437
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	\$ 155,080	\$ 157,056

See accompanying Notes to Financial Statements.

HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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

Long-term mortgage financing is a key component which makes Habitat homes affordable. Homes sold to local low-income buyers are 100% financed by the Organization. Homebuyers are provided an affordable 0% interest, 20-30 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.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

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.

Restricted Cash

Restricted cash consists of proceeds from New Markets Tax Credit arrangements (Note 5). Use of these proceeds is restricted as outlined in the associated agreements and is not available for on-going operations.

Loan Origination Costs and New Market Tax Credit Fees

Amounts incurred to obtain financing are capitalized and amortized over the life of the loan. Fees paid to third parties for facilitating New Market Tax Credit arrangements are capitalized and amortized over the term of the arrangement. Amortization expense for loan costs and new market tax credit fees was \$44,992 for both the years ended June 30, 2016 and 2015, respectively.

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, 2016 and 2015 to be approximately \$1,375,000 and \$1,221,000, respectively, representing over 94,810 and 86,800 volunteer service hours, respectively.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2016 and 2015, 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 in Securities

The Organization reports investments in accordance with accounting standards. Under these standards, the Organization reports investments in equity securities that have readily determinable fair value, and all investments in debt securities, at fair value. The fair values of investments are based on quoted market prices. At June 30, 2016 and 2015, investments consisted of cash and mutual funds.

Equity Method Investments

Equity method investments are recorded at cost, and are subsequently adjusted to reflect the Organization's share of net profit or loss.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Land Held for Development and Homes Under Construction

Land held for development and homes under construction are stated at cost and include land under development, developed lots, direct and indirect costs of housing construction and capitalized interest, property taxes and overhead incurred during the development period. Cost is determined by the specific identification and per unit methods. Real estate assets are evaluated for impairment if impairment indicators are present. An impairment write-down to fair value less costs to sell occurs when management believes that events or changes in circumstances indicate that its carrying amount may not be recoverable. 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.

Land Available for Sale

Real estate assets are evaluated for impairment if impairment indicators are present. An impairment write-down to fair value less costs to sell occurs only if the estimated future undiscounted net cash flows from the real estate inventories are less than the carrying amount. No impairment losses were recorded during 2016 or 2015, 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.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition and Sales

Homes are sold at market value to buyers that meet the Organization's qualification guidelines. Non-interest bearing mortgages, which approximate the cost to build the home, are accepted as payment for the homes sold. The Organization may also obtain subordinate forgivable mortgages. Since the subordinate mortgages are expected to be forgiven, it is assumed they have no economic value and, accordingly, are not recognized in the Organization's financial statements.

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 7.48% and 7.51% for the years ended June 30, 2016 and 2015, 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, 2016 and 2015, 24 and 40 homes, respectively, were sold by the Organization.

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.

Allowance for Credit Losses

The Organization's allowance for credit losses is that amount considered adequate to absorb probable losses in the portfolio based on management's evaluations of the size and current risk characteristics of the mortgage notes receivable portfolio. Such evaluations consider historical information and experience with clients. Specific allowances for credit losses are established for large impaired notes on an individual basis. A note is considered impaired when, based on current information and events, it is probable that the Organization will be unable to collect the scheduled payments when due according to the contractual terms of the promissory note. The specific allowances established for these loans is based on a thorough analysis of the most probable source of repayment, including the estimated fair value of the underlying collateral. General allowances are established for loans that can be grouped into pools based on similar characteristics. At June 30, 2016 and 2015, management believes mortgage loans receivable to be fully collectible, therefore no allowance has been recorded.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Credit Losses (Continued)

The Organization maintains a separate general valuation allowance for homogeneous portfolio segments. These portfolio segments and their risk characteristics are described as follows:

Non-Forgivable Mortgage Notes Receivable: The degree of risk on residential mortgage lending is minimal due to the fact that all non-forgivable mortgage notes receivable are secured by property with fair values that exceed the uncollected balances. As such, no allowance has been deemed necessary for non-forgivable mortgage notes receivable at June 30, 2016 and 2015.

Transferred Mortgages Receivables: The degree of risk on transferred mortgages receivable is minimal due to the fact that all transferred mortgages receivable are secured by property with fair values that exceed the uncollected balances. As such, no allowance has been deemed necessary for transferred mortgages receivable as of June 30, 2016 and 2015.

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. Warranty expense recorded for the years ended June 30, 2016 and 2015 was \$27,741 and \$14,936, respectively. The accrued warranty reserve for homes was \$44,590 and \$30,882, respectively. Because of the inherent uncertainties in estimating warranty costs, it is at least reasonably possible that the Organization's estimates of these costs will change in the near term.

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, 2016 and 2015, escrow reserves totaled \$92,257 and \$56,414, respectfully.

Transferred Mortgages Receivable

Periodically the Organization transfers mortgages receivable to financial institutions. These transactions are accounted for in accordance with accounting standards for *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Under this standard, the Organization has maintained effective control over the assets transferred; accordingly, the transfer is accounted for as a secured borrowing.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transferred Mortgages Receivable (Continued)

There were no new transfers during the years ended June 30, 2016 or 2015. Related liabilities for previous years' sales of \$2,721,062 and \$2,931,706 as of June 30, 2016 and 2015, 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, 2016 and 2015:

	2016	2015
Total Administrative and Fundraising Costs	\$ 1,640,651	\$ 1,628,930
Less: ReStore Net Income	(146,605)	(179,461)
Net Administrative and Fundraising Costs	<u>\$ 1,494,046</u>	<u>\$ 1,449,469</u>

Concentrations of Credit Risk

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

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the 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.

HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

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

Fair Value Measurements

The Organization categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 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.

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.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 3, 2016, the date the financial statements were available to be issued.

NOTE 2 INVENTORY – HABITAT RESTORE

The Organization operates four discount home improvement centers (ReStores) in Phoenix, Peoria, Mesa and Anthem. The ReStores receive donations of building supplies, furniture and appliances and sell these items to the general public. The donated items are recorded in the 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, 2016 and 2015, consisted of the following:

	2016	2015
Donated Goods	\$ 237,566	\$ 245,949
Purchased Goods	65,476	16,200
Total Inventory - Habitat ReStore	\$ 303,042	\$ 262,149

NOTE 3 DEFERRED GIFTS RECEIVABLE

At June 30, 2016 and 2015, the Organization had amounts due from estates and trusts totaling \$117,830 and \$137,571, respectively.

NOTE 4 INVESTMENTS IN SECURITIES

The estimated market value of investments at June 30, 2016 and 2015 is as follows:

	2016	2015
Cash	\$ 2,339	\$ 5,004
Mutual Funds	62,259	128,115
Total	\$ 64,598	\$ 133,119

Investment return is made up of the following:

	2016	2015
Interest and Dividends	\$ 479	\$ 2,034
Realized Loss on Investments	(4,651)	-
Unrealized Gain (Loss) on Investments	(477)	133
Total	\$ (4,649)	\$ 2,167

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 5 EQUITY METHOD INVESTMENTS

Equity method investments consist of investments in two community development entities (CDEs), namely CCML Leverage II, LLC and Habitat Central AZ Leverage I, LLC. The Organization made investments in these entities during the year ended June 30, 2013. The CDEs participate in the New Markets Tax Credit (NMTC) program, which was established as part of the Community Renewal Tax Relief Act of 2000.

The goal of the NMTC program is to spur revitalization efforts of low-income and impoverished communities across the United States and its Territories by providing tax credit incentives to investors in a certified community development entity. The tax credit for investors equals 39% of the investment, which is credited over a seven-year period. A community development entity is required to participate and has a primary mission of providing financing for revitalization projects in low-income communities.

NMTC financing allows organizations such as affiliates of Habitat International to receive low-interest loans or investment capital from community development entities, primarily financial institutions, which will allow their investors to receive tax credits. As a result of participation in the NMTC program, the Organization has obtained low interest rate loans. The loans are guaranteed by Smith NMTC Associates, LLC, which also provides administrative support for the NMTC program on behalf of affiliates participating in the NMTC program.

Transactions with the CDEs for the years ending June 30, 2016 and 2015 are as follows:

CCML Leverage II, LLC

On August 30, 2012, the Organization contributed \$100,000 in cash and construction in process valued at \$1,330,133 for a 16.7% membership interest in CCML Leverage II, LLC. In addition, the Organization has a note payable to an affiliate of CCML Leverage II, LLC. The balance of the note was \$1,880,000 at June 30, 2016 and 2015. This investments is classified as equity method as a matter of consistency with other NMTC arrangements.

Habitat Central AZ Leverage I, LLC

On May 2, 2013, the Organization contributed \$197,500 in cash and construction in process valued at \$3,193,797 for 99% membership interest in Habitat Central AZ Leverage I, LLC. In addition, the Organization has a note payable to an affiliate of Habitat Central AZ Leverage I, LLC. The balance of the note was \$4,702,500 at June 30, 2016 and 2015.

The Organization's activity in equity method investments consist of the following for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Equity Method Investments - Beginning of Year	\$ 4,855,377	\$ 4,836,164
Change in Value	24,814	19,213
Equity Method Investments - End of Year	<u>\$ 4,880,191</u>	<u>\$ 4,855,377</u>

The change in value of equity method investments is included in other revenue on the accompanying statement of activities.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 5 EQUITY METHOD INVESTMENTS (CONTINUED)

The major assets of CCML Leverage II, LLC and Habitat Central Arizona Leverage I, LLC at June 30, 2016 and 2015 were as follows:

	June 30, 2016	
	CCML Leverage II, LLC	Habitat Central Arizona Leverage I, LLC
Assets		
Notes Receivable	\$ 15,735,842	\$ 3,393,797
Other Assets	921,780	-
Total Assets	\$ 16,657,622	\$ 3,393,797
	June 30, 2015	
	CCML Leverage II, LLC	Habitat Central Arizona Leverage I, LLC
Assets		
Notes Receivable	\$ 15,735,842	\$ 3,393,797
Other Assets	648,764	-
Total Assets	\$ 16,384,606	\$ 3,393,797

At June 30, 2016 and 2015, both CCML Leverage II, LLC and Habitat Central Arizona Leverage I, LLC had no liabilities and minimal activity for the years ended June 30, 2016 and 2015.

NOTE 6 HOMES UNDER CONSTRUCTION

Homes currently under construction consist of:

	2016	2015
Homes Under Construction	\$ 2,997,180	\$ 1,435,655
Less: Loss on Impairment	(440,172)	(161,925)
Homes Under Construction	\$ 2,557,008	\$ 1,273,730

NOTE 7 LAND HELD FOR DEVELOPMENT

Land held for development consists of:

	2016	2015
Land Held for Development	\$ 1,164,165	\$ 2,002,243
Less: Loss on Impairment	-	(488,535)
Land Held for Development	\$ 1,164,165	\$ 1,513,708

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 7 LAND HELD FOR DEVELOPMENT (CONTINUED)

Land held for development includes an estimated 38 lots in Glendale, Peoria, Tempe, Phoenix, Cave Creek, Coolidge, and Arizona City.

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 available for sale 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 \$130,348 and \$35,362 at June 30, 2016 and 2015, 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, 2016 and 2015.

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, 2016 and 2015:

	2016			Total
	Level 1	Level 2	Level 3	
Assets				
Deferred Gifts Receivable	\$ -	\$ -	\$ 117,830	\$ 117,830
Mutual Funds	62,259	-	-	62,259
Total	<u>\$ 62,259</u>	<u>\$ -</u>	<u>\$ 117,830</u>	<u>\$ 180,089</u>
	2015			Total
	Level 1	Level 2	Level 3	
Assets				
Deferred Gifts Receivable	\$ -	\$ -	\$ 137,571	\$ 137,571
Mutual Funds	128,115	-	-	128,115
Total	<u>\$ 128,115</u>	<u>\$ -</u>	<u>\$ 137,571</u>	<u>\$ 265,686</u>

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 9 FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Deferred Gifts Receivable:		
Beginning Balance	\$ 137,571	\$ 143,775
Proceeds from Deferred Gifts	(1,674)	-
Change in Value of Deferred Gifts Receivable	<u>(18,067)</u>	<u>(6,204)</u>
Total Deferred Gifts Receivable	<u>\$ 117,830</u>	<u>\$ 137,571</u>

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, 2016 and 2015 are as follows:

<u>Description</u>	June 30, 2016	(Level 1)	(Level 2)	(Level 3)
Homes Available for Sale	<u>\$ 1,290,673</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,290,673</u>

<u>Description</u>	June 30, 2015	(Level 1)	(Level 2)	(Level 3)
Homes Available for Sale	<u>\$ 308,999</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 308,999</u>

For the year ended June 30, 2016, homes available for sale with a carrying value of \$1,290,673 were written down to their fair values above, resulting in an impairment loss of \$130,348, which was included in nonoperating activities on the statement of activities.

For the year ended June 30, 2015, homes available for sale with a carrying value of \$308,999 were written down to their fair values above, resulting in an impairment loss of \$35,362, which was included in nonoperating activities on the statement of activities.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 10 PROPERTY AND EQUIPMENT

Property and equipment consists of:

	<u>2016</u>	<u>2015</u>
Buildings and Improvements	\$ 2,432,968	\$ 2,417,821
Furniture and Equipment	452,913	428,699
Vehicles	<u>258,702</u>	<u>264,202</u>
	3,144,583	3,110,722
Less: Accumulated Depreciation	<u>(1,098,053)</u>	<u>(1,026,564)</u>
Property and Equipment, Net	<u><u>\$ 2,046,530</u></u>	<u><u>\$ 2,084,158</u></u>

Depreciation expense charged to operations was \$114,948 and \$128,724 as of June 30, 2016 and 2015, respectively.

NOTE 11 NON-FORGIVABLE MORTGAGE NOTES RECEIVABLE

A home is considered sold when a formal closing transaction has been finalized. Homes are sold for market value with a non-forgivable (first) mortgage 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. If the first mortgage on a home is less than market value, the Organization may obtain a subordinate forgivable mortgage(s) for the difference between the first mortgage and market value. Since the subordinate mortgage is expected to be forgiven, it is assumed to have no economic value and, accordingly, is not recognized in the Organization's financial statements. At June 30, 2016 and 2015, the non-forgivable mortgage notes receivable balances are as follows:

	<u>2016</u>	<u>2015</u>
Face Value	\$ 26,222,445	\$ 25,528,017
Less: Unamortized Discount	<u>(11,171,754)</u>	<u>(10,940,174)</u>
Net Present Value	<u><u>\$ 15,050,691</u></u>	<u><u>\$ 14,587,843</u></u>

Annual collection of the non-forgivable mortgage notes receivable net of the unamortized discount at June 30, 2016 are due as follows:

<u>Year Ending June 30,</u>	
2017	\$ 1,823,375
2018	1,819,588
2019	1,800,970
2020	1,759,764
2021	1,714,541
Thereafter	<u>17,304,207</u>
Total	<u><u>\$ 26,222,445</u></u>

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 11 NON-FORGIVABLE MORTGAGE NOTES RECEIVABLE (CONTINUED)

The following table shows the homogeneous loan portfolio segments allocated by payment activity. Loans are deemed performing if they are less than 90 days delinquent:

Payment Activity	<u>Consumer Credit Risk Profile by Payment Activity</u>
Performing	\$ 24,805,955
Non-Performing	1,416,490
Total	<u>\$ 26,222,445</u>

The following table shows an aging analysis of non-forgivable mortgage notes receivable by time past due at June 30, 2016 and 2015:

	<u>June 30, 2016</u>			<u>Total</u>
	<u>Current</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	
Non-Forgivable Mortgage Notes Receivable	<u>\$ 23,241,869</u>	<u>\$ 1,564,086</u>	<u>\$ 1,416,490</u>	<u>\$ 26,222,445</u>
	<u>June 30, 2015</u>			
	<u>Current</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total</u>
Non-Forgivable Mortgage Notes Receivable	<u>\$ 22,473,558</u>	<u>\$ 1,498,007</u>	<u>\$ 1,556,452</u>	<u>\$ 25,528,017</u>

NOTE 12 TRANSFERRED MORTGAGES RECEIVABLE

For mortgages receivable that were transferred to a bank as of the years ended June 30, 2016 and 2015, (refer to Note 1 – Significant Accounting Principles) the mortgage balances are as follows:

	<u>2016</u>	<u>2015</u>
Face Value	\$ 3,663,433	\$ 4,005,707
Less: Unamortized Discount	<u>(1,031,933)</u>	<u>(1,175,160)</u>
Net Present Value	<u>\$ 2,631,500</u>	<u>\$ 2,830,547</u>

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 12 TRANSFERRED MORTGAGES RECEIVABLE (CONTINUED)

Annual collection of the transferred mortgage notes receivable net of the unamortized discount at June 30, 2016 are due as follows:

<u>Year Ending June 30,</u>	
2017	\$ 267,804
2018	269,064
2019	270,323
2020	271,583
2121	272,843
Thereafter	2,311,816
Total	<u>\$ 3,663,433</u>

The following table shows an aging analysis of first mortgages receivable by time past due at June 30, 2016 and 2015:

		<u>June 30, 2016</u>			
		<u>Current</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total</u>
Transferred	Mortgages Receivable	<u>\$ 3,585,812</u>	<u>\$ -</u>	<u>\$ 77,621</u>	<u>\$ 3,663,433</u>
		<u>June 30, 2015</u>			
		<u>Current</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total</u>
Transferred	Mortgages Receivable	<u>\$ 3,758,585</u>	<u>\$ 165,718</u>	<u>\$ 81,404</u>	<u>\$ 4,005,707</u>

NOTE 13 LINES OF CREDIT

At June 30, 2016, the Organization had lines of credit of \$2,000,000 and \$1,356,000, with two banks. The \$2,000,000 line of credit incurs interest at 2% and matures on May 1, 2018 while the \$1,356,000 line of credit incurs interest at the bank's prime rate (3.50% at June 30, 2016) and matures on October 1, 2016. The lines are secured by the Organization's cash and securities on deposit with the banks and land available for sale. The lines of credit agreements contain various financial covenants. The amounts outstanding under the lines of credit as of June 30, 2016 and 2015, were \$750,000 and \$-0- respectively.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 14 NOTES PAYABLE

Notes payable consists of:

	2016	2015
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.	\$ 1,274,771	\$ 1,345,759
Unsecured note payable to Wells Fargo Bank to fund the development of infrastructure in the 12th Street development named Oro Vista. Beginning in July 2013, quarterly principal payments of \$35,000 plus accrued interest at 2% per annum were payable until April 2016.	-	420,000
Notes payable to the City of Peoria and City of Chandler to fund the acquisition of real property. The loans bear interest at 0%. The loans shall be deemed forgiven when to the property is transferred to an eligible home owner, as long as the Organization has constructed single-family residences, whose designs have been approved by the City, and are sold to low-income families.	326,674	95,555
Loan payable to Nordstrom in the amount of \$300,000. The proceeds from the loan are to be used solely for the neighborhood revitalization program. The note is payable in principal payments of \$100,000 in year two, \$100,000 in year five and \$100,000 in year seven. The loan bears interest at 3-5%, with all unpaid principal and interest due in December 2019.	200,000	200,000
Promissory note payable to CCM Community Development XXVII, LLC, a related party, (Note 5) in the amount of \$1,880,000. Interest only payments are due semi-annually. Commencing in November 2020, principal payments are due semi-annually in an amount sufficient to fully amortize the remaining principal over the remaining eight years. The note bears interest at 0.7608% and matures in July 2028.	1,880,000	1,880,000
Promissory note payable to Enterprise Financial CDE, LLC, a related party, (Note 5) in the amount of \$4,702,500. Interest only payments are due semi-annually. Commencing in September 2019, principal payments are due semi-annually in an amount sufficient to fully amortize the remaining principal over the remaining 7.5 years. The note bears interest at 0.7224% and matures in April 2028.	4,702,500	4,702,500

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 14 NOTES PAYABLE (CONTINUED)

	2016	2015
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 is payable in 47 monthly installments of principal of \$145 and a final payment upon maturity of \$185. The note matures in July 2017. The note does not bear interest.	\$ 2,650	\$ 4,390
Promissory note payable to Habitat for Humanity International, Inc. as part of the SHOP. The proceeds from the note are required to be used for infrastructure costs. The note is payable in 47 monthly installments of principal of \$156, with a final payment of \$168. The note matures in July 2020. The note does not bear interest and has a discount of \$477.	7,500	7,500
Promissory note payable to Habitat for Humanity International, Inc. as part of the SHOP. The proceeds from the note are required to be used for infrastructure costs. The note is payable in 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.	4,698	14,070
Promissory note payable to Habitat for Humanity International, Inc. as part of the SHOP. The proceeds from the note are required to be used for infrastructure costs. The note is payable in 47 monthly installments of principal of \$546 and a final payment of \$588. The note matures in January 2020. The note does not bear interest and has a discount of \$1,668.	26,250	26,250
Total	8,425,043	8,696,024
Less: Discount on Non-Interest Bearing Notes	(2,423)	(2,681)
Total Notes Payable	\$ 8,422,620	\$ 8,693,343

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 14 NOTES PAYABLE (CONTINUED)

Annual maturities of the notes payable outstanding at June 30, 2016 are as follows:

<u>Year Ending June 30,</u>	
2017	\$ 90,153
2018	189,189
2019	93,120
2020	198,308
2021	95,276
Thereafter	<u>7,758,997</u>
Total	<u><u>\$ 8,425,043</u></u>

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. In addition, the Organization pays a stewardship fee to Habitat for Humanity International as well. For the years ended June 30, 2016 and 2015, contributions and stewardship fees to Habitat for Humanity International were \$142,244 and \$164,655, respectively.

NOTE 16 OPERATING LEASES

The Organization leases buildings and equipment under various operating lease agreements expiring in various years through February 2025.

Future minimum rental payments under operating leases having remaining terms in excess of one year at June 30, 2016 are as follows:

<u>Year Ending June 30,</u>	
2017	\$ 519,747
2018	503,153
2019	387,623
2020	309,674
2021	276,032
Thereafter	<u>600,000</u>
Total Minimum Lease Payments	<u><u>\$ 2,596,229</u></u>

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 \$932,929 and \$813,305 for the years ended June 30, 2016 and 2015, respectively.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Temporarily Restricted Net Assets:		
Home Construction	<u>\$ 887,142</u>	<u>\$ 1,122,299</u>
Permanently Restricted Net Assets:		
Future Operations	<u>\$ 117,829</u>	<u>\$ 125,456</u>

NOTE 18 RELATED PARTIES

The Organization considers affiliated entities of its board of directors to be related parties. At June 30, 2016 and 2015, the Organization had a line of credit payable to an affiliated entity of a member of its board of directors of \$750,000 and \$-0-, respectively, and a note payable for \$200,000 for both years.

NOTE 19 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 \$102,307 and \$100,458 for the years ended June 30, 2016 and 2015, respectively.

NOTE 20 SUBSEQUENT EVENTS

On July 13, 2016, Habitat for Humanity Central Arizona sold 15 home loans. The Organization received cash of \$750,159. The transaction resulted in a gain of \$201,123, which will be included in operations in fiscal year 2017.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Habitat for Humanity Central Arizona
Peoria, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Habitat for Humanity Central Arizona (a nonprofit organization), which comprise the balance sheet as of June 30, 2016, and the related statements of activities, functional expense and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 3, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Habitat for Humanity Central Arizona's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant* deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Habitat for Humanity Central Arizona's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Phoenix, Arizona
October 3, 2016

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
Habitat for Humanity Central Arizona
Peoria, Arizona

Report on Compliance for Each Major Federal Program

We have audited Habitat for Humanity Central Arizona's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Habitat for Humanity Central Arizona's major federal programs for the year ended June 30, 2016. Habitat for Humanity Central Arizona's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Habitat for Humanity Central Arizona's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Habitat for Humanity Central Arizona's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Habitat for Humanity Central Arizona's compliance.

Opinion on Each Major Federal Program

In our opinion, Habitat for Humanity Central Arizona complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of Habitat for Humanity Central Arizona is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Habitat for Humanity Central Arizona's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Habitat for Humanity Central Arizona's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Phoenix, Arizona
October 3, 2016

**HABITAT FOR HUMANITY CENTRAL ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016**

Federal Grantor/Program/Pass-Through Agency/Contract	Federal CFDA Number	Contract Number	Federal Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD):			
Community Development Block Grant:	14.218		
Pass through City of Peoria:			
Acquisition, Rehabilitation and Resell Program		47614A	\$ 54,115
Acquisition, Rehabilitation and Resell Program		44415	145,977
Pass through City of Glendale:			
Emergency Home Repair Services		C-9241, C-10400	366,663
Pass through City of Chandler:			
Emergency Home Repair Services		14-15EHR, 15-16	188,111
Total Community Development Block Grant			<u>754,866</u>
NSP-1 Grant	14.218		
Pass through City of Glendale:			
Renovation and New Construction		C-8437	229,248
Pass through City of Surprise:			
Renovation and New Construction		COS09-017	118,436
Total NSP-1 Grant			<u>347,684</u>
Total Community Development Block Grant			1,102,550
HOME Investment Partnerships Program:	14.239		
Pass through City of Peoria:			
Renovation, Resale, and Homebuyer Assistance		22916 (15-16)	71,391
Renovation, Resale, and Homebuyer Assistance		10715A	232,319
Pass through City of Chandler:			
Housing Reconstruction		1314-01	50,000
Pass through City of Glendale:			
Land Acquisition and Infrastructure Development Program		C9132-5, C9765-1 & C10698	521,426
Total HOME Investment Partnerships Program			<u>875,136</u>
Total U.S. Department of Housing and Urban Development			1,977,686
U.S. DEPARTMENT OF LABOR (DOL)			
Title 1-B:	17.274		
Pass through City of Phoenix:			
Youth Training in Construction		137311	46,860
Total Expenditures of Federal Awards			<u>\$ 2,024,546</u>

See Notes to Schedule of Expenditures of Federal Awards.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016**

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Habitat for Humanity Central Arizona under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Habitat for Humanity Central Arizona, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Habitat for Humanity Central Arizona.

NOTE 2 CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the *2016 Catalog of Federal Domestic Assistance*.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Habitat for Humanity Central Arizona has elected to use up to the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of Habitat for Humanity Central Arizona.
2. No significant deficiencies or material weaknesses in the internal control were disclosed by the audit of the financial statements of Habitat for Humanity Central Arizona.
3. No instances of material noncompliance were disclosed during the audit of the financial statements of Habitat for Humanity Central Arizona.
4. No significant deficiencies or material weaknesses in the internal control over major programs were disclosed during the audit of Habitat for Humanity Central Arizona.
5. The auditors' report on compliance for the major federal award programs for Habitat for Humanity Central Arizona expresses an unmodified opinion.
6. The following programs were tested as major programs:

<u>Program</u>	<u>CFDA No.</u>
Community Development Block Grant Cluster	14.218

7. The threshold for distinguishing type A and B programs was \$750,000.
8. Habitat for Humanity Central Arizona was determined to be a low risk auditee.
9. No audit findings were disclosed during the audit of Habitat for Humanity Central Arizona that the auditor is required to report under 2 CFR 200.516(a).

B. FINDINGS – FINANCIAL STATEMENT AUDIT

CURRENT YEAR

None

PRIOR YEAR

None

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

CURRENT YEAR

None

PRIOR YEAR

None