HABITAT FOR HUMANITY CENTRAL ARIZONA

FINANCIAL STATEMENTS AND
SINGLE AUDIT COMPLIANCE REPORT

YEARS ENDED JUNE 30, 2017 AND 2016

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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, 2017 and 2016, 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 audit 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.

Board of Directors
Habitat for Humanity Central Arizona

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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Organization adopted a recently issued accounting standard related to the accounting for debt issuance costs. The new standard requires entities to present debt issuance costs as a direct deduction from the face amount of the related borrowing, amortize debt issuance costs using the effective interest method over the life of the debt, and record the amortization as a component of interest expense. Our opinion is not modified with respect to this matter.

Other Matters

Other Information – Schedule of Expenditures of Federal Awards

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The 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 presented for purposes of additional analysis and is not a required part of the 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, 2017, 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 solely 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 the effectiveness of the Habitat for Humanity Central Arizona's 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

CliftonLarsonAllen LLP

Phoenix, Arizona
October 3, 2017

HABITAT FOR HUMANITY CENTRAL ARIZONA
BALANCE SHEETS
JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
Cash and Cash Equivalents	$ 4,362,276	$ 2,306,232
Restricted Cash	272,633	362,963
Grants Receivable	538,646	844,331
Pledges Receivable	309,349	-
Other Receivables	162,698	258,135
Prepaid Expenses and Other Assets	162,379	161,220
New Market Tax Credit Fees	63,818	88,396
Inventory - Habitat ReStore	289,184	303,042
Deferred Gifts Receivable	148,508	150,659
Investments in Securities	94,379	64,598
Equity Method Investments	4,905,004	4,880,191
Homes Under Construction	2,243,164	2,557,008
Homes Available for Sale	-	1,290,673
Land Held for Development	1,379,220	1,164,165
Land Available for Sale	1,725,756	1,717,858
Property and Equipment, Net	2,011,030	2,046,530
Nonforgivable Mortgage Notes Receivable	14,052,198	15,050,691
Transferred Mortgages Receivable	2,316,578	2,631,500
Total Assets	$ 35,036,820	$ 35,878,192
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	$ 746,452	$ 1,047,867
Due to Habitat International, Inc.	14,012	27,198
Deferred Revenue	2,409,715	2,736,493
Lines of Credit	-	750,000
Notes Payable, Net	7,810,777	8,219,975
Total Liabilities	10,980,956	12,781,533
NET ASSETS		
Unrestricted	22,640,927	22,091,688
Temporarily Restricted	1,292,639	887,142
Permanently Restricted	122,298	117,829
Total Net Assets	24,055,864	23,096,659
Total Liabilities and Net Assets	$ 35,036,820	$ 35,878,192

See accompanying Notes to Financial Statements.

HABITAT FOR HUMANITY CENTRAL ARIZONA
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2017 AND 2016

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES AND SUPPORT				
Contributions	$ 1,511,733	$ 2,993,861	$ -	$ 4,505,594
In-Kind Contributions	430,134	-	-	430,134
Sales of Completed Homes	5,615,850	-	-	5,615,850
Discounts on New Home Mortgages	(2,947,493)	-	-	(2,947,493)
Amortization of Mortgage Discounts	1,248,155	-	-	1,248,155
Grants	-	1,541,910	-	1,541,910
Investment Return	13,523	-	-	13,523
Home Repair Program	848,397	-	-	848,397
ReStore Sales (Net of Operating Expenses of $5,221,641 and $5,449,682, Respectively)	195,808	-	-	195,808
Special Events (Net of Direct Expense of $37,820 and $74,988, Respectively)	137,588	-	-	137,588
Other Revenue	247,271	-	-	247,271
Total	7,300,966	4,535,771	-	11,836,737
Net Assets Released from Restrictions	4,130,274	(4,130,274)	-	-
Total Operating Revenue and Support	11,431,240	405,497	-	11,836,737
OPERATING EXPENSES				
Program Services	9,912,644	-	-	9,912,644
Management and General	986,644	-	-	986,644
Fundraising	838,005	-	-	838,005
Total Operating Expenses	11,737,293	-	-	11,737,293
OPERATING INCREASE (DECREASE) IN NET ASSETS	(306,053)	405,497	-	99,444
NONOPERATING ACTIVITIES				
Gain on Sale of Mortgages	981,969	-	-	981,969
Other Income	73,588	-	-	73,588
Change in Deferred Gifts	8,937	-	4,469	13,406
Loss on Impairment	(30,831)	-	-	(30,831)
NONOPERATING INCREASE (DECREASE) IN NET ASSETS	1,033,663	-	4,469	1,038,132
CONTRIBUTIONS TO HABITAT FOR HUMANITY INTERNATIONAL, INC.	(178,371)	-	-	(178,371)
CHANGE IN NET ASSETS	549,239	405,497	4,469	959,205
Net Assets - Beginning of Year	22,091,688	887,142	117,829	23,096,659
NET ASSETS - END OF YEAR	$ 22,640,927	$ 1,292,639	$ 122,298	$ 24,055,864

See accompanying Notes to Financial Statements.

2016			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 1,538,702	$ 2,028,018	$ -	$ 3,566,720
227,106	228,367	-	455,473
3,115,920	-	-	3,115,920
(1,532,445)	-	-	(1,532,445)
1,247,622	-	-	1,247,622
-	1,256,847	-	1,256,847
(4,649)	-	-	(4,649)
667,633	-	-	667,633
146,605	-	-	146,605
83,371	-	-	83,371
203,295	-	-	203,295
5,693,160	3,513,232	-	9,206,392
3,748,389	(3,748,389)	-	-
9,441,549	(235,157)	-	9,206,392
6,956,068	-	-	6,956,068
1,030,135	-	-	1,030,135
622,056	-	-	622,056
8,608,259	-	-	8,608,259
833,290	(235,157)	-	598,133
(41,683)	-	-	(41,683)
84,253	-	-	84,253
(10,440)	-	(7,627)	(18,067)
(130,348)	-	-	(130,348)
(98,218)	-	(7,627)	(105,845)
(142,244)	-	-	(142,244)
592,828	(235,157)	(7,627)	350,044
21,498,860	1,122,299	125,456	22,746,615
$ 22,091,688	$ 887,142	$ 117,829	$ 23,096,659

HABITAT FOR HUMANITY CENTRAL ARIZONA
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017

		Support Services				
	Program Services	Management and General	Fundraising	Subtotal	ReStore Operating Costs	Total
Cost of Home Sales	$ 6,087,072	$ -	$ -	$ 6,087,072	$ -	$ 6,087,072
Cost of Home Repairs	1,281,968	-	-	1,281,968	-	1,281,968
Transfers to Construction in Progress	(828,708)	-	-	(828,708)	-	(828,708)
Other	170,200	264,678	289,141	724,019	96,418	820,437
Salaries	1,395,936	803,155	515,883	2,714,974	1,090,062	3,805,036
Payroll Taxes and Employee Benefits	395,253	210,808	140,756	746,817	350,643	1,097,460
Cost of Goods Sold	-	-	-	-	2,731,520	2,731,520
Occupancy	-	114,541	-	114,541	648,241	762,782
Other Taxes and Insurance	105,335	36,591	-	141,926	83,877	225,803
Interest and Amortization	10,385	101,538	-	111,923	39,466	151,389
Depreciation and Amortization	37,122	58,077	-	95,199	53,943	149,142
Equipment and Maintenance	45,924	29,620	-	75,544	57,541	133,085
Mortgage Servicing	132,387	-	-	132,387	-	132,387
Special Mailings	-	-	29,054	29,054	-	29,054
Audit and Accounting	-	34,674	-	34,674	-	34,674
Telephone	9,495	32,898	3,185	45,578	26,260	71,838
Travel and Conference	52,490	21,767	22,181	96,438	7,725	104,163
Office Supplies	4,836	24,965	2,548	32,349	16,951	49,300
Legal	122,261	18,999	3,250	144,510	-	144,510
Postage and Shipping	710	8,992	2,429	12,131	1,711	13,842
Overhead Applied	889,978	(774,659)	(132,602)	(17,283)	17,283	-
	9,912,644	986,644	875,825	11,775,113	5,221,641	16,996,754
Special Event Expense	-	-	(37,820)	(37,820)	-	(37,820)
Total	$ 9,912,644	$ 986,644	$ 838,005	$ 11,737,293	$ 5,221,641	$ 16,958,934

See accompanying Notes to Financial Statements.

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

	Program Services	Support Services: Management and General	Support Services: Fundraising	Subtotal	ReStore Operating Costs	Total
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	231,430	163,378	564,233	55,829	620,062
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 and Amortization	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	-
	6,956,068	1,030,135	697,044	8,683,247	5,449,682	14,132,929
Special Event Expense	-	-	(74,988)	(74,988)	-	(74,988)
Total	$ 6,956,068	$ 1,030,135	$ 622,056	$ 8,608,259	$ 5,449,682	$ 14,057,941

See accompanying Notes to Financial Statements.

HABITAT FOR HUMANITY CENTRAL ARIZONA
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 959,205	$ 350,044
Adjustment to Reconcile Change in Net Assets to Net Cash and Cash Equivalents Used by Operating Activities:		
Depreciation and Amortization	166,219	159,940
Gain on Sale of Fixed Assets	(875)	(11,040)
Forgiveness of Debt	(326,674)	(225,000)
Unrealized (Gain) Loss on Investments	(12,916)	477
Unrealized Gain on Equity Method Investments	(24,813)	(24,814)
Realized (Gain) Loss on Investments	(607)	4,651
Loss on Impairment	30,831	130,348
Amortization of Mortgages Receivable Discount	(1,190,840)	(1,225,152)
Discount on Notes Payable	-	257
Change in Deferred Gift	(13,406)	18,067
Increase (Decrease) in Assets:		
Grant Receivables	305,685	(19,771)
Pledges Receivable	(309,349)	6,896
Other Receivables	95,437	122,842
Prepaids	(1,159)	77,236
Inventory - Habitat ReStore	13,858	(40,893)
Deferred Gifts Receivable	15,557	1,674
Homes Under Construction	283,013	(1,283,278)
Homes Available for Sale	(1,177,458)	(2,399,968)
Land Held for Development	(215,055)	226,849
Land Available for Sale	(7,898)	-
(Increase) Decrease in Liabilities:		
Accounts Payable	(301,415)	169,493
Due to Habitat International, Inc.	(13,186)	(31,540)
Deferred Revenue	(326,778)	(213,859)
Net Cash and Cash Equivalents Used by Operating Activities	(2,052,624)	(4,206,541)
CASH FLOWS FROM INVESTING ACTIVITIES		
Mortgages Sold, Net of Discounts	2,910,689	476,719
Repurchases of Mortgages	(194,211)	(241,728)
Purchases of Property and Equipment	(84,378)	(78,080)
Proceeds from Sale of Fixed Assets	899	11,799
Purchase of Investments in Securities	(41,569)	(133,420)
Proceeds from Sale of Investments in Securities	25,311	196,813
Payments Received on Mortgages Receivable	2,255,908	2,014,306
Net Cash and Cash Equivalents Provided by Investing Activities	4,872,649	2,246,409

See accompanying Notes to Financial Statements.

HABITAT FOR HUMANITY CENTRAL ARIZONA
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Long-Term Debt	$ -	$ 456,119
Payments on Long-Term Debt	(104,311)	(502,099)
Line of Credit Advancements	-	750,000
Line of Credit Payments	(750,000)	-
Change in Restricted Cash	90,330	89,907
Net Cash and Cash Equivalents Provided (Used) by Financing Activities	(763,981)	793,927
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,056,044	(1,166,205)
Cash and Cash Equivalents - Beginning of Year	2,306,232	3,472,437
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 4,362,276	$ 2,306,232
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	$ 131,735	$ 155,080
Non Cash Forgiveness of Debt	$ 326,674	$ -

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 nonprofit 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.

The Organization has adopted the accounting guidance in FASB Accounting Standards Update (ASU) No. 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. ASU No. 2015-03 requires organizations to present debt issuance costs as a direct deduction from the face amount of the related borrowings, amortize debt issuance costs using the effective interest method over the life of the debt, and record the amortization as a component of interest expense. The adoption of the standard had no effect on previously reported net assets. The ASU is effective for fiscal years beginning after December 31, 2015 and is retrospectively applied. The Organization has adopted this change in accounting principle as of July 1, 2015.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Nonoperating activities include all noncash 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.

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 6). 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

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 new market tax credit fees was $44,992 for both the years ended June 30, 2017 and 2016, respectively.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 nonfinancial 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, 2017 and 2016 to be approximately $1,498,000 and $1,375,000, respectively, representing over 100,978 and 94,810 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.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants 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, 2017 and 2016, no allowance for doubtful accounts was deemed necessary by management.

Pledges Receivable

The Organization's pledges consist of unconditional promises to give from individual donors. Pledges receivable within one year are recorded at expected net realizable value when the promise is received. Pledges receivable over multiple years are recorded at the present value of estimated future cash flows. Pledges receivable are discounted using fair value rates and they are written off when deemed uncollectible.

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, 2017 and 2016, 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.

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 9. 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

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 2017 or 2016, 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:

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

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 at market value to buyers that meet the Organization's qualification guidelines. Noninterest 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. Noninterest bearing mortgages have been discounted at 7.48% for both of the years ended June 30, 2017 and 2016, 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, 2017 and 2016, 37 and 24 homes, respectively, were sold by the Organization.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nonforgivable Mortgage Notes Receivable

The Organization's noninterest 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.

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.

There were no new transfers during the years ended June 30, 2017 or 2016. Related liabilities for previous years' sales of $2,394,904 and $2,721,062 as of June 30, 2017 and 2016, 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.

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 are 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, 2017 and 2016, management believes mortgage loans receivable to be fully collectible, therefore no allowance has been recorded.

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:

Nonforgivable Mortgage Notes Receivable: The degree of risk on residential mortgage lending is minimal due to the fact that all nonforgivable mortgage notes receivable are secured by property with fair values that exceed the uncollected balances. As such, no allowance has been deemed necessary for nonforgivable mortgage notes receivable at June 30, 2017 and 2016.

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, 2017 and 2016.

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 in accounts payable and accrued expenses 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, 2017 and 2016 was $7,845 and $27,741, respectively. The accrued warranty reserve for homes was $37,365 and $44,590, 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, 2017 and 2016, escrow reserves totaled $45,317 and $92,257, respectfully.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2017 and 2016:

	2017	2016
Total Administrative and Fundraising Costs	$ 1,824,649	$ 1,652,191
Less ReStore Net Income	(195,808)	(146,605)
Net Administrative and Fundraising Costs	$ 1,628,841	$ 1,505,586

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 (UBI) 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. This policy has had no impact on the organization's financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 re-measure 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.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

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, 2017 and 2016, consisted of the following:

	2017	2016
Donated Goods	$ 236,778	$ 237,566
Purchased Goods	52,406	65,476
Total Inventory - Habitat ReStore	$ 289,184	$ 303,042

NOTE 3 DEFERRED GIFTS RECEIVABLE

At June 30, 2017 and 2016, the Organization had amounts due from estates and trusts totaling $148,508 and $150,659, respectively.

NOTE 4 PLEDGE RECEIVABLES

Contributions receivable include pledges that have been discounted at 1.6% during June 30, 2017. The following is a summary of the Organization's pledge receivables at June 30:

	2017	2016
Total amounts due in:		
One Year	$ 120,000	$ -
Two to Five Years	195,000	-
Gross Contributions Receivable	315,000	-
Less Allowance for Doubtful Accounts	-	-
Less Discount to Present Value	(5,651)	-
Pledges Receivable, Net	$ 309,349	$ -

NOTE 5 INVESTMENTS IN SECURITIES

The estimated market value of investments at June 30, 2017 and 2016 is as follows:

	2017	2016
Cash	$ 3,112	$ 2,339
Mutual Funds	91,267	62,259
Total	$ 94,379	$ 64,598

Investment return is made up of the following:

	2017	2016
Interest and Dividends	$ -	$ 479
Realized Gain (Loss) on Investments	607	(4,651)
Unrealized Gain (Loss) on Investments	12,916	(477)
Total	$ 13,523	$ (4,649)

NOTE 6 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, 2017 and 2016 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, 2017 and 2016. This investments is classified as equity method as a matter of consistency with other NMTC arrangements.

NOTE 6 EQUITY METHOD INVESTMENTS (CONTINUED)

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, 2017 and 2016.

The Organization's activity in equity method investments consist of the following for the years ended June 30, 2017 and 2016:

	2017	2016
Equity Method Investments - Beginning of Year	$ 4,880,191	$ 4,855,377
Change in Value	24,813	24,814
Equity Method Investments - End of Year	$ 4,905,004	$ 4,880,191

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

The major assets of CCML Leverage II, LLC and Habitat Central Arizona Leverage I, LLC at June 30, 2017 and 2016 were as follows:

	June 30, 2017	
	CCML Leverage II, LLC	Habitat Central Arizona Leverage I, LLC
Assets		
Notes Receivable	$ 15,735,842	$ 3,393,797
Other Assets	1,194,797	-
Total Assets	$ 16,930,639	$ 3,393,797

	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

At June 30, 2017 and 2016, both CCML Leverage II, LLC and Habitat Central Arizona Leverage I, LLC had no liabilities and minimal activity for the years ended June 30, 2017 and 2016.

NOTE 7 HOMES UNDER CONSTRUCTION

Homes currently under construction consist of:

	2017	2016
Homes Under Construction	$ 2,315,476	$ 2,997,180
Less Loss on Impairment	(72,312)	(440,172)
Homes Under Construction	$ 2,243,164	$ 2,557,008

NOTE 8 LAND HELD FOR DEVELOPMENT

Land held for development consists of:

	2017	2016
Land Held for Development	$ 1,410,051	$ 1,164,165
Less Loss on Impairment	(30,831)	-
Land Held for Development	$ 1,379,220	$ 1,164,165

Land held for development includes an estimated 40 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 9 LOSS ON IMPAIRMENT

During the years ended June 30, 2017 and 2016, the Organization determined that land held for development and homes available for sale had been impaired, respectively. 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 $30,831 and $130,348 at June 30, 2017 and 2016, respectively, which is reflected in the statement of activities as “Loss on Impairment”

NOTE 10 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, 2017 and 2016.

NOTE 10 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, 2017 and 2016:

	2017			
	Level 1	Level 2	Level 3	Total
Assets				
Deferred Gifts Receivable	$ -	$ -	$ 148,508	$ 148,508
Mutual Funds	91,267	-	-	91,267
Total	$ 91,267	$ -	$ 148,508	$ 239,775

	2016			
	Level 1	Level 2	Level 3	Total
Assets				
Deferred Gifts Receivable	$ -	$ -	$ 150,659	$ 150,659
Mutual Funds	62,259	-	-	62,259
Total	$ 62,259	$ -	$ 150,659	$ 212,918

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, 2017 and 2016:

	2017	2016
Deferred Gifts Receivable:		
Beginning Balance	$ 157,555	$ 177,296
Proceeds from Deferred Gifts	(8,938)	(1,674)
Change in Value of Deferred Gifts Receivable	13,406	(18,067)
Total Deferred Gifts Receivable	$ 162,023	$ 157,555

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 nonrecurring basis as of June 30, 2017 and 2016 are as follows:

Description	June 30, 2017	(Level 1)	(Level 2)	(Level 3)
Land Held for Development	$ 1,379,220	$ -	$ -	$ 1,379,220

Description	June 30, 2016	(Level 1)	(Level 2)	(Level 3)
Homes Available for Sale	$ 1,290,673	$ -	$ -	$ 1,290,673

For the year ended June 30, 2017, land held for development with a carrying value of $1,410,051 was written down to the fair value above, resulting in an impairment loss of $30,831, which was included in nonoperating activities on the statement of activities.

NOTE 10 FAIR VALUE MEASUREMENTS (CONTINUED)

For the year ended June 30, 2016, homes available for sale with a carrying value of $1,421,021 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.

NOTE 11 PROPERTY AND EQUIPMENT

Property and equipment consists of:

	2017	2016
Buildings and Improvements	$ 2,458,746	$ 2,432,968
Furniture and Equipment	496,956	452,913
Vehicles	244,424	258,702
Total	3,200,126	3,144,583
Less Accumulated Depreciation	(1,189,096)	(1,098,053)
Property and Equipment, Net	$ 2,011,030	$ 2,046,530

Depreciation expense charged to operations was $119,854 and $114,948 as of June 30, 2017 and 2016, respectively.

NOTE 12 NONFORGIVABLE MORTGAGE NOTES RECEIVABLE

A home is considered sold when a formal closing transaction has been finalized. Homes are sold for market value with a nonforgivable (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 noninterest-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, 2017 and 2016, the nonforgivable mortgage notes receivable balances are as follows:

	2017	2016
Face Value	$ 24,740,738	$ 26,222,445
Less Unamortized Discount	(10,688,540)	(11,171,754)
Net Present Value	$ 14,052,198	$ 15,050,691

NOTE 12 NONFORGIVABLE MORTGAGE NOTES RECEIVABLE (CONTINUED)

Annual collection of the nonforgivable mortgage notes receivable net of the unamortized discount at June 30, 2017 are due as follows:

Year Ending June 30,	
2018	$ 1,726,195
2019	1,713,694
2020	1,677,985
2021	1,633,277
2022	1,581,286
Thereafter	16,408,301
Total	$ 24,740,738

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:

	Consumer Credit Risk Profile by Payment Activity
Payment Activity;	
Performing	$ 23,531,806
Nonperforming	1,208,932
Total	$ 24,740,738

The following table shows an aging analysis of nonforgivable mortgage notes receivable by time past due at June 30, 2017 and 2016:

	June 30, 2017			
	Current	30-89 Days Past Due	90 Days or More Past Due	Total
Nonforgivable Mortgage Notes Receivable	$ 22,454,523	$ 1,077,283	$ 1,208,932	$ 24,740,738

	June 30, 2016			
	Current	30-89 Days Past Due	90 Days or More Past Due	Total
Nonforgivable Mortgage Notes Receivable	$ 23,241,869	$ 1,564,086	$ 1,416,490	$ 26,222,445

NOTE 13 TRANSFERRED MORTGAGES RECEIVABLE

For mortgages receivable that were transferred to a bank as of the years ended June 30, 2017 and 2016, (refer to Note 1 – Significant Accounting Principles) the mortgage balances are as follows:

	2017	2016
Face Value	$ 3,175,190	$ 3,663,433
Less Unamortized Discount	(858,612)	(1,031,933)
Net Present Value	$ 2,316,578	$ 2,631,500

Annual collection of the transferred mortgage notes receivable net of the unamortized discount at June 30, 2017 are due as follows:

Year Ending June 30,	
2018	$ 249,399
2019	250,479
2020	251,559
2021	252,639
2022	253,359
Thereafter	1,917,755
Total	$ 3,175,190

The following table shows an aging analysis of first mortgages receivable by time past due at June 30, 2017 and 2016:

	June 30, 2017			
	Current	30-89 Days Past Due	90 Days or More Past Due	Total
Transferred Mortgages Receivable	$ 3,002,526	$ 172,664	$ -	$ 3,175,190

	June 30, 2016			
	Current	30-89 Days Past Due	90 Days or More Past Due	Total
Transferred Mortgages Receivable	$ 3,585,812	$ -	$ 77,621	$ 3,663,433

NOTE 14 LINES OF CREDIT

At June 30, 2017, the Organization had lines of credit of $2,000,000 and $2,070,000, with two banks. The $2,000,000 line of credit incurs interest at 2% and matures on May 1, 2018 while the $2,070,000 line of credit incurs interest at the bank's prime rate (3.75% at June 30, 2017) and matures on December 1, 2018. 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, 2017 and 2016, were $-0- and $750,000 respectively. On September 20, 2017, the line of credit which matures on December 1, 2018 and was secured by land available for sale was closed.

NOTE 15 NOTES PAYABLE

Notes payable consists of:

Notes Payable to Banks and Financial Institutions:	2017	2016
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. The note was refinanced during the year ended June 30, 2017.	$ -	$ 1,274,771
Note payable to Wells Fargo Equipment Finance, secured by a building. The note is payable in monthly principal and interest installments, bears interest at 4.53%, and matures in December 2026.	1,192,884	-
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. Debt was forgiven on 1/31/2017.	-	326,674
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

NOTE 15 NOTES PAYABLE (CONTINUED)

Notes Payable to Habitat for Humanity International:	2017	2016
Promissory note payable to CCM Community Development XXVII, LLC, a related party, (Note 6) 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 6) 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
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 and has a discount of $10.	910	2,650
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 $293.	5,628	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 matured in July 2017. The note does not bear interest.	-	4,698

NOTE 15 NOTES PAYABLE (CONTINUED)

Notes Payable to Habitat for Humanity International:	2017	2016
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 $1,027.	$ 19,698	$ 26,250
Total	8,001,620	8,425,043
Less Discount on Noninterest Bearing Notes	(1,330)	(2,423)
Less Unamortized Debt Issuance Costs	(189,513)	(202,645)
Total Notes Payable	$ 7,810,777	$ 8,219,975

Annual maturities of the notes payable outstanding at June 30, 2017 are as follows:

Year Ending June 30,	
2018	$ 212,219
2019	116,136
2020	221,127
2021	118,048
2022	123,586
Thereafter	7,210,504
Total	$ 8,001,620

NOTE 16 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, 2017 and 2016, contributions and stewardship fees to Habitat for Humanity International were $178,371 and $142,244, respectively.

NOTE 17 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, 2017 are as follows:

Year Ending June 30,	
2018	$ 415,037
2019	330,189
2020	272,282
2021	155,000
2022	158,750
Thereafter	441,250
Total Minimum Lease Payments	$ 1,772,508

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 $678,734 and $932,929 for the years ended June 30, 2017 and 2016, respectively.

NOTE 18 TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted and permanently restricted net assets are available for the following purposes at June 30, 2017 and 2016:

	2017	2016
Temporarily Restricted Net Assets:		
Home Construction	$ 1,292,639	$ 887,142
Permanently Restricted Net Assets:		
Future Operations	$ 122,298	$ 117,829

NOTE 19 RELATED PARTIES

The Organization considers affiliated entities of its board of directors to be related parties. At June 30, 2017 and 2016, the Organization had a line of credit payable to an affiliated entity of a member of its board of directors of $-0- and $750,000, respectively, and a note payable for $200,000 for both years.

NOTE 20 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 $110,587 and $102,307 for the years ended June 30, 2017 and 2016, respectively.

NOTE 21 SUBSEQUENT EVENTS

On September 20, 2017, the Organization sold a parcel of land for $5,000,000; which netted cash of $4,769,368. The land was purchased in 2006 for the intended purpose of building homes, however this parcel was later reevaluated and determined to be more suitable as a commercial property. The book value of the land on the June 30, 2017 balance sheet was $1,719,617.

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, 2017, 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, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Habitat for Humanity Central Arizona's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. 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 misstatement, 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

CliftonLarsonAllen LLP

Phoenix, Arizona
October 3, 2017

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, 2017. 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.

Board of Directors
Habitat for Humanity Central Arizona

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, 2017.

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 a 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

CliftonLarsonAllen LLP

Phoenix, Arizona
October 3, 2017

HABITAT FOR HUMANITY CENTRAL ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017

Federal Grantor/Program/Pass-Through Agency/Contract	Federal CFDA Number	Pass Through Entity Identifying 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		44415, 53316	$ 74,382
Pass through City of Glendale:			
Emergency Home Repair Services		C-10400, C17-0109	424,942
Pass through City of Chandler:			
Emergency Home Repair Services		15-16	102,545
Total Community Development Block Grant			601,869
NSP-1 Grant	14.218		
Pass through City of Surprise:			
Renovation and New Construction		COS09-017	28,945
Total NSP-1 Grant			28,945
Total Community Development Block Grant			630,814
HOME Investment Partnerships Program:	14.239		
Pass through City of Peoria:			
Renovation, Resale, and Homebuyer Assistance		22916 (15-16)	71,391
Pass through City of Tempe:			
Housing Reconstruction		HOME	829,976
Pass through City of Glendale:			
New Construction, Renovation, & Homebuyer Assistance		C9765-1, C10698, C17-0224	158,541
Total HOME Investment Partnerships Program			1,059,908
Total U.S. Department of Housing and Urban Development			1,690,722
U.S. DEPARTMENT OF LABOR (DOL)			
Title 1-B:	17.274		
Pass through City of Phoenix:			
Youth Training in Construction		142150-0	53,140
Total Expenditures of Federal Awards			$ 1,743,862

See Notes to Schedule of Expenditures of Federal Awards.

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, 2017. 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 *2017 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 not to use the 10-percent de minims indirect cost rate as allowed under the Uniform Guidance.

NOTE 4 SUBRECIPIENTS

There were no subrecipient payments during the year.

HABITAT FOR HUMANITY CENTRAL ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	**Unmodified**	
Internal control over financial reporting:		
Material weakness(es) identified?	____ yes	X no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	____ yes	X none reported
Noncompliance material to financial statements noted?	____ yes	X no

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	____ yes	X no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	____ yes	X none reported
Type of auditors' report issued on compliance for for major programs?	**Unmodified**	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	____ yes	X no

Identification of major programs:

CFDA Number(s)	**Name of Federal Program or Cluster**
14.239	Home Investment Partnerships Program

Dollar threshold used to distinguish between type A and type B programs:	$750,000	
Auditee qualified as low-risk auditee?	X yes	____ no