

**HABITAT FOR HUMANITY CENTRAL ARIZONA**  
**FINANCIAL STATEMENTS AND**  
**SINGLE AUDIT COMPLIANCE REPORT**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



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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, 2018 and 2017, 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.

**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, 2018 and 2017, 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 – 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 10, 2018, 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**

Phoenix, Arizona  
October 10, 2018

**HABITAT FOR HUMANITY CENTRAL ARIZONA  
BALANCE SHEETS  
JUNE 30, 2018 AND 2017**

<b>ASSETS</b>	<u>2018</u>	<u>2017</u>
Cash and Cash Equivalents	\$ 3,782,120	\$ 4,362,276
Restricted Cash	182,123	272,633
Grants Receivable	158,595	538,646
Pledges Receivable	143,696	309,349
Other Receivables	560,792	162,698
Prepaid Expenses and Other Assets	263,401	162,379
New Market Tax Credit Fees	32,567	63,818
Inventory - Habitat ReStore	728,308	289,184
Deferred Gifts Receivable	142,716	148,508
Investments in Securities	3,862,035	94,379
Equity Method Investments	4,929,816	4,905,004
Homes Under Construction	2,953,326	2,243,164
Land Held for Development	708,439	1,379,220
Land Available for Sale	-	1,725,756
Property and Equipment, Net	2,339,387	2,011,030
Nonforgivable Mortgage Notes Receivable	14,505,647	14,052,198
Transferred Mortgages Receivable	<u>2,040,016</u>	<u>2,316,578</u>
Total Assets	<u>\$ 37,332,984</u>	<u>\$ 35,036,820</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 1,224,318	\$ 746,452
Due to Habitat International, Inc.	32,886	14,012
Deferred Revenue	2,136,869	2,409,715
Notes Payable, Net	<u>6,530,309</u>	<u>7,810,777</u>
Total Liabilities	9,924,382	10,980,956
<b>NET ASSETS</b>		
Unrestricted	25,378,913	22,640,927
Temporarily Restricted	1,905,973	1,292,639
Permanently Restricted	<u>123,716</u>	<u>122,298</u>
Total Net Assets	<u>27,408,602</u>	<u>24,055,864</u>
Total Liabilities and Net Assets	<u>\$ 37,332,984</u>	<u>\$ 35,036,820</u>

See accompanying Notes to Financial Statements.

**HABITAT FOR HUMANITY CENTRAL ARIZONA  
STATEMENTS OF ACTIVITIES  
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>OPERATING REVENUES AND SUPPORT</b>				
Contributions	\$ 1,687,979	\$ 3,001,362	\$ -	\$ 4,689,341
In-Kind Contributions	153,103	93,858	-	246,961
Sales of Completed Homes	4,139,150	-	-	4,139,150
Discounts on New Home Mortgages	(2,274,811)	-	-	(2,274,811)
Amortization of Mortgage Discounts	1,222,334	-	-	1,222,334
Grants	-	809,186	-	809,186
Investment Return	35,950	-	-	35,950
Home Repair Program	1,015,228	-	-	1,015,228
ReStore Sales (Net of Operating Expenses of \$5,190,668 and \$5,221,641, Respectively)	(4,389)	-	-	(4,389)
Special Events (Net of Direct Expense of \$40,673 and \$37,820, Respectively)	143,785	-	-	143,785
Other Revenue	396,490	-	-	396,490
Total	<u>6,514,819</u>	<u>3,904,406</u>	<u>-</u>	<u>10,419,225</u>
Net Assets Released from Restrictions	<u>3,291,072</u>	<u>(3,291,072)</u>	<u>-</u>	<u>-</u>
Total Operating Revenue and Support	9,805,891	613,334	-	10,419,225
<b>OPERATING EXPENSES</b>				
Program Services	8,266,727	-	-	8,266,727
Management and General	974,751	-	-	974,751
Fundraising	748,632	-	-	748,632
Total Operating Expenses	<u>9,990,110</u>	<u>-</u>	<u>-</u>	<u>9,990,110</u>
<b>OPERATING INCREASE (DECREASE) IN NET ASSETS</b>	(184,219)	613,334	-	429,115
<b>NONOPERATING ACTIVITIES</b>				
Gain on Sale of Mortgages	11,652	-	-	11,652
Gain on Sale of Land	3,047,421	-	-	3,047,421
Other Income	54,730	-	-	54,730
Change in Deferred Gifts	5,001	-	1,418	6,419
Loss on Impairment	-	-	-	-
<b>NONOPERATING INCREASE IN NET ASSETS</b>	3,118,804	-	1,418	3,120,222
<b>CONTRIBUTIONS TO HABITAT FOR HUMANITY INTERNATIONAL, INC.</b>	<u>(196,599)</u>	<u>-</u>	<u>-</u>	<u>(196,599)</u>
<b>CHANGE IN NET ASSETS</b>	2,737,986	613,334	1,418	3,352,738
Net Assets - Beginning of Year	<u>22,640,927</u>	<u>1,292,639</u>	<u>122,298</u>	<u>24,055,864</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 25,378,913</u>	<u>\$ 1,905,973</u>	<u>\$ 123,716</u>	<u>\$ 27,408,602</u>

See accompanying Notes to Financial Statements.

2017

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 1,511,733	\$ 2,993,861	\$ -	\$ 4,505,594
430,134	-	-	430,134
5,615,850	-	-	5,615,850
(2,947,493)	-	-	(2,947,493)
1,248,155	-	-	1,248,155
-	1,541,910	-	1,541,910
13,523	-	-	13,523
848,397	-	-	848,397
195,808	-	-	195,808
137,588	-	-	137,588
247,271	-	-	247,271
<u>7,300,966</u>	<u>4,535,771</u>	<u>-</u>	<u>11,836,737</u>
<u>4,130,274</u>	<u>(4,130,274)</u>	<u>-</u>	<u>-</u>
11,431,240	405,497	-	11,836,737
9,912,644	-	-	9,912,644
986,644	-	-	986,644
838,005	-	-	838,005
<u>11,737,293</u>	<u>-</u>	<u>-</u>	<u>11,737,293</u>
(306,053)	405,497	-	99,444
981,969	-	-	981,969
-	-	-	-
73,588	-	-	73,588
8,937	-	4,469	13,406
<u>(30,831)</u>	<u>-</u>	<u>-</u>	<u>(30,831)</u>
1,033,663	-	4,469	1,038,132
<u>(178,371)</u>	<u>-</u>	<u>-</u>	<u>(178,371)</u>
549,239	405,497	4,469	959,205
<u>22,091,688</u>	<u>887,142</u>	<u>117,829</u>	<u>23,096,659</u>
<u>\$ 22,640,927</u>	<u>\$ 1,292,639</u>	<u>\$ 122,298</u>	<u>\$ 24,055,864</u>

**HABITAT FOR HUMANITY CENTRAL ARIZONA  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2018**

	Program Services	Support Services		Subtotal	ReStore Operating Costs	Total
		Management and General	Fundraising			
Cost of Home Sales	\$ 4,539,673	\$ -	\$ -	\$ 4,539,673	\$ -	\$ 4,539,673
Cost of Home Repairs	1,172,114	-	-	1,172,114	-	1,172,114
Transfers to Construction in Progress	(821,213)	-	-	(821,213)	-	(821,213)
Other	204,275	256,911	173,166	634,352	171,904	806,256
Salaries	1,411,443	845,604	568,206	2,825,253	1,186,831	4,012,084
Payroll Taxes and Employee Benefits	373,696	188,899	145,881	708,476	361,685	1,070,161
Cost of Goods Sold	-	-	-	-	2,554,932	2,554,932
Occupancy	-	80,275	-	80,275	541,693	621,968
Other Taxes and Insurance	107,203	38,945	-	146,148	92,586	238,734
Interest and Amortization	7,227	95,152	-	102,379	25,213	127,592
Depreciation and Amortization	42,693	63,267	472	106,432	61,609	168,041
Equipment and Maintenance	55,026	28,959	-	83,985	98,215	182,200
Mortgage Servicing	133,367	-	-	133,367	-	133,367
Special Mailings	-	-	44,823	44,823	-	44,823
Audit and Accounting	-	35,132	-	35,132	-	35,132
Telephone	9,638	18,154	2,099	29,891	25,342	55,233
Travel and Conference	54,130	24,236	20,788	99,154	15,766	114,920
Office Supplies	7,211	26,790	839	34,840	26,773	61,613
Legal	79,368	14,716	210	94,294	-	94,294
Postage and Shipping	1,039	7,922	71	9,032	495	9,527
Overhead Applied	889,837	(750,211)	(167,250)	(27,624)	27,624	-
Total	8,266,727	974,751	789,305	10,030,783	5,190,668	15,221,451
Special Event Expense	-	-	(40,673)	(40,673)	-	(40,673)
Total Functional Expenses	<u>\$ 8,266,727</u>	<u>\$ 974,751</u>	<u>\$ 748,632</u>	<u>\$ 9,990,110</u>	<u>\$ 5,190,668</u>	<u>\$ 15,180,778</u>

See accompanying Notes to Financial Statements.

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

	Program Services	Support Services		Subtotal	ReStore Operating Costs	Total
		Management and General	Fundraising			
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	-
Total	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 Functional Expenses	<u>\$ 9,912,644</u>	<u>\$ 986,644</u>	<u>\$ 838,005</u>	<u>\$ 11,737,293</u>	<u>\$ 5,221,641</u>	<u>\$ 16,958,934</u>

See accompanying Notes to Financial Statements.

**HABITAT FOR HUMANITY CENTRAL ARIZONA  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 3,352,738	\$ 959,205
Adjustment to Reconcile Change in Net Assets to Net Cash and Cash Equivalents Used by Operating Activities:		
Depreciation and Amortization	168,041	149,142
Interest Amortization	21,750	17,077
Gain on Sale of Fixed Assets	(1,498)	(875)
Gain on Sale of Land Available for Sale	(3,047,421)	-
Forgiveness of Debt	-	(326,674)
Unrealized Gain on Investments	(13,259)	(12,916)
Unrealized Gain on Equity Method Investments	(24,812)	(24,813)
Realized Gain on Investments	-	(607)
Loss on Impairment	-	30,831
Amortization of Mortgages Receivable Discount	(1,222,333)	(1,190,840)
Change in Deferred Gift	(6,419)	(13,406)
Increase (Decrease) in Assets:		
Grant Receivables	380,051	305,685
Pledges Receivable	165,653	(309,349)
Other Receivables	(398,094)	95,437
Prepays	(101,022)	(1,159)
Inventory - Habitat ReStore	(439,124)	13,858
Deferred Gifts Receivable	12,211	15,557
Homes Under Construction	(710,162)	283,013
Homes Available for Sale	(1,370,409)	(1,177,458)
Land Held for Development	670,781	(215,055)
Land Available for Sale	-	(7,898)
(Increase) Decrease in Liabilities:		
Accounts Payable	477,866	(301,415)
Due to Habitat International, Inc.	18,874	(13,186)
Deferred Revenue	(272,846)	(326,778)
Net Cash Used by Operating Activities	(2,339,434)	(2,052,624)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Mortgages Sold, Net of Discounts	61,417	2,910,689
Repurchases of Mortgages	(62,277)	(194,211)
Purchases of Property and Equipment	(465,915)	(84,378)
Proceeds from Sale of Fixed Assets	2,266	899
Proceeds from Sale of Land Available for Sale	4,773,177	-
Purchase of Investments in Securities	(3,924,714)	(41,569)
Proceeds from Sale of Investments in Securities	170,317	25,311
Payments Received on Mortgages Receivable	2,416,715	2,255,908
Net Cash Provided by Investing Activities	2,970,986	4,872,649

See accompanying Notes to Financial Statements.

**HABITAT FOR HUMANITY CENTRAL ARIZONA  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from Long-Term Debt	\$ 187,767	\$ -
Payments on Long-Term Debt	(1,489,985)	(104,311)
Line of Credit Payments	-	(750,000)
Change in Restricted Cash	90,510	90,330
Net Cash Used by Financing Activities	(1,211,708)	(763,981)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(580,156)	2,056,044
Cash and Cash Equivalents - Beginning of Year	4,362,276	2,306,232
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 3,782,120	\$ 4,362,276
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid for Interest	\$ 103,112	\$ 131,735
Noncash Forgiveness of Debt	\$ -	\$ 326,674

See accompanying Notes to Financial Statements.

**HABITAT FOR HUMANITY CENTRAL ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

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 to 40-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.

Nonoperating activities include all noncash activities relating to impairment of assets and discounting contracts for deed, mortgages receivable, and debt. Also included in the nonoperating activities were the gains on the sale of mortgages and land.

**HABITAT FOR HUMANITY CENTRAL ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Management's Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 Federal Deposit Insurance Corporation 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 years ended June 30, 2018 and 2017, 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 statements 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.

**HABITAT FOR HUMANITY CENTRAL ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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, 2018 and 2017 to be approximately \$1,602,365 and \$1,498,000, respectively, representing over 105,720 and 100,978 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 statements 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.

**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, 2018 and 2017, no allowance for doubtful accounts was deemed necessary by management.

**HABITAT FOR HUMANITY CENTRAL ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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, 2018 and 2017, investments consisted of cash, mutual funds, and pooled investments consisting of stocks and bonds.

**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 statements 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 2018 or 2017.

**HABITAT FOR HUMANITY CENTRAL ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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:

	<u>Years</u>
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 are priced at the higher of the amount the family can afford to pay or the cost to build the home, but not more than the appraised value, 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 7.47% and 7.48% for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, 21 and 37 homes, respectively, were sold by the Organization.

**HABITAT FOR HUMANITY CENTRAL ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**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, 2018 or 2017. Related liabilities for previous years' sales of \$2,040,016 and \$2,316,578 as of June 30, 2018 and 2017, respectively, are included in deferred revenue on the statements 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, 2018 and 2017, management believes mortgage loans receivable to be fully collectible, therefore no allowance has been recorded.

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, 2018 and 2017.

**HABITAT FOR HUMANITY CENTRAL ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Allowance for Credit Losses (Continued)**

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, 2018 and 2017.

**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, 2018 and 2017 was \$12,933 and \$7,845, respectively. The accrued warranty reserve for homes was \$21,817 and \$37,365, 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 statements of financial position. At June 30, 2018 and 2017, escrow reserves totaled \$120,530 and \$45,317, respectively.

**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 statements 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.

**HABITAT FOR HUMANITY CENTRAL ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**ReStore Program**

The Organization has established the ReStore program in order to generate net income to underwrite administrative and fundraising expenses as well as keep items that could be reused out of landfills. The table below summarizes the results of the ReStore program's impact on administrative and fundraising expenses for the years ended June 30, 2018 and 2017:

	2018	2017
Total Administrative and Fundraising Costs	\$ 1,764,056	\$ 1,824,649
Less ReStore Net Income	4,389	(195,808)
Net Administrative and Fundraising Costs	\$ 1,768,445	\$ 1,628,841

**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.

**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 1) and the lowest priority to unobservable inputs (Level 3). 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 1* – 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.

**HABITAT FOR HUMANITY CENTRAL ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fair Value Measurements (Continued)**

*Level 2* – 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 3* – 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, Tempe, 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 statements 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, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Donated Goods	\$ 280,842	\$ 236,778
Purchased Goods	447,466	52,406
Total Inventory - Habitat ReStore	<u>\$ 728,308</u>	<u>\$ 289,184</u>

**HABITAT FOR HUMANITY CENTRAL ARIZONA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 3 DEFERRED GIFTS RECEIVABLE**

At June 30, 2018 and 2017, the Organization had amounts due from estates and trusts totaling \$142,716 and \$148,508, respectively.

**NOTE 4 PLEDGE RECEIVABLES**

Contributions receivable include pledges that have been discounted at 1.6% during June 30, 2018 and 2017, respectively. The following is a summary of the Organization's pledge receivables at June 30:

	<u>2018</u>	<u>2017</u>
Total amounts due in:		
One Year	\$ 120,000	\$ 120,000
Two to Five Years	<u>25,000</u>	<u>195,000</u>
Gross Contributions Receivable	145,000	315,000
Less Allowance for Doubtful Accounts	-	-
Less Discount to Present Value	<u>(1,304)</u>	<u>(5,651)</u>
Pledges Receivable, Net	<u>\$ 143,696</u>	<u>\$ 309,349</u>

The entire pledge receivable balances as of June 30, 2018 and 2017 were due from one and two contributors, respectively.

**NOTE 5 INVESTMENTS IN SECURITIES**

The estimated market value of investments at June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Cash	\$ 7,380	\$ 3,112
Mutual Funds	236,924	91,267
Pooled Investments	<u>3,617,731</u>	<u>-</u>
Total	<u>\$ 3,862,035</u>	<u>\$ 94,379</u>

Investment return is made up of the following:

	<u>2018</u>	<u>2017</u>
Interest and Dividends	\$ 21,720	\$ -
Realized Gain on Investments	971	607
Unrealized Gain on Investments	<u>13,259</u>	<u>12,916</u>
Total	<u>\$ 35,950</u>	<u>\$ 13,523</u>

**HABITAT FOR HUMANITY CENTRAL ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**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, 2018 and 2017 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, 2018 and 2017. 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, 2018 and 2017.

The Organization's activity in equity method investments consist of the following for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Equity Method Investments - Beginning of Year	\$ 4,905,004	\$ 4,880,191
Change in Value	24,812	24,813
Equity Method Investments - End of Year	<u>\$ 4,929,816</u>	<u>\$ 4,905,004</u>

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

**HABITAT FOR HUMANITY CENTRAL ARIZONA  
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JUNE 30, 2018 AND 2017**

**NOTE 6 EQUITY METHOD INVESTMENTS (CONTINUED)**

The major assets of CCML Leverage II, LLC, and Habitat Central Arizona Leverage I, LLC at June 30, 2018 and 2017 were as follows:

	June 30, 2018		June 30, 2017	
	CCML Leverage II, LLC	Habitat Central Arizona Leverage I, LLC	CCML Leverage II, LLC	Habitat Central Arizona Leverage I, LLC
Assets:				
Notes Receivable	\$ 15,735,842	\$ 3,391,299	\$ 15,735,842	\$ 3,393,797
Other Assets	1,467,814	-	1,194,797	-
Total Assets	<u>\$ 17,203,656</u>	<u>\$ 3,391,299</u>	<u>\$ 16,930,639</u>	<u>\$ 3,393,797</u>

At June 30, 2018 and 2017, both CCML Leverage II, LLC and Habitat Central Arizona Leverage I, LLC had no liabilities and minimal activity for the years ended June 30, 2018 and 2017.

**NOTE 7 HOMES UNDER CONSTRUCTION**

Homes currently under construction consist of:

	2018	2017
Homes Under Construction	\$ 3,056,469	\$ 2,315,476
Less Loss on Impairment	(103,143)	(72,312)
Homes Under Construction, Net	<u>\$ 2,953,326</u>	<u>\$ 2,243,164</u>

**NOTE 8 LAND HELD FOR DEVELOPMENT**

Land held for development consists of:

	2018	2017
Land Held for Development	\$ 708,439	\$ 1,410,051
Less Loss on Impairment	-	(30,831)
Land Held for Development, Net	<u>\$ 708,439</u>	<u>\$ 1,379,220</u>

Land held for development includes an estimated 15 lots in Glendale, Phoenix, Mesa, Eloy, 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.

**HABITAT FOR HUMANITY CENTRAL ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 9 LOSS ON IMPAIRMENT**

During the year ended June 30, 2017, the Organization determined that land held for development had 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 \$-0- and \$30,831 at June 30, 2018 and 2017, respectively, which is reflected in the statements 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. 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, 2018 and 2017.

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, 2018 and 2017:

	2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Deferred Gifts Receivable	\$ -	\$ -	\$ 142,716	\$ 142,716
Mutual Funds	236,924	-	-	236,924
Pooled Investments	-	-	3,617,731	3,617,731
Total	<u>\$ 236,924</u>	<u>\$ -</u>	<u>\$ 3,760,447</u>	<u>\$ 3,997,371</u>
	2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Deferred Gifts Receivable	\$ -	\$ -	\$ 148,508	\$ 148,508
Mutual Funds	91,267	-	-	91,267
Total	<u>\$ 91,267</u>	<u>\$ -</u>	<u>\$ 148,508</u>	<u>\$ 239,775</u>

**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, 2018 and 2017:

	Deferred Gifts Receivable		Pooled Investments	
	2018	2017	2018	2017
Beginning Balance	\$ 148,508	\$ 150,659	\$ -	\$ -
Proceeds from Deferred Gifts	(12,211)	(15,557)	-	-
Purchases of Pooled Investments	-	-	3,617,731	-
Change in Value of Deferred Gifts Receivable	6,419	13,406	-	-
Total	<u>\$ 142,716</u>	<u>\$ 148,508</u>	<u>\$ 3,617,731</u>	<u>\$ -</u>

**HABITAT FOR HUMANITY CENTRAL ARIZONA  
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**NOTE 10 FAIR VALUE MEASUREMENTS (CONTINUED)**

**Level 3 Assets and Liabilities (Continued)**

The following table presents the fair value hierarchy, measuring fair value at quoted prices in active markets for identical assets (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3). Assets measured at fair value on a nonrecurring basis as of June 30, 2017 are as follows:

	2017			Total
	Level 1	Level 2	Level 3	
Land Held for Development	\$ 1,379,220	\$ -	\$ -	\$ 1,379,220

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 11 PROPERTY AND EQUIPMENT**

Property and equipment consists of:

	2018	2017
Buildings and Improvements	\$ 2,615,372	\$ 2,458,746
Furniture and Equipment	623,631	496,956
Vehicles	347,512	244,424
Total	3,586,515	3,200,126
Less Accumulated Depreciation	(1,247,128)	(1,189,096)
Property and Equipment, Net	\$ 2,339,387	\$ 2,011,030

Depreciation expense charged to operations was \$136,790 and \$119,854 as of June 30, 2018 and 2017, 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.

**HABITAT FOR HUMANITY CENTRAL ARIZONA  
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**NOTE 12 NONFORGIVABLE MORTGAGE NOTES RECEIVABLE (CONTINUED)**

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, 2018 and 2017, the nonforgivable mortgage notes receivable balances are as follows:

	<u>2018</u>	<u>2017</u>
Face Value	\$ 26,295,816	\$ 24,740,738
Less Unamortized Discount	<u>(11,790,169)</u>	<u>(10,688,540)</u>
Net Present Value	<u>\$ 14,505,647</u>	<u>\$ 14,052,198</u>

Annual collection of the nonforgivable mortgage notes receivable net of the unamortized discount at June 30, 2018 are due as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 1,784,388
2020	1,751,755
2021	1,711,454
2022	1,671,774
2023	1,634,018
Thereafter	<u>17,742,427</u>
Total	<u>\$ 26,295,816</u>

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:

	<u>Consumer Credit Risk Profile by Payment Activity</u>
Payment Activity:	
Performing	\$ 25,325,262
Nonperforming	<u>970,554</u>
Total	<u>\$ 26,295,816</u>

**HABITAT FOR HUMANITY CENTRAL ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 12 NONFORGIVABLE MORTGAGE NOTES RECEIVABLE (CONTINUED)**

The following table shows an aging analysis of nonforgivable mortgage notes receivable by time past due at June 30, 2018 and 2017:

	2018			Total
	Current	30-89 Days Past Due	90 Days or More Past Due	
Nonforgivable Mortgage Notes Receivable	<u>\$ 23,902,937</u>	<u>\$ 1,422,325</u>	<u>\$ 970,554</u>	<u>\$ 26,295,816</u>
	2017			
	Current	30-89 Days Past Due	90 Days or More Past Due	Total
Nonforgivable Mortgage Notes Receivable	<u>\$ 22,454,523</u>	<u>\$ 1,077,283</u>	<u>\$ 1,208,932</u>	<u>\$ 24,740,738</u>

**NOTE 13 TRANSFERRED MORTGAGES RECEIVABLE**

For mortgages receivable that were transferred to a bank as of the years ended June 30, 2018 and 2017 (Note 1), the mortgage balances are as follows:

	2018	2017
Face Value	<u>\$ 2,741,962</u>	<u>\$ 3,175,190</u>
Less Unamortized Discount	<u>(701,946)</u>	<u>(858,612)</u>
Net Present Value	<u>\$ 2,040,016</u>	<u>\$ 2,316,578</u>

Annual collection of the transferred mortgage notes receivable net of the unamortized discount at June 30, 2018 are due as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 236,254
2020	237,154
2021	238,054
2022	238,594
2023	237,702
Thereafter	1,554,204
Total	<u>\$ 2,741,962</u>

**HABITAT FOR HUMANITY CENTRAL ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 13 TRANSFERRED MORTGAGES RECEIVABLE (CONTINUED)**

The following table shows an aging analysis of first mortgages receivable by time past due at June 30, 2018 and 2017:

	2018			Total
	Current	30-89 Days Past Due	90 Days or More Past Due	
Transferred Mortgages Receivable	<u>\$ 2,670,161</u>	<u>\$ -</u>	<u>\$ 71,801</u>	<u>\$ 2,741,962</u>
	2017			
	Current	30-89 Days Past Due	90 Days or More Past Due	Total
Transferred Mortgages Receivable	<u>\$ 3,002,526</u>	<u>\$ 172,664</u>	<u>\$ -</u>	<u>\$ 3,175,190</u>

**NOTE 14 NOTES PAYABLE**

Notes payable consists of:

Description	2018	2017
<u>Notes Payable to Banks and Financial Institutions</u>		
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%. The note was repaid as of June 30, 2018.	\$ -	\$ 1,192,884
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.	100,000	200,000

**HABITAT FOR HUMANITY CENTRAL ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 14 NOTES PAYABLE (CONTINUED)**

Description	2018	2017
<u>Notes Payable to Habitat for Humanity International</u>		
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 matured in July 2017. The note does not bear interest and has a discount of \$10.	-	910
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.	3,756	5,628

**HABITAT FOR HUMANITY CENTRAL ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 14 NOTES PAYABLE (CONTINUED)**

Description	2018	2017
<u>Notes Payable to Habitat for Humanity International</u>		
<u>(Continued)</u>		
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.	\$ 13,146	\$ 19,698
Total	6,699,402	8,001,620
Less Discount on Noninterest Bearing Notes	-	(1,330)
Less Unamortized Debt Issuance Costs	(169,093)	(189,513)
Total Notes Payable	<u>\$ 6,530,309</u>	<u>\$ 7,810,777</u>

Annual maturities of the notes payable outstanding at June 30, 2018 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 8,424
2020	108,478
2021	-
2022	-
2023	-
Thereafter	6,582,500
Total	<u>\$ 6,699,402</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, 2018 and 2017, contributions and stewardship fees to Habitat for Humanity International were \$202,778 and \$178,371, respectively.

**HABITAT FOR HUMANITY CENTRAL ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**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, 2018 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 490,186
2020	453,005
2021	340,526
2022	350,342
2023	359,906
Thereafter	278,750
Total Minimum Lease Payments	<u>\$ 2,272,715</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 \$617,540 and \$678,734 for the years ended June 30, 2018 and 2017, respectively.

**NOTE 17 TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET ASSETS**

Temporarily restricted and permanently restricted net assets are available for the following purposes at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Temporarily Restricted Net Assets:		
Home Construction	<u>\$ 1,905,973</u>	<u>\$ 1,292,639</u>
Permanently Restricted Net Assets:		
Future Operations	<u>\$ 123,716</u>	<u>\$ 122,298</u>

**NOTE 18 RETIREMENT PLANS**

The Organization established a 401(k) retirement savings plan (tax-deferred annuity) for its employees. The Organization makes its employees aware of the plan, withholds voluntary contributions from paychecks, and remits the contributions to an independent trustee. Each participant may contribute his or her eligible compensation on a pretax basis to the plan up to a maximum allowed by the Internal Revenue Code. Total employer contributions to the plan were \$115,712 and \$110,587 for the years ended June 30, 2018 and 2017, respectively.



**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, 2018, 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 10, 2018.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, 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 Habitat for Humanity Central Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of the Habitat for Humanity Central Arizona'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**

Phoenix, Arizona  
October 10, 2018



**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, 2018. 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, 2018.

***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**

Phoenix, Arizona  
October 10, 2018

**HABITAT FOR HUMANITY CENTRAL ARIZONA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2018**

Federal Grantor/Program/Pass-Through Agency/Contract	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD):</b>			
Community Development Block Grant:	14.218		
Pass through City of Peoria:			
Acquisition, Rehabilitation and Resell Program		53316	\$ 86,641
Pass through City of Glendale:			
Emergency Home Repair Services		C-10400, C17-0109, C18-0319	278,695
Pass through City of Chandler:			
Emergency Home Repair Services		15-16, 16-17	<u>29,818</u>
Total Community Development Block Grant			<u>395,154</u>
NSP-1 Grant	14.218		
Pass through City of Surprise:			
Renovation and New Construction		COS09-017	<u>146,104</u>
Total NSP-1 Grant			<u>146,104</u>
NSP-3 Grant	14.218		
Pass through City of Peoria:			
Acquisition		ACON 43811B	<u>101,126</u>
Total NSP-3 Grant			<u>101,126</u>
Total Community Development Block Grant			642,384
HOME Investment Partnerships Program:	14.239		
Pass through City of Peoria:			
Renovation, Resale, and Homebuyer Assistance		ACON 01917	159,351
Pass through City of Glendale:			
New Construction, Renovation, & Homebuyer Assistance		C17-0224	<u>160,964</u>
Total HOME Investment Partnerships Program			<u>320,315</u>
Total U.S. Department of Housing and Urban Development			962,699
<b>U.S. DEPARTMENT OF LABOR (DOL)</b>			
Title 1-B:	17.274		
Pass through Friendly House:			
Youth Training in Construction		6441 W Maryland / 6439 W Maryland	<u>75,000</u>
Total Expenditures of Federal Awards			<u>\$ 1,037,699</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, 2018**

**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, 2018. 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 *2018 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% de minimis 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, 2018**

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***Section I – Summary of Auditors’ Results***

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***Financial Statements***

1. Type auditors' report issued: Unmodified
2. 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
3. Noncompliance material to financial statements noted? \_\_\_\_\_ yes          x       no

***Federal Awards***

1. Internal control over major federal 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
2. Type of auditor's report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? \_\_\_\_\_ yes          x       no

***Identification of Major Federal Programs***

**CFDA-Number(s)**  
14.218

**Name of Federal Program or Cluster**  
Community Development Block Grant

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

      x       yes    \_\_\_\_\_ no



Investment advisory services are offered through CliftonLarsonAllen  
Wealth Advisors, LLC, an SEC-registered investment advisor.