

**HABITAT FOR HUMANITY CENTRAL ARIZONA
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019**



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**HABITAT FOR HUMANITY CENTRAL ARIZONA
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Habitat for Humanity Central Arizona
Peoria, Arizona

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Habitat for Humanity Central Arizona (the Organization), which comprise the consolidated balance sheets as of June 30, 2020 and 2019, and the consolidated related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated 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 Organization'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity Central Arizona as of June 30, 2020 and 2019, and the changes in their net assets and their 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 an opinion on the consolidated 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 consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 November 4, 2020, 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 results of that testing, and not to provide an opinion on the effectiveness of 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
November 4, 2020

**HABITAT FOR HUMANITY CENTRAL ARIZONA
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2020 AND 2019**

	2020	2019
ASSETS		
Cash and Cash Equivalents	\$ 1,641,687	\$ 1,696,158
Restricted Cash	-	90,040
Grants Receivable	324,609	257,438
Pledges Receivable	233,603	57,000
Other Receivables	479,401	329,649
Prepaid Expenses and Other Assets	331,454	317,806
New Market Tax Credit Fees	-	4,653
Inventory - Habitat ReStore	1,028,717	911,271
Deferred Gifts Receivable	119,262	133,149
Investments in Securities	8,059,692	8,527,183
Equity Method Investments	-	4,954,630
Homes Under Construction	2,054,224	2,355,867
Land Held for Development	1,886,780	1,419,369
Property and Equipment, Net	4,422,730	2,379,446
Nonforgivable Mortgage Notes Receivable	16,383,079	15,603,609
Transferred Mortgages Receivable	1,707,318	1,850,724
	\$ 38,672,556	\$ 40,887,992
Total Assets	\$ 38,672,556	\$ 40,887,992
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 1,232,209	\$ 915,138
Due to Habitat International, Inc.	9,079	14,237
Transferred Mortgages Liability	1,752,482	1,906,336
Deferred Revenue	21,567	53,078
Notes Payable, Net	5,435,980	9,406,940
Total Liabilities	8,451,317	12,295,729
NET ASSETS		
Without Donor Restriction	27,670,559	26,061,561
With Donor Restriction	2,550,680	2,530,702
Total Net Assets	30,221,239	28,592,263
Total Liabilities and Net Assets	\$ 38,672,556	\$ 40,887,992

See accompanying Notes to Consolidated Financial Statements.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2020 AND 2019**

	2020		
	Without Donor Restrictions	With Donor Restriction	Total
OPERATING REVENUES AND SUPPORT			
Contributions	\$ 2,746,051	\$ 3,230,586	\$ 5,976,637
In-Kind Contributions	95,845	163,755	259,600
Sales of Completed Homes	4,546,826	-	4,546,826
Discounts on New Home Mortgages	(2,435,974)	-	(2,435,974)
Amortization of Mortgage Discounts	1,404,965	-	1,404,965
Grants	-	436,905	436,905
Investment Return	112,126	-	112,126
Home Repair Program	911,596	-	911,596
ReStore Sales (Net of Operating Expenses of \$7,173,629 and \$6,429,617, Respectively)	(128,292)	-	(128,292)
Special Events (Net of Direct Expense of \$54,011 and \$62,986, Respectively)	1,299	-	1,299
Other Revenue	360,194	-	360,194
Total	<u>7,614,636</u>	<u>3,831,246</u>	<u>11,445,882</u>
Net Assets Released from Restrictions	<u>3,805,036</u>	<u>(3,805,036)</u>	<u>-</u>
Total Operating Revenue and Support	11,419,672	26,210	11,445,882
OPERATING EXPENSES			
Program Services	9,540,195	-	9,540,195
Management and General	1,183,720	-	1,183,720
Fundraising	794,538	-	794,538
Total Operating Expenses	<u>11,518,453</u>	<u>-</u>	<u>11,518,453</u>
OPERATING INCREASE (DECREASE) IN NET ASSETS	(98,781)	26,210	(72,571)
NONOPERATING ACTIVITIES			
Gain on Sale of Mortgages	713	-	713
Gain on Sale of Land	54,936	-	54,936
Other Income	8,184	-	8,184
Change in Deferred Gifts	5,136	(6,232)	(1,096)
Cancellation of Debt Income	1,638,810	-	1,638,810
NONOPERATING INCREASE IN NET ASSETS	1,707,779	(6,232)	1,701,547
CHANGE IN NET ASSETS	1,608,998	19,978	1,628,976
Net Assets - Beginning of Year	<u>26,061,561</u>	<u>2,530,702</u>	<u>28,592,263</u>
NET ASSETS - END OF YEAR	<u>\$ 27,670,559</u>	<u>\$ 2,550,680</u>	<u>\$ 30,221,239</u>

See accompanying Notes to Consolidated Financial Statements.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
CONSOLIDATED STATEMENTS OF ACTIVITIES (CONTINUED)
YEARS ENDED JUNE 30, 2020 AND 2019**

2019		
Without Donor Restrictions	With Donor Restriction	Total
\$ 1,403,256	\$ 2,990,022	\$ 4,393,278
113,191	162,166	275,357
4,815,953	-	4,815,953
(2,631,172)	-	(2,631,172)
1,183,220	-	1,183,220
-	150,273	150,273
73,433	-	73,433
904,108	-	904,108
561,618	-	561,618
1,977	-	1,977
78,358	-	78,358
<u>6,503,942</u>	<u>3,302,461</u>	<u>9,806,403</u>
<u>2,799,312</u>	<u>(2,799,312)</u>	<u>-</u>
9,303,254	503,149	9,806,403
8,895,841	-	8,895,841
1,056,708	-	1,056,708
770,131	-	770,131
<u>10,722,680</u>	<u>-</u>	<u>10,722,680</u>
(1,419,426)	503,149	(916,277)
2,034,768	-	2,034,768
-	-	-
62,302	-	62,302
5,004	(2,136)	2,868
<u>-</u>	<u>-</u>	<u>-</u>
2,102,074	(2,136)	2,099,938
682,648	501,013	1,183,661
<u>25,378,913</u>	<u>2,029,689</u>	<u>27,408,602</u>
<u>\$ 26,061,561</u>	<u>\$ 2,530,702</u>	<u>\$ 28,592,263</u>

See accompanying Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY CENTRAL ARIZONA
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2020

	Program Services	Support Services		Subtotal	ReStore Operating Costs	Total
		Management and General	Fundraising			
Cost of Home Sales	\$ 4,011,314	\$ -	\$ -	\$ 4,011,314	\$ -	\$ 4,011,314
Cost of Home Repairs	1,683,711	-	-	1,683,711	-	1,683,711
Transfers to Construction in Progress	(947,901)	-	-	(947,901)	-	(947,901)
Other	232,133	365,596	225,622	823,351	164,840	988,191
Salaries	1,891,714	919,123	617,770	3,428,607	1,476,803	4,905,410
Payroll Taxes and Employee Benefits	502,492	251,761	175,688	929,941	384,617	1,314,558
Cost of Goods Sold	-	-	-	-	3,474,527	3,474,527
Occupancy	-	103,739	-	103,739	1,179,031	1,282,770
Other Taxes and Insurance	148,460	46,910	-	195,370	97,690	293,060
Interest and Amortization	147	217,693	-	217,840	-	217,840
Depreciation and Amortization	35,887	188,412	630	224,929	159,547	384,476
Equipment and Maintenance	102,188	27,147	-	129,335	92,494	221,829
Mortgage Servicing	128,688	-	-	128,688	-	128,688
Special Mailings	-	-	53,733	53,733	-	53,733
Audit and Accounting	-	37,846	-	37,846	-	37,846
Telephone	10,420	18,638	2,994	32,052	29,686	61,738
Travel and Conference	57,116	20,296	10,143	87,555	12,510	100,065
Office Supplies	21,267	24,444	5,002	50,713	47,850	98,563
Legal	53,965	70,538	-	124,503	11,281	135,784
Postage and Shipping	195	7,064	498	7,757	6,811	14,568
Contributions to Habitat for Humanity International, Inc.	285,323	-	-	285,323	-	285,323
Overhead Applied	1,323,076	(1,115,487)	(243,531)	(35,942)	35,942	-
Total	9,540,195	1,183,720	848,549	11,572,464	7,173,629	18,746,093
Special Event Expense	-	-	(54,011)	(54,011)	-	(54,011)
Total Functional Expenses	\$ 9,540,195	\$ 1,183,720	\$ 794,538	\$ 11,518,453	\$ 7,173,629	\$ 18,692,082

See accompanying Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY CENTRAL ARIZONA
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

	Program Services	Support Services		Subtotal	ReStore Operating Costs	Total
		Management and General	Fundraising			
Cost of Home Sales	\$ 4,430,921	\$ -	\$ -	\$ 4,430,921	\$ -	\$ 4,430,921
Cost of Home Repairs	1,437,501	-	-	1,437,501	-	1,437,501
Transfers to Construction in Progress	(960,755)	-	-	(960,755)	-	(960,755)
Other	230,919	342,057	260,251	833,227	155,179	988,406
Salaries	1,638,143	893,946	543,164	3,075,253	1,322,297	4,397,550
Payroll Taxes and Employee Benefits	424,133	216,108	145,926	786,167	356,167	1,142,334
Cost of Goods Sold	-	-	-	-	3,535,377	3,535,377
Occupancy	-	92,627	-	92,627	666,390	759,017
Other Taxes and Insurance	122,689	38,416	-	161,105	94,832	255,937
Interest and Amortization	1,762	87,386	-	89,148	-	89,148
Depreciation and Amortization	35,148	62,565	630	98,343	112,785	211,128
Equipment and Maintenance	85,133	27,683	-	112,816	97,627	210,443
Mortgage Servicing	120,773	-	-	120,773	-	120,773
Special Mailings	-	-	44,640	44,640	-	44,640
Audit and Accounting	-	41,578	-	41,578	-	41,578
Telephone	9,188	14,246	3,642	27,076	26,981	54,057
Travel and Conference	41,197	25,545	25,799	92,541	11,996	104,537
Office Supplies	3,749	24,113	4,067	31,929	22,083	54,012
Legal	105,619	33,914	-	139,533	-	139,533
Postage and Shipping	249	7,573	-	7,822	415	8,237
Contributions to Habitat for Humanity International, Inc.	150,910	-	-	150,910	-	150,910
Overhead Applied	1,018,562	(851,049)	(195,002)	(27,489)	27,489	-
Total	8,895,841	1,056,708	833,117	10,785,666	6,429,618	17,215,284
Special Event Expense	-	-	(62,986)	(62,986)	-	(62,986)
Total Functional Expenses	\$ 8,895,841	\$ 1,056,708	\$ 770,131	\$ 10,722,680	\$ 6,429,618	\$ 17,152,298

See accompanying Notes to Consolidated Financial Statements.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2020 AND 2019**

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,628,976	\$ 1,183,661
Adjustment to Reconcile Change in Net Assets to Net Cash and Cash Equivalents Used by Operating Activities:		
Depreciation and Amortization	384,476	211,128
Interest and Amortization	178,837	31,154
Forgiveness of Long-Term Debt	(85,000)	-
(Loss) Gain on Sale of Property and Equipment	(8,184)	10,411
Gain on Sale of Land Available for Sale	(54,936)	-
Gain on Investments	(3,219)	(27,595)
Unrealized Gain on Equity Method Investments	(1,638,810)	(24,814)
Amortization of Mortgages Receivable Discount	(1,404,966)	(1,132,608)
Discount on Notes Payable	-	(2,025,326)
Change in Deferred Gift	1,096	(2,868)
Increase (Decrease) in Assets:		
Grant Receivables	(67,171)	(98,843)
Pledges Receivable	(176,603)	86,696
Other Receivables	(149,752)	231,143
Prepays	(13,648)	(54,405)
Inventory - Habitat ReStore	(117,446)	(182,963)
Deferred Gifts Receivable	12,791	12,435
Homes Under Construction	356,579	597,459
Homes Available for Sale	(1,866,402)	(1,786,604)
Land Held for Development	(621,265)	(710,930)
(Increase) Decrease in Liabilities:		
Accounts Payable	317,071	(309,180)
Due to Habitat International, Inc.	(5,158)	(18,649)
Deferred Revenue	(31,511)	(177,455)
Net Cash Used by Operating Activities	(3,364,245)	(4,188,153)
CASH FLOWS FROM INVESTING ACTIVITIES		
Mortgages Sold, Net of Discounts	52,012	50,295
Repurchases of Mortgages	(53,577)	(53,174)
Purchases of Property and Equipment	(989,880)	(258,854)
Proceeds from Sale of Property and Equipment	8,500	25,170
Purchase of Investments in Securities	(205,352)	(5,272,536)
Proceeds from Sale of Investments in Securities	676,062	634,983
Payments Received on Mortgages Receivable	2,636,869	2,013,421
Net Cash Provided (Used) by Investing Activities	2,124,634	(2,860,695)

See accompanying Notes to Consolidated Financial Statements.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2020 AND 2019**

	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Long-Term Debt	\$ 1,379,245	\$ 5,000,074
Payments on Long-Term Debt	(284,145)	(129,271)
Change in Restricted Cash	90,040	92,083
Net Cash Provided by Financing Activities	1,185,140	4,962,886
DECREASE IN CASH AND CASH EQUIVALENTS	(54,471)	(2,085,962)
Cash and Cash Equivalents - Beginning of Year	1,696,158	3,782,120
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,641,687	\$ 1,696,158
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	\$ 199,575	\$ 57,994
Purchase of New Building through Issuance of Long-Term Debt	\$ 1,300,000	\$ -

See accompanying Notes to Consolidated Financial Statements.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020**

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.

On April 16, 2019, Habitat filed articles of organization with the state of Arizona to form its wholly owned subsidiary HFHCA Funding Company, LLC (the Company). The Company's purpose is to acquire and hold mortgage loans and related documents to comply with the terms of any note purchase agreement between the Organization and any financial institution. As a single member LLC, the Organization is disregarded for purposes of the Internal Revenue Code (IRC).

On January 8, 2020, Habitat filed articles of organization with the state of Arizona to form its wholly owned subsidiary 2830 West Glendale Avenue, LLC (West Glendale). West Glendale's purpose was to hold and maintain a new building for the Organization. An agreement and purchase was completed on January 15, 2020. As a single member LLC, the Organization is disregarded for purposes of the IRC.

Financial Statement Presentation

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation (Continued)

Net Assets With Donor Restrictions – Net Assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as restricted revenue when received and released from restriction when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Nonoperating activities include all noncash activities relating to deferred gifts, other income, and debt. Also included in the nonoperating activities were the gains on the sale of land and the sale of mortgages.

Management's Use of Estimates

The preparation of consolidated 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 consolidated 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 consisted of proceeds from New Markets Tax Credit arrangements (Note 7). Use of these proceeds was restricted as outlined in the associated agreements and was 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 were \$-0- and \$4,653 for the years ended June 30, 2020 and 2019, respectively.

Grants Receivable

Grants receivable primarily consist of construction cost reimbursements from the Federal Home Loan Bank (FHLB). 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.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants Receivable (Continued)

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, 2020 and 2019, 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, 2020 and 2019, 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 were disposed of during the year ended June 30, 2020.

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. At June 30, 2020 and 2019, no impairment loss was deemed necessary by management. Land and offsite development costs associated with homes under construction are included in construction in progress in the accompanying consolidated statements of financial position.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020**

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 2020 or 2019.

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

Revenue Recognition

Contributions

Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as "Net Assets Released from Restrictions."

Unconditional promises to give (pledges receivable) are recognized when the pledges are received in writing or when cash is received. Pledges receivable due within the next fiscal year are reflected as current receivables, while pledges due after one year are reflected as long-term receivables. An allowance for uncollectible pledges is provided based on management's evaluation of potential uncollectible pledges receivable at year-end. Management's evaluation may change based on future economic conditions and collection results. Long-term pledges receivable are carried at net present value.

Conditional promises to give are not recognized as contribution revenue and receivables until the conditions have been substantially met. Conditional promises outstanding for the years ended June 30, 2020 and 2019 was \$2,124,175 and \$2,188,760, respectively.

Grant revenues include grants that may be either contribution or exchange type transactions. Revenue is recognized for contribution grants as the conditions are met. Grant that are exchange based transactions are recognized as revenue as the services are provided over the grant period.

HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Donated Goods, 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 consolidated 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, 2020 and 2019 to be \$1,077,572 and \$1,471,915, respectively, representing 67,395 and 95,016 volunteer service hours, respectively.

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 net assets without donor restriction 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 net assets with restriction to net assets without restriction at that time.

Home 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 consolidated financial statements.

The Organization enters into contracts with customers to build homes, which are short-term contracts allowing for the satisfaction of all performance obligations in less than a year. Management has determined that the performance obligations under these contracts are highly interdependent and interrelated and are treated as a single performance obligation satisfied point in time when the homeowner takes possession of the property and executes note agreement.

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 7.66% and 7.57% for the years ended June 30, 2020 and 2019, 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, 2020 and 2019, 19 and 21 homes, respectively, were sold by the Organization.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Federal Grants

The Organization receives funding from several federal financial assistance programs that supplement its traditional funding sources. The Organization recognizes the award as revenue as the expenses stipulated in the grant agreement have been incurred. Grants received in a period prior to the period covered by the grant are included in deferred revenue in the consolidated 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.

Home Repair

The Organization enters into contracts with homeowners and cities to repair homes through emergency home repair program. Contracts with homeowners are generally short-term contracts allowing for the satisfaction of all performance obligations in less than a year. Contracts with cities are generally long-term contracts allowing for the satisfaction of all performance obligations within twelve to twenty-four months. Management has determined that the performance obligations under these contracts are highly interdependent and interrelated and are treated as a single performance obligation satisfied over time. Homeowner contracts are recognized once scope of work has been completed. City contracts are recognized in progress as expenses are incurred and when the scope of work has been completed.

ReStore Sales

ReStore sales are recognized at the time the goods are transferred to the customer, which occurs at a point in time.

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.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2020 or 2019, respectively. 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, 2020 and 2019, 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, 2020 and 2019.

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, 2020 and 2019.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2020 and 2019 was \$13,282 and \$13,099, respectively. The accrued warranty reserve for homes was \$27,700 and \$27,333, 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 consolidated statements of financial position. At June 30, 2020 and 2019, escrow reserves totaled \$31,341 and \$22,515, 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 consolidated statements of activities.

Functional Expense Allocation

The Organization's primary mission is creating affordable homeownership. Costs related to this purpose are reported as program expenses on the consolidated statement of functional expenses. Activities performed by the Organization to generate funds and/or resources to support its programs and operations are reported as fundraising activities. All costs not identifiable with a specific program or fundraising activities, but indispensable to the conduct of such programs and activities and to the Organization's existence, are included as management and general expenses. This includes expenses for the overall direction of the Organization, business management, general recordkeeping, budgeting, financial reporting, and activities relating to these functions such as salaries and related expenses, occupancy, interest and amortization, audit and accounting, and other expenses.

Expenses that benefit more than one function of the Organization are allocated among the functions based generally on the amount of time spent by employees on each function.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020**

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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Total Administrative and Fundraising Costs	\$ 2,032,269	\$ 1,889,825
Less ReStore Net (Income)/Loss	<u>128,292</u>	<u>(561,618)</u>
Net Administrative and Fundraising Costs	<u>\$ 2,160,561</u>	<u>\$ 1,328,207</u>

Concentrations of Credit Risk

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

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the IRC and, therefore, has no provision for federal income taxes. In addition, the Organization qualifies for the charitable contribution deduction under Section 170 of the IRC 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 consolidated 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 CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020**

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.

Adoption of New Accounting Standards

In 2020, the Organization adopted Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 2014-09 (Topic 606), *Revenues from Contracts with Customers*, which requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. There was no material impact on the Organization's financial position and results of operations upon adoption of the new standard.

In 2020, the Organization adopted FASB Accounting Standards Update (ASU) 2018-08, *Not-For-Profit-Entities* (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. There was no material impact on the Organization's financial position or change in net assets upon adoption of the new standard.

Reclassifications

Certain amounts in the 2019 consolidated financial statements have been reclassified for comparative purposes with the 2020 consolidated financial statements. There was no change in the reported results from operations as a result of this reclassification.

HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

NOTE 2 LIQUIDITY AND AVAILABILITY

The Organization regularly monitors the availability of resources required to meet its operating needs and other contractual commitments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities to be general expenditures.

The following table reflects the Organization's financial assets of June 30, 2020 and 2019, available to meet general expenditures within one year of the consolidated statement of financial position date.

	2020	2019
Financial Assets at Year-End:		
Cash and Cash Equivalents	\$ 1,641,687	\$ 1,696,158
Grants Receivable	324,609	257,438
Pledges Receivable	233,603	57,000
Other Receivables	479,401	329,649
Investments in Securities	8,059,692	8,527,183
Nonforgiveable Mortgage Notes Receivable	16,383,079	15,603,609
Total Financial Assets	27,122,071	26,471,037
Less: Those Unavailable for General Expenditures Within One Year, Due to Maturities Greater than One Year:		
Nonforgiveable Mortgage Notes Receivable	(14,392,195)	(13,689,646)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	\$ 12,729,876	\$ 12,781,391

At June 30, 2020 and 2019, \$2,435,332 and \$2,409,122, respectively, of net assets with donor restrictions were restricted for home construction, the primary program of the Organization, therefore these net assets are available for the general operational needs of the Organization.

NOTE 3 PLEDGE RECEIVABLES

Contributions receivable include pledges that have been discounted at 1.6% during June 30, 2020 and 2019, respectively. The following is a summary of the Organization's pledge receivables at June 30:

	2020	2019
Total amounts due in:		
One Year	\$ 209,000	\$ 57,000
Two to Five Years	25,000	-
Gross Contributions Receivable	234,000	57,000
Less Allowance for Doubtful Accounts	-	-
Less Discount to Present Value	(397)	-
Pledges Receivable, Net	\$ 233,603	\$ 57,000

The pledge receivable balance as of June 30, 2020 and 2019 was due from three and two contributors, respectively.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020**

NOTE 4 INVENTORY – HABITAT RESTORE

The Organization operates five 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 consolidated 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, 2020 and 2019 consisted of the following:

	2020	2019
Donated Goods	\$ 287,933	\$ 301,802
Purchased Goods	740,784	609,469
Total Inventory - Habitat ReStore	<u>\$ 1,028,717</u>	<u>\$ 911,271</u>

NOTE 5 DEFERRED GIFTS RECEIVABLE

At June 30, 2020 and 2019, the Organization had amounts due from estates and trusts totaling \$119,262 and \$133,149, respectively.

NOTE 6 INVESTMENTS IN SECURITIES

The estimated market value of investments at June 30, 2020 and 2019 is as follows:

	2020	2019
Cash	\$ 238,391	\$ 2,169
Mutual Funds	271,788	259,313
Government Money Fund	1,805,760	4,591,291
Bond ETF Fund	2,032,085	-
Pooled Investments	3,711,668	3,674,410
Total	<u>\$ 8,059,692</u>	<u>\$ 8,527,183</u>

NOTE 7 EQUITY METHOD INVESTMENTS

Equity method investments consisted 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 was 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 was credited over a seven-year period. A community development entity was required to participate and had a primary mission of providing financing for revitalization projects in low-income communities.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020**

NOTE 7 EQUITY METHOD INVESTMENTS (CONTINUED)

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

Transactions with the CDEs for the years ended June 30, 2020 and 2019 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 had a note payable to an affiliate of CCML Leverage II, LLC. The balance of the note was \$-0- and \$1,880,000 at June 30, 2020 and 2019, respectively. This investments were 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 had a note payable to an affiliate of Habitat Central AZ Leverage I, LLC. The balance of the note was \$-0- and \$4,702,500 at June 30, 2020 and 2019, respectively.

The Organization's activity in equity method investments consist of the following for the years ended June 30, 2020 and 2019:

	2020	2019
Equity Method Investments - Beginning of Year	\$ 4,954,630	\$ 4,929,816
Change in Value	(4,954,630)	24,814
Equity Method Investments - End of Year	\$ -	\$ 4,954,630

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

The major assets of CCML Leverage II, LLC, and Habitat Central Arizona Leverage I, LLC at June 30, 2020 and 2019 were as follows:

	June 30, 2020		June 30, 2019	
	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
Other Assets	-	-	1,740,831	-
Total Assets	\$ -	\$ -	\$ 17,476,673	\$ 3,391,299

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020**

NOTE 7 EQUITY METHOD INVESTMENTS (CONTINUED)

Habitat Central AZ Leverage I, LLC (Continued)

At June 30, 2020 and 2019, both CCML Leverage II, LLC and Habitat Central Arizona Leverage I, LLC had no liabilities and minimal activity for the years ended June 30, 2020 and 2019.

During the period, the seven-year tax credit period for the investors ended and CCML Leverage II, LLC, and Habitat Central Arizona Leverage I, LLC were liquidated during September 2019.

NOTE 8 HOMES UNDER CONSTRUCTION

Homes currently under construction consist of:

	<u>2020</u>	<u>2019</u>
Homes Under Construction	\$ 2,094,044	\$ 2,395,687
Less: Loss on Impairment	(39,820)	(39,820)
Homes Under Construction, Net	<u>\$ 2,054,224</u>	<u>\$ 2,355,867</u>

NOTE 9 LAND HELD FOR DEVELOPMENT

Land held for development consists of:

	<u>2020</u>	<u>2019</u>
Land Held for Development	<u>\$ 1,886,780</u>	<u>\$ 1,419,369</u>

Land held for development includes 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.

NOTE 10 PROPERTY AND EQUIPMENT

Property and equipment consists of:

	<u>2020</u>	<u>2019</u>
Buildings and Improvements	\$ 4,779,440	\$ 2,659,027
Furniture and Equipment	744,589	639,877
Vehicles	464,942	431,044
Total	5,988,971	3,729,948
Less Accumulated Depreciation	(1,566,241)	(1,350,502)
Property and Equipment, Net	<u>\$ 4,422,730</u>	<u>\$ 2,379,446</u>

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020**

NOTE 10 PROPERTY AND EQUIPMENT (CONTINUED)

Depreciation expense charged to operations was \$246,280 and \$183,213 as of June 30, 2020 and 2019, respectively.

NOTE 11 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 40 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 consolidated financial statements. At June 30, 2020 and 2019, the nonforgivable mortgage notes receivable balances are as follows:

	<u>2020</u>	<u>2019</u>
Face Value	\$ 30,673,126	\$ 28,858,408
Less Unamortized Discount	<u>(14,290,047)</u>	<u>(13,254,799)</u>
Net Present Value	<u>\$ 16,383,079</u>	<u>\$ 15,603,609</u>

Annual collection of the nonforgivable mortgage notes receivable net of the unamortized discount at June 30, 2020 are due as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 1,990,884
2022	1,956,676
2023	1,922,049
2024	1,889,477
2025	1,832,834
Thereafter	<u>21,081,206</u>
Total	<u>\$ 30,673,126</u>

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020**

NOTE 11 NONFORGIVEABLE MORTGAGE NOTES RECEIVABLE (CONTINUED)

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

	Consumer Credit Risk Profile by Payment Activity
Payment Activity:	
Performing	\$ 29,369,756
Nonperforming	1,303,370
Total	\$ 30,673,126

The following table shows an aging analysis of nonforgivable mortgage notes receivable by time past due at June 30, 2020 and 2019:

	2020			Total
	Current	30-89 Days Past Due	90 Days or More Past Due	
	Nonforgivable Mortgage Notes Receivable	\$ 28,503,133	\$ 866,623	
	2019			Total
	Current	30-89 Days Past Due	90 Days or More Past Due	
	Nonforgivable Mortgage Notes Receivable	\$ 26,421,118	\$ 1,458,675	

NOTE 12 TRANSFERRED MORTGAGES RECEIVABLE

For mortgages receivable that were transferred to a bank as of the years ended June 30, 2020 and 2019 (Note 1), the mortgage balances are as follows:

	2020	2019
Face Value	\$ 2,218,136	\$ 2,447,809
Less Unamortized Discount	(510,818)	(597,085)
Net Present Value	\$ 1,707,318	\$ 1,850,724

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020**

NOTE 12 TRANSFERRED MORTGAGES RECEIVABLE (CONTINUED)

Annual collection of the transferred mortgage notes receivable net of the unamortized discount at June 30, 2020 are due as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 230,424
2022	230,664
2023	230,664
2024	230,664
2025	221,339
Thereafter	1,074,381
Total	<u>\$ 2,218,136</u>

The following table shows an aging analysis of first mortgages receivable by time past due at June 30, 2020 and 2019:

	2020			
	<u>Current</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total</u>
	Transferred Mortgages Receivable	<u>\$ 2,162,326</u>	<u>\$ 23,015</u>	<u>\$ 32,795</u>
	2019			
	<u>Current</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total</u>
	Transferred Mortgages Receivable	<u>\$ 2,325,918</u>	<u>\$ 54,750</u>	<u>\$ 67,141</u>

NOTE 13 MORTGAGE RECEIVABLE HELD AS COLLATERALIZATION

On May 9, 2019, HFHCA Funding Company, LLC acquired, under purchase agreement from the Organization, 39 mortgages receivable with principal balances totaling \$5,000,075. To fund the purchase of these subject mortgages, HFHCA Funding authorized the issuance of a promissory note secured by the mortgages and entered into a note purchase agreement with Northern Trust Bank for the securitized note. See Note 14 for the terms and outstanding balance of the Note payable at June 30, 2019. Under the securitization and collateralized loan transaction, if one of the collateralized mortgage loans becomes nonperforming, HFHCA Funding is obligated to purchase that loan out of the collateral pool or substitute a substantially similar mortgage loan.

As discussed in Note 1, HFHCA Funding Company, LLC is a wholly owned subsidiary of the Organization and as such, the entities are consolidated. All intercompany amounts, including the effects of gains and losses, unamortized discounts, and any imputed interest related to transactions between the entities are eliminated in the accompanying consolidated financial statements.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020**

NOTE 14 NOTES PAYABLE

Notes payable consists of:

Description	2020	2019
<u>Notes Payable to Banks and Financial Institutions</u>		
On May 9, 2019, HFHCA Funding Company, LLC established a secured promissory note due to Northern Trust in the principle amount of \$5,000,075. The note is noninterest bearing until maturity at April 1, 2047. Monthly principal payments began June 2019 in the amount of \$20,848. The note is collateralized by mortgages as described in Note 13.	\$ 4,729,056	\$ 4,979,227
On January 15, 2020, 2830 West Glendale Avenue, LLC established a secured promissory note due to FirstBank in the principle amount of \$1,300,000. The note requires monthly principal and interest payments of \$9,971 through maturity in January 2035. The note is secured by substantially all assets and bears interest at 4.500%.	1,272,343	-
Note payable to FirstBank dated April 17, 2020 in the amount of \$1,116,400, under the Small Business Administration's Paycheck Protection Program. Monthly principal and interest payments due beginning November 1, 2020 through April 1, 2022. The note bears interest at 1.00%.	1,116,400	-
Promissory note payable to CCM Community Development XXVII, LLC, a related party, (Note 7) 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 bore interest at 0.7608% and was forgiven during the year ended June 30, 2020.	-	1,880,000

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020**

NOTE 14 NOTES PAYABLE (CONTINUED)

Description	2020	2019
Promissory note payable to Enterprise Financial CDE, LLC, a related party, (Note 7) 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 bore interest at 0.7224% and was forgiven during the year ended June 30, 2020.	\$ -	\$ 4,702,500
Notes payable to the City of Glendale and City of Peoria 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.	177,845	-
<u>Notes Payable to Habitat for Humanity International</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.	1,680	6,594
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.	480	1,884
Total	7,297,804	11,570,205
Less: Discount on Noninterest Bearing Notes	(1,850,738)	(2,025,326)
Less: Unamortized Debt Issuance Costs	(11,086)	(137,939)
Total Notes Payable	<u>\$ 5,435,980</u>	<u>\$ 9,406,940</u>

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020**

NOTE 14 NOTES PAYABLE (CONTINUED)

Annual maturities of the notes payable outstanding at June 30, 2020 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 873,895
2022	873,734
2023	319,067
2024	322,147
2025	325,630
Thereafter	4,583,331
Total	<u>\$ 7,297,804</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, 2020 and 2019, contributions and stewardship fees to Habitat for Humanity International were \$285,323 and \$150,910, respectively.

NOTE 16 OPERATING LEASES

The Organization leases buildings and equipment under various operating lease agreements expiring in various years through November 2027.

Future minimum rental payments under operating leases having remaining terms in excess of one year at June 30, 2020 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 679,423
2022	660,389
2023	559,736
2024	367,649
2025	294,790
Thereafter	455,261
Total Minimum Lease Payments	<u>\$ 3,017,248</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 \$954,039 and \$707,228 for the years ended June 30, 2020 and 2019, respectively.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020**

NOTE 17 NET ASSETS

Net Assets With Donor Restrictions

Net assets with donor restriction are available for the following purposes or periods at June 30, 2020 and 2019:

	2020	2019
Subject to Expenditure for Specified Purpose:		
Home Construction	\$ 2,435,332	\$ 2,409,122
Endowments:		
Assets Held Under Split Interest Agreements Restricted to Endowment	115,348	121,580
Total Donor Restricted Net Assets	\$ 2,550,680	\$ 2,530,702

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 IRC. Total employer contributions to the plan were \$140,490 and \$125,523 for the years ended June 30, 2020 and 2019, respectively.

NOTE 19 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, 2020 and 2019.

The following tables present 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, 2020 and 2019:

	2020			
	Level 1	Level 2	Level 3	Total
Assets:				
Deferred Gifts Receivable	\$ -	\$ -	\$ 119,262	\$ 119,262
Mutual Funds	271,788	-	-	271,788
Government Money Fund	1,805,760	-	-	1,805,760
Bond ETF Fund	2,032,085	-	-	2,032,085
Pooled Investments	-	-	3,711,668	3,711,668
Total	\$ 4,109,633	\$ -	\$ 3,830,930	\$ 7,940,563

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020**

NOTE 19 FAIR VALUE MEASUREMENTS (CONTINUED)

	2019			Total
	Level 1	Level 2	Level 3	
Assets:				
Deferred Gifts Receivable	\$ -	\$ -	\$ 133,149	\$ 133,149
Mutual Funds	259,313	-	-	259,313
Government Money Fund	4,591,291	-	-	4,591,291
Pooled Investments	-	-	3,674,410	3,674,410
Total	<u>\$ 4,850,604</u>	<u>\$ -</u>	<u>\$ 3,807,559</u>	<u>\$ 8,658,163</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, 2020 and 2019:

	Deferred Gifts Receivable		Pooled Investments	
	2020	2019	2020	2019
Beginning Balance	\$ 133,149	\$ 142,716	\$ 3,674,410	\$ -
Proceeds from Deferred Gifts	(12,791)	(12,435)	-	-
Purchases of Pooled Investments	-	-	-	3,674,410
Change in Value	(1,096)	2,868	37,257	-
Total	<u>\$ 119,262</u>	<u>\$ 133,149</u>	<u>\$ 3,711,667</u>	<u>\$ 3,674,410</u>

NOTE 20 COMMITMENTS AND CONTINGENCIES

The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Organization, COVID-19 may impact various parts of its 2021 operations and financial results. Management believes the Organization is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

NOTE 21 UPCOMING ACCOUNTING STANDARDS

In February 2016, the FASB issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and finance leases with lease terms greater than one year. The guidance also requires both qualitative and quantitative disclosures regarding the nature of the entity's leasing activities. The guidance will initially be applied using a modified retrospective approach. The amendments in the guidance are effective for fiscal year ended June 30, 2023. Early adoption is permitted. Management is evaluating the impact of the amended lease guidance on the Organization's financial statements.

**HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020**

NOTE 22 SUBSEQUENT EVENTS

Management evaluated subsequent events through November 4, 2020, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2020, but prior to November 4, 2020, that provided additional evidence about conditions that existed at June 30, 2020, have been recognized in the financial statements for the year ended June 30, 2020. Events or transactions that provided evidence about conditions that did not exist at June 30, 2020, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended June 30, 2020.

On October 29, 2020, HFHCA Funding Company, LLC entered into a secured loan agreement to for \$3,019,052. The agreement is secured by 31 home mortgages transferred from Habitat for Humanity Central Arizona to HFHCA Funding Company.



**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 consolidated financial statements of Habitat for Humanity Central Arizona (a nonprofit organization), which comprise the consolidated balance sheet as of June 30, 2020, and the related consolidated statements of activities, consolidated functional expense, and consolidated cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 4, 2020.

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
November 4, 2020



**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, 2020. 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, 2020.

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
November 4, 2020

**HABITAT FOR HUMANITY CENTRAL ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2020**

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		ACON 3719, ACON 01820	\$ 272,907
Pass through City of Glendale:			
Emergency Home Repair Services		C18-1074, C20-0509	303,704
Total Community Development Block Grant			<u>576,611</u>
HOME Investment Partnerships Program:	14.239		
Pass through City of Peoria:			
Renovation, Resale, and Homebuyer Assistance		ACON 14818, ACON 06719	276,768
Pass through City of Glendale:			
New Construction, Renovation, & Homebuyer Assistance		C17-115, C19-0672	146,346
Total HOME Investment Partnerships Program			<u>423,114</u>
Total U.S. Department of Housing and Urban Development			<u>999,725</u>
Total Expenditures of Federal Awards			<u>\$ 999,725</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, 2020**

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, 2020. 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 *2020 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, 2020**

Section I – Summary of Auditors’ Results

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?

_____ yes x no

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

