HABITAT FOR HUMANITY CENTRAL ARIZONA

FINANCIAL STATEMENTS
AND
SINGLE AUDIT COMPLIANCE REPORTS

YEARS ENDED JUNE 30, 2013 AND 2012

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CliftonLarsonAllen LLP
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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, 2013 and 2012, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity Central Arizona as of June 30, 2013 and 2012, 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 audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 September 23, 2013, on our consideration of Habitat for Humanity Central Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Habitat for Humanity Central Arizona's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Phoenix, Arizona
September 23, 2013

HABITAT FOR HUMANITY CENTRAL ARIZONA
BALANCE SHEETS
JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
Cash and Cash Equivalents	$ 2,845,706	$ 2,393,562
Restricted Cash	641,110	-
Grants Receivable	1,255,770	1,112,654
Pledges Receivable	52,504	59,202
Other Receivables	202,184	134,297
Prepaid Expenses and Other Assets	152,547	206,885
Loan Origination Costs and New Market Tax Credit Fees, Net	426,016	-
Inventory - Habitat ReStore	263,193	244,303
Deferred Gifts Receivable	130,585	83,534
Investments in Securities	44,183	185,264
Equity Method Investments	4,822,551	-
Homes Under Construction	2,276,030	2,537,689
Homes Available for Sale	1,128,826	-
Land Held for Development	1,720,659	1,432,408
Land Available for Sale	1,717,090	1,716,150
Property and Equipment, Net	2,254,678	2,251,598
Non-Forgivable Mortgage Notes Receivable	14,166,204	12,205,719
Transferred Mortgages Receivable	3,171,254	3,195,519
Total Assets	$ 37,271,090	$ 27,758,784
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	$ 1,264,596	$ 793,771
Due to Habitat International, Inc.	41,166	14,347
Deferred Revenue	3,293,733	3,195,519
Land Held for the City of Glendale	372,473	139,686
Notes Payable	9,528,114	2,585,042
Total Liabilities	14,500,082	6,728,365
NET ASSETS		
Unrestricted	21,354,166	20,428,861
Temporarily Restricted	1,298,520	533,887
Permanently Restricted	118,322	67,671
Total Net Assets	22,771,008	21,030,419
Total Liabilities and Net Assets	$ 37,271,090	$ 27,758,784

See accompanying Notes to Financial Statements.

HABITAT FOR HUMANITY CENTRAL ARIZONA
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2013 AND 2012

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES AND SUPPORT				
Contributions	$ 874,372	$ 2,000,492	$ 37,988	$ 2,912,852
In-Kind Contributions	-	393,770	-	393,770
Sales of Completed Homes	2,059,471	-	-	2,059,471
Amortization of Mortgage Discounts	1,009,594	-	-	1,009,594
Grants	-	2,579,721	-	2,579,721
Investment Return	4,098	-	-	4,098
Home Repair Program (Net of Direct Costs of $344,362, and $145,076, respectively)	220,197	-	-	220,197
ReStore Sales (Net of Operating Expenses of $5,196,724 and $4,583,808, respectively)	306,942	-	-	306,942
Special Events (Net of Direct Expense of $75,635 and $47,421, respectively)	85,032	-	-	85,032
Other Revenue	109,486	-	-	109,486
Total	4,669,192	4,973,983	37,988	9,681,163
Net Assets Released from Restrictions	4,209,350	(4,209,350)	-	-
Total Operating Revenue and Support	8,878,542	764,633	37,988	9,681,163
OPERATING EXPENSES				
Program Services	7,239,893	-	-	7,239,893
Management and General	795,012	-	-	795,012
Fundraising	613,787	-	-	613,787
Total Operating Expenses	8,648,692	-	-	8,648,692
OPERATING INCREASE (DECREASE) IN NET ASSETS	229,850	764,633	37,988	1,032,471
NONOPERATING ACTIVITIES				
Contribution from Business Combination Transaction	971,729	-	-	971,729
Gain on Sale of Mortgages	106,928	-	-	106,928
Other Income	10,655	-	-	10,655
Change in Deferred Gifts	-	-	12,663	12,663
Loss on Impairment	(283,835)	-	-	(283,835)
NONOPERATING INCREASE (DECREASE) IN NET ASSETS	805,477	-	12,663	818,140
CONTRIBUTIONS TO HABITAT FOR HUMANITY INTERNATIONAL, INC.	(110,022)	-	-	(110,022)
CHANGE IN NET ASSETS	925,305	764,633	50,651	1,740,589
NET ASSETS - BEGINNING OF YEAR	20,428,861	533,887	67,671	21,030,419
NET ASSETS - END OF YEAR	$ 21,354,166	$ 1,298,520	$ 118,322	$ 22,771,008

2012			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 537,086	$ 2,014,366	$ -	$ 2,551,452
-	334,385	-	334,385
1,355,423	-	-	1,355,423
1,000,075	-	-	1,000,075
-	1,298,632	-	1,298,632
611	-	-	611
113,424	-	-	113,424
446,571	-	-	446,571
66,835	-	-	66,835
69,310	-	-	69,310
3,589,335	3,647,383	-	7,236,718
3,906,589	(3,906,589)	-	-
7,495,924	(259,206)	-	7,236,718
5,804,235	-	-	5,804,235
561,589	-	-	561,589
633,749	-	-	633,749
6,999,573	-	-	6,999,573
496,351	(259,206)	-	237,145
-	-	-	-
127,465	-	-	127,465
-	-	-	-
-	-	(7,490)	(7,490)
(113,696)	-	-	(113,696)
13,769	-	(7,490)	6,279
(74,518)	-	-	(74,518)
435,602	(259,206)	(7,490)	168,906
19,993,259	793,093	75,161	20,861,513
$ 20,428,861	$ 533,887	$ 67,671	$ 21,030,419

See accompanying Notes to Financial Statements.

HABITAT FOR HUMANITY CENTRAL ARIZONA
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2013

	2013					
		Support Services				
	Program Services	Management and General	Fundraising	Subtotal	ReStore Operating Costs	Total
Cost of Home Sales	$ 5,275,723	$ -	$ -	$ 5,275,723	$ -	$ 5,275,723
Transfers to Construction in Progress	(755,528)	-	-	(755,528)	-	(755,528)
Other	152,119	118,973	72,442	343,534	42,917	386,451
Salaries	1,125,205	683,664	442,023	2,250,892	906,221	3,157,113
Payroll Taxes and Employee Benefits	339,690	235,254	105,516	680,460	322,490	1,002,950
Cost of Goods Sold	-	-	-	-	2,745,387	2,745,387
Occupancy	-	97,835	-	97,835	869,418	967,253
Other Taxes and Insurance	147,558	30,139	-	177,697	61,965	239,662
Interest	19,710	65,162	-	84,872	53,394	138,266
Depreciation and Amortization	22,135	37,290	599	60,024	63,412	123,436
Equipment and Maintenance	43,225	48,466	-	91,691	71,761	163,452
Mortgage Servicing	108,508	-	-	108,508	-	108,508
Special Mailings	-	-	61,358	61,358	-	61,358
Audit and Accounting	-	37,248	-	37,248	-	37,248
Telephone	11,771	17,172	1,489	30,432	30,114	60,546
Travel and Conference	42,490	13,999	18,497	74,986	2,425	77,411
Office Supplies	3,430	18,224	972	22,626	16,325	38,951
Legal	166	3,059	-	3,225	-	3,225
Postage and Shipping	2,095	11,879	30	14,004	-	14,004
Overhead Applied	701,596	(623,352)	(89,139)	(10,895)	10,895	-
Total	$ 7,239,893	$ 795,012	$ 613,787	$ 8,648,692	$ 5,196,724	$ 13,845,416

See accompanying Notes to Financial Statements.

HABITAT FOR HUMANITY CENTRAL ARIZONA
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2012

	2012					
		Support Services				
	Program Services	Management and General	Fundraising	Subtotal	ReStore Operating Costs	Total
Cost of Home Sales	$ 4,043,419	$ -	$ -	$ 4,043,419	$ -	$ 4,043,419
Transfers to Construction in Progress	(358,634)	-	-	(358,634)	-	(358,634)
Other	138,147	37,476	69,801	245,424	44,603	290,027
Salaries	905,771	527,842	457,847	1,891,460	782,487	2,673,947
Payroll Taxes and Employee Benefits	239,741	155,188	104,272	499,201	292,674	791,875
Cost of Goods Sold	-	-	-	-	2,504,741	2,504,741
Occupancy	-	96,803	-	96,803	692,176	788,979
Other Taxes and Insurance	88,615	29,598	-	118,213	52,103	170,316
Interest	15,656	36,956	-	52,612	55,487	108,099
Depreciation	18,443	26,849	2,311	47,603	61,497	109,100
Equipment and Maintenance	33,380	45,322	-	78,702	55,324	134,026
Mortgage Servicing	93,080	-	-	93,080	-	93,080
Special Mailings	-	-	57,427	57,427	-	57,427
Audit and Accounting	-	30,058	-	30,058	-	30,058
Telephone	10,616	14,997	1,990	27,603	22,253	49,856
Travel and Conference	19,804	7,416	10,142	37,362	2,917	40,279
Office Supplies	862	16,154	173	17,189	8,919	26,108
Legal	2,171	19,879	-	22,050	-	22,050
Postage and Shipping	1,735	6,408	-	8,143	485	8,628
Overhead Applied	551,429	(489,357)	(70,214)	(8,142)	8,142	-
Total	$ 5,804,235	$ 561,589	$ 633,749	$ 6,999,573	$ 4,583,808	$ 11,583,381

See accompanying Notes to Financial Statements.

HABITAT FOR HUMANITY CENTRAL ARIZONA
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 1,740,589	$ 168,906
Adjustment to Reconcile Change in Net Assets to Net Cash and Cash Equivalents Used by Operating Activities:		
Depreciation and Amortization	123,436	109,100
Forgiveness of Debt	(235,351)	(243,083)
Contribution from Business Combination Transaction Net of Cash Received of $283,587	(726,130)	-
Unrealized Gains on Investments	(870)	(2,870)
Realized (Gains) Losses on Investments	(1,976)	6,836
Loss on Impairment - Homes Under Construction	283,835	113,696
Amortization of Mortgages Receivable Discount	(1,009,594)	(1,002,048)
Discount on Notes Payable	585	1,656
Change in Deferred Gift	(12,663)	-
Changes in Operating Assets and Liabilities:		
Decrease (Increase) in:		
Grant Receivables	(143,116)	100,516
Pledges Receivable	6,698	(59,202)
Other Receivables	(67,887)	(8,180)
Prepaids	79,656	(17,643)
Inventory - Habitat ReStore	10,672	(17,960)
Deferred Gifts Receivable	-	9,795
Homes Under Construction	313,822	(138,838)
Homes Available for Sale	(3,379,544)	(1,108,353)
Land Held for Development	(55,464)	73,454
Land Available for Sale	(940)	(1,015)
Increase (Decrease) in:		
Accounts Payable	393,932	13,554
Due to Habitat International, Inc.	26,819	59
Deferred Revenue	(315,508)	(436,242)
Net Cash and Cash Equivalents Used by Operating Activities	(2,968,999)	(2,437,862)
CASH FLOWS FROM INVESTING ACTIVITIES		
Mortgages Sold, Net of Discounts	782,220	730,279
Repurchases of Mortgages	(317,826)	-
Purchases of Property and Equipment	(89,096)	(44,031)
Purchase of Investments in Securities	(115,478)	(177,364)
Proceeds from Sale of Investments in Securities	259,405	168,178
Payments Received on Mortgages Receivable	1,629,991	1,335,603
Purchase of Equity Method Investments	(297,500)	-
Net Cash and Cash Equivalents Provided by Investing Activities	1,851,716	2,012,665

(Continued)

HABITAT FOR HUMANITY CENTRAL ARIZONA
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2013

	2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Long-Term Debt	1,666,006	289,187
Payments on Long-Term Debt	(100,179)	(88,492)
Proceeds from Restricted Contributions	3,600	-
Net Cash and Cash Equivalents Provided by Financing Activities	1,569,427	200,695
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	452,144	(224,502)
Cash and Cash Equivalents - Beginning of Year	2,393,562	2,618,064
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 2,845,706	$ 2,393,562
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	$ 124,470	$ 108,099
Non-Cash Contribution of Assets and Liabilities Through Business Combination	$ 726,130	$ -

See accompanying Notes to Financial Statements.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Long-term mortgage financing is a key component which makes Habitat homes affordable. Homes sold to local low-income buyers are 100% financed by the Organization. Homebuyers are provided an affordable 0% interest, 20-30 year mortgage. Monthly mortgage payments collected by the Organization are added to the donation resources used for building additional homes for families in need.

Financial Statement Presentation

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

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

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

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

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

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

Management's Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash consists of proceeds from New Markets Tax Credit arrangements (Note 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

Amounts incurred to obtain financing are capitalized and amortized over the life of the loan. Fees paid to third parties for facilitating New Market Tax Credit arrangements are capitalized and amortized over the term of the arrangement. Amortization expense for loan costs and new market tax credit fees was $12,834 and $-0-, for the years ended June 30, 2013 and 2012, respectively.

Contributions

The Organization accounts for contributions in accordance with accounting standards. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily or permanently restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restricted support, where restrictions are met in the same period as the donation is made, is shown as additions to unrestricted support.

Donated Materials and Services

Donated materials and services are recognized as contributions in accordance with accounting standards at their estimated fair value if the services (a) create or enhance the Organization's non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased. Donated materials consist primarily of construction materials. No amounts have been reflected in the financial statements for certain donated volunteer services because they do not qualify for recording under the guidelines of accounting standards; however, a substantial number of volunteers have donated a significant amount of time in the Organization's program services and fundraising campaigns. The Organization estimates the fair value of volunteer service hours during the years ended June 30, 2013 and 2012 to be approximately $1,343,040 and $1,400,000, respectively, representing over 102,148 and 105,000 volunteer service hours, respectively.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Grants

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

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

Receivables

Receivables primarily consist of construction cost reimbursements from the Federal Home Loan Bank (FHLB) and bequests receivable. Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables. At June 30, 2013 and 2012, no allowance for doubtful accounts was deemed necessary by management.

Inventory – Habitat ReStore

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

Investments in Securities

The Organization reports investments in accordance with accounting standards. Under these standards, the Organization reports investments in equity securities that have readily determinable fair value, and all investments in debt securities, at fair value. The fair values of investments are based on quoted market prices. At June 30, 2013 and 2012, investments consisted of cash, equities, and mutual funds.

Equity Method Investments

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Land Held for Development and Homes Under Construction

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

Land Available for Sale

Real estate assets are evaluated for impairment if impairment indicators are present. An impairment write-down to fair value less costs to sell occurs only if the estimated future undiscounted net cash flows from the real estate inventories are less than the carrying amount. No impairment losses were recorded during 2013, and management does not believe impairment indicators are present based on appraised value.

Property and Equipment

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition and Sales

Homes are sold to qualified buyers at approximately the cost to build the home. Non-interest bearing mortgages are accepted as payment for the homes sold. Home sales are recorded at the discounted value of payments to be received over the lives of the mortgages. Non-interest bearing mortgages have been discounted at 7.39% and 7.50% for the years ended June 30, 2013 and 2012, 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, 2013 and 2012, 44 and 36 homes, respectively, were sold by the Organization.

Mortgage Loans Receivable

The Organization's non-interest bearing mortgages consist of amounts due from homeowners. The Organization performs extensive credit and work history evaluations before the sale of a home. The Organization also has a perfected security interest in all homes they sell. The value of each home is generally greater than the respective carrying value of the mortgage due. Mortgage loans receivable are stated at the amount management expects to collect from outstanding balances.

Allowance for Credit Losses

The Organization's allowance for credit losses is that amount considered adequate to absorb probably losses in the portfolio based on management's evaluations of the size and current risk characteristics of the mortgage notes receivable portfolio. Such evaluations consider historical information and experience with clients. Specific allowances for credit losses are established for large impaired notes on an individual basis. A note is considered impaired when, based on current information and events, it is probable that the Organization will be unable to collect the scheduled payments when due according to the contractual terms of the promissory note. The specific allowances established for these loans is based on a thorough analysis of the most probably 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, 2013 and 2012, 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:

Non-Forgivable Mortgage Notes Receivable: The degree of risk on residential mortgage lending is minimal due to the fact that all non-forgivable mortgage notes receivable are secured by property with fair values that exceed the uncollected balances. As such, no allowance has been deemed necessary for non-forgivable mortgage notes receivable as of June 30, 2013.

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, 2013.

Warranty Reserve

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

An accrual for estimated future warranty expense is recorded and evaluated on an annual basis. Actual warranty expenses are charged against the accrual as incurred. Warranty expense recorded for the years ended June 30, 2013 and 2012 was $9,847 and $12,903, respectively. The accrued warranty reserve for homes was $28,438 and $19,420, respectively. Because of the inherent uncertainties in estimating warranty costs, it is at least reasonably possible that the Organization's estimates of these costs will change in the near term.

Escrow Reserves

Either independent third parties or the Organization services the mortgages on homes the Organization sells. Included in cash are amounts received from homeowners for insurance, property taxes and home maintenance (escrow funds). These amounts will be used to pay amounts as they become due. A corresponding liability is included in accounts payable and escrow reserves in the accompanying statement of financial position. At June 30, 2013 and 2012, escrow reserves totaled approximately $181,175 and $213,000, respectfully.

Transferred Mortgages Receivable

During the year ended June 30, 2009, the Organization transferred $1,285,345 (net of discount of $663,727) of mortgages receivable to a bank. Furthermore, during the year ended June 30, 2011, the Organization transferred an additional $1,723,532 (net of discount of $758,276) to the same bank. These transactions were accounted for in accordance with accounting standards for *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Under this standard, the Organization has maintained effective control over the assets transferred; accordingly, the transfer is accounted for as a secured borrowing. Related liabilities of $2,908,154 and $3,195,519 as of June 30, 2013 and 2012, respectively, are included in deferred revenue on the statement of financial position. The proceeds from the secured borrowings were used to pay down long-term debt and to build up cash reserves for future operations.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Special Event Revenues

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

Functional Expense Allocation

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

ReStore Program

The Organization has established the ReStore program in order to generate net income to underwrite administrative and fundraising expenses. The table below summarizes the results of the ReStore program's impact on administrative and fundraising expenses for the years ended June 30, 2013 and 2012:

	2013	2012
Total Administrative and Fundraising Costs	$ 1,408,799	$ 1,195,338
Less: ReStore Net Income	(306,942)	(446,571)
Net Administrative and Fundraising Costs	$ 1,101,857	$ 748,767

Concentrations of Credit Risk

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

Income Taxes

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

The Organization follows the accounting standard for uncertain tax positions. The Organization's policy prescribes a recognition threshold and measurement principles for the financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized. The implementation of this policy had no impact on the Organization's financial statements. The Organization files as a tax-exempt organization. As of June 30, 2013, its 2010 through 2012 fiscal year tax returns are open for examination by the IRS.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

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

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

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

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

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

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

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

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through September 23, 2013, the date the financial statements were available to be issued.

NOTE 2 ACQUISITION

Effective July 1, 2012, the Organization entered into a business combination transaction with Habitat for Humanity Desert Foothills, an Arizona nonprofit corporation. There was no consideration transferred in connection with the transaction. The transaction has been accounted for as a business combination using the acquisition method of accounting, whereby the assets acquired and liabilities assumed are recorded at their estimated fair market values. Fair-value measurements have been applied based on assumptions that market participants would use in the pricing of the asset or liability. The following table summarizes the fair values assigned to the net assets acquired as of the July 1, 2012 acquisition date:

Fair Value of Assets Acquired and Liabilities Assumed

Cash	$	283,587
Inventory - Habitat ReStore		29,562
Construction in Progress		52,163
Prepaid Expenses		10,318
Deposits		15,000
Property and Equipment, Net		24,586
Non-Forgivable Mortgage Notes Receivable		786,981
Transferred Mortgages Receivable		267,147
Accounts Payable and Accrued Expenses		(76,893)
Homeowner Escrow Reserves		(10,758)
Deferred Revenue		(402,964)
Notes Payable		(7,000)
Net Assets Acquired	$	971,729

Fair value measurements in connection with this acquisition are non-recurring measurements and are considered to be level 3 inputs based on the fair value hierarchy.

No liabilities were assumed associated with legal contingencies as part of the transaction.

NOTE 3 INVENTORY – HABITAT RESTORE

The Organization operates five discount home improvement centers (“ReStores”) in Phoenix, Peoria, Mesa, Anthem, and Goodyear. The ReStores receive donations of building supplies, furniture and appliances and sell these items to the general public. The donated items are recorded in the statement of activities at their fair market value. The fair market value is determined by the selling price for that item. Total inventory at June 30, 2013 and 2012, consisted of the following:

	2013		2012	
Donated Goods	$	248,283	$	239,727
Purchased Goods		14,910		4,576
Total Inventory - Habitat ReStore	$	263,193	$	244,303

NOTE 4 DEFERRED GIFTS RECEIVABLE

At June 30, 2013 and 2012, the Organization had amounts due from estates and trusts totaling $130,585 and $83,534, respectively.

NOTE 5 INVESTMENTS IN SECURITIES

The estimated market value of investments at June 30, 2013 and 2012, is as follows:

	2013	2012
Investments:		
Cash	$ 20,513	$ 15,994
Equities	-	4,165
Mutual Funds	23,670	165,105
Total	$ 44,183	$ 185,264

Investment return is made up of the following:

Investment Return:	2013	2012
Interest and Dividends	$ 1,252	$ 4,577
Realized Gain on Investments	1,976	2,870
Unrealized Gain (Loss) on Investments	870	(6,836)
Total	$ 4,098	$ 611

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 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.

NOTE 6 EQUITY METHOD INVESTMENTS (CONTINUED)

Transactions with the CDEs for the year ending June 30, 2013 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 with a balance of $1,880,000 as of June 30, 2013.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 with a balance of $4,702,500 as of June 30, 2013.

The Organization's activity in equity method investments consist of the following for the years ended June 30, 2013 and 2012:

	2013	2012
Equity Method Investments, Beginning of Year	$ -	$ -
Initial Investments	4,822,551	-
Equity Method Investments, End of Year	$ 4,822,551	$ -

The major assets of CCML Leverage II, LLC and Habitat Central Arizona Leverage I, LLC as of June 30, 2013 were as follows:

	CCML Leverage II, LLC	Habitat Central Arizona Leverage I, LLC
Assets:		
Notes Receivable	$ 3,393,797	$ 15,735,842
Other Assets	-	102,729
Total Assets	$ 3,393,797	$ 15,838,571

At June 30, 2013, both CCML Leverage II, LLC and Habitat Central Arizona Leverage I, LLC had no liabilities and minimal activity for the year ended June 30, 2013.

NOTE 7 HOMES UNDER CONSTRUCTION

Homes currently under construction consist of:

	2013	2012
Homes Under Construction	$ 3,045,891	$ 3,272,092
Less: Loss on Impairment	(769,861)	(734,403)
Homes Under Construction	$ 2,276,030	$ 2,537,689

NOTE 8 LAND HELD FOR DEVELOPMENT

Land held for development consists of:

	2013	2012
Land Held for Development	$ 2,388,421	$ 2,563,687
Less: Loss on Impairment	(667,762)	(1,131,279)
Land Held for Development	$ 1,720,659	$ 1,432,408

Land held for development includes an estimated 52 lots in Glendale, Peoria, Chandler, Phoenix, Tempe, Avondale, Mesa, Buckeye, Surprise, Apache Junction, and Desert Hills.

Land improvements represent the costs of preparing the land for development, which includes utilities and sewer connections, streets, sidewalks and streetlights. A portion of land improvements are allocated to the homes when sold.

NOTE 9 LOSS ON IMPAIRMENT

The Organization determined that homes under construction, homes available for sale and land held for development costs have been impaired. Therefore, the Organization was required to make a fair value determination. This fair value determination was based on appraised values. This fair value measurement was based on level 3 inputs; see Note 1. The Organization recorded an impairment adjustment of $283,835 and $113,696 at June 30, 2013 and 2012, respectively, which is reflected in the statement of activities as “Loss on Impairment”

NOTE 10 FAIR VALUE MEASUREMENTS

The Organization uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. For additional information on how the Organization measures fair value refer to Note 1 – Significant Accounting Principles. The Organization has assets that are valued using the Level 1 and Level 3 inputs, there are no assets or liabilities valued using Level 2 inputs as of June 30, 2013 and 2012.

NOTE 10 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents the fair value hierarchy for the balances of the assets of the Organization measured at fair value on a recurring basis as of June 30, 2013 and 2012:

	2013			
	Level 1	Level 2	Level 3	Total
Assets:				
Deferred Gifts Receivable	$ -	$ -	$ 130,585	$ 130,585
Common Stocks and Mutual Funds	23,670	-	-	23,670
	$ 23,670	$ -	$ 130,585	$ 154,255

	2012			
	Level 1	Level 2	Level 3	Total
Assets:				
Deferred Gifts Receivable	$ -	$ -	$ 83,534	$ 83,534
Common Stocks and Mutual Funds	169,270	-	-	169,270
Total	$ 169,270	$ -	$ 83,534	$ 252,804

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, 2013 and 2012:

	2013	2012
Deferred Gifts Receivable:		
Beginning Balance	$ 83,534	$ 93,329
New Deferred Gifts Received	37,988	-
Proceeds from Deferred Gifts	(3,600)	-
Change in Value of Deferred Gifts Receivable	12,663	(9,795)
Total Deferred Gifts Receivable	$ 130,585	$ 83,534

The following table presents the fair value hierarchy, measuring fair value at quoted prices in active markets for identical assets (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3). Assets measured at fair value on a non-recurring basis as of June 30, 2013 and 2012 are as follows:

Description	June 30, 2013	(Level 1)	(Level 2)	(Level 3)
Homes Available for Sale	$ 1,128,826	$ -	$ -	$ 1,128,826

Description	June 30, 2012	(Level 1)	(Level 2)	(Level 3)
Homes Under Construction	$ 2,537,689	$ -	$ -	$ 2,537,689
Land Held for Development	1,432,408	-	-	1,432,408
		$ -	$ -	$ 3,970,097

NOTE 10 FAIR VALUE MEASUREMENTS (CONTINUED)

For the year ended June 30, 2013, homes available for sale with a carrying value of $1,128,826 were written down to their fair values above, resulting in an impairment loss of $283,835, which was included in nonoperating activities on the statement of activities.

For the year ended June 30, 2012, homes under construction and land held for development with a carrying value of $3,272,092 and $2,563,687, respectively, were written down to their fair values above, resulting in an impairment loss of $113,696, which was included in nonoperating activities on the statement of activities.

NOTE 11 PROPERTY AND EQUIPMENT

Property and equipment consists of:

	2013	2012
Buildings and Improvements	$ 2,501,010	$ 2,483,110
Furniture and Equipment	344,679	320,029
Vehicles	224,235	153,104
	3,069,924	2,956,243
Less: Accumulated Depreciation	(815,246)	(704,645)
Property and Equipment, Net	$ 2,254,678	$ 2,251,598

Depreciation expense charged to operations was $110,602 and $109,100 as of June 30, 2013 and 2012, respectively.

NOTE 12 NON-FORGIVABLE MORTGAGE NOTES RECEIVABLE

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

The mortgage loans receivable are non-interest-bearing mortgages. Since the first mortgage on each home is less than the market value, the Organization also obtains a second mortgage for the difference between the first mortgage and market value. If the second mortgage is forgiven at the end of the first mortgage term, it is assumed to have no economic value and, accordingly, is not recognized in the Organization's financial statements. At June 30, 2013 and 2012, the non-forgivable mortgage notes receivable balances are as follows:

	2013	2012
Face Value	$ 24,989,925	$ 21,507,882
Less: Unamortized Discount	(10,823,721)	(9,302,163)
Net Present Value	$ 14,166,204	$ 12,205,719

NOTE 12 NON-FORGIVABLE MORTGAGE NOTES RECEIVABLE (CONTINUED)

Annual collection of the non-forgivable mortgage notes receivable net of the unamortized discount at June 30, 2013 are due as follows:

Year Ending June 30,	
2014	$ 1,609,409
2015	1,601,695
2016	1,595,765
2017	1,584,145
2018	1,568,447
Thereafter	17,030,464
Total	$ 24,989,925

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

	Consumer Credit Risk Profile by Payment Activity
Payment Activity	
Performing	$ 23,672,447
Non-Performing	1,317,478
Total	$ 24,989,925

The following table shows an aging analysis of non-forgivable mortgage notes receivable by time past due:

	June 30, 2013			
	Current	30-89 Days Past Due	90 Days or More Past Due	Total
Non-Forgivable Mortgage Notes Receivable	$ 21,957,573	$ 1,714,874	$ 1,317,478	$ 24,989,925

NOTE 13 TRANSFERRED MORTGAGES RECEIVABLE

For mortgages receivable that were transferred to a bank as of the years ended June 30, 2013 and 2012, (refer to Note 1 – Significant Accounting Principles) the mortgage balances are as follows:

	2013	2012
Face Value	$ 4,658,325	$ 4,641,665
Less: Unamortized Discount	(1,487,071)	(1,446,146)
Net Present Value	$ 3,171,254	$ 3,195,519

NOTE 13 TRANSFERRED MORTGAGES RECEIVABLE (CONTINUED)

Annual collection of the transferred mortgage notes receivable net of the unamortized discount at June 30, 2013 are due as follows:

Year Ending June 30,	
2014	$ 276,980
2015	278,420
2016	279,860
2017	281,300
2018	282,740
Thereafter	3,259,025
Total	$ 4,658,325

The following table shows an aging analysis of first mortgages receivable by time past due:

	June 30, 2013			
	Current	30-89 Days Past Due	90 Days or More Past Due	Total
Transferred Mortgages Receivable	$ 4,658,325	$ -	$ -	$ 4,658,325

As of June 30, 2013, there were no transferred mortgages receivable considered to be non-performing.

NOTE 14 LINE OF CREDIT

As of June 30, 2013, the Organization had a $1,055,000 line of credit with a bank with interest calculated at the bank's prime rate (3.25% at June 30, 2013). The line is secured by the Organization's cash and securities on deposit with the bank and land available for sale. The line of credit agreement contains various financial covenants, and matures on October 1, 2014. There were no amounts outstanding under the line of credit as of June 30, 2013.

As of June 30, 2012, the Organization had a $1,500,000 line of credit with a bank with interest calculated at the bank's prime rate minus .5% with a floor of 3% (3.0% at June 30, 2012). The line was secured by the Organization's mortgages and was subject to various financial covenants. The line of credit matured in April 2012 and the bank's security interest in the mortgages was released. There were no amounts outstanding under the line of credit as of June 30, 2012.

NOTE 15 NOTES PAYABLE

Notes payable consists of:

	2013	2012
Notes Payable to Banks and Financial Institutions:		
Note payable to GE Government Finance, Inc., secured by a building. The proceeds from the note were used to purchase the building being pledged as security. The note is payable in monthly principal and interest installments of $12,374, bears interest at 5.9%, and is payable in June 2028.	$ 1,475,793	$ 1,540,093
Unsecured note payable to Wells Fargo Bank to fund the development of infrastructure in the 12th Street development named Oro Vista. Beginning in July 2013, quarterly principal payments of $35,000 plus accrued interest at 2% per annum are payable until April 2016.	700,000	700,000
Notes payable to the City of Peoria and City of Chandler to fund the acquisition of real property. The loans bear interest at 0%. The loans shall be deemed forgiven when to the property is transferred to an eligible home owner, as long as the Organization has constructed single-family residences, whose designs have been approved by the City, and are sold to low-income families.	425,673	272,507
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 2, $100,000 in year 5 and $100,000 in year 7. The loan bears interest at 3-5%, with all unpaid principal and interest due in December 2019.	300,000	-
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 8 years. The note bears interest at .7608% and matures in July 2028.	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 .7224% and matures in April 2028.	4,702,500	-

(Continued)

NOTE 15 NOTES PAYABLE (CONTINUED)

	2013	2012
Notes Payable to Habitat for Humanity International:		
Promissory note payable to Habitat for Humanity International, Inc. as part of the Self-Help Homeownership Opportunity Program ("SHOP"). The proceeds from the note are required to be used for infrastructure costs. The note bears interest at 0% and has a discount of $3,309. Beginning in July 2009, the note is payable in 47 monthly installments of principal of $1,171, and a final payment of $1,213 maturing in June 2013.	-	14,094
Promissory note payable to Habitat for Humanity International, Inc. as part of the Self-Help Homeownership Opportunity Program ("SHOP"). The proceeds from the note are required to be used for infrastructure costs. The note bears interest at 0% and has a discount of $3,132. A portion of the note (70%) is payable beginning in January 2010 with the remainder payable within thirty-six (36) months of receipt of award.	6,681	19,989
Promissory note payable to Habitat for Humanity International, Inc. as part of the Self-Help Homeownership Opportunity Program ("SHOP"). The proceeds from the note are required to be used for infrastructure costs. The note is payable in forty-seven (47) monthly installments of principal of $145 and a final payment upon maturity of $185. The note matures in March 2015. The note does not bear interest.	7,000	-
Promissory note payable to Habitat for Humanity International, Inc. as part of the Self-Help Homeownership Opportunity Program ("SHOP"). The proceeds from the note are required to be used for infrastructure costs. The note is payable in forty-seven (47) monthly installments of principal of $562 and a final payment upon maturity of $586. The note matures in July 2012. The note does not bear interest and has a discount of $1,226.	-	3,396
Promissory note payable to Habitat for Humanity International, Inc. as part of the Self-Help Homeownership Opportunity Program ("SHOP"). The proceeds from the note are required to be used for infrastructure costs. The note is payable in forty-six (46) monthly installments of principal of $781, and a final payment upon maturity of $793. The note matures in July 2017. The note does not bear interest and has a discount of $2,205.	32,814	37,500

(Continued)

NOTE 15 NOTES PAYABLE (CONTINUED)

	2013	2012
Promissory note payable to Habitat for Humanity International, Inc. as part of the Self-Help Homeownership Opportunity Program ("SHOP"). The proceeds from the note are required to be used for infrastructure costs. The note is payable in forty-seven (47) monthly installments of principal of $62, and a final payment upon maturity of $86. The note matures in July 2013. The note does not bear interest and has a discount of $137.	-	396
Total	9,530,461	2,587,975
Less: Discount on Non-Interest Bearing Notes	(2,347)	(2,933)
Total Notes Payable	$ 9,528,114	$ 2,585,042

Annual maturities of the notes payable outstanding at June 30, 2013 are as follows:

Year Ending June 30,	
2014	$ 216,211
2015	318,042
2016	502,099
2017	86,455
2018	179,855
Thereafter	8,227,799
Total	$ 9,530,461

NOTE 16 CONTRIBUTION TO HABITAT FOR HUMANITY INTERNATIONAL, INC.

The Organization contributes 10% of the Organization's unrestricted annual cash contributions to Habitat for Humanity International for their international housing programs. For the years ended June 30, 2013 and 2012, contributions to Habitat for Humanity International were $110,022 and $74,518, respectively.

NOTE 17 OPERATING LEASES

The Organization leases buildings and equipment under various operating lease agreements expiring in various years through April 2021.

NOTE 17 OPERATING LEASES (CONTINUED)

Minimum future rental payments under operating leases having remaining terms in excess of one year at June 30, 2013 are as follows:

Year Ending June 30,	
2014	$ 555,096
2015	426,842
2016	329,194
2017	324,092
2018	178,026
Thereafter	446,238
Total Minimum Lease Payments	$ 2,259,488

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 $810,199 and $656,263 for the years ended June 30, 2013 and 2012, respectively.

NOTE 18 TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted and permanently restricted net assets are available for the following purposes at June 30, 2013 and 2012:

	2013	2012
Temporarily Restricted Net Assets:		
Home Construction	$ 1,298,520	$ 533,887
Permanently Restricted Net Assets:		
Future Operations	$ 118,322	$ 67,671

NOTE 19 RETIREMENT PLANS

The Organization established a 401(k) retirement savings plan (tax deferred annuity) for its employees. The Organization makes its employees aware of the plan, withholds voluntary contributions from paychecks and remits the contributions to an independent trustee. Each participant may contribute his or her eligible compensation on a pretax basis to the plan up to a maximum allowed by the Internal Revenue Code. Total employer contributions to the plan were $91,472 and $81,146 for the years ended June 30, 2013 and 2012, respectively.

NOTE 20 SUBSEQUENT EVENTS

On August 17, 2013, the Organization sold non-forgivable mortgages notes receivable to a bank. Proceeds from the sale totaled $963,644.

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, 2013, 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 September 23, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Habitat for Humanity Central Arizona's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non compliance 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*.

Board of Directors
Habitat for Humanity Central Arizona

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
September 23, 2013

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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 Circular A-133 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, 2013. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2013.

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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Habitat for Humanity Central Arizona's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

Phoenix, Arizona
September 23, 2013

HABITAT FOR HUMANITY CENTRAL ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013

Federal Grantor/Program/Pass-Through Agency/Contract	Federal CFDA Number	Contract Number	Federal Expenditures
U.S. Department of Housing and Urban Development (HUD):			
Community Development Block Grant:	14.218		
Pass through City of Peoria:			
Acquisition, Rehabilitation & Resell Program		55111	$ 92,943
Pass through City of Chandler:			
Emergency Home Repair Services		CD1213-10	194,264
Total Community Development Block Grant			287,207
NSP-1 Grant	14.218		
Pass through Pinal County:			
Acquisition, Renovation, Resale		N/A	257,473
Pass through City of Glendale:			
Renovation and New Construction		C7206-1	507,301
Emergency Home Repair Services		C-8261	369,696
Total NSP-1 Grant			1,134,470
NSP-3 Grant	14.218		
Pass through City of Glendale:		C-8524	537,463
Pass through City of Peoria:		43811	272,312
Total Community Development Block Grants			2,231,452
HOME Investment Partnerships Program:	14.239		
Pass through City of Peoria:			
Acquisition & Infrastructure, Renovation, Resale & Homebuyer Assistance		56609D	37,248
Renovation, Resale, and Homebuyer Assistance		54811	83,302
Land Acquisition, Infrastructure & Site Improvements		C-04412	359,036
Land Acquisition, Infrastructure & Site Improvements		C13613	2,830
Pass through City of Glendale:			
Land Acquisition & Infrastructure Development Program		C-7157	474,176
Total HOME Investment Partnerships Program			956,592
Total U.S. Department of Housing and Urban Development			3,188,044
U.S. Department of Labor (DOL)			
Title 1-B:	17.274		
Pass through City of Phoenix:			
Youth Training in Construction		N/A	50,000
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 3,238,044

NOTE 1 BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

NOTE 2 CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the *2013 Catalog of Federal Domestic Assistance*.

HABITAT FOR HUMANITY CENTRAL ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Habitat for Humanity Central Arizona.

2. No material weaknesses were identified during the audit of the financial statements of Habitat for Humanity Central Arizona.

3. No instances of material noncompliance were disclosed during the audit of the financial statements of Habitat for Humanity Central Arizona.

4. No material weaknesses were identified during the audit of the major federal award programs for Habitat for Humanity Central Arizona.

5. The auditors' report on compliance for the major federal award programs for Habitat for Humanity Central Arizona expresses an unqualified opinion.

6. The following programs were tested as major programs:

Program	CFDA No.
Community Development Block Grants	14.218
HOME Investment Partnership	14.239

7. The threshold for distinguishing type A and B programs was $300,000.

8. Habitat for Humanity Central Arizona was determined to not be a low risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

CURRENT YEAR

None

PRIOR YEAR

Item: 2012-1

Subject: Audit Adjustments

Condition: The Organization required a restatement to the financial statements to present the statements in accordance with generally accepted accounting principles. The result of those entries was a decrease in beginning net assets for the year ended June 30, 2011 of approximately $202,000.

Criteria: Generally accepted accounting principles require that transactions be recognized in the period that they occur to ensure accurate and timely recording of all entries for the financial statements.

Item: 2012-1 (Continued)

Effect: Due to the error in the calculation of the mortgage discount, the Organization's internally prepared financial statements are not in compliance with generally accepted accounting principles.

Status: Corrected in FY 2013.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

CURRENT YEAR

None

PRIOR YEAR

None