HABITAT FOR HUMANITY CENTRAL ARIZONA

CONSOLIDATED FINANCIAL STATEMENTS AND SINGLE AUDIT REPORTS

YEARS ENDED JUNE 30, 2022 AND 2021

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Habitat for Humanity Central Arizona
Phoenix, Arizona

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying financial statements of Habitat for Humanity Central Arizona (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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, 2022 and 2021, and the change 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Habitat for Humanity Central Arizona and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Habitat for Humanity Central Arizona's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

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Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Habitat for Humanity Central Arizona's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Habitat for Humanity Central Arizona's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Board of Directors
Habitat for Humanity Central Arizona

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2022 on our consideration of the 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 the Habitat for Humanity Central Arizona's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
November 30, 2022

HABITAT FOR HUMANITY CENTRAL ARIZONA
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2022 AND 2021

	2022	2021
ASSETS		
Cash and Cash Equivalents	$ 2,027,404	$ 1,186,720
Grants Receivable	387,131	367,288
Pledges Receivable	1,627,820	3,083,353
Other Receivables	419,280	374,688
Prepaid Expenses and Other Assets	382,883	366,406
Inventory - Habitat ReStore	1,382,508	1,065,749
Deferred Gifts Receivable	121,910	141,021
Investments in Securities	13,849,178	12,074,270
Homes Under Construction	3,968,126	2,438,713
Homes Available for Sale	-	188,393
Land Held for Development	3,842,566	1,818,897
Property and Equipment, Net	4,516,250	4,702,126
Nonforgivable Mortgage Notes Receivable	18,039,914	16,929,221
Transferred Mortgages Receivable	1,245,483	1,489,849
Total Assets	$ 51,810,453	$ 46,226,694
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	$ 1,902,303	$ 1,288,739
Due to Habitat International, Inc.	139,379	5,387
Transferred Mortgages Liability	1,264,848	1,524,376
Deferred Revenue	256,060	44,870
Notes Payable, Net	5,520,811	7,169,376
Total Liabilities	9,083,401	10,032,748
NET ASSETS		
Without Donor Restriction	36,818,417	30,064,058
With Donor Restriction	5,908,635	6,129,888
Total Net Assets	42,727,052	36,193,946
Total Liabilities and Net Assets	$ 51,810,453	$ 46,226,694

See accompanying Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY CENTRAL ARIZONA
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2022 AND 2021

	2022		
	Without Donor Restrictions	With Donor Restriction	Total
OPERATING REVENUES AND SUPPORT			
Contributions	$ 10,729,079	$ 3,247,509	$ 13,976,588
In-Kind Contributions	81,248	354,305	435,553
Sales of Completed Homes	5,786,139	-	5,786,139
Discounts on New Home Mortgages	(3,129,658)	-	(3,129,658)
Amortization of Mortgage Discounts	1,710,580	-	1,710,580
Grants	-	522,611	522,611
Investment Return	(784,561)	-	(784,561)
Home Repair Program	1,242,281	-	1,242,281
ReStore Sales (Net of Operating Expenses of $7,997,148 and $7,853,332, Respectively)	168,410	-	168,410
Special Events (Net of Direct Expense of $118,514 and $26,215, Respectively)	220,067	-	220,067
Other Revenue	551,697	-	551,697
Total	16,575,282	4,124,425	20,699,707
Net Assets Released from Restrictions	4,326,567	(4,326,567)	-
Total Operating Revenue and Support	20,901,849	(202,142)	20,699,707
OPERATING EXPENSES			
Program Services	11,274,245	-	11,274,245
Management and General	2,004,873	-	2,004,873
Fundraising	925,748	-	925,748
Total Operating Expenses	14,204,866	-	14,204,866
OPERATING INCREASE (DECREASE) IN NET ASSETS	6,696,983	(202,142)	6,494,841
NONOPERATING ACTIVITIES			
Gain (Loss) on Sale of Mortgages	(17,372)	-	(17,372)
Gain on Sale of Land	54,140	-	54,140
Other Gains (Losses)	15,421	-	15,421
Change in Deferred Gifts	5,187	(19,111)	(13,924)
Cancellation of Debt Income	-	-	-
NONOPERATING INCREASE IN NET ASSETS	57,376	(19,111)	38,265
CHANGE IN NET ASSETS	6,754,359	(221,253)	6,533,106
Net Assets - Beginning of Year	30,064,058	6,129,888	36,193,946
NET ASSETS - END OF YEAR	$ 36,818,417	$ 5,908,635	$ 42,727,052

See accompanying Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY CENTRAL ARIZONA
CONSOLIDATED STATEMENTS OF ACTIVITIES (CONTINUED)
YEARS ENDED JUNE 30, 2022 AND 2021

2021		
Without Donor Restrictions	With Donor Restriction	Total
$ 1,590,357	$ 6,404,126	$ 7,994,483
75,584	63,893	139,477
3,874,350	-	3,874,350
(1,982,058)	-	(1,982,058)
1,503,017	-	1,503,017
-	404,340	404,340
801,533	-	801,533
838,786	-	838,786
453,547	-	453,547
225,071	-	225,071
508,989	-	508,989
7,889,176	6,872,359	14,761,535
3,318,824	(3,318,824)	-
11,208,000	3,553,535	14,761,535
9,098,891	-	9,098,891
1,199,716	-	1,199,716
842,393	-	842,393
11,141,000	-	11,141,000
67,000	3,553,535	3,620,535
990,740	-	990,740
223,727	-	223,727
(9,421)	-	(9,421)
5,053	25,673	30,726
1,116,400	-	1,116,400
2,326,499	25,673	2,352,172
2,393,499	3,579,208	5,972,707
27,670,559	2,550,680	30,221,239
$ 30,064,058	$ 6,129,888	$ 36,193,946

See accompanying Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY CENTRAL ARIZONA
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2022

	Program Services	Support Services: Management and General	Support Services: Fundraising	Subtotal	ReStore Operating Costs	Total
Cost of Home Sales	$ 4,682,139	$ -	$ -	$ 4,682,139	$ -	$ 4,682,139
Cost of Home Repairs	2,697,555	-	-	2,697,555	-	2,697,555
Transfers to Construction in Progress	(1,161,578)	-	-	(1,161,578)	-	(1,161,578)
Other	178,458	972,708	344,959	1,496,125	224,498	1,720,623
Salaries	2,175,449	1,098,624	703,943	3,978,016	1,725,271	5,703,287
Payroll Taxes and Employee Benefits	501,412	237,386	184,808	923,606	393,556	1,317,162
Cost of Goods Sold	-	-	-	-	3,853,710	3,853,710
Occupancy	-	72,852	-	72,852	1,204,051	1,276,903
Other Taxes and Insurance	155,093	59,326	1,018	215,437	93,489	308,926
Interest and Amortization	-	318,646	-	318,646	-	318,646
Depreciation and Amortization	37,154	74,660	630	112,444	235,987	348,431
Equipment and Maintenance	152,427	57,728	-	210,155	122,080	332,235
Mortgage Servicing	104,152	-	-	104,152	-	104,152
Special Mailings	-	-	53,644	53,644	-	53,644
Audit and Accounting	-	45,029	-	45,029	-	45,029
Telephone	10,598	28,443	2,241	41,282	18,102	59,384
Travel and Conference	70,933	56,525	12,080	139,538	22,136	161,674
Office Supplies	19,017	20,748	6,224	45,989	20,559	66,548
Legal	56,260	20,121	-	76,381	-	76,381
Postage and Shipping	247	5,278	483	6,008	58,579	64,587
Contributions to Habitat for Humanity International, Inc.	291,090	-	-	291,090	-	291,090
Overhead Applied	1,303,839	(1,063,201)	(265,768)	(25,130)	25,130	-
Total	11,274,245	2,004,873	1,044,262	14,323,380	7,997,148	22,320,528
Special Event Expense	-	-	(118,514)	(118,514)	-	(118,514)
Total Functional Expenses	$ 11,274,245	$ 2,004,873	$ 925,748	$ 14,204,866	$ 7,997,148	$ 22,202,014

See accompanying Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY CENTRAL ARIZONA
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2021

	Program Services	Support Services: Management and General	Support Services: Fundraising	Subtotal	ReStore Operating Costs	Total
Cost of Home Sales	$ 3,279,548	$ -	$ -	$ 3,279,548	$ -	$ 3,279,548
Cost of Home Repairs	1,957,859	-	-	1,957,859	-	1,957,859
Transfers to Construction in Progress	(841,568)	-	-	(841,568)	-	(841,568)
Other	241,982	312,564	173,190	727,736	185,722	913,458
Salaries	1,930,381	947,682	696,639	3,574,702	1,474,719	5,049,421
Payroll Taxes and Employee Benefits	513,343	244,592	192,134	950,069	388,656	1,338,725
Cost of Goods Sold	-	-	-	-	3,975,894	3,975,894
Occupancy	-	132,865	-	132,865	1,321,639	1,454,504
Other Taxes and Insurance	145,740	60,378	-	206,118	89,059	295,177
Interest and Amortization	13	272,952	-	272,965	-	272,965
Depreciation and Amortization	36,106	88,663	630	125,399	182,153	307,552
Equipment and Maintenance	81,479	38,094	-	119,573	111,378	230,951
Mortgage Servicing	122,443	-	-	122,443	-	122,443
Special Mailings	-	-	53,430	53,430	-	53,430
Audit and Accounting	-	48,298	-	48,298	-	48,298
Telephone	11,524	25,701	3,023	40,248	28,004	68,252
Travel and Conference	58,233	17,313	4,306	79,852	9,018	88,870
Office Supplies	28,709	50,669	9,353	88,731	21,360	110,091
Legal	62,610	8,496	-	71,106	6,600	77,706
Postage and Shipping	167	6,325	332	6,824	33,515	40,339
Contributions to Habitat for Humanity International, Inc.	176,632	-	-	176,632	-	176,632
Overhead Applied	1,293,690	(1,054,876)	(264,429)	(25,615)	25,615	-
Total	9,098,891	1,199,716	868,608	11,167,215	7,853,332	19,020,547
Special Event Expense	-	-	(26,215)	(26,215)	-	(26,215)
Total Functional Expenses	$ 9,098,891	$ 1,199,716	$ 842,393	$ 11,141,000	$ 7,853,332	$ 18,994,332

See accompanying Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY CENTRAL ARIZONA
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 6,533,106	$ 5,972,707
Adjustment to Reconcile Change in Net Assets to Net Cash and Cash Equivalents Provided (Used) by Operating Activities:		
Depreciation and Amortization	348,431	307,552
Interest and Amortization	160,004	156,412
Forgiveness of Long-Term Debt	(376,499)	(257,704)
Forgiveness of Paycheck Protection Program Loan	-	(1,116,400)
(Gain) Loss on Disposal of Property and Equipment	(848)	9,421
(Gain) Loss on Sale of Land Available for Sale	(54,140)	(223,727)
(Gain) Loss on Investments	895,788	(744,574)
Amortization of Mortgages Receivable Discount	(1,710,580)	(1,503,017)
Discount on Notes Payable	98,065	(1,035,450)
Change in Deferred Gift	13,924	(30,726)
Increase (Decrease) in Assets:		
Grant Receivables	(19,843)	(42,679)
Pledges Receivable	1,455,533	(2,849,750)
Other Receivables	(44,592)	104,713
Prepaids	(16,477)	(34,952)
Inventory - Habitat ReStore	(316,759)	(37,032)
Deferred Gifts Receivable	5,187	8,967
Homes Under Construction	(1,475,273)	(160,762)
Homes Available for Sale	(2,237,912)	(1,917,335)
Land Held for Development	(2,283,197)	(160,223)
(Increase) Decrease in Liabilities:		
Accounts Payable	613,564	56,530
Due to Habitat International, Inc.	133,992	(3,692)
Deferred Revenue	211,190	23,303
Net Cash Provided (Used) by Operating Activities	1,932,664	(3,478,418)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(165,822)	(596,369)
Proceeds from Sale of Property and Equipment	4,115	-
Purchase of Investments in Securities	(3,790,036)	(4,365,933)
Proceeds from Sale of Investments in Securities	1,119,340	1,095,929
Payments Received on Mortgages Receivable	3,270,558	2,903,286
Net Cash Provided (Used) by Investing Activities	438,155	(963,087)

See accompanying Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY CENTRAL ARIZONA
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Long-Term Debt	$ 364,819	$ 4,419,988
Payments on Long-Term Debt	(1,894,954)	(433,450)
Net Cash Provided (Used) by Financing Activities	(1,530,135)	3,986,538
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	840,684	(454,967)
Cash and Cash Equivalents - Beginning of Year	1,186,720	1,641,687
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 2,027,404	$ 1,186,720
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	$ 51,150	$ 65,373

See accompanying Notes to Consolidated Financial Statements.

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.

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.

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.

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, 2022 and 2021, no allowance for doubtful accounts was deemed necessary by management.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledges Receivable

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

Inventory – Habitat ReStore

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

Investments in Securities

The Organization reports investments in accordance with accounting standards. Under these standards, the Organization reports investments in equity securities that have readily determinable fair value, and all investments in debt securities, at fair value. The fair values of investments are based on quoted market prices. At June 30, 2022 and 2021, investments consisted of cash, mutual funds, and pooled investments consisting of stocks and bonds.

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, 2022 and 2021, 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.

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 2022 or 2021.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

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

	Years
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, 2022 and 2021 was $2,162,902 and $3,090,576, 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.

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, 2022 and 2021 to be $2,204,778 and $954,606, respectively, representing 73,615 and 33,448 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 7.23% and 7.38% for the years ended June 30, 2022 and 2021, 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, 2022 and 2021, 18 and 16 homes, respectively, were sold by the Organization.

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 as allowable expenses are incurred.

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.

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, 2022 or 2021. Related liabilities for previous years' sales of $1,688,482 and $1,524,376 as of June 30, 2022 or 2021, 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, 2022 and 2021, 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, 2022 and 2021.

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, 2022 and 2021.

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, 2022 and 2021 was $1,787 and $4,109, respectively. The accrued warranty reserve for homes was $6,191 and $18,261, 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, 2022 and 2021, escrow reserves totaled $35,920 and $60,537, 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.

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, 2022 and 2021:

	2022	2021
Total Administrative and Fundraising Costs	$ 2,930,621	$ 2,042,109
Less ReStore Net (Income)/Loss	(168,410)	(453,547)
Net Administrative and Fundraising Costs	$ 2,762,211	$ 1,588,562

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.

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 Accounting Pronouncement

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This standard requires that contributed nonfinancial assets are reported on a separate line item in the statements of activities, apart from contributions of cash and other financial assets. It also requires disclosure of disaggregated amounts of contributed nonfinancial assets by category that depicts the type of contributed nonfinancial assets along with additional qualitative information about the monetization of such assets, donor restrictions and valuation techniques. The adoption of this standard did not have any significant impact on the accompanying financial statements or disclosures.

Accounting Pronouncement Not Yet Effective

In February 2016, FASB issued ASU 2016-02, *Leases*. This accounting standard requires organizations that lease assets to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its statement of financial position. This accounting standard will also require additional disclosures about the amount, timing and uncertainty of cash flows arising from leases. This accounting standard is effective for the Organization as of fiscal year 2023. Management is currently evaluating the impact of adopting this accounting standard.

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, 2022 and 2021, available to meet general expenditures within one year of the consolidated statement of financial position date.

	2022	2021
Financial Assets at Year-End:		
Cash and Cash Equivalents	$ 2,027,404	$ 1,186,720
Grants Receivable	387,131	367,288
Pledges Receivable	1,627,820	3,083,353
Other Receivables	419,280	374,688
Investments in Securities	13,849,178	12,074,270
Nonforgiveable Mortgage Notes Receivable	18,039,914	16,929,221
Total Financial Assets	36,350,727	34,015,540
Less: Those Unavailable for General Expenditures Within One Year, Due to Maturities Greater than One Year:		
Pledges Receivable	(1,000,000)	(2,525,000)
Nonforgiveable Mortgage Notes Receivable	(15,910,189)	(14,890,487)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	$ 19,440,538	$ 16,600,053

At June 30, 2022 and 2021, $5,786,726 and $5,988,867, 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 PLEDGES RECEIVABLE

Contribution receivables include pledges that have been discounted at 0.0% during June 30, 2022 and 2021, respectively. The following is a summary of the Organization's pledges receivable at June 30:

	2022	2021
Total Amounts Due in:		
One Year	$ 627,820	$ 558,750
Two to Five Years	1,000,000	2,525,000
Gross Pledges Receivable	1,627,820	3,083,750
Less Allowance for Doubtful Accounts	-	-
Less Discount to Present Value	-	(397)
Pledges Receivable, Net	$ 1,627,820	$ 3,083,353

NOTE 3 PLEDGE RECEIVABLES (CONTINUED)

One donor made up 92% and 97% of the pledge receivable balance at June 30, 2022 and 2021, respectively. The long-term portion of pledge receivables have not been discounted due to its immateriality to the consolidated financial statements as a whole.

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, 2022 and 2021 consisted of the following:

	2022	2021
Donated Goods	$ 397,234	$ 384,025
Purchased Goods	985,274	681,724
Total Inventory - Habitat ReStore	$ 1,382,508	$ 1,065,749

NOTE 5 DEFERRED GIFTS RECEIVABLE

At June 30, 2022 and 2021, the Organization had amounts due from estates and trusts totaling $121,910 and $141,021, respectively.

NOTE 6 INVESTMENTS IN SECURITIES

The estimated market value of investments at June 30, 2022 and 2021 is as follows:

	2022	2021
Cash	$ 3,809,797	$ 3,408,213
Mutual Funds	465,416	470,162
Government Money Fund	3,152,806	1,805,940
Bond ETF Fund	5,842,962	2,051,027
Equities	551,352	-
Pooled Investments	26,845	4,338,928
Total	$ 13,849,178	$ 12,074,270

NOTE 7 HOMES UNDER CONSTRUCTION

Homes currently under construction consist of:

	2022	2021
Homes Under Construction	$ 4,007,946	$ 2,478,533
Less: Loss on Impairment	(39,820)	(39,820)
Homes Under Construction, Net	$ 3,968,126	$ 2,438,713

NOTE 8 LAND HELD FOR DEVELOPMENT

Land held for development consists of:

	2022	2021
Land Held for Development	$ 3,842,566	$ 1,818,897

Land held for development includes 24 and 25 lots in Arizona City, Glendale, Peoria, Phoenix, Surprise and Tempe, at June 30, 2022 and 2021, respectively.

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 PROPERTY AND EQUIPMENT

Property and equipment consists of:

	2022	2021
Buildings and Improvements	$ 5,262,163	$ 5,290,560
Furniture and Equipment	773,727	798,740
Vehicles	458,172	469,449
Total	6,494,062	6,558,749
Less Accumulated Depreciation	(1,977,812)	(1,856,623)
Property and Equipment, Net	$ 4,516,250	$ 4,702,126

Depreciation expense charged to operations was $348,431 and $307,552 as of June 30, 2022 and 2021, respectively.

NOTE 10 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, 2022 and 2021, the nonforgivable mortgage notes receivable balances are as follows:

	2022	2021
Face Value	$ 34,273,536	$ 31,713,647
Less Unamortized Discount	(16,233,622)	(14,784,426)
Net Present Value	$ 18,039,914	$ 16,929,221

Annual collection of the nonforgivable mortgage notes receivable net of the unamortized discount at June 30, 2022 are due as follows:

Year Ending June 30,	Amount
2023	$ 2,129,725
2024	2,110,213
2025	2,066,626
2026	1,983,835
2027	1,913,044
Thereafter	24,070,093
Total	$ 34,273,536

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	$ 33,825,632
Nonperforming	447,904
Total	$ 34,273,536

NOTE 10 NONFORGIVABLE MORTGAGE NOTES RECEIVABLE (CONTINUED)

The following table shows an aging analysis of nonforgivable mortgage notes receivable by time past due at June 30, 2022 and 2021:

	2022			
	Current	30-89 Days Past Due	90 Days or More Past Due	Total
Nonforgivable Mortgage Notes Receivable	$ 33,051,639	$ 773,993	$ 447,904	$ 34,273,536

	2021			
	Current	30-89 Days Past Due	90 Days or More Past Due	Total
Nonforgivable Mortgage Notes Receivable	$ 29,606,851	$ 1,276,632	$ 830,164	$ 31,713,647

NOTE 11 TRANSFERRED MORTGAGES RECEIVABLE

For mortgages receivable that were transferred to a bank as of the years ended June 30, 2022 and 2021 (Note 1), the mortgage balances are as follows:

	2022	2021
Face Value	$ 1,568,028	$ 1,913,716
Less Unamortized Discount	(322,545)	(423,867)
Net Present Value	$ 1,245,483	$ 1,489,849

Annual collection of the transferred mortgage notes receivable net of the unamortized discount at June 30, 2022 are due as follows:

Year Ending June 30,	Amount
2023	$ 199,082
2024	199,082
2025	191,243
2026	156,910
2027	125,395
Thereafter	696,316
Total	$ 1,568,028

NOTE 11 TRANSFERRED MORTGAGES RECEIVABLE (CONTINUED)

The following table shows an aging analysis of first mortgages receivable by time past due at June 30, 2022 and 2021:

	2022			
	Current	30-89 Days Past Due	90 Days or More Past Due	Total
Transferred Mortgages Receivable	$ 1,512,105	$ 55,923	$ -	$ 1,568,028

	2021			
	Current	30-89 Days Past Due	90 Days or More Past Due	Total
Transferred Mortgages Receivable	$ 1,854,301	$ 59,415	$ -	$ 1,913,716

NOTE 12 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 13 for the terms and outstanding balance of the note payable. 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.

On October 29, 2020, HFHCA Funding Company, LLC acquired, under purchase agreement from the Organization, 31 mortgages receivable with principal balances totaling $3,019,052. 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 13 for the terms and outstanding balance of the note payable. 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.

On May 13, 2021, HFHCA Funding Company, LLC acquired, under purchase agreement from the Organization, 14 mortgages receivable with principal balances totaling $1,176,169. 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 Foothills Bank for the securitized note. See Note 13 for the terms and outstanding balance of the note payable. 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.

NOTE 12 MORTGAGE RECEIVABLE HELD AS COLLATERALIZATION (CONTINUED)

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.

NOTE 13 NOTES PAYABLE

Notes payable consists of:

Description	2022	2021
Notes Payable to Banks and Financial Institutions		
On May 9, 2019, HFHCA Funding Company, LLC established a secured promissory note due to Northern Trust in the principal 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 12.	$ 4,040,959	$ 4,475,473
On January 15, 2020, 2830 West Glendale Avenue, LLC established a secured promissory note due to FirstBank in the principal 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%. The note was paid in full during fiscal year 2022.	-	1,209,444
On October 29, 2020, HFHCA Funding Company, LLC established a secured promissory note due to Northern Trust in the principal amount of $3,019,052. The note is noninterest bearing until maturity at February 1, 2049. Monthly principal payments began November 2020 in the amount of $14,547. The note is collateralized by mortgages as described in Note 12.	2,728,114	2,902,677
On May 13, 2021, HFHCA Funding Company, LLC established a secured promissory note due to Foothills Bank in the principal amount of $1,176,169. The note is noninterest bearing until maturity at January 20, 2044. Monthly principal payments begin July 2021 in the amount of $6,369. The note is collateralized by mortgages as described in Note 12.	1,099,736	1,176,169

NOTE 13 NOTES PAYABLE (CONTINUED)

Description	2022	2021
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.	$ 291,499	$ 303,179
Total	8,160,308	10,066,942
Less: Discount on Noninterest Bearing Notes	(2,485,458)	(2,734,167)
Less: Unamortized Debt Issuance Costs	(154,039)	(163,399)
Total Notes Payable	$ 5,520,811	$ 7,169,376

Annual maturities of the notes payable outstanding at June 30, 2022 are as follows:

Year Ending June 30,	Amount
2023	$ 774,678
2024	483,179
2025	483,127
2026	474,181
2027	473,646
Thereafter	5,471,497
Total	$ 8,160,308

NOTE 14 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, 2022 and 2021, contributions and stewardship fees to Habitat for Humanity International were $291,090 and $176,632, respectively.

As of June 30, 20222 and 2021, the amount due to Habitat for Humanity International was $139,379 and $5,387, respectively.

NOTE 15 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, 2022 are as follows:

Year Ending June 30,	Amount
2023	$ 590,016
2024	367,649
2025	294,790
2026	185,936
2027	189,655
Thereafter	79,674
Total Minimum Lease Payments	$ 1,707,720

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 $1,172,893 and $1,448,342 for the years ended June 30, 2022 and 2021, respectively.

NOTE 16 NET ASSETS

Net Assets With Donor Restrictions

Net assets with donor restriction are available for the following purposes or periods at June 30, 2022 and 2021:

	2022	2021
Subject to Expenditure for Specified Purpose:		
Home Construction and Repairs	$ 5,786,725	$ 5,988,867
Endowments:		
Assets Held Under Split Interest Agreements Restricted to Endowment	121,910	141,021
Total Donor Restricted Net Assets	$ 5,908,635	$ 6,129,888

NOTE 17 CONTRIBUTED NONFINANCIAL ASSETS

For the years ended June 30, 2022 and 2021, contributed nonfinancial assets recognized within the consolidated statement of activities included:

Type	2022	2021
Clothing and Household Goods (ReStore)	$ 2,953,908	$ 3,192,823
Real estate - Rent	189,850	325,458
Other: Special Events	47,044	-
Other: Building Materials	354,305	63,893
Other: Gift Cards	788	-
Other: Legal Services	68,460	75,584
Other: Professional Services	12,000	-
Total Contributed Nonfinancial Assets	$ 3,626,355	$ 3,657,758

Donated clothing and household goods (ReStore) received by the Organization is sold in the ReStore stores in Greater Phoenix. The Organization estimates the value of donated clothing and household goods using the sale price of the goods.

Donated rent recognized by the Organization comprise a warehouse rented at no cost during the year ended June 30, 2022. Monthly donated rent fees were recorded at fair value based on the current rates of similar warehouses in the area.

Donated special event revenue recognized comprise donated items or services donated to the Organization to be sold during the live auction of the special event. Donated goods and services were valued and reported at the estimated fair value based on the current rates for similar goods and services.

Donated building materials received by the Organization are used to repair or build homes. The Organization estimates the value of donated building materials using purchase price of similar materials.

Donated services recognized comprise professional consulting services provided to the Organization. Donated services were valued and reported at the estimated fair value based on current rates for similar consulting services.

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 $159,468 and $141,324 for the years ended June 30, 2022 and 2021, 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, 2022 and 2021.

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, 2022 and 2021:

	2022			
	Level 1	Level 2	Level 3	Total
Assets:				
Deferred Gifts Receivable	$ -	$ -	$ 121,910	$ 121,910
Mutual Funds	465,416	-	-	465,416
Government Money Fund	3,152,806	-	-	3,152,806
Bond ETF Fund	5,842,962	-	-	5,842,962
Equities	551,352	-	-	551,352
Pooled Investments	-	-	26,845	26,845
Total	$ 10,012,536	$ -	$ 148,755	$ 10,161,291

	2021			
	Level 1	Level 2	Level 3	Total
Assets:				
Deferred Gifts Receivable	$ -	$ -	$ 141,021	$ 141,021
Mutual Funds	470,162	-	-	470,162
Government Money Fund	1,805,940	-	-	1,805,940
Bond ETF Fund	2,051,027	-	-	2,051,027
Pooled Investments	-	-	4,338,928	4,338,928
Total	$ 4,327,129	$ -	$ 4,479,949	$ 8,807,078

Level 3 Assets

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, 2022 and 2021:

	Deferred Gifts Receivable		Pooled Investments	
	2022	2021	2022	2021
Proceeds from Deferred Gifts	$ (5,187)	$ (8,967)	$ -	$ -
Purchases of Pooled Investments	-	-	-	271,339
Transfer Out	-	-	(4,244,610)	-
Change in Value	(13,924)	30,726	(67,473)	377,632
	$ (19,111)	$ 21,759	$ (4,312,083)	$ 648,971

NOTE 19 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table describes the valuation techniques used to calculate fair value for assets in Level 3. There were no changes in valuation techniques and related inputs from the prior year.

	Fair Value at June 30, 2022	Fair Value at June 30, 2021	Principal Valuation Technique	Unobservable Inputs
Deferred Gifts Receivable	$ 121,910	$ 141,021	Percentage Ownership	Value of Underlying Assets
Pooled Investments	26,845	4,338,928	Percentage Ownership	Value of Underlying Assets

NOTE 20 COMMITMENTS AND CONTINGENCIES

The Organization has a $1.5 million dollar revolving line of credit available to be drawn upon. The line is secured by certain real property of the Organization and bears interest at prime (4.75% at June 30, 2022). The line expires on January 1, 2024. There were no outstanding draws on the line as of June 30, 2022 and 2021.

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 2022 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 SUBSEQUENT EVENTS

On August 18,2022, Habitat entered into a loan sale agreement with FineMark National Bank and Trust for $1,794,577. The agreement resulted in the sale of 7 home mortgages which were transferred from Habitat to FineMark.

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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 statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 30, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Habitat for Humanity Central Arizona's internal control over financial reporting (internal control) as a basis for designing 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 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 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. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2200-001, that we consider to be a significant deficiency.

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Report on Compliance and Other Matters

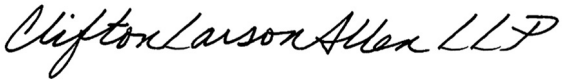
As part of obtaining reasonable assurance about whether Habitat for Humanity Central Arizona's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

Habitat for Humanity Central Arizona's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Habitat for Humanity Central Arizona's response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs. Habitat for Humanity Central Arizona's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Phoenix, Arizona
November 30, 2022

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE, AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Habitat for Humanity Central Arizona
Peoria, Arizona

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Habitat for Humanity Central Arizona's compliance with the types of compliance requirements identified as subject to audit 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, 2022. 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.

In our opinion, Habitat for Humanity Central Arizona complied, in all material respects, with the 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, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Habitat for Humanity Central Arizona and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Habitat for Humanity Central Arizona's compliance with the compliance requirements referred to above.

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Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Habitat for Humanity Central Arizona's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Habitat for Humanity Central Arizona's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Habitat for Humanity Central Arizona's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Habitat for Humanity Central Arizona's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of Habitat for Humanity Central Arizona's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Habitat for Humanity Central Arizona's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
November 30, 2022

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
Habitat for Humanity Central Arizona
Tempe, Arizona

We have audited the consolidated financial statements of Habitat for Humanity Central Arizona as of and for the years ended June 30, 2022 and 2021, and have issued our report thereon dated November 30, 2022, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

CliftonLarsonAllen LLP

Phoenix, Arizona
November 30, 2022

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HABITAT FOR HUMANITY CENTRAL ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2022

Federal Grantor/Program/Pass-Through Agency/Contract	Federal Assistance Listing 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, and Rehabilitation		ACON01820, ACON36320, ACON01720, ACON36420	$ 221,110
Emergency Home Repair Services		ACON13719, ACON13719B	271,089
Pass through City of Glendale:			
Emergency Home Repair Services		C20-0509, C21-0157	502,934
Pass through City of Phoenix:			
Owner-Occupied Home Rehabilitation		152766--0	115,268
Total Community Development Block Grant			1,110,401
HOME Investment Partnerships Program:	14.239		
Pass through City of Peoria:			
Renovation, Resale, and Homebuyer Assistance		ACON 06719, ACON 00921	161,755
Pass through City of Glendale:			
New Construction, Renovation, & Homebuyer Assistance		C19-0672	73,320
Total HOME Investment Partnerships Program			235,075
Total U.S. Department of Housing and Urban Development			1,345,476
Total Expenditures of Federal Awards			$ 1,345,476

See accompanying Notes to Schedule of Expenditures of Federal Awards.

HABITAT FOR HUMANITY CENTRAL ARIZONA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2022

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, 2022. 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 FEDERAL ASSISTANCE LISTING NUMBERS

The program titles and federal assistance listing numbers were obtained from the *2022 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 minims indirect cost rate as allowed under the Uniform Guidance.

NOTE 4 SUBRECIPIENTS

There were no subrecipient payments during the year ended June 30, 2022.

HABITAT FOR HUMANITY CENTRAL ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2022

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)?	x	yes	_____	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

Assistance Listing-Number(s)	**Name of Federal Program or Cluster**
14.218	Community Development Block Grant

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

Section II – Financial Statement Findings

2022-001

Type of Finding – Significant Deficiency in Internal Control.

Condition/Context – Revenue and expenditures related to emergency home repairs were not recorded in the proper fiscal year due to a misunderstanding of the grant agreement. $17,500 should have been reported on the schedule of expenditures of federal awards for the year ended June 30, 2021 and an additional $72,676 was omitted from the initial schedule of expenditures of federal awards for the year ended June 30, 2022. The Organization had been recording the reimbursement requests and the revenue once the project was completed, however under accounting principles generally accepted in the United States of America, revenue and expenditures of federal awards should have recorded as the allowable expenses were incurred.

Criteria – When an organization uses federal funds on a reimbursement basis a revenue and receivable should be recorded when an expense occurs even though the reimbursement has not been requested to the agency.

Cause – Clerical oversight.

Effect – The accounts receivable and the revenue were understated at June 30, 2022.

Repeat Finding – No

Questioned Costs – $-0-

Recommendation – We would recommend that management review and revise their procedures to properly record revenue and accounts receivable and to ensure that expenditures are reported in the proper schedule of expenditures of federal awards.

View of Responsible Officials – There is no disagreement with the audit findings.

Section III – Findings and Questioned Costs – Major Federal Programs

None

Corrective Action Plan

Management's Response to Single Audit Finding

Management agrees with the finding and is collaborating with the pass-through grantor as to the appropriate corrective action.

2022-001

Type of Finding – Significant Deficiency in Internal Control.

Condition/Context – Revenue and expenditures related to emergency home repairs were not recorded in the proper fiscal year due to a misunderstanding of the grant agreement. $17,500 should have been reported on the schedule of expenditures of federal awards for the year ended June 30, 2021 and an additional $72,675.92 was omitted from the initial schedule of expenditures of federal awards for the year ended June 30, 2022. The Organization had been recording the reimbursement requests and the revenue once the project was completed, however under accounting principles generally accepted in the United States of America, revenue and expenditures of federal awards should have recorded as the allowable expenses were incurred.

Corrective Action Plan – Management has reviewed and revised procedures to properly recognize revenues and record receivables in the period in which expenditures occur to ensure the schedule of expenditures of federal awards is accurate.

Anticipated Completion Date and Person Responsible – The new process and procedures have been implemented immediately and all expenditures related to this finding have been corrected and recorded as of June 30, 2022, by Julie White, Chief Financial Officer.

HABITAT FOR HUMANITY CENTRAL ARIZONA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2022

None.

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