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Certified Public Accountants
Certified Fraud Examiners
Certified Insolvency & Restructuring Advisors
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HABITAT FOR HUMANITY TUCSON, INC.

AUDITED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Habitat for Humanity Tucson, Inc.
Tucson, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of Habitat for Humanity Tucson, Inc. ("the Organization") which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and changes in net assets, cash flows and functional expenses 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.

Auditor's 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditor's judgment, including the assessment of 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 Organization'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 Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity Tucson, Inc. as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 19 to the financial statements, the 2017 and 2016 financial statements have been restated due to a change in the application of accounting principles related to the recording of construction labor costs and donated construction materials. Our opinion is not modified with respect to this matter.

Keegan, Linscott & Kenon, PC

Tucson, Arizona
November 16, 2017

AUDITED FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30,

	2017	2016
Assets		
Current assets		
Cash and cash equivalents (See Note 2)	$ 2,648,096	$ 3,318,332
Grants and contracts receivable	39,275	97,424
Pledges receivable	87,845	112,961
Notes receivable, current	50,000	-
Mortgages receivable net of discount, due within one year (See Note 7)	903,170	882,645
Inventories (See Note 5)	3,055,060	2,585,433
Prepaid expenses and other current assets	83,545	70,908
Total current assets	6,866,991	7,067,703
Property and equipment, net (See Note 6)	3,774,594	3,956,327
Notes receivable	-	50,000
Mortgages receivable net of discount, due after one year (See Note 7)	6,468,467	6,326,691
Land held for investment	146,557	133,315
New markets tax credits joint venture - investments (See Note 8)	2,414,422	2,414,422
New markets tax credits joint venture - intangible assets (See Note 9)	75,424	120,503
Investments - restricted	25,817	23,165
Total assets	$ 19,772,272	$ 20,092,126
Liabilities		
Current liabilities		
Accounts payable	$ 125,489	$ 119,613
Accrued expenses and other current liabilities	352,637	328,756
Agency payable (See Note 7)	6,016	1,629
Deferred revenue	259,421	645,488
Current maturities of long-term debt	98,019	94,279
Total current liabilities	841,582	1,189,765
New markets tax credits joint venture - deferred revenue (See Note 2)	52,973	83,812
Long-term debt (See Note 10)	978,053	1,076,159
New markets tax credits joint venture - notes payable (See Note 11)	3,108,153	3,104,206
Total long-term debt	4,139,179	4,264,177
Total liabilities	4,980,761	5,453,942
Net assets		
Unrestricted net assets	14,303,770	13,976,935
Temporarily restricted net assets	467,741	641,249
Permanently restricted net assets	20,000	20,000
Total net assets	14,791,511	14,638,184
	$ 19,772,272	$ 20,092,126

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Support				
Contributions	$ 864,846	$ 943,056	$ -	$ 1,807,902
Donated property, materials				
and services (See Note 14)	1,804,905	6,411	-	1,811,316
Net sales to homeowners (See Note 7)	687,140	-	-	687,140
Interest income - mortgages	682,715	-	-	682,715
Grant/contract revenues	740,342	-	-	740,342
HabiStore sales (See Note 16)	1,536,534	-	-	1,536,534
Interest and investment income	59,575	2,961	-	62,536
Other income	124,886	-	-	124,886
Net assets released from restrictions	1,125,936	(1,125,936)	-	-
Total revenues and other support	7,626,879	(173,508)	-	7,453,371
Expenses				
Program services - homes	3,910,570	-	-	3,910,570
Program - HabiStore (See Note 16)	2,454,198	-	-	2,454,198
Supporting services				
Management and general	468,181	-	-	468,181
Fundraising	467,095	-	-	467,095
Total expenses	7,300,044	-	-	7,300,044
Change in net assets	326,835	(173,508)	-	153,327
Net assets, beginning of year	13,976,935	641,249	20,000	14,638,184
Net assets, end of year	$ 14,303,770	$ 467,741	$ 20,000	$ 14,791,511

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Support				
Contributions	$ 815,215	$ 730,112	$ -	$ 1,545,327
Donated property, materials and services (See Note 14)	1,713,105	142,600	-	1,855,705
Net sales to homeowners (See Note 7)	779,579	-	-	779,579
Interest income - mortgages	495,137	-	-	495,137
Grant/contract revenues	657,490	-	-	657,490
HabiStore sales (See Note 16)	1,403,966	-	-	1,403,966
Interest and investment income	58,071	(596)	-	57,475
Other income	48,168	-	-	48,168
Net assets released from restrictions	601,623	(601,623)	-	-
Total revenues and other support	6,572,354	270,493	-	6,842,847
Expenses				
Program services - homes	4,078,216	-	-	4,078,216
Program - HabiStore (See Note 16)	2,267,869	-	-	2,267,869
Supporting services				
Management and general	514,971	-	-	514,971
Fundraising	419,355	-	-	419,355
Total expenses	7,280,411	-	-	7,280,411
Change in net assets	(708,057)	270,493	-	(437,564)
Net assets, beginning of year	14,684,992	370,756	20,000	15,075,748
Net assets, end of year	$ 13,976,935	$ 641,249	$ 20,000	$ 14,638,184

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	2017	2016
Cash Flows From Operating Activities		
Change in net assets	$ 153,327	$ (437,564)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
(Gain) loss on valuation of construction land inventory	(16,730)	29,323
Loss (gain) on disposal of fixed assets	641	(13,211)
Loss on disposal of land held for investment	11,625	-
Donated land held for investment	(70,678)	(61,405)
Depreciation	186,467	177,811
New markets tax credits intangible assets amortization	45,079	45,079
New markets tax credits deferred issuance costs amortization	3,947	3,947
Unrealized (gain) loss on restricted investments, net of fees	(2,652)	883
Changes in operating assets and liabilities:		
Grants and contracts receivable	58,149	442,980
Pledges receivable	25,116	27,610
Mortgages receivable	(162,301)	(316,496)
Inventories	(452,897)	(833,695)
Prepaid expenses and other current assets	(12,637)	100,325
Accounts payable	5,876	58,220
Accrued expenses and other current liabilities	23,881	99,493
Agency payable	4,387	4
Deferred revenue	(386,067)	195,488
New markets tax credits joint venture - deferred revenue	(30,839)	(30,838)
Net cash used in operating activities	(616,306)	(512,046)
Cash Flows From Investing Activities		
Acquisition of property and equipment	(5,375)	(251,136)
Insurance proceeds from hail damage	-	36,585
Proceeds from sale of donated land held for investment	45,811	-
Net cash provided by (used in) investing activities	40,436	(214,551)
Cash Flows From Financing Activities		
Principal payments on long-term borrowings	(94,366)	(590,554)
Net cash used in financing activities	(94,366)	(590,554)
Net change in cash and cash equivalents	(670,236)	(1,317,151)
Cash and cash equivalents at beginning of year	3,318,332	4,635,483
Cash and cash equivalents at end of year	$ 2,648,096	$ 3,318,332
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	$ 69,380	$ 79,190
Supplemental Disclosure of Non-cash Information		
Donated land held for investment	$ 70,678	$ 61,405

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	Program Services - Homes	Program - HabiStore	Management and General	Fundraising	Total
Expenses					
Salaries, taxes & benefits	$ 824,076	$ 624,700	$ 294,098	$ 323,184	$ 2,066,058
Construction costs	2,390,549	-	-	-	2,390,549
Land development costs	8,036	-	-	-	8,036
HabiStore cost of goods sold	-	1,505,622	-	-	1,505,622
Habitat International tithe	120,000	-	-	-	120,000
Professional fees	63,614	11,017	53,725	4,206	132,562
Advertising and marketing	51,800	34,736	254	21,672	108,462
Office expenses	65,764	47,006	26,210	21,453	160,433
Information technology	31,019	9,614	4,945	9,338	54,916
Occupancy	37,525	46,590	12,225	4,851	101,191
Travel, conferences, conventions, and meetings	21,696	1,274	18,625	15,570	57,165
Insurance	67,599	41,729	12,724	4,023	126,075
Donor and volunteer cultivation	12,640	2,980	4,293	44,278	64,191
Equipment rent, repair, and maintenance	11,571	4,095	3,166	598	19,430
Vehicle expenses	19,290	30,023	5,032	82	54,427
Miscellaneous expenses	21,864	166	57	3,969	26,056
Total expenses before interest, depreciation, and amortization	3,747,043	2,359,552	435,354	453,224	6,995,173
					-
Interest	36,248	37,077	-	-	73,325
Depreciation and amortization	127,279	57,569	32,827	13,871	231,546
Total expenses	$ 3,910,570	$ 2,454,198	$ 468,181	$ 467,095	$ 7,300,044

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	Program Services - Homes	Program - HabiStore	Management and General	Fundraising	Total
Expenses					
Salaries, taxes & benefits	$ 789,629	$ 583,960	$ 350,922	$ 302,643	$ 2,027,154
Construction costs	2,539,896	-	-	-	2,539,896
Land development costs	29,901	-	-	-	29,901
HabiStore cost of goods sold	-	1,377,104	-	-	1,377,104
Habitat International tithe	120,000	-	-	-	120,000
Professional fees	70,313	12,483	59,847	3,308	145,951
Advertising and marketing	56,293	43,732	455	15,635	116,115
Office expenses	69,834	45,408	21,757	34,678	171,677
Information technology	17,197	8,315	2,148	9,010	36,670
Occupancy	34,672	42,242	11,872	4,551	93,337
Travel, conferences, conventions, and meetings	11,409	3,072	14,346	3,193	32,020
Insurance	83,560	25,858	7,184	2,255	118,857
Donor and volunteer cultivation	26,293	3,054	4,019	19,596	52,962
Equipment rent, repair, and maintenance	10,653	8,148	5,245	3,113	27,159
Vehicle expenses	27,800	27,991	4,149	41	59,981
Miscellaneous expenses	22,615	156	7	6,439	29,217
Total expenses before interest, depreciation, and amortization	3,910,065	2,181,523	481,951	404,462	6,978,001
					-
Interest	40,704	38,816	-	-	79,520
Depreciation and amortization	127,447	47,530	33,020	14,893	222,890
Total expenses	$ 4,078,216	$ 2,267,869	$ 514,971	$ 419,355	$ 7,280,411

NOTES TO FINANCIAL STATEMENTS

1. Organization

Habitat for Humanity Tucson, Inc., ("Habitat," or the "Organization") is an independently and locally governed affiliate of Habitat for Humanity International and was incorporated as a tax-exempt not-for-profit organization in the State of Arizona in 1980. Although Habitat International assists with information, resources, training, publications and other support, the Organization is primarily and directly responsible for its own operations. Creating a more compassionate and just world, Habitat for Humanity Tucson brings people together to build homes, communities and hope. Habitat builds market-quality homes utilizing volunteer labor and sells homes to qualified low-income families for minimal cash down with a non-interest bearing mortgage. Habitat requires each of its home buyers to provide 250 "sweat-equity" hours in its home construction program, and/or in some other form of service for the Organization. In addition, each buyer is provided pre-purchase and post-purchase homeowner education and counseling.

Habitat partners with the community and provides home renovation and rehabilitation services, homeowner educational services, neighborhood preservation, volunteer management, and advocacy for affordable housing. Habitat's home renovation and rehabilitation services include providing assistance with roof replacements, updates to mechanical systems, minor repairs, painting and landscaping to qualified families.

In addition to home building activities, Habitat also operates a retail thrift operation (d.b.a. the HabiStore). The HabiStore specializes in selling surplus new and used building and home improvement materials, appliances and furniture to the public. The HabiStore receives donated usable materials from retail businesses, contractors, individuals and other organizations. Costs associated with operation of the HabiStore are expensed in Program-HabiStore in the accompanying statement of activities and changes in net assets. All net proceeds from the operation of the HabiStore help support and enhance Habitat's not-for-profit mission-related activities.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Organization follows accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB sets accounting principles generally accepted in the United States of America ("U.S. GAAP") that the Organization follows to ensure the consistent reporting of its financial condition, changes in net assets and cash flows. References to U.S. GAAP issued by the FASB in the accompanying footnotes are to the FASB Accounting Standards Codification ("ASC").

The Organization's financial statements have been prepared in accordance with standards of accounting and financial reporting under ASC 958, *Not-for-Profit Entities*. Under this authoritative guidance, the Organization is required to provide financial statements which are prepared to focus on the Organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets having similar characteristics have been combined into similar categories.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

- **Unrestricted** – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors. Restricted net assets received and expended in the same year are classified as unrestricted.

- **Temporarily Restricted** – Net assets whose use by the Organization is subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire through the passage of time.

- **Permanently Restricted** – Net assets that are subject to donor-imposed stipulations that assets be maintained permanently by the Organization. The donors of these assets permit the Organization to use all or part of the investment return of these assets for continuing operations which may be subject to certain restrictions.

Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as transfers between the applicable classes of net assets. Gains and losses on investments and other assets and liabilities are reported as increases and decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or law.

Revenue Recognition

- **Contributions** – All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets to a specific time period or a specific purpose. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Revenue is recognized when an unconditional promise to give is received by Habitat. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

- **Sales to Homeowners** – Homes are sold to buyers that meet the Organization's qualification guidelines. The resulting mortgages are non-interest bearing and have been discounted based upon prevailing market rates for low-income housing at the inception of the mortgages. The sales to homeowners in the statement of activities and changes in net assets are presented net of the applicable discount. Habitat recognizes the income from the sales to homeowners on the completed contract method when home closings occur.

- **Grants and Contracts** – The Organization is funded through various grants and cost reimbursement contracts. The Organization accounts for its government funded grants and contracts as exchange transactions. Revenue is recognized as expenditures are incurred in accordance with applicable agreements under cost reimbursement contracts. A receivable is recorded in the amount the Organization expects to collect under the terms of the grant or contract.

- **Deferred Revenue** – Advances in excess of costs incurred are deferred and recognized as revenue when the related expense is incurred.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

- **Donated Property, Materials and Services** – Contributions of donated property, materials and services are recognized in the financial statements at fair value at the date of donation. Donated services are recognized when the services received (a) Create or enhance non-financial assets, or (b) Require specialized skills, are performed by people with those skills, and would otherwise be purchased (See Note 14).

  The Organization utilizes the services of outside volunteers to perform a variety of tasks that assist the Organization. The fair value of these services is not recognized in the accompanying financial statements since they do not meet the criteria for recognition under U.S. GAAP. None of these volunteer hours were recognized as donated services. In 2017 and 2016, Habitat received 74,509 and 55,153 hours, respectively, donated from volunteers assisting the Organization.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in bank accounts and money market accounts with original maturities of three months or less. Cash equivalents are stated at cost plus accrued interest, which approximates fair value and are classified as Level 1 inputs in the fair value hierarchy. The Organization places its cash and cash equivalents with high credit quality institutions. At times, amounts may exceed Federal Deposit Insurance Corporation ("FDIC") limits. At June 30, 2017, and June 30, 2016, the Organization had $1,041,616 and $1,662,786 in excess of FDIC insured limits, respectively. The Organization has not experienced any losses and does not believe it is exposed to any significant credit risk on cash balances. All such cash accounts are monitored by management to mitigate risk.

Cash and cash equivalents also include New Markets Tax Credits ("NMTC") cash in bank accounts as part of the NMTC transactions. The separate cash accounts are necessary to separately track NMTC activity and transactions in order to comply with NMTC regulations. The NMTC cash balance as of June 30, 2017 and 2016 totaled $93,561 and $182,241, respectively.

Grants and Contracts Receivables

Grants and contracts receivables are stated at the amount the Organization expects to collect. Habitat maintains allowances for doubtful accounts for estimated losses resulting from the inability of its grantors and customers to make required payments. Management considers the following factors when determining the collectability of specific grantor accounts: grantor credit-worthiness, past transactions history with the grantor, current economic industry trends, and changes in grantor payment terms. If the financial condition of the Organization's grantors were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

As of June 30, 2017 and 2016, grants and contracts receivables are considered fully collectible by management; therefore, no allowance for doubtful accounts has been provided.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Pledges Receivable
The Organization accounts for contributions to be made in future years as unconditional promises to give in the year the pledge is made. Contributions to be received after one year are presented at their discounted present value at a risk-adjusted rate. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions. As of June 30, 2017 and 2016, pledges receivable are considered fully collectible by management; therefore, no allowance for uncollectible amounts has been provided.

Mortgages Receivable
Mortgages receivable consist of non-interest bearing mortgages, which are secured by real estate and payable in monthly installments. The majority of the mortgages have an original maturity of 18-29 years. These mortgages have been discounted at various rates ranging from 6.07% to 9.01% based on the prevailing market rates for low-income housing at the inception of the mortgages. Interest income is recorded using the effective interest method over the lives of the mortgages. Receivables related to the mortgages are considered past-due or delinquent by the Organization when they are 30 days late.

Habitat's estimate for allowance for loan losses is based on historical collection experience and a review of the status of the mortgages receivable. Through its Homeowner Services program, Habitat performs extensive credit and work history evaluations prior to the sale of the home. The Organization maintains a security interest in all the homes they sell and works with delinquent homeowners to identify opportunities for financial budgeting improvement. The Organization has historically experienced great success in educating delinquent homeowners and structuring payment plans to cure delinquencies within a minimal amount of time. For these reasons, management has determined that all mortgage loan receivables are fully collectible as of June 30, 2017 and 2016. Accordingly, no allowance for loan losses is reported as of June 30, 2017 and 2016 in the accompanying financial statements.

Agency Receivable/Payable
Periodically, Habitat sells receivable residential mortgage loans to financial institutions and obtains servicing assets as a result of the sale. Gain or loss on sale of the receivables depends in part on both the previous carrying amount of the financial assets involved in the transfer and the proceeds received. Habitat continues to service the sold mortgage loans and remits related payment collections to the purchasing financial institutions in accordance with sale agreements. Due to the fact that payments are remitted in arrears in accordance with sales contracts, the Organization has reported an agency payable in the accompanying statements of financial position, reflective of the fact that certain collections related to the sold mortgages had not been remitted to the purchasing financial institutions as of June 30, 2017 and 2016.

Inventories
The Organization's inventories include land held for construction, construction-in-progress, and completed homes, and are stated at the lower of cost (specific identification) or net realizable value. The Organization reviews the carrying value of the land held for construction for possible impairment on an annual basis. Management has determined there was no impairment for the year ended, June 30, 2017 and an impairment for the year ended June 30, 2016 (see Note 5).

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Inventories (continued)
All direct material and equipment costs, construction labor (See Note 19), and allocated overhead costs related to home construction are recorded as construction-in-progress inventory on the statement of financial position as they are incurred. Land costs included in construction-in-progress are stated at the lower of cost or net realizable value. When revenue from the sale of a home is recognized, the corresponding costs are then expensed in the statement of activities and changes in net assets as program services.

The HabiStore receives donations of building supplies, furniture, and appliances, and sells these items to the general public. The value of the donated items is not readily determinable until the merchandise is sold; therefore, donations and cost of sales are recorded after inventory is sold. Purchased inventories are stated at the lower of cost or net realizable value.

Property and Equipment
Property and equipment are stated at cost, if purchased, or fair value, if donated. Depreciation is calculated using the straight-line method over the following estimated useful lives of the assets:

Buildings	39 years
Building improvements	7-39 years
Vehicles	3-5 years
Office and construction equipment and furniture	3-15 years

The Organization's policy is to capitalize expenditures for property and equipment and donated property and equipment received that exceed $5,000 and have a useful life greater than one year. When items are retired or disposed, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the statement of activities and changes in net assets. Repairs or betterments in excess of $5,000 that materially prolong the useful life of assets are capitalized. Repairs and maintenance for normal upkeep are expensed as incurred.

In accordance with ASC 360-10, *Property, Plant and Equipment*, the Organization periodically reviews the carrying value of long-lived assets held and used, and assets to be disposed, for possible impairment when events and circumstances warrant such a review. Through June 30, 2017, the Organization had not experienced impairment losses on its long-lived assets.

Land Held for Investment
Land held for investment represents donated or purchased properties that are currently unavailable for the construction of homes. Land held for investment is reported at the lower of cost or fair value, and is initially measured at acquisition cost (including brokerage and other transaction fees) if purchased or at fair value if received as a contribution or through an agency transaction.

The Organization reviews the carrying value of the land held for investment for possible impairment on an annual basis. Management has determined that there was no impairment for the year ended June 30, 2017.

New Markets Tax Credits Joint Venture - Investments
The investment in the NMTC joint ventures are accounted for using the cost method and distributions received from the joint venture are recorded as investment income in the statements of activities and changes in net assets. Habitat received distributions of $24,099 for the years ended June 30, 2017 and 2016.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

New Markets Tax Credits Joint Venture - Deferred Revenue
The Organization recognizes deferred revenue associated with the NMTC transactions as revenue over the 7 year NMTC term. The NMTC deferred revenue as of June 30, 2017 and 2016 totaled $52,973 and $83,812 respectively. Fee revenue recognized for the years ended June 30, 2017 and 2016 totaled $30,839 and is included in interest and investment income in the statements of activities and changes in net assets.

Debt Issuance Costs
The Organization incurred $63,148 in closing costs related to the NMTC notes payable (See Note 11), to be amortized to interest expense over the 16-year loan term. As of June 30, 2017 and 2016, debt issuance costs are presented net of accumulated amortization of $41,859 and $45,805, respectively, as a direct deduction from the face amount of the related debt on the accompanying statements of financial position. The Organization amortized $3,947 to interest expense for both the years ended June 30, 2017 and 2016.

Fair Value Measurements
The Organization utilizes the fair value hierarchy required by ASC 820 which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1: Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.

Level 2: Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The restricted investments held at the Community Foundation for Southern Arizona are classified within Level 3 of the fair value hierarchy due to the lack of a market in which the Organization's units of participation in the Foundation's endowment pool could be bought or sold. The Organization measures the fair value of its restricted investments using the fair value of the underlying assets (net asset value).

A total realized/unrealized gain of $2,652 and a total realized/unrealized loss of $883 were recognized related to the restricted investments during 2017 and 2016, respectively. The ending balance of the restricted investments was $25,817 and $23,165 as of June 30, 2017 and 2016, respectively.

Endowment Funds
The Organization's endowment was established to support, further and enhance the mission of Habitat. This agency advised endowment is held and managed at the Community Foundation for Southern Arizona (the "Foundation").

The Organization has interpreted the "Management of Charitable Funds Act" (Arizona's version of the Uniform Prudent Management of Institutional Funds Act or UPMIFA) as requiring the preservation of the fair value of the original gift. As a result of this interpretation, the Organization classifies as permanently restricted net

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Endowment Funds (continued)
assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) if applicable, accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the law. The Organization has interpreted the Management of Charitable Funds Act to permit spending from underwater funds in accordance with the prudent measures required under the law.

The Organization is subject to the Foundation's investment and spending policies for endowment assets. These policies attempt to provide a predictable stream of funding to programs supported by the endowment funds while seeking to maintain the purchasing power of the endowment assets. The endowment assets are invested in a balanced portfolio comprised of fixed income securities and equities.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or current law requires the Organization to retain for a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of June 30, 2017 and 2016.

Income Taxes
The Organization is exempt from federal income tax under Section 501(c)(3), as confirmed by a determination letter issued by the Internal Revenue Service and is classified as other than a private foundation under IRC Section 509(a)(1). Management is not aware of any matters which would cause the Organization to lose its tax-exempt status.

Management has considered its tax positions and believes that all of the positions taken in its federal and state tax exempt organization tax returns are more likely than not to be sustained upon examination. The Organization's returns are subject to examination by federal and state taxing authorities, generally for three years and four years respectively, after they are filed.

The Organization recognizes interest and penalties related to unrecognized tax benefits as accrued expenses in its accompanying financial statements. During the years ended June 30, 2017 and 2016, the Organization did not recognize any interest and penalties.

Advertising and Marketing Costs
Habitat expenses advertising and marketing costs as they are incurred.

Allocation of Common Expenses
Certain direct, indirect and administrative expenses are incurred which benefit more than one program or grant. The Organization allocates these expenses accordingly using time charged by employees, square footage and various other methods.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Defined Contribution Plan
The Organization has a 401(k) defined contribution plan (the "Plan") to provide retirement and incidental benefits for its employees. Under the Plan, all full-time employees are permitted to make contributions to the Plan. The Organization makes discretionary matching contributions to the Plan that meet safe-harbor requirements as described by the Plan document. The Organization matches 3% of the employee's compensation for the Plan year, plus 50% of each eligible employee's contributions that exceed 3% of compensation for the Plan year, not to exceed 5% of the employee's compensation for the Plan year. Elective deferrals are vested upon entering the plan and employer contributions are 100% vested after three years of service. For the years ended June 30, 2017 and 2016, matching contributions totaled $33,539 and $30,343, respectively.

Use of Estimates
The preparation of financial statements in conformity with U.S. GAAP 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates made by management include the allowance for loan losses, valuation of donated services and goods, and valuations of inventory and land held for investment.

Reclassifications
Certain amounts in the prior year's financial statements have been reclassified to conform to the current year presentation, with no effect on net assets.

3. Recent Accounting Standards

Recently Adopted Accounting Pronouncements
In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. ASU 2014-15 explicitly requires management to evaluate, at each annual or interim reporting period, whether there are conditions or events that exist which raise substantial doubt about an entity's ability to continue as a going concern and to provide related disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and annual and interim periods thereafter, with early adoption permitted. The adoption of ASU 2014-15 did not have an effect on the Organization's financial statements or disclosures.

In April 2015, the FASB issued ASU 2015-03, *Interest— Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This ASU is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted, and retrospective application is required. The adoption of this ASU as described above primarily impacted the presentation of the Organization's debt issuance costs on the accompanying statements of financial position.

NOTES TO FINANCIAL STATEMENTS

Recent Accounting Standards (continued)

Recently Adopted Accounting Pronouncements (continued)
In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory* ("ASU 2015-11"). Topic 330, *Inventory*, currently requires an entity to measure inventory at the lower of cost or market. Market could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. ASU 2015-11does not apply to inventory that is measured using last-in, first-out ("LIFO") or the retail inventory method. ASU 2015-11 does apply to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost. An entity should measure in scope inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. ASU 2015-11 should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Organization early adopted this ASU for the fiscal year ending June 30, 2016. The adoption of ASU 2015-11 did not have a material effect on the Organization's financial statements.

Not Adopted as of June 30, 2017
In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606): An Amendment of the FASB Accounting Standards Codification*. The amendments in this ASU affect any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, and most industry-specific guidance, and creates a Topic 606 *Revenue from Contracts with Customers*. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either the full retrospective or retrospective with cumulative effect transition method.

In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. Early adoption is permitted with certain restrictions. The Organization has not yet selected a transition method and is currently evaluating the effect this standard will have on the financial statements.

In March 2016, the FASB has issued ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*. The amendments relate to when another party, along with the entity, is involved in providing a good or service to a customer. Topic 606 *Revenue from Contracts with Customers* requires an entity to determine whether the nature of its promise is to provide that good or service to the customer (i.e., the entity is a principal) or to arrange for the good or service to be provided to the customer by the other party (i.e., the entity is an agent). The amendments amend certain existing illustrative examples and add additional illustrative examples to assist in the application of the guidance. The effective date and transition of these amendments is the same as the effective date and transition of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*.

NOTES TO FINANCIAL STATEMENTS

Recent Accounting Standards (continued)

Not Adopted as of June 30, 2017 (continued)
In April 2016, the FASB has issued Accounting Standards Update No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*. The amendments clarify the following two aspects of Topic 606: (a) identifying performance obligations; and (b) the licensing implementation guidance. The amendments do not change the core principle of the guidance in Topic 606. The effective date and transition of these amendments is the same as the effective date and transition of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*.

In May and December 2016, the FASB issued Accounting Standards Updates No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients* and No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*. The amendments do not change the core revenue recognition principle in Topic 606. The amendments provide clarifying guidance in certain narrow areas and add some practical expedients. The effective dates and transition of these amendments is the same as the effective date and transition of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Organization is currently evaluating the effect this standard will have on the financial statements and disclosures.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in ASU 2016-14 change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: Net Asset Classes; Investment Return; Expenses; Liquidity and Availability of Resources; and Presentation of Operating Cash Flows. ASU 2016-14 is effective for not-for-profit organizations for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application. Early application of the amendments is permitted. The Organization is currently evaluating the effect that implementation of the new standard will have on its financial statements and disclosures.

In November 2016, the FASB issued ASU No. 2016-18*, Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments apply to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows. The amendments address diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. The amendments

NOTES TO FINANCIAL STATEMENTS

Recent Accounting Standards (continued)

Not Adopted as of June 30, 2017 (continued)
require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments do not provide a definition of restricted cash or restricted cash equivalents. The amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The amendments should be applied using a retrospective transition method to each period presented. The Organization is currently evaluating the effect that implementation of the new standard will have on its financial statements and disclosures.

4. Notes Receivable

In December 2013, the Organization advanced funds to assist an Arizona non-profit entity, the Nonprofit Loan Fund of Tucson and Southern Arizona. Under this agreement, monthly interest-only installments at 2.0% per annum are due with all outstanding principal and any unpaid interest due in January 2016. This note was renewed for an additional two-year period. Under this new agreement, interest-only installments at 2.0% per annum are due quarterly with all outstanding principal and any unpaid interest due January 2018. As of June 30, 2017, and 2016 the carrying amount of the note totaled $50,000.

5. Inventories

Inventories consist of the following as of June 30

	2017	2016
Land held for construction	$ 1,261,711	$ 1,173,439
Construction-in-progress	1,287,371	137,932
Supplies and materials	12,121	130,933
Completed homes inventory	488,667	1,132,843
HabiStore inventory	5,190	10,286
	$ 3,055,060	$ 2,585,433

Due to the changing conditions in the real estate market, management conducted a review of its land held for construction inventory. As a result, inventory gains of $16,730 and losses of $29,323 were charged to Program services-homes in 2017 and 2016, respectively.

NOTES TO FINANCIAL STATEMENTS

6. Property and Equipment

Property and equipment consist of the following as of June 30:

	2017	2016
Land	$ 546,944	$ 546,944
Buildings	1,405,635	1,405,635
Building improvements	2,289,766	2,289,766
Vehicles	165,956	166,080
Office and construction equipment and furniture	349,696	349,696
	4,757,997	4,758,121
Less accumulated depreciation	(983,403)	(801,794)
	$ 3,774,594	$ 3,956,327

7. Mortgages Receivable

Habitat directly finances all of the homes that it sells. Each mortgage is issued as a zero-interest mortgage to the buyer. During fiscal years 2017 and 2016, eleven (11) and fourteen (14) homes, respectively, were sold to qualifying applicants. The resulting mortgages are non-interest bearing and the presentation of their book value has been discounted based upon the prevailing market rates for low-income housing at the inception of the mortgages (fiscal year 2017 and 2016 discount rates were 7.47% and 7.48%, respectively). Sales to homeowners for the years ended June 30 are as follows:

	2017	2016
Gross sales to homeowners	$ 1,329,000	$ 1,557,646
Less discount on sales to homeowners	(641,860)	(778,067)
Net sales to homeowners	$ 687,140	$ 779,579

Habitat discounts the mortgages using the prevailing market rates for low-income housing at the time the home is sold. The discount is amortized using the effective interest method. Mortgages receivable as of June 30 are as follows:

	2017	2016
Mortgages receivable at face value	$ 12,498,476	$ 12,346,038
Less unamortized discounts on mortgages	(5,126,839)	(5,136,702)
Total mortgages (both current and due after one year)	$ 7,371,637	$ 7,209,336

NOTES TO FINANCIAL STATEMENTS

Mortgages Receivable (continued)

Future collections on these mortgages will be received over the next five years and thereafter as follows:

2018	$	903,170
2019		886,558
2020		869,412
2021		863,752
2022		848,789
Thereafter		8,126,795
Total	$	12,498,476

At times, Habitat will identify high performing mortgages receivable for sale to financial institutions. No such sales occurred during 2017 or 2016. To date, Habitat has executed the sale of seventy-eight (78) mortgages receivable.

Habitat continues to service the sold mortgages receivable by collecting payments from homeowners on behalf of the purchasing financial institutions. Homeowner payments are remitted by Habitat to the purchasing financial institutions in arrears. Accordingly, the Organization has reported an agency payable liability in the amount of $6,016 and $1,629 in the accompanying financial statements reflective of the homeowner payments held by Habitat as of June 30, 2017 and 2016, respectively, which must be subsequently remitted to the purchasing financial institutions.

In accordance with ASC 860, *Transfers and Servicing*, the transfers of mortgages receivable by Habitat to purchasing financial institutions are accounted for as sales and result in the related receivables being excluded from the mortgages receivable balance on the statement of financial position. The agreements underlying sales of receivables contain provisions that indicate that Habitat is responsible for homeowner payment defaults on sold receivables, and in the event a loan is delinquent by ninety (90) days or more, Habitat shall use its best efforts to replace the non-performing loan with a substitute loan of substantially equal principal balance and a maturity date not longer than the non-performing loan, or re-purchase the loan. There were no non-performing loans re-purchased during 2017.

Habitat management does not believe that the servicing asset resulting from the sale of mortgages has any significant value. Accordingly, no servicing assets have been recognized in the accompanying financial statements as of June 30, 2017 and 2016.

8. New Markets Tax Credits Joint Venture - Investments

The Organization entered into NMTC transactions involving U.S. Bancorp Community Development Corporation ("USBCDC"), its related entities and agents. NMTCs are tax credits created by the federal government in 2000 and renewed each year thereafter to help encourage sustained investment in low-income communities. The purpose is to provide investors with a financial incentive (a tax credit) to invest in projects being built in, or businesses operating in, low-income communities. Investors receive a 39% federal tax credit earned over a 7 year period. The NMTC transactions provide a mechanism for Habitat to receive funding to improve properties or to build homes, build infrastructure or acquire land in low income communities. Habitat receives this funding through qualified low income community investment ("QLICI") loans, as described below and in Note 11. The following is a summary of the NMTC investments.

NOTES TO FINANCIAL STATEMENTS

New Markets Tax Credits Joint Venture – Investments (continued)

Investment in HFHI-SA Leverage IX, LLC ("HFHI-SA IX")
In September 2011, the Organization acquired a 14.44% membership interest in HFHI-SA IX in exchange for a capital contribution of $963,958. The remaining 85.56% of HFHI-SA IX is owned by two other affiliates of Habitat for Humanity International, Inc. HFHI-SA IX was formed to make a loan to the HFHI-SA Investment Fund, LLC ("Fund VI"), which is owned by USBCDC, the federal tax credit investor, to provide financing for USBCDC's equity investment in a community development entity - HFHI-SA NMTC VI, LLC ("sub-CDE1"). Accordingly, HFHI-SA IX entered into a Loan Agreement to lend $6.64 million to Fund VI. Once HFHI-SA IX made the loan, USBCDC invested the tax credit price of $2.46 million into the Fund VI. The Fund VI used the combination of the HFHI-SA IX loan proceeds and the USBCDC investment as its equity investment in the sub-CDE1, which in turn used the proceeds to fund the QLICI loans to the same Habitat affiliates that are members of HFHI-SA IX. The loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low-income residents. (See Note 11).

Simultaneous with these transactions, HFHI-SA IX entered into an Option Agreement with USBCDC, the sole member of the Fund VI, to put the ownership interest in the Fund VI for $1,000 commencing on November 2018 and continuing for 6 months, or call the ownership interest for a 12 month period following expiration of the Put Option at fair value. Exercise of the option will effectively extinguish the Organization's outstanding debt owed to the sub-CDE1. The Organization will recognize income in an amount approximating the difference in the book value of the investment and the debt. The investment and debt will then come off the Organization's books and all entities related to the joint venture including HFHI-SA IX, will then be dissolved effectively ending the structured financing deal.

Investment in CCML Leverage I, LLC ("CCML")
In May 2012, the Organization acquired a 20% membership interest in CCML in exchange for a capital contribution of $1,450,464. The remaining 80% of CCML is owned by four other affiliates of Habitat for Humanity International, Inc. The CCML was formed to make a loan to the CCM CDXVII Investment Fund, LLC ("XVII Fund"), which is owned by USBCDC, the federal tax credit investor, to provide financing for the USBCDC's equity investment in a community development entity – CCM Community Development XVII, LLC ("sub-CDE2"). Accordingly, CCML entered into a Loan Agreement to lend $7.25 million to XVII Fund. Once CCML made the loan, USBCDC invested the tax credit price of $2.89 million into the XVII Fund. The XVII Fund used the combination of the CCML loan proceeds and the USBCDC investment as its equity investment in the sub-CDE2, which in turn used the proceeds to fund the QLICI loans to the same Habitat affiliates that are members of CCML. The loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low-income residents (See Note 11).

Simultaneous with these transactions, CCML entered into an Option Agreement with USBCDC, the sole member of XVII Fund, to put the ownership interest in the XVII Fund for $1,000 commencing on June 2019 and continuing for 6 months, or call the ownership interest for a 12 month period following expiration of the Put Option at fair value. Exercise of the option will effectively extinguish the Organization's outstanding debt owed to sub-CDE2. The Organization will recognize income in an amount approximating the difference in the book value of the investment and the debt. The investment and debt will then come off the Organization's books and all entities related to the joint venture including CCML, will then be dissolved effectively ending the structured financing deal.

NOTES TO FINANCIAL STATEMENTS

9. New Markets Tax Credits Joint Venture – Intangible Assets

The Organization incurred $315,556 in structuring, guarantor and guarantee fees related to the NMTC transactions to be amortized over 7 years, the period to which the guarantee applies. As of June 30, 2017, the balances of the NMTC intangible assets and accumulated amortization are as follows:

	HFHI SA-IX	CCML	Total
Affiliate guaranty fee	$ 60,606	$ 155,261	$ 215,867
Guarantor fee	-	51,810	51,810
CDE structuring fee	47,879	-	47,879
	108,485	207,071	315,556
Less accumulated amortization	(89,758)	(150,374)	(240,132)
	$ 18,727	$ 56,697	$ 75,424

Estimated annual NMTC amortization as of June 30, 2017 are as follows:

2018	$ 45,080
2019	30,344
Total	$ 75,423

10. Long-Term Debt

Long-term debt consists of the following as of June 30:

	2017	2016
In January 2017, the Line of Credit at Northern Trust Bank for $1,500,000 was renewed. Interest is calculated at the LIBOR rate plus 2% secured by Deeds of Trust and beneficial interest in certain mortgage notes receivable. Interest payable in monthly installments. Line of credit matures in January 2018.	$ -	$ -
Habitat for Humanity International (as part of the FlexCap program), note payable. Secured by pledged mortgage loans. The agreement requires that the Organization pledge mortgage loans that have aggregate mortgage payments equal to or greater than 105% of the quarterly payment and have aggregate mortgage values equal to or greater than 125% of outstanding note principal balance. Due in quarterly installments of $16,006 with interest at 3.80% per annum through June 2020. The agreement contains various financial covenants, the most restrictive of which provide for minimum net assets and conditions on the number of pledged mortgage loans assigned. The Organization was in compliance with these debt covenants as of June 30, 2017.	180,723	236,549

NOTES TO FINANCIAL STATEMENTS

Long-Term Debt (continued)

	2017	2016
Northern Trust Bank mortgage loan. Due in monthly principal and interest installments of $6,301 with interest at 4.00% per annum through July 2023 with a final balloon payment for all remaining principal and interest due in August 2023. Secured by a Deed of Trust. The agreement requires a specific debt coverage ratio be maintained as measured at fiscal year-end. The Organization was in compliance with this covenant as of June 30, 2017.	895,349	933,889
	1,076,072	1,170,438
Less current portion of long-term debt	(98,019)	(94,279)
	$ 978,053	$ 1,076,159

The scheduled maturities of debt principal payments are summarized as follows as of June 30, 2017:

2018	$ 98,019
2019	101,908
2020	105,863
2021	45,209
2022	47,077
Thereafter	677,996
Total	$ 1,076,072

11. New Markets Tax Credits Joint Venture – Notes Payable

As a component of the HFHI-SA IX NMTC transaction, Habitat received a QLICI loan of $1,270,012, and entered into a Loan and Security Agreement (the "HFHI Agreement"), dated September 15, 2011, from the CDE1. The Organization is obligated under the HFHI Agreement and related Promissory Note to make semi-annual interest only payments until November 15, 2019 at 0.7556152%. Beginning in year 8 through year 15, the Organization is required to make semi-annual payments of principal and interest (at 0.7556152%) in an amount to fully amortize the loan by its maturity date. The loan matures in July, 2027. The balance of the note payable totaled $1,252,335 (net of unamortized debt issuance costs of $17,677) of as of June 30, 2017 and $1,250,603 (net of unamortized debt issuance costs of $19,409) as of June 30, 2016. The HFHI Agreement requires a specific tangible net worth and debt service coverage ratio be maintained as measured at fiscal year-end. The Organization was in compliance with these debt covenants as of June 30, 2017.

As a component of the CCML NMTC transaction, Habitat received a QLICI loan of $1,880,000 and entered into a Loan and Security Agreement (the "CCML Agreement"), dated May 24, 2012, from the CDE2. The Organization is obligated under the CCML Agreement and related Promissory Note to make semi-annual interest only payments until November 5, 2020 at 0.77161%. Beginning in year 8 through year 15, the Organization is required to make semi-annual payments of principal and interest (at 0.77161%) in an amount to fully amortize the loan by its maturity date. The loan matures in May, 2028. The balance of the note payable totaled $1,855,818 (net of unamortized debt issuance costs of $24,182) as of June 30, 2017 and $1,853,603 (net of unamortized debt issuance costs of $26,397) at June 30, 2016. The CCML Agreement requires a specific tangible net worth and debt service coverage ratio be maintained as measured at fiscal year-end. The Organization was in compliance with these debt covenants as of June 30, 2017.

NOTES TO FINANCIAL STATEMENTS

New Markets Tax Credits Joint Venture – Notes Payable (continued)

As set forth in both the HFHI Agreement and the CCML Agreement, the Organization is required to comply with the NMTC requirements as generally set forth in the Internal Revenue Code ("IRC") Section 45D, including that the Organization maintain a Separate Business (which is aggregated within the Organization's financial statements) such that the Separate Business will qualify as a qualified active low-income community business as defined by IRC Section 45D. Only the Separate Business assets of the Organization were pledged as security under the HFHI Agreement and CCML Agreement.

12. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of June 30:

	2017	2016
Construction and rehabilitation projects	$ 423,568	$ 616,826
Homeowner services and other	44,173	24,423
	$ 467,741	$ 641,249

13. Permanently Restricted Net Assets

Permanently restricted net assets of $20,000 consists of the endowment fund to be held indefinitely. The income derived from the fund is restricted for the purchase of kitchen equipment for Habitat's various home builds. Per the endowment policy, if kitchen equipment is not needed (all kitchen appliances are currently being contributed) then Habitat can use income from the endowment for the Organization's general building efforts.

14. Donated Property, Materials and Services

Donated property, materials and services consisted of the following for the years ended June 30:

	2017	2016
Construction materials and equipment	$ 211,255	$ 281,513
Land and property	70,000	181,501
Other program supplies and services	49,786	41,019
HabiStore items for resale	1,480,275	1,351,672
	$ 1,811,316	$ 1,855,705

NOTES TO FINANCIAL STATEMENTS

15. Advertising and Marketing Costs

The following costs are included in advertising and marketing costs for the years ended June 30:

	2017	2016
Direct advertising and marketing	$ 61,762	$ 73,569
Direct mail campaigns	24,812	14,204
Donated in-kind advertising	20,384	26,192
Newsletters and annual report	1,504	2,150
	$ 108,462	$ 116,115

16. HabiStore Summarized Financial Information

HabiStore operating revenues and expenses consisted of the following for the years ended June 30:

	2017	2016
HabiStore sales	$ 1,536,534	$ 1,403,966
HabiStore donated items for resale	1,480,275	1,351,672
Total HabiStore revenues	3,016,809	2,755,638
HabiStore operating expenses	(2,454,198)	(2,267,869)
HabiStore revenues in excess of expenses	$ 562,611	$ 487,769

17. Commitments and Contingencies

Collection of Second Mortgages

In addition to the non interest bearing mortgage received from the sale of each home, Habitat may issue a contingent second mortgage. The second mortgages issued by Habitat represent the excess of the market value of the home over the original loan at the date the second mortgage is executed. Should the homeowner pay off the primary mortgage early or default on the mortgage, the second mortgage would become due. Due to the recent decline in the real estate market, the second mortgage payoff is considered remote by Habitat and therefore no receivable has been recorded in the current year financial statements. During the years ended June 30, 2017 and 2016, no second mortgages were paid off early.

Contract with the Pascua Yaqui Tribe

In May 2003, Habitat entered into a contract with the Pascua Yaqui tribe to build twenty-two homes for tribal members. Five homes were to be located on the reservation and sold directly to the tribe. Seventeen homes were to be located off of the reservation, and sold directly to Pascua Yaqui homeowners. Half of the principal payments from the mortgages receivable received by Habitat from the Pascua Yaqui homeowners covered under this contract are deposited into an interest-bearing account, held by both Habitat and the Pascua Yaqui tribe. Monies in the account (which totaled $236,649 and $209,236 as of June 30, 2017 and 2016, respectively) are designated for future home building projects with the Pascua Yaqui tribe and are included in cash and cash equivalents in the accompanying statements of financial position.

NOTES TO FINANCIAL STATEMENTS

Commitments and Contingencies (continued)

Contract with the Pascua Yaqui Tribe (continued)
In 2009, Habitat and the Pascua Yaqui tribe agreed to reduce the target number of homes in the agreement to twenty homes. In April 2010, Habitat was notified by leadership of the Pascua Yaqui tribe that sewer connection fees were still owed to Pima County for five homes previously built under the contract with the tribe. The total amount of fees owed for the homes has not been communicated to Habitat by Pima County as of the date of the financial statements. The Organization considers payment of the sewer fees probable, and based upon prior experience Habitat estimates the sewer fees to be $5,000 per home, or $25,000 in the aggregate. Habitat has recorded a liability related to the probable payment of these fees. As of June 30, 2017, there are 17 homes remaining under the agreement.

Neighborhood Stabilization Program 2 ("NSP2") Agreement
On April 1, 2010, Habitat entered into a $1,225,000 NSP2 Consortium Funding Agreement with Pima County for the construction of thirty-five (35) homes in the Corazon del Pueblo subdivision, targeted to low, moderate, or middle household income homebuyers in Tucson, Arizona. The funds originate with the U.S. Department of Housing and Urban Development ("HUD") and are passed through Pima County. On September 1, 2012, an amendment to the Consortium Funding Agreement was executed for the construction of an additional four (4) homes in the Corazon del Pueblo subdivision, and six (6) homes in the Copper Vista I or II subdivisions. On November 1, 2012, an amendment to the Consortium Funding Agreement was executed for the construction of one (1) additional home in the Copper Vista I or II subdivisions. As of June 30, 2014, construction of all forty-six (46) homes was completed and all homes had been sold to qualified low, moderate, or middle household income homebuyers. Under the agreement, revenue directly generated by activities carried out with NSP2 funds is referred to as Program Income. Habitat, under an agreement with Pima County, applies and reports the program income earned under NSP2 to current new home construction.

Credit and Operational Risk
Due to the fact that Habitat's programs are concentrated in Pima County, Arizona, the level of contributions, home sales and collections of mortgages receivable may be affected by changes in economic or other conditions which affect this locale.

In addition to geographic concentration risk, management also notes the following risk factors that may affect the Organization's future ability to carry out its mission, including: the Organization's ongoing dependency on contributions as a significant portion of total operating revenue; the rate at which the Organization collects its long-term mortgages receivable versus the obligations presented by the Organization's short-term liabilities; risk of loss due to loan defaults, the limited marketability of the mortgages receivable for resale; and the risk that an investor may mandate the Organization repurchase or replace a loan sold if the loan becomes delinquent.

Litigation
The Organization is involved in legal proceedings in the normal course of its business operations. The Organization does not believe that any pending or threatened proceeding would have a material adverse effect on its financial position or results of operations.

NOTES TO FINANCIAL STATEMENTS

18. Related Party Transactions

During the year, the Chief Operating Officer of a subcontracting organization that had provided home repair and rehabilitation services for Habitat was also a board and committee member. As of June 30, 2017, this person's tenure as a committee member had expired but they continue to serve on the board.

19. Restatement of Prior Year Information

Habitat elected to change its method of accounting for construction labor to include this cost in construction-in-progress inventory. In prior years, construction labor was expensed as incurred and not considered part of the cost of home construction. Habitat has restated construction-in-progress inventory and cost of homes sold in the amount of $284,312 to reflect the addition of construction labor to construction-in-progress inventory through the year ended June 30, 2016. These amounts were recorded as an increase to construction-in-progress inventory and the change in net assets for the year ended June 30, 2016 and as a restatement of net asset balance as of June 30, 2016.

Habitat has also elected to recognize donated construction materials and supplies when the home is sold, to properly match revenue and expenses. This restatement is reflected in deferred revenue and net asset balance as of June 30, 2016.

The components of the restated June 30, 2016 net asset balance is as follows:

Net assets, as previously stated	$ 14,413,017
Cumulative effect of fiscal year 2015 addition of construction labor added	134,071
Effect of fiscal year 2016 construction labor added	150,241
Effect of fiscal year 2016 construction materials and supplies	(59,145)
Net assets, as restated	$ 14,638,184

20. Subsequent Events

The Organization evaluated subsequent events through November 16, 2017, which represents the date the financial statements were available to be issued. With the exception of the matter discussed below, there were no other material subsequent events that required recognition or additional disclosure in the financial statements.

On July 19, 2017, Habitat entered into a New Market Tax Credit Joint Venture with four other affiliates of Habitat for Humanity International, Inc. The Organization acquired an 11% membership interest in HFHI NMTC leverage lender 2016-01, LLC for a capital contribution of $1,251,772. As a component of the transaction, the Organization received a QLICI loan of $1,850,866. The funds received are to be used to construct and sell qualified housing properties to low-income residents.