Keegan, Linscott & Kenon, PC
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, 2016 AND 2015

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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, 2016 and 2015, 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 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, 2016 and 2015, 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.

Keegan, Linscott & Kenon, PC

Tucson, Arizona
November 10, 2016

AUDITED FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30,

	2016	2015
Assets		
Current assets		
Cash and cash equivalents	$ 3,318,332	$ 4,635,483
Grants and contracts receivable	97,424	540,404
Pledges receivable, current portion	112,961	97,214
Notes receivable, current	-	50,000
Mortgages receivable net of discount, due within one year (See Note 7)	882,645	839,435
Inventories (See Note 5)	2,301,121	1,646,990
Prepaid expenses and other current assets	70,908	171,233
Total current assets	6,783,391	7,980,759
Property and equipment, net (See Note 6)	3,956,327	3,906,376
Pledges receivable	-	43,357
Notes receivable (See Note 4)	50,000	-
Mortgages receivable net of discount, due after one year (See Note 7)	6,326,691	6,053,405
Land held for investment	133,315	71,910
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)	166,309	215,335
Investments - restricted	23,165	24,048
Total assets	$ 19,853,620	$ 20,709,612
Liabilities		
Current liabilities		
Accounts payable	$ 119,613	$ 61,393
Accrued expenses and other current liabilities	328,756	229,263
Agency payable (See Note 7)	1,629	1,625
Deferred revenue	586,343	450,000
Current maturities of long-term debt (See Note 10)	94,279	90,578
Total current liabilities	1,130,620	832,859
New markets tax credits joint venture - deferred revenue	83,812	114,650
Long-term debt (See Note 10)	1,076,159	1,670,414
New markets tax credits joint venture - notes payable (See Note 11)	3,150,012	3,150,012
Total long-term debt	4,309,983	4,935,076
Total liabilities	5,440,603	5,767,935
Net assets		
Unrestricted net assets	13,751,768	14,550,921
Temporarily restricted net assets (See Note 12)	641,249	370,756
Permanently restricted net assets (See Note 13)	20,000	20,000
Total net assets	14,413,017	14,941,677
	$ 19,853,620	$ 20,709,612

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)	1,772,250	142,600	-	1,914,850
Net sales to homeowners (See Note 7)	779,579	-	-	779,579
Interest income - mortgages	512,187	-	-	512,187
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	31,118	-	-	31,118
Net assets released from restrictions	601,623	(601,623)	-	-
Total revenues and other support	6,631,499	270,493	-	6,901,992
Expenses				
Program services - homes	4,228,457	-	-	4,228,457
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	7,430,652	-	-	7,430,652
Change in net assets	(799,153)	270,493	-	(528,660)
Net assets, beginning of year	14,550,921	370,756	20,000	14,941,677
Net assets, end of year	$ 13,751,768	$ 641,249	$ 20,000	$ 14,413,017

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Support				
Contributions	$ 2,056,596	$ 1,039,430	$ -	$ 3,096,026
Donated property, materials and services (See Note 14)	1,512,059	17,000	-	1,529,059
Net sales to homeowners (See Note 7)	923,049	-	-	923,049
Interest income - mortgages	489,837	-	-	489,837
Grant/contract revenues	1,016,125	-	-	1,016,125
HabiStore sales (See Note 16)	1,206,264	-	-	1,206,264
Interest and investment income	58,259	355	-	58,614
Other income	51,310	-	-	51,310
Net assets released from restrictions	886,203	(886,203)	-	-
Total revenues and other support	8,199,702	170,582	-	8,370,284
Expenses				
Program services - homes	3,905,906	-	-	3,905,906
Program - HabiStore (See Note 16)	1,929,109	-	-	1,929,109
Supporting services				
Management and general	521,098	-	-	521,098
Fundraising	354,599	-	-	354,599
Total expenses	6,710,712	-	-	6,710,712
Change in net assets	1,488,990	170,582	-	1,659,572
Net assets, beginning of year	13,061,931	200,174	20,000	13,282,105
Net assets, end of year	$ 14,550,921	$ 370,756	$ 20,000	$ 14,941,677

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016

	2016	2015
Cash Flows From Operating Activities		
Change in net assets	$ (528,660)	$ 1,659,572
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Loss on write-down of land held for construction inventory	29,323	12,700
Gain on disposal of fixed assets	(13,211)	(500)
Donated land held for investment	(61,405)	(12,905)
Depreciation	177,811	165,375
New markets tax credits amortization	49,026	49,026
Unrealized loss (gain) on restricted investments, net	883	(56)
Changes in operating assets and liabilities:		
Grants and contracts receivable	442,980	(427,529)
Pledges receivable	27,610	36,213
Mortgages receivable	(316,496)	(441,279)
Inventories	(683,454)	220,741
Prepaid expenses and other current assets	100,325	(152,385)
Accounts payable	58,220	(128,986)
Accrued expenses and other current liabilities	99,493	(5,080)
Agency payable	4	(524)
Deferred revenue	136,343	450,000
New markets tax credits joint venture - deferred revenue	(30,838)	(30,838)
Net cash (used in) provided by operating activities	(512,046)	1,393,545
Cash Flows From Investing Activities		
Acquisition of property and equipment	(251,136)	(74,899)
Insurance proceeds from hail damage	36,585	-
Proceeds from sale of property and equipment	-	500
Proceeds from sale of donated land held for investment	-	6,995
Net cash used in investing activities	(214,551)	(67,404)
Cash Flows From Financing Activities		
Principal payments on long-term borrowings	(590,554)	(206,523)
Net cash used in financing activities	(590,554)	(206,523)
Net (decrease) increase in cash and cash equivalents	(1,317,151)	1,119,618
Cash and cash equivalents at beginning of year	4,635,483	3,515,865
Cash and cash equivalents at end of year	$ 3,318,332	$ 4,635,483
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	$ 79,190	$ 87,729
Supplemental Disclosure of Non-cash Information		
Donated land held for investment	$ 61,405	$ 12,905

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	$ 1,210,959	$ 583,960	$ 350,922	$ 302,643	$ 2,448,484
Construction costs	2,268,807	-	-	-	2,268,807
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	22,614	156	7	6,439	29,216
Total expenses before interest, depreciation, and amortization	4,060,305	2,181,523	481,951	404,462	7,128,241
Interest	36,758	38,816	-	-	75,574
Depreciation and amortization	131,394	47,530	33,020	14,893	226,837
Total expenses	$ 4,228,457	$ 2,267,869	$ 514,971	$ 419,355	$ 7,430,652

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015

	Program Services - Homes	Program - HabiStore	Management and General	Fundraising	Total
Expenses					
Salaries, taxes & benefits	$ 1,105,504	$ 427,520	$ 325,242	$ 236,032	$ 2,094,298
Construction costs	2,072,872	-	-	-	2,072,872
Land development costs	30,964	-	-	-	30,964
HabiStore cost of goods sold	-	1,184,834	-	-	1,184,834
Habitat International tithe	100,000	-	-	-	100,000
Professional fees	69,294	36,154	79,399	11,858	196,705
Advertising and marketing	23,609	35,541	8,226	27,039	94,415
Office expenses	51,198	43,594	24,234	28,338	147,364
Information technology	10,323	3,859	4,688	8,009	26,879
Occupancy	33,182	43,380	25,408	341	102,311
Travel, conferences, conventions, and meetings	26,546	3,799	20,009	3,557	53,911
Insurance	87,496	21,541	5,590	1,605	116,232
Donor and volunteer cultivation	42,779	509	2,767	8,549	54,604
Equipment rent, repair, and maintenance	13,269	18,119	2,371	3,679	37,438
Vehicle expenses	32,731	27,364	3,468	71	63,634
Miscellaneous expenses	23,607	268	76	6,976	30,927
Total expenses before interest, depreciation, and amortization	3,723,374	1,846,482	501,478	336,054	6,407,388
Interest	48,563	40,325	35	-	88,923
Depreciation and amortization	133,969	42,302	19,585	18,545	214,401
Total expenses	$ 3,905,906	$ 1,929,109	$ 521,098	$ 354,599	$ 6,710,712

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 2016 and 2015, Habitat received 55,153 and 44,681 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, 2016, and June 30, 2015, the Organization had $1,662,786 and $2,977,710, 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, 2016 and 2015 totaled $182,241 and $410,787, 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, 2016 and 2015, 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, 2016 and 2015, 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 18-25 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, 2016 and 2015. Accordingly, no allowance for loan losses is reported as of June 30, 2016 and 2015 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, 2016 and 2015.

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 an impairment for the years ended, June 30, 2016 and June 30, 2015 (see Note 5).

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Inventories (continued)
All direct material and equipment costs 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 market 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, 2016, 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, 2016.

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. For the years ended June 30, 2016 and 2015, Habitat received $24,528 and $24,522 in distributions, respectively.

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, 2016 and 2015 totaled $83,812 and $114,650, respectively. Fee revenue recognized for the years ended June 30, 2016 and 2015 totaled $30,838 and is included in interest and investment income in the statements of activities and changes in net assets.

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 loss of $883 and a total realized/unrealized gain of $56 were recognized related to the restricted investments during 2016 and 2015, respectively. The ending balance of the restricted investments was $23,165 and $24,048 as of June 30, 2016 and 2015, 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 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.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Endowment Funds (continued)
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, 2016 and 2015.

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, 2016 and 2015, 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.

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, 2016 and 2015, matching contributions totaled $30,343 and $21,292, respectively.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

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

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this ASU affects 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 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 No. 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 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)

In April 2016, the FASB issued ASU 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 2016, the FASB has issued Accounting Standards Update No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*. 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 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 August 2014, the FASB issued Accounting Standards Update ("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 is not expected to have a material 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 will be effective for the Organization for fiscal years beginning after December 15, 2015. Early adoption is permitted, and retrospective application is required. The adoption of this standard is not expected to have a material impact on the financial statements.

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.

NOTES TO FINANCIAL STATEMENTS

Recent Accounting Standards (continued)

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.

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, 2016 and 2015 the carrying amount of the note totaled $50,000.

5. Inventories

Inventories consist of the following as of June 30:

	2016	2015
Land held for construction	$ 1,173,439	$ 1,391,917
Construction-in-progress	117,521	192,429
Supplies and materials	130,933	10,091
Completed homes inventory	868,942	46,062
HabiStore inventory	10,286	6,491
	$ 2,301,121	$ 1,646,990

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 losses of $29,323 and $12,700 were charged to Program services-homes in 2016 and 2015, respectively, to write down inventory.

NOTES TO FINANCIAL STATEMENTS

6. Property and Equipment

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

	2016	2015
Land	$ 546,944	$ 546,944
Buildings	1,405,635	1,405,635
Building improvements	2,289,766	2,099,423
Vehicles	166,080	139,050
Office and construction equipment and furniture	349,696	340,447
	4,758,121	4,531,499
Less accumulated depreciation	(801,794)	(625,123)
	$ 3,956,327	$ 3,906,376

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 2016 and 2015, fourteen (14) and sixteen (16) 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 2016 and 2015 discount rates were 7.48% and 7.51%, respectively). Sales to homeowners for the years ended June 30 are as follows:

	2016	2015
Gross sales to homeowners	$ 1,557,646	$ 1,597,883
Less discount on sales to homeowners	(778,067)	(674,834)
Net sales to homeowners	$ 779,579	$ 923,049

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:

	2016	2015
Mortgages receivable at face value	$ 12,346,038	$ 11,847,879
Less unamortized discounts on mortgages	(5,136,702)	(4,955,039)
Total mortgages (both current and due after one year)	$ 7,209,336	$ 6,892,840

NOTES TO FINANCIAL STATEMENTS

Mortgages Receivable (continued)

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

2017	$ 882,645
2018	861,330
2019	841,756
2020	824,901
2021	817,423
Thereafter	8,117,983
Total	$ 12,346,038

At times, Habitat will identify high performing mortgages receivable for sale to financial institutions. No such sales occurred during 2016 or 2015. 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 $1,629 and $1,625 in the accompanying financial statements reflective of the homeowner payments held by Habitat as of June 30, 2016 and 2015, 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. During 2016, Habitat re-purchased one (1) non-performing loan.

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, 2016 and 2015.

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. The Organization also incurred $63,148 in closing costs related to the NMTC notes payable, to be amortized over the 16-year loan term. As of June 30, 2016, 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
NMTC closing costs	27,706	35,442	63,148
	136,191	242,513	378,704
Less accumulated amortization	(82,558)	(129,837)	(212,395)
	$ 53,633	$ 112,676	$ 166,309

Estimated annual NMTC amortization as of June 30, 2016 are as follows:

2017	$ 49,026
2018	49,026
2019	34,295
2020	3,947
2021	3,947
Thereafter	26,068
Total	$ 166,309

10. Long-Term Debt

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

	2016	2015
Northern Trust Bank $2,500,000 Line of Credit. Interest calculated at the LIBOR rate plus 1% with a floor of 2.5%. Secured by Deeds of Trust and beneficial interest in certain mortgage notes receivable. Interest payable in monthly installments. Line of credit matures in November 2016.	$ -	$ -

NOTES TO FINANCIAL STATEMENTS

Long-Term Debt (continued)

	2016	2015
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 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, 2016.	236,549	290,303
Northern Trust – HOPP Loan Investment Bond. Interest calculated at 2.0% per annum. Interest payable in annual installments through February 2024 when all outstanding principal and interest are due. The Organization repaid this amount in full during 2016.	-	500,000
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 not in compliance with this covenant as of June 30, 2016, but has obtained a waiver from the bank.	933,889	970,689
	1,170,438	1,760,992
Less current portion of long-term debt	(94,279)	(90,578)
	$ 1,076,159	$ 1,670,414

The scheduled maturities of debt principal payments are summarized as follows as of June 30, 2016:

2017	$ 94,279
2018	98,019
2019	101,908
2020	105,863
2021	45,209
Thereafter	725,160
Total	$ 1,170,438

NOTES TO FINANCIAL STATEMENTS

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 $1,270,012 as of June 30, 2016 and 2015. 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, 2016.

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 $1,880,000 as of June 30, 2016 and 2015. 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, 2016.

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:

	2016	2015
Construction and rehabilitation projects	$ 616,826	$ 356,018
Homeowner services and other	24,423	14,738
	$ 641,249	$ 370,756

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.

NOTES TO FINANCIAL STATEMENTS

14. Donated Property, Materials and Services

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

	2016	2015
Construction materials and equipment	$ 340,658	$ 208,214
Land and property	181,501	120,500
Other program supplies and services	41,019	34,746
HabiStore items for resale	1,351,672	1,165,599
	$ 1,914,850	$ 1,529,059

15. Advertising and Marketing Costs

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

	2016	2015
Direct advertising and marketing	$ 73,569	$ 59,405
Direct mail campaigns	14,204	24,606
Donated in-kind advertising	26,192	6,542
Newsletters and annual report	2,150	3,862
	$ 116,115	$ 94,415

16. HabiStore Summarized Financial Information

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

	2016	2015
HabiStore sales	$ 1,403,966	$ 1,206,264
HabiStore donated items for resale	1,351,672	1,165,599
Total HabiStore revenues	2,755,638	2,371,863
HabiStore operating expenses	(2,267,869)	(1,929,109)
HabiStore revenues in excess of expenses	$ 487,769	$ 442,754

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 and current 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, 2016 and 2015, no second mortgages were paid off early.

NOTES TO FINANCIAL STATEMENTS

Commitments and Contingencies (continued)

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 $209,236 and $187,715 as of June 30, 2016 and 2015, 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.

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, 2016, 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.

NOTES TO FINANCIAL STATEMENTS

Commitments and Contingencies (continued)

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.

18. Related Party Transactions

Currently, a Habitat board member is the Chief Operating Officer of a subcontracting organization that provides home repair and rehabilitation services for Habitat.

Additionally, a Habitat board member is employed by the firm that serves as Habitat's broker for the acceptance and immediate sale of stock gifts and provides 401(k) retirement planning services. As of June 30, 2016, this person's board tenure has expired.

19. Subsequent Events

The Organization evaluated subsequent events through November 10, 2016, which represents the date the financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in the financial statements.