

**HABITAT FOR HUMANITY
CENTRAL ARIZONA**

FINANCIAL STATEMENTS

Year Ended June 30, 2009

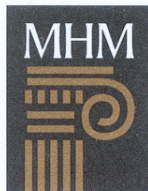
**HABITAT FOR HUMANITY
CENTRAL ARIZONA**

FINANCIAL STATEMENTS

Year Ended June 30, 2009

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

HABITAT FOR HUMANITY CENTRAL ARIZONA

We have audited the accompanying statement of financial position of *Habitat for Humanity Central Arizona* at June 30, 2009, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the management of *Habitat for Humanity Central Arizona*. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *Habitat for Humanity Central Arizona* as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Mayer Hoffman McCann P.C.

Phoenix, Arizona
September 28, 2009

HABITAT FOR HUMANITY CENTRAL ARIZONA

STATEMENT OF FINANCIAL POSITION

June 30, 2009

ASSETS

CASH	\$ 4,269,662
INVESTMENTS	129,577
PRESENT VALUE OF NON-INTEREST BEARING MORTGAGE LOANS, net of discount of \$9,644,970 (effective rate at 7.77%)	10,969,512
RECEIVABLES, net	1,283,301
TRANSFERRED MORTGAGES RECEIVABLE, net of discount of \$1,546,647 (effective rate at 7.77%)	1,774,644
INVENTORY - HABITAT RESTORE	174,633
LAND HELD FOR SALE	1,707,573
LAND HELD FOR DEVELOPMENT	5,040,229
CONSTRUCTION IN PROGRESS	704,510
PROPERTY AND EQUIPMENT, net	2,307,449
PREPAID EXPENSES AND OTHER ASSETS	179,846
GIFT ANNUITIES RECEIVABLE	<u>6,329</u>
TOTAL ASSETS	<u>\$ 28,547,265</u>

LIABILITIES AND NET ASSETS

ACCOUNTS PAYABLE AND ESCROW RESERVES	\$ 455,357
ACCRUED EXPENSES	327,925
DEFERRED REVENUE	2,669,549
NOTES PAYABLE	<u>2,666,596</u>
TOTAL LIABILITIES	<u>6,119,427</u>
NET ASSETS	
Unrestricted	
Board designated funds	32,812
Undesignated	<u>21,166,590</u>
Total unrestricted	21,199,402
Temporarily restricted	<u>1,228,436</u>
TOTAL NET ASSETS	<u>22,427,838</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 28,547,265</u>

See Notes to Financial Statements

HABITAT FOR HUMANITY CENTRAL ARIZONA

STATEMENT OF ACTIVITIES

Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUES			
Contributions	\$ 2,085,671	\$ 1,917,159	\$ 4,002,830
Home sales	2,291,333	-	2,291,333
Mortgage discount amortization	929,178	-	929,178
Grants and contracts	-	1,793,044	1,793,044
Gain from loan sales	531,036	-	531,036
Donated materials and services	1,032,391	-	1,032,391
Other revenues	<u>105,395</u>	<u>-</u>	<u>105,395</u>
Total support and revenues from operations before special events, Habitat ReStore operations, and net assets released from restrictions	<u>6,975,004</u>	<u>3,710,203</u>	<u>10,685,207</u>
 Special events:			
Special event revenues	113,594	-	113,594
Less costs of direct donor benefits	<u>(44,533)</u>	<u>-</u>	<u>(44,533)</u>
Gross profit on special events	<u>69,061</u>	<u>-</u>	<u>69,061</u>
 Habitat ReStore revenues			
Habitat ReStore revenues	4,464,676	-	4,464,676
Less operating expenses	<u>(3,764,678)</u>	<u>-</u>	<u>(3,764,678)</u>
Income from Habitat ReStore	<u>699,998</u>	<u>-</u>	<u>699,998</u>
Net assets released from restrictions	<u>3,313,450</u>	<u>(3,313,450)</u>	<u>-</u>
 TOTAL SUPPORT AND REVENUES	 <u>11,057,513</u>	 <u>396,753</u>	 <u>11,454,266</u>
 EXPENSES			
Program services:			
Homeowner construction and services	<u>9,194,896</u>	<u>-</u>	<u>9,194,896</u>
Supporting services:			
General and administrative	716,139	-	716,139
Fundraising	<u>887,295</u>	<u>-</u>	<u>887,295</u>
Total supporting services	<u>1,603,434</u>	<u>-</u>	<u>1,603,434</u>
TOTAL EXPENSES	<u>10,798,330</u>	<u>-</u>	<u>10,798,330</u>
 CONTRIBUTIONS TO HABITAT FOR HUMANITY INTERNATIONAL, INC.			
	<u>166,947</u>	<u>-</u>	<u>166,947</u>
 CHANGE IN NET ASSETS	 92,236	 396,753	 488,989
NET ASSETS, BEGINNING OF YEAR	<u>21,107,166</u>	<u>831,683</u>	<u>21,938,849</u>
 NET ASSETS, END OF YEAR	 <u>\$ 21,199,402</u>	 <u>\$ 1,228,436</u>	 <u>\$ 22,427,838</u>

See Notes to Financial Statements

HABITAT FOR HUMANITY CENTRAL ARIZONA

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2009

PROGRAM SERVICES

Homeowner construction and services	
Cost of home sales	\$ 7,415,301
Salaries	885,844
Overhead applied	629,850
Interest	303,901
Payroll taxes and employee benefits	256,580
Mortgage servicing	79,223
Other taxes and insurance	60,200
Travel	22,889
Equipment operation and maintenance	20,015
Depreciation and amortization	5,511
Other	99,459
Transferred to construction in progress	<u>(583,877)</u>
TOTAL PROGRAM SERVICES	<u>9,194,896</u>

SUPPORTING SERVICES

General and Administrative	
Salaries	578,506
Occupancy	189,848
Payroll taxes and employee benefits	152,450
Audit and accounting	82,600
Depreciation and amortization	79,013
Legal	42,395
Interest	40,991
Telephone	40,252
Equipment rental and maintenance	27,542
Office supplies	22,136
Other taxes and insurance	15,010
Postage and shipping	14,667
Other	60,579
Overhead applied to program services	<u>(629,850)</u>
Total general and administrative	<u>716,139</u>
Fundraising	
Salaries	555,978
Payroll taxes and employee benefits	139,260
Special mailings	96,321
Travel and conference	11,922
Other	<u>83,814</u>
Total fundraising	<u>887,295</u>
TOTAL SUPPORTING SERVICES	<u>1,603,434</u>
TOTAL EXPENSES	<u>\$ 10,798,330</u>

See Notes to Financial Statements

HABITAT FOR HUMANITY CENTRAL ARIZONA

STATEMENT OF CASH FLOWS

Year Ended June 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 488,989
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Face value of mortgages issued	(4,336,445)
Amortization of mortgages receivable discount	929,178
Net realized and unrealized losses on investments	32,218
Net realized gains on sale of mortgages receivable	(531,036)
Discount on notes payable	19,360
Discount on mortgages issued	2,173,574
Donated stock	4,339
Donated land held for development	(490,000)
Depreciation and amortization of property and equipment	133,517
Changes in operating assets and liabilities:	
Decrease (increase) in:	
Receivables	(502,855)
Inventory - Habitat ReStore	(15,261)
Land held for development	1,486,075
Construction in progress	(409,250)
Prepaid expenses and other assets	(113,327)
Gift annuities receivable	12,247
Increase (decrease) in:	
Accounts payable and escrow reserves	(605,520)
Accrued expenses	(26,824)
Deferred revenue	1,798,238
Net cash provided by operating activities	<u>47,217</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of investments	(22,374)
Proceeds from sale of investments	14,357
Purchases of property and equipment	<u>(39,692)</u>
Net cash used in investing activities	<u>(47,709)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on line of credit	(4,500,000)
Proceeds from notes payable	195,000
Payments on notes payable	(2,137,485)
Proceeds from sale of mortgages receivable	<u>6,921,472</u>
Net cash provided by financing activities	<u>478,987</u>

NET CHANGE IN CASH 478,495

CASH, BEGINNING OF YEAR 3,791,167

CASH, END OF YEAR \$ 4,269,662

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest \$ 388,853

See Notes to Financial Statements

HABITAT FOR HUMANITY CENTRAL ARIZONA

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2009

(1) Organization operations and summary of significant accounting policies

Habitat for Humanity of the West Valley (the "Organization") was incorporated on December 5, 1985. The Organization is an affiliate of Habitat for Humanity International, Inc. ("Habitat International"), an ecumenical non-profit organization whose purpose is to create decent, affordable housing for those in need, and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists with information resources, training, publications, prayer support, and in other ways, the Organization is primarily and directly responsible for the legal, organizational, fundraising, family partnering and selection, financial, and construction aspects of the work. The Organization, through its many volunteers, constructs affordable housing in the metropolitan Phoenix area and transfers the homes to qualified families at approximately cost and provides non-interest bearing mortgage loans.

Effective June 30, 2008, the Organization merged with **Habitat for Humanity, Valley of the Sun, Inc.** ("VOS"). VOS was also an affiliate of Habitat International and provided similar services as the Organization. As a result of the merger, VOS ceased to exist as a separate legal entity. Subsequent to June 30, 2008, the Organization changed its name to Habitat for Humanity Central Arizona.

The significant accounting policies followed by the Organization are as follows:

Basis of presentation – The accompanying financial statements are prepared in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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

Home sales – Homes are sold to qualified buyers at approximately the cost to build the home. Non-interest bearing mortgages are accepted as payment for the homes sold. Home sales are recorded at the discounted value of payments to be received over the lives of the mortgages. Non-interest bearing mortgages have been discounted at 7.77% based upon prevailing market rates for low income housing at the inception of the mortgages. Discounts are amortized using the effective interest method over the lives of the mortgages. During the year ended June 30, 2009, 40 homes were sold by the Organization.

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

Mortgage loans receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to mortgages receivable. At June 30, 2009, management believes mortgage loans receivable to be fully collectible, therefore no allowance has been recorded.

HABITAT FOR HUMANITY CENTRAL ARIZONA

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2009

(1) **Organization operations and summary of significant accounting policies (continued)**

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

An accrual for estimated future warranty expense is recorded and evaluated on an annual basis. Actual warranty expenses are charged against the accrual as incurred. No warranty expense was recorded for 2009. The accrued warranty reserve for homes was \$12,750 at June 30, 2009. Because of the inherent uncertainties in estimating warranty costs, it is at least reasonably possible that the Organization's estimates of these costs will change in the near term.

Escrow reserves – Either independent third parties or the Organization services the mortgages on homes the Organization sells. Included in cash are amounts received from homeowners for insurance, property taxes and home maintenance (escrow funds). These amounts will be used to pay amounts as they become due. A corresponding liability is included in accounts payable and escrow reserves in the accompanying statement of financial position. At June 30, 2009, escrow reserves totaled \$253,230.

Cash – Cash includes cash and, at times, cash equivalents consisting of highly liquid financial instruments purchased with original maturities of three months or less. Cash deposits at commercial banks are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC).

Receivables – Receivables primarily consist of construction cost reimbursements from the Federal Home Loan Bank (FHLB) and bequests receivable. Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables. At June 30, 2009, management has recorded an allowance for uncollectible receivables of \$4,843.

Transferred mortgages receivable – During 2009, the Organization transferred \$1,285,345 (net of discount of \$663,727) of mortgages receivable to a bank in accordance with SFAS No. 140 (As Amended), *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Under SFAS No. 140, the Organization has maintained effective control over the assets transferred; accordingly, the transfer is accounted for as a secured borrowing. A related liability of \$1,949,073 is included in deferred revenue on the statement of financial position. The proceeds from the secured borrowing of approximately \$1,949,000 were used to pay down long-term debt and to build up cash reserves for future operations.

Investments – The Organization reports investments in accordance with SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, the Organization reports investments in equity securities that have readily determinable fair value, and all investments in debt securities, at fair value. The fair values of investments are based on quoted market prices. At June 30, 2009, investments consisted of common stock and mutual funds.

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

HABITAT FOR HUMANITY CENTRAL ARIZONA

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2009

(1) **Organization operations and summary of significant accounting policies (continued)**

Land held for sale – During 2008, the Organization entered into negotiations to sell land located in Phoenix, Arizona. Land held for sale is stated at cost. Real estate assets are evaluated for impairment if impairment indicators are present. An impairment write-down to fair value less costs to sell occurs only if the estimated future undiscounted net cash flows from the real estate inventories is less than the carrying amount. No impairment losses were recorded during 2009, and management does not believe impairment indicators are present.

Land held for development and construction in progress – Land held for development and construction in progress are stated at cost and include land under development, developed lots, direct and indirect costs of housing construction and capitalized interest, property taxes and overhead incurred during the development period. Cost is determined by the specific identification and per unit methods. During the year ended June 30, 2009, the Organization capitalized \$14,000 of interest related to land held for development. Real estate assets are evaluated for impairment if impairment indicators are present. An impairment write-down to fair value less costs to sell occurs only if the estimated future undiscounted net cash flows from the real estate inventories is less than the carrying amount. No impairment losses were recorded during 2009, and management does not believe impairment indicators are present. Land and offsite development costs associated with homes under construction are included in construction in progress in the accompanying statement of financial position.

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

Buildings	40 years
Computers and office equipment	3 - 10 years
Vehicles	5 - 7 years
Leasehold improvements	5 - 10 years
Construction equipment and tools	5 - 10 years
Furniture and fixtures	5 years

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

HABITAT FOR HUMANITY CENTRAL ARIZONA

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2009

(1) **Organization operations and summary of significant accounting policies (continued)**

Impairment of long-lived assets – The Organization accounts for long-lived assets in accordance with the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (“SFAS No. 144”). SFAS No. 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No impairment charges were recorded for 2009.

Contributions – The Organization accounts for contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made* (“SFAS No. 116”). Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily or permanently restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restricted support, where restrictions are met in the same period as the donation is made, is shown as additions to unrestricted support.

Donated materials and services – Donated materials and services are recognized as contributions in accordance with SFAS No. 116 at their estimated fair value if the services (a) create or enhance the Organization’s non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased. Donated materials consist primarily of construction materials. No amounts have been reflected in the financial statements for certain donated volunteer services because they do not qualify for recording under the guidelines of SFAS No. 116; however, a substantial number of volunteers have donated a significant amount of time in the Organization’s program services and fundraising campaigns. The Organization estimates the fair value of volunteer services during 2009 not reflected in the accompanying financial statements to be approximately \$1,500,000.

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

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

HABITAT FOR HUMANITY CENTRAL ARIZONA

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2009

(1) Organization operations and summary of significant accounting policies (continued)

Sale of mortgages receivable – During 2009, the Organization sold a total of approximately \$11,093,000 of non-interest bearing mortgages receivable to two banks in accordance with SFAS No. 140 (As Amended), *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Under SFAS No. 140, the transactions are accounted for as sales. The Organization received approximately \$6,921,000 for the sold loans and recorded a gain of approximately \$531,000, after mortgage discounts of approximately \$4,703,000.

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

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

Income tax status – The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the “Code”), accordingly, there is no provision for income taxes. In addition, the Organization qualifies for the charitable contribution deduction under Section 170 of the Code and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income (UBTI) would be taxable. The Organization evaluates its uncertain tax positions, if any, on a continual basis through review of their policies and procedures, review of their regular tax filings and discussions with outside experts.

(2) Cash

Cash consists of:

Demand deposit accounts	\$ 4,016,432
Escrow reserves	253,230
Total cash	<u>\$ 4,269,662</u>

At June 30, 2009 cash includes \$1,228,436 of funds temporarily restricted by donors for home construction.

(3) Present value of non-interest bearing mortgage loans

Present value of non-interest bearing mortgage loans consist of:

Face value of mortgages	\$ 20,614,482
Unamortized discount	<u>(9,644,970)</u>
Present value of non-interest bearing mortgage loans	<u>\$ 10,969,512</u>

HABITAT FOR HUMANITY CENTRAL ARIZONA

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2009

(3) Present value of non-interest bearing mortgage loans (continued)

Annual collection of the mortgage notes receivable net of the unamortized discount at June 30, 2009 are due as follows:

Years ending June 30:

2010	\$ 1,096,658
2011	1,100,310
2012	1,100,306
2013	1,099,737
2014	1,092,050
Thereafter	<u>15,125,421</u>
Total	<u>\$ 20,614,482</u>

(4) Land held for development

Land held for development consists of:

Land held for development	\$ 2,637,474
Land improvements	<u>2,402,755</u>
Total land held for development	<u>\$ 5,040,229</u>

Land held for development includes an estimated 112 lots in Glendale, Peoria, Chandler, Phoenix, Avondale, Mesa, Buckeye, and Surprise. Land improvements represent the costs of preparing the land for development, which includes utilities and sewer connections, streets, sidewalks and streetlights. A portion of land improvements are allocated to the homes when sold.

(5) Property and equipment

Property and equipment consists of:

Cost and donated value:

Buildings	\$ 2,204,017
Computers and office equipment	170,629
Vehicles	130,165
Leasehold improvements	142,369
Construction equipment and tools	106,923
Furniture and fixtures	<u>31,335</u>
Total cost and donated value	2,785,438
Accumulated depreciation and amortization	<u>(477,989)</u>
Property and equipment, net	<u>\$ 2,307,449</u>

Depreciation and amortization expense charged to operations was \$133,517 for 2009.

HABITAT FOR HUMANITY CENTRAL ARIZONA

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2009

(6) Habitat ReStore

The Organization operates three discount home improvement centers ("ReStores") in Phoenix, Peoria and Mesa. The ReStores receive donations of building supplies, furniture and appliances and sell these items to the general public. The donated items are recorded in the statement of activities at their fair market value. The fair market value is determined by the selling price for that item. The accounting for the donations and the sales transactions is as follows:

Donations to Habitat ReStores	\$ 4,342,588
Sales of donated and purchased items	2,140,134
Fair market value of items sold	(2,140,134)
Purchased inventory	122,088
Gross revenue from Habitat ReStore operations	<u>\$ 4,464,676</u>

(7) Lines of credit

The Organization has a \$1,500,000 line of credit with a bank with interest calculated at the bank's prime rate minus .5% with a floor of 3% (3.0% at June 30, 2009). The line is secured by the Organization's mortgages, contains various financial covenants, and matures in April 2010. There were no amounts outstanding under the line of credit as of June 30, 2009.

The Organization had a \$5,000,000 line of credit with a bank that matured in June 2009 and was not renewed.

The Organization had a \$500,000 unsecured business line of credit with a bank that matured in May 2009 and was not renewed.

During 2009, a promissory note to Maricopa County IDA was paid in full. Also during 2009, the City of Chandler forgave \$527,500 of non-interest forgivable debt in accordance with its contract with the Organization.

(8) Notes payable

Notes payable consists of:

Notes payable to banks and financial institutions:

Note payable to GE Government Finance, Inc., secured by a building. The proceeds from the note were used to purchase the building being pledged as security. The note is payable in monthly principal and interest installments of \$12,374, bears interest at 5.9%, and is payable in June 2028. \$ 1,694,146

Unsecured note payable to Wells Fargo Bank to fund the development of infrastructure in the 12th Street development named Oro Vista. The note is payable in monthly interest only payments at 2% and is payable in March 2013. 700,000

HABITAT FOR HUMANITY CENTRAL ARIZONA

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2009

(8) Notes payable (continued)

Notes payable to banks and financial institutions (continued):

Notes payable to the City of Chandler to fund the acquisition of two units of real property. The City of Chandler loaned the Organization \$57,500 and \$72,500 for the units of real property. The loans bear interest at 0%. The loans shall be deemed forgiven after three years, as long as the Organization has constructed single-family residences, whose designs have been approved by the City of Chandler, and are sold to low-income families.

\$ 130,000

Note payable to a bank, secured by a vehicle. The proceeds from the note were used to purchase the vehicle being pledged as security. The note is payable in monthly principal and interest payments of \$600, bears interest at 10.51%, and is payable in November 2011.

14,488

Notes payable to Habitat for Humanity International:

Promissory note payable to Habitat for Humanity International, Inc. as part of the Self-Help Homeownership Opportunity Program ("SHOP"). The proceeds from the note are required to be used for infrastructure costs. The note bears interest at 0% and has a discount of \$3,309. Beginning in July 2009, the note is payable in 47 monthly installments of principal of \$1,171, and a final payment of \$1,213 maturing in July 2011.

56,250

Promissory note payable to Habitat for Humanity International, Inc. as part of the Self-Help Homeownership Opportunity Program ("SHOP"). The proceeds from the note are required to be used for infrastructure costs. The note bears interest at 0% and has a discount of \$3,132. A portion of the note (70%) is payable beginning in January 2010 with the remainder payable within thirty-six (36) months of receipt of award.

53,259

Promissory note payable to Habitat for Humanity International, Inc. as part of the Self-Help Homeownership Opportunity Program ("SHOP"). The proceeds from the note are required to be used for infrastructure costs. The note is payable in forty-seven (47) monthly installments of principal of \$562 and a final payment upon maturity of \$586. The note matures in July 2012. The note does not bear interest and has a discount of \$1,226.

23,628

HABITAT FOR HUMANITY CENTRAL ARIZONA

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2009

(8) Notes payable (continued)

Notes payable to Habitat for Humanity International (continued):

Promissory note payable to Habitat for Humanity International, Inc. as part of the Self-Help Homeownership Opportunity Program ("SHOP"). The proceeds from the note are required to be used for infrastructure costs. The note is payable in forty-seven (47) monthly installments of principal of \$62, and a final payment upon maturity of \$86. The note matures in July 2013. The note does not bear interest and has a discount of \$137.

	\$ 2,629
	2,674,400
	<u>(7,804)</u>
Less: discount on non-interest bearing notes	
Total notes payable	<u>\$ 2,666,596</u>

Annual maturities of the notes payable outstanding at June 30, 2009 are as follows:

Years Ending June 30,

2010	\$ 90,678
2011	94,359
2012	222,850
2013	790,692
2014	63,131
Thereafter	<u>1,412,690</u>
Total annual maturities	<u>\$ 2,674,400</u>

(9) Contribution to Habitat for Humanity International, Inc.

The Organization contributes 10% of the Organization's unrestricted annual contributions to Habitat for Humanity International for their international housing programs. For the year ended June 30, 2009, contributions to Habitat for Humanity International were \$166,947.

(10) Operating leases

The Organization leases buildings and equipment under various operating lease agreements expiring in various years through May 2014. Minimum future rental payments under operating leases having remaining terms in excess of one year at June 30, 2009 are as follows:

Years Ending June 30,

2010	\$ 364,066
2011	248,409
2012	248,409
2013	245,859
2014	<u>81,399</u>
Total minimum lease payments	<u>\$ 1,188,142</u>

In the normal course of business, operating leases are generally renewed or replaced by other leases. Total rental expense for operating leases with terms in excess of one month was \$543,229 for the year ended June 30, 2009.

HABITAT FOR HUMANITY CENTRAL ARIZONA

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2009

(11) Board designated funds and temporarily restricted net assets

Board designated funds and temporarily restricted net assets are available for the following purposes at June 30, 2009:

Board designated funds:	
Fund for Humanity	\$ <u>32,812</u>
Temporarily restricted net assets:	
Home construction	\$ <u>1,228,436</u>

(12) Retirement plans

The Organization established a 401(k) retirement savings plan (tax deferred annuity) for its employees. The Organization makes its employees aware of the plan, withholds voluntary contributions from paychecks and remits the contributions to an independent trustee. Each participant may contribute his or her eligible compensation on a pretax basis to the plan up to a maximum allowed by the Internal Revenue Code. Total employer contributions to the plan were \$68,007 for 2009.

(13) Fair value measurements

SFAS No. 157 establishes a common definition for fair value to be applied to U.S. generally accepted accounting principles requiring use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. Issued in February 2008, Financial Accounting Standards Board (FASB) Staff Position No. 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13*, removed leasing transactions accounted for under Statement No. 13 and related guidance from the scope of SFAS No. 157. FASB Staff Position No. 157-2, *Partial Deferral of the Effective Date of Statement 157*, deferred the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. The Organization is still assessing the impact of SFAS No. 157 on their nonfinancial assets.

The Organization adopted SFAS No. 157 as of July 1, 2008 for financial assets and financial liabilities subject to fair value measurement on a recurring basis. There was no material impact on the Organization's financial statements for the adoption of this standard.

SFAS No. 157 establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values. SFAS No. 157 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3: Unobservable inputs for the asset or liability.

HABITAT FOR HUMANITY CENTRAL ARIZONA

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2009

(13) Fair value measurements (continued)

The following table summarizes the valuation of the Organization's financial instruments by the above SFAS No. 157 categories as of June 30, 2009:

	<u>Level 1</u>
Common stocks and mutual funds	\$ 129,577

(14) Subsequent events

The Organization has evaluated subsequent events through September 28, 2009, which is the date the financial statements were available to be issued. Subsequent to year end, the Organization received a donation of fourteen real properties from an anonymous donor with an estimated fair value of \$706,000. The real properties are restricted to benefit homeless honorably discharged United States military personnel and their immediate families. Also subsequent to year end, the Organization renovated and sold two of these properties with a total cost of \$15,600 to a local not-for-profit Organization as stipulated in the donor contract. Management is not aware of any other events that have occurred subsequent to the statement of financial position date that would require adjustment to, or disclosure in, the financial statements.