



**FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
JUNE 30, 2010 AND 2009
AND REPORTS IN COMPLIANCE WITH
OMB CIRCULAR A-133
FOR THE YEAR ENDED JUNE 30, 2010**

HABITAT FOR HUMANITY – GREATER LOS ANGELES
FINANCIAL STATEMENTS



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Certified Public Accountants & Consultants

REPORT OF INDEPENDENT AUDITORS

To The Board of Directors
Habitat for Humanity – Greater Los Angeles
Gardena, California

We have audited the accompanying statements of financial position of Habitat for Humanity – Greater Los Angeles, Inc. (“Habitat”) (a California Not-for-Profit Organization) as of June 30, 2010 and 2009, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of Habitat’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 – Greater Los Angeles as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2011, on our consideration of Habitat’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT

(Continued)

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Rossi Doskocil & Finkelstein LLP

February 25, 2011

HABITAT FOR HUMANITY – GREATER LOS ANGELES
STATEMENT OF FINANCIAL POSITION

<i>As of June 30,</i>	2010	2009
ASSETS		
Cash and cash equivalents	\$ 1,030,795	\$ 1,819,282
Cash held in trust	-	55,042
Contributions receivable, net of unamortized discount	526,193	746,353
Mortgage notes receivable, net of unamortized discount	5,343,729	4,749,459
Prepaid expenses	108,772	51,457
Inventories	787,703	467,866
Construction in process	3,431,640	1,284,150
Finished homes held for sale	191,741	5,336,414
Property and equipment, net of accumulated depreciation and amortization	281,933	180,322
Investments	87,907	95,469
Deposits and other assets	334,148	424,688
Total assets	\$ 12,124,561	\$ 15,210,502
LIABILITIES AND NET ASSETS		
Bank line of credit	\$ 1,427,692	\$ 1,327,692
Accounts payable	632,028	538,004
Accrued expenses	488,791	425,019
Deposits and impounds	359,519	365,702
Deferred revenue	488,376	577,172
Capital leases payable	33,918	47,510
Notes payable, governmental agencies	1,873,564	3,081,724
Notes payable, other	1,028,171	699,432
Total liabilities	6,332,059	7,062,255
Commitments		
Net assets:		
Unrestricted	4,843,937	7,513,017
Temporarily restricted	948,565	635,230
Total net assets	5,792,502	8,148,247
Total liabilities and net assets	\$ 12,124,561	\$ 15,210,502

The accompanying notes are an integral part of these financial statements

HABITAT FOR HUMANITY – GREATER LOS ANGELES
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

<i>For the year ended June 30, 2010</i>	Unrestricted	Temporarily restricted	Total
Public support and revenue:			
Public support:			
Contributions - individuals and community organizations	\$ 758,161	\$ 194,937	\$ 953,098
Contributions - churches / faith	57,682	365,965	423,647
Contributions - corporations and foundations	362,295	538,019	900,314
Other grants	-	571,403	571,403
In-kind contributions	107,022	453,987	561,009
Special events, net of \$0 of direct expenses	36,091	-	36,091
Net revenue from Home Store	1,660,872	-	1,660,872
Net assets released from restrictions:			
Satisfaction of program/donor restrictions	1,825,937	(1,825,937)	-
Total public support	4,808,060	298,374	5,106,434
Revenue:			
Sales of homes	4,272,490	-	4,272,490
Mortgage loan discount amortization	326,087	-	326,087
Change in value - split-interest agreements	-	14,961	14,961
Gain on early payoff of mortgage notes receivable	42,067	-	42,067
New markets tax credits - amortized revenue	88,796	-	88,796
Other income	45,660	-	45,660
Total revenue	4,775,100	14,961	4,790,061
Total public support and revenue	9,583,160	313,335	9,896,495
Expenses:			
Cost of homes sold and program support	10,563,536	-	10,563,536
Management and general	880,748	-	880,748
Fundraising	807,956	-	807,956
Total expenses	12,252,240	-	12,252,240
Change in net assets	(2,669,080)	313,335	(2,355,745)
Net assets, beginning of year	7,513,017	635,230	8,148,247
Net assets, end of year	\$ 4,843,937	\$ 948,565	\$ 5,792,502

The accompanying notes are an integral part of these financial statements

HABITAT FOR HUMANITY – GREATER LOS ANGELES
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

<i>For the year ended June 30, 2009</i>	Unrestricted	Temporarily restricted	Total
Public support and revenue:			
Public support:			
Contributions - individuals and community organizations	\$ 799,828	\$ 207,993	\$ 1,007,821
Contributions - churches / faith	78,994	259,715	338,709
Contributions - corporations and foundations	1,346,138	471,476	1,817,614
Other grants	-	15,000	15,000
In-kind contributions	87,304	41,491	128,795
Special events, net of \$177,115 of direct expenses	21,413	-	21,413
Net revenue from Home Store	1,409,497	-	1,409,497
Net assets released from restrictions:			
Satisfaction of program/donor restrictions	819,581	(819,581)	-
Total public support	4,562,755	176,094	4,738,849
Revenue:			
Sales of homes	7,956,094	-	7,956,094
Mortgage loan discount amortization	306,220	-	306,220
Change in value - split-interest agreements	(33,412)	-	(33,412)
Gain on sale of mortgages	10,191	-	10,191
New markets tax credits - amortized revenue	44,398	-	44,398
Other income	47,903	-	47,903
Total revenue	8,331,394	-	8,331,394
Total public support and revenue	12,894,149	176,094	13,070,243
Expenses:			
Cost of homes sold and program support	14,637,977	-	14,637,977
Management and general	799,014	-	799,014
Fundraising	1,153,145	-	1,153,145
Total expenditures	16,590,136	-	16,590,136
Change in net assets	(3,695,987)	176,094	(3,519,893)
Net assets, beginning of year	11,209,004	459,136	11,668,140
Net assets, end of year	\$ 7,513,017	\$ 635,230	\$ 8,148,247

The accompanying notes are an integral part of these financial statements

HABITAT FOR HUMANITY – GREATER LOS ANGELES
STATEMENT OF FUNCTIONAL EXPENSES

<i>For the year ended June 30, 2010</i>	Cost of homes transferred & program support			Total
	Management & general	Fundraising		
Cost of homes sold	\$ 6,447,037	\$ -	\$ -	\$ 6,447,037
Salaries	1,827,664	306,057	510,971	2,644,692
Payroll taxes and benefits	338,457	77,696	73,834	489,987
Americorp	81,791	-	-	81,791
Bank fees and charges	23,183	14,910	6,487	44,580
Brush with kindness - supplies	136,282	-	-	136,282
Build events and community programs	83,183	-	-	83,183
Contributions to other non-profit organizations	62,725	-	-	62,725
Depreciation	15,645	39,402	-	55,047
Facilities - rent and maintenance	411,852	20,795	35,936	468,583
Insurance	62,584	2,173	2,572	67,329
Interest and amortization of loan fees	78,730	19,520	-	98,250
Office and other	176,583	93,749	92,905	363,237
Professional and outside services	143,149	278,052	38,323	459,524
Real estate - closing and development	248,494	-	-	248,494
Telephone	37,538	7,740	11,616	56,894
Tithes	37,404	-	-	37,404
Travel	38,265	11,297	25,702	75,264
Utilities	244,222	9,357	8,724	262,303
Vehicles	68,748	-	886	69,634
	\$ 10,563,536	\$ 880,748	\$ 807,956	\$ 12,252,240

The accompanying notes are an integral part of these financial statements

HABITAT FOR HUMANITY – GREATER LOS ANGELES
STATEMENT OF FUNCTIONAL EXPENSES

<i>For the year ended June 30, 2009</i>	Cost of homes transferred & program support			
	Management & general	Fundraising	Total	
Cost of homes sold	\$ 11,967,124	\$ -	\$ -	\$ 11,967,124
Salaries	1,289,573	243,316	679,072	2,211,961
Payroll taxes and benefits	228,432	101,401	126,032	455,865
Americorp	29,954	-	-	29,954
Bank fees and charges	20,312	2,708	4,062	27,082
Brush with kindness - supplies	55,087	-	-	55,087
Build events and community programs	18,780	-	-	18,780
Depreciation	10,106	21,370	-	31,476
Facilities - rent and maintenance	321,756	12,485	22,473	356,714
Insurance	29,169	11,561	3,735	44,465
Interest	7,413	98,482	-	105,895
Office and other	22,412	87,781	67,332	177,525
Professional and outside services	113,767	203,618	223,335	540,720
Real estate - closing and development	208,451	-	-	208,451
Telephone	23,972	5,336	8,266	37,574
Tithes	168,926	-	-	168,926
Travel	31,525	2,322	4,226	38,073
Utilities	40,069	4,866	7,755	52,690
Vehicles	51,149	3,768	6,857	61,774
	\$ 14,637,977	\$ 799,014	\$ 1,153,145	\$ 16,590,136

The accompanying notes are an integral part of these financial statements

HABITAT FOR HUMANITY – GREATER LOS ANGELES
STATEMENT OF CASH FLOWS

<i>For the years ended June 30,</i>	2010	2009
Operating activities:		
Change in net assets	\$ (2,355,745)	\$ (3,519,893)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Origination of non-interest bearing mortgages, net	(1,658,247)	(3,661,000)
Discount on origination of non-interest bearing mortgages	809,651	2,214,472
Discount on origination of non-interest bearing note payable	(3,811)	-
Forgiveness / transfer of notes payable, government agencies and related accrued interest to homeowners	(2,125,584)	(3,350,835)
In-kind contributions of property, equipment, and construction costs	(443,111)	-
Mortgage discount amortization	(326,087)	(306,220)
Amortization of discounts on unconditional promises to give, capital leases, and loan fees	(9,473)	-
Gain on sale / early payoff of mortgages	(42,067)	(10,191)
Loss (gain) on disposal of fixed assets	7,250	(3,000)
Loss on termination of development project	44,239	-
Depreciation	55,047	31,476
Change in value of investments	(331)	-
(Increase) decrease in assets:		
Cash held in trust	55,042	11,704
Contributions receivable	232,620	(576,147)
Prepaid expenses	(57,315)	-
Inventories	(319,837)	(153,235)
Construction in process, net of non-cash items	(1,085,340)	7,734,088
Finished homes held for sale, net of non-cash reacquisition of properties	5,257,496	710,060
Deposits and other assets (except loan fees)	97,890	163,454
Increase (decrease) in liabilities:		
Accounts payable	94,024	(173,159)
Accrued expenses, net of accrued capitalized interest and forgiven interest	155,398	(183,798)
Deposits and impounds	(6,183)	14,808
Deferred revenue	(88,796)	577,172
Net cash and cash equivalents provided by (used in) operating activities	(1,713,270)	(480,244)
Investing activities:		
Purchase of investments	(55)	(107,918)
Proceeds from sale of investments	7,948	12,449
Acquisition of property and equipment	(168,832)	(49,075)
Proceeds from sale of equipment	-	3,000
Proceeds from sale of mortgages	-	766,750
Mortgage payments received	509,657	468,705
Net cash provided by (used in) investing activities	348,718	1,093,911
Financing activities:		
Proceeds from bank line of credit	250,000	-
Payments on bank line of credit	(150,000)	(125,000)
Payment of loan fees	(8,000)	-
Cash proceeds from notes payable	641,821	870,225
Principal payments on notes payable	(146,751)	(156,448)
Payments on capital leases	(11,005)	(18,023)
Net cash provided by (used in) financing activities	576,065	570,754
Net change in cash and cash equivalents	(788,487)	1,184,421
Cash and cash equivalents, beginning of the year	1,819,282	634,861
Cash and cash equivalents, end of the year	\$ 1,030,795	\$ 1,819,282
Supplemental disclosure of cash flow information:		
Acquisition of land financed by notes payable	\$ 660,044	\$ 1,456,000
Reconveyance of land to government agency and associated forgiveness of note	\$ -	\$ 523,685
Acquisition of capitalized lease equipment	\$ 17,249	\$ -
Recognition of in-kind contributions and related assets and expenses	\$ 907,297	\$ 128,795
Accrued capitalized interest added to construction in process	\$ 3,234	\$ -
Interest paid	\$ 95,263	\$ 94,895

The accompanying notes are an integral part of these financial statements

For the years ended June 30, 2010 and 2009

NOTE 1

ORGANIZATION AND PURPOSE

Habitat for Humanity - Greater Los Angeles, Inc. (a non-profit corporation) (“Habitat” or the “Organization”) was incorporated on February 5, 1990, and was formerly known as Habitat for Humanity South Bay / Long Beach. Effective on July 14, 2005, Habitat for Humanity South Bay / Long Beach merged with Habitat for Humanity - Los Angeles and became Habitat for Humanity - Greater Los Angeles, Inc.

Habitat is an affiliate of Habitat for Humanity International, Inc. (“Habitat International”). Habitat is a non-denominational Christian non-profit organization whose mission is to build and renovate homes with a goal of eliminating substandard housing by making decent, affordable housing a matter of conscience and action in our communities. Although Habitat International assists with information resources, training, publications, prayer support, and in other ways, Habitat is an independently governed entity.

An equal housing lender and provider, Habitat addresses the issues of substandard housing through home ownership. To be considered for home ownership, Habitat families must demonstrate a need for better housing, an ability to make mortgage payments, and a willingness to work in partnership with Habitat. This partnership consists, in part, of each family completing 500 hours of “sweat equity”, submission of a one percent down payment by the family, and meeting monthly mortgage payments. Habitat acquires the land, finds and qualifies the families, raises the funding, finds and supervises construction volunteers, builds the houses, and provides the mortgages.

In 2007, Habitat commenced a new program known as “A Brush with Kindness.” Low-income homeowners in the community who demonstrate a need for exterior home repairs, but lack the funds to do it on their own, may apply for help under this program.

NOTE 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of financial statement presentation:

Habitat’s financial statements are prepared in conformity with generally accepted accounting principles (“GAAP”) using the accrual basis of accounting and follow the guidelines in the American Institute of Certified Public Accountants’ (“AICPA’s”) Audit and Accounting Guide, “Audits of Certain Nonprofit Organizations.” Significant accounting policies utilized by Habitat in preparing its financial statements are described below.

In preparing these financial statements, Habitat evaluated the period from June 30, 2010 through February 25, 2011, the date that the financial statements were available to be issued for subsequent events requiring recognition or disclosure in the accompanying financial statements.

Accounting principles:

Effective September 30, 2009, the Financial Accounting Standards Board (“FASB”) established the FASB Accounting Standards Codification (“ASC”) as the sole source of authoritative accounting to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. GAAP. Except for newly issued standards that have not been codified, references to codified literature have been updated to reflect this change.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the

For the years ended June 30, 2010 and 2009

reporting period. Actual results could differ from those estimates.

Net assets:

In accordance with ASC 958-205, *Not-for-Profit Entities - Presentation of Financial Statements*, Habitat's net assets, revenues, gains, expenses, and losses are classified as permanently restricted, temporarily restricted, and unrestricted based on the existence or absence of donor-imposed restrictions. These classifications are defined as follows:

- *Unrestricted net assets* – Net assets that do not contain donor restrictions or the donor-imposed restrictions have expired.
- *Temporarily restricted net assets* – Net assets that contain donor-imposed restrictions that permit Habitat to use or expend the donated assets as specified and are satisfied either by the passage of time or by actions of Habitat.
- *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of Habitat. Generally, the donors of these assets permit Habitat to use all or part of the income earned on related investments for general or specific purposes.

At this time, Habitat does not have net assets that are permanently restricted by time or purpose.

Contributions:

In accordance with ASC 958-605, *Not-for-Profit Entities - Revenue Recognition*, unconditional promises to give are recognized as revenue when the underlying promises are received by Habitat. Gifts of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that specify the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets

and reported in the statement of activities as net assets released from restrictions.

In-kind contributions and services:

Donated services are recognized as contributions in accordance with ASC 958-605 and subsections if the services (a) create or enhance nonfinancial assets or (b) require licensed skills, are performed by people with those skills, and would otherwise be purchased by Habitat.

A substantial number of volunteers have made significant contributions of their time to Habitat's program and supporting services. The value of this contributed time is not reflected in the financial statements since it does not require a specialized skill.

Donations of construction materials, property and equipment are recorded as in-kind 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.

Government funding:

Habitat receives funds from various government agencies ("Agencies") for pre-development costs associated with the development of land acquired for construction projects pursuant to "loan agreements". These agencies generally provide the funds to Habitat, interest free, with specified covenants and provisions that the land be used for low-income housing for the term of the note agreement. If Habitat complies with the provisions of the agreement, the note is forgiven by the agency when the property is sold to a qualified home buyer. The covenants and provisions of the note agreement transfer from Habitat to the qualified home buyer. Subsequent to the property's sale, if a covenant or provision is violated, the note is due and payable for the face amount of the note by the home buyer.

For the years ended June 30, 2010 and 2009

Home sales and cost of homes transferred:

Revenue is recognized on the sale of homes when title passes to eligible purchasers. Habitat generally recognizes home sale revenue based on the total of cash down payment, the face value of the non-interest bearing mortgage receivable, and the value of any government funding, such as notes payable forgiven and/or transferred to the homeowner at the time of sale (see Government funding above).

For the fiscal year ended June 30, 2010, revenue from home sales consisted of \$488,659 in cash receipts, \$1,658,247 of non-interest bearing mortgages, \$2,125,584 in forgiven/transferred notes payable and related accrued interest or total revenue recognized of \$4,272,490. For the fiscal year ended June 30, 2009, revenue from home sales consisted of \$944,259 in cash receipts, \$3,661,000 of non-interest bearing mortgages, and \$3,350,835 in forgiven/transferred notes payable or total revenue recognized of \$7,956,094.

Cost of homes transferred generally consists of capitalized home construction costs which are recorded as program expenses at the time of sale, the value of the discount on the non-interest bearing mortgage receivables, and certain other related costs. For the year ended June 30, 2010, cost of homes transferred consisted of \$5,637,386 in previously capitalized home construction costs and \$809,651 in discounts on non-interest bearing mortgages. For the year ended June 30, 2009, cost of homes transferred consisted of \$9,752,652 in previously capitalized home construction costs and \$2,214,472 in discounts on non-interest bearing mortgages. Total cost of homes transferred of \$6,447,037 and \$11,967,124 for the years ended June 30, 2010 and 2009, respectively, are included in program expenses in the statement of activities.

Retail stores:

In 2004, Habitat opened a Home Improvement Store (“Home Store”) in Gardena, California. Subsequent to year end, in July 2010, Habitat opened an additional Home Store in Norwalk, California. The

Home Stores sell new and used home furnishings and building and home improvement materials to the general public. Donations to the Home Stores are made by businesses, contractors, individuals, and other organizations that have surplus or discontinued merchandise.

As the primary purpose of the Home Stores is to raise funds for Habitat, all expenses of running the Home Stores are shown as program expenses in the Statement of Functional Expenses. The amount of revenue reported from the retail stores is its gross receipts, less any direct purchases of merchandise. As almost all revenue earned by the store is due to donations, such revenue is classified as public support in the statement of activities.

Concentration of credit risk:

Financial instruments that potentially subject the Organization to concentration of credit risk are primarily cash and cash equivalents and mortgage notes receivable. While the concentration of credit risk of mortgage notes receivable is diversified through numerous different borrowers, the borrowers are concentrated in Los Angeles County. Habitat’s cash funds are exposed to credit loss for the amount of funds held in financial institutions in excess of federally insured limits. Habitat had deposits at various times during the year in excess of the federally insured limits as the result of timing differences in payments. However, Habitat has not experienced and does not anticipate nonperformance by such institutions.

Cash and cash equivalents:

Habitat considers all highly liquid investments with an original maturity of three months or less, when purchased, to be cash equivalents.

For the years ended June 30, 2010 and 2009

Mortgages notes receivable:

Mortgage notes receivable consist of non-interest bearing promissory notes secured by the first trust deeds on homes developed and sold by Habitat. The mortgage notes receivable require monthly payments over the respective term of the note, generally 20 to 30 years. The value of mortgage receivables are reported net of a discount to reflect an estimated bank long-term lending interest rate in effect at the date the home is sold.

Additionally, most homes are encumbered with second, third, and/or fourth trust deeds in favor of either Habitat or a local government agency. The primary purpose of these additional mortgages is to allow Habitat or the agency to capture a certain portion of any equity appreciation over and above a specified amount if the home is sold before a certain number of years, usually 10 to 30. These mortgages usually bear no interest and are fully forgiven if the homeowner lives in the home for a certain period of time and complies with all other covenants and restrictions per the deed of trust. Accordingly, since these recorded mortgages receivable have no value unless or until a homeowner fails to comply with the covenants and restrictions of the terms of the home sale, Habitat does not record a value for these additional mortgage receivables.

Allowance for mortgage receivable losses:

Habitat uses strict lending criteria to ensure that only families who meet the Organization's financial and credit criteria are approved to be partner families and to receive a non-interest bearing mortgage loan from Habitat.

Habitat regularly reviews its mortgage receivables and monitors the accounts for delinquencies. Homeowners whose mortgages are 10 to 70 days past due are considered to be in various stages of default. Homeowners whose mortgages are more than 70 days past due who have not made satisfactory payment arrangements with Habitat are subject to foreclosure proceedings. As of the date of

these financial statements, there are no mortgages subject to foreclosure proceedings.

Since mortgage receivables are reported at a discounted value due to the imputing of applicable long-term borrowing rates and the fair market value of the collateral is generally significantly in excess of the discounted mortgage, Habitat believes that losses resulting from non-payment are not probable. Therefore, Habitat has not recorded an allowance for mortgage receivable losses.

Inventories:

Inventories primarily consist of building materials, which are used in the construction of homes, and donated materials that are sold in the Home Stores. Inventories are stated at lower of cost or market with cost determined by the first-in, first-out (FIFO) method. Home Store inventories are reported at estimated selling price, since the fair value is not reasonably determinable until the items are sold.

Property and equipment:

Depreciation is provided using the straight line method over the estimated useful lives of the assets as follows:

Autos and trucks	3-5 years
Computer software and hardware	3-5 years
Furniture and equipment	5-7 years
Leasehold improvements	39 years

Expenses which materially increase property lives are capitalized. The cost of maintenance and repair is charged to expenses as incurred. When depreciable property is retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in the statement of activities.

For the years ended June 30, 2010 and 2009

Investments:

During the year ended June 30, 2009, Habitat established a restricted bank account as part of its New Markets Tax Credits (“NMTC”) transaction (see Note 18). The terms of the agreement required that the restricted bank account be used to pay certain legal, accounting, and administrative costs associated with the NMTC and that the bank account be administered by a third-party. During the year ended June 30, 2010, the third party administrator invested some of these assets into short-term certificates of deposit and various fixed-income securities. During the years ended June 30, 2010 and 2009, the Organization recognized \$386 of investment earnings, which are recorded as other income in the Statement of Activities and Changes in Net Assets.

Deposits and impounds:

Generally, after a home receives a certificate of completion, the family who has committed to purchase the home is allowed to reside in the home prior to close of escrow. During this period, payments are made to Habitat by the family in an amount equal to the projected mortgage payment of the buyer, as if the property transfer had occurred, including the proportional share of property taxes and insurance. Due to delays beyond the control of the home buying families, there can be an unusually long period of time between the move in date and the close of escrow. Habitat generally follows a policy in which the interim mortgage portion of payments received from families is credited to the buyer’s future mortgage, thus resulting in a reduction of the mortgage at the time of sale. Accordingly, Habitat records interim rent payments as a deposit liability in the accompanying statement of financial position.

In addition, Habitat collects monthly payments from homeowners for property taxes and insurance, referred to as impounds. Habitat remits any property taxes and insurance due on the home directly to the County Assessor and insurance providers from the funds impounded from its mortgages.

Retirement plan:

Habitat adopted a 401(k) plan (the “Plan”) in May 2000 for the benefit of all permanent employees. All full time employees who are over the age of 21 may participate at the first enrollment period after hire. During the fiscal years ended June 30, 2010 and 2009, employer contributions to the Plan were \$68,604 and \$68,730, respectively.

Income taxes:

Habitat is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is exempt from state franchise taxes under Section 23701(d) of the California Revenue and Taxation Code, whereby only unrelated business income, as defined by Section 509(a)(1) of the Internal Revenue Code, is subject to federal income tax. Habitat does not believe that during the year ended June 30, 2010 that it had unrelated business income and accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

Habitat follows the provisions of FASB Accounting Standards Codification (“ASC”) 740-10, *Income Taxes – Overall*, and subsections, formerly FASB Interpretation No. 48. Accordingly, Habitat accounts for uncertain tax positions by recording a liability for unrecognized tax benefits resulting from uncertain tax positions.

Functional expenses:

Expenses related to more than one functional expense category are allocated based on estimations by the Organization. Salaries, benefits and other related expenses are allocated based on job function. Directly identifiable expenses are charged to construction and program support, management and general, or fundraising as applicable.

For the years ended June 30, 2010 and 2009

Reclassifications:

Certain reclassifications have been made to the June 30, 2009 financial statements to conform with the June 30, 2010 presentation. These reclassifications had no effect on the reported change in net assets for the year ended June 30, 2009.

NOTE 3

CONTRIBUTIONS RECEIVABLE

Contributions receivable, as of June 30, 2010 and 2009, consists of the following:

<i>As of June 30,</i>	2010	2009
Contributions receivable, gross	\$ 538,984	\$ 771,604
Less: Unamortized discount	(12,791)	(25,251)
Contributions receivable, net	\$ 526,193	\$ 746,353

<i>As of June 30,</i>	2010	2009
Amounts due in:		
Less than one year	\$ 538,984	\$ 521,604
One to five years	-	250,000
	\$ 538,984	\$ 771,604

Contributions receivable are recorded net of allowance for uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made. No allowance for uncollectible promises to give was recorded during the years ended June 30, 2010 and 2009.

Further, unconditional promises to give which are not due within the next fiscal year are also discounted to their present value using an internal discount rate, which was 5.25% for the years ended June 30, 2010 and June 30, 2009.

NOTE 4

MORTGAGE NOTES RECEIVABLE

Mortgage notes receivable, first trust deed, consist of non-interest bearing mortgage loans secured by real estate and payable in monthly installments over the lives of the respective mortgages, generally ranging from 20 to 30 years. These non-interest bearing mortgages have been discounted based upon prevailing market interest rates for low income housing at the inception of each mortgage and range from 4.69% to 8.30% per annum. During the fiscal years ended June 30, 2010 and 2009, Habitat imputed a discount interest rate ranging between 4.69% and 4.80% for mortgages originated during these years. The Organization recognizes the discount as interest income over the term of the mortgage using the effective interest method.

Mortgage notes receivable, junior lien position, consist of 16 mortgages made to homeowners using funds received by Habitat from the California Department Housing and Community Development ("CalHome"). These mortgages carry a term of 30 years, bear no interest, and require no payments over the term of the loan, unless the homeowner sells the home prior to the end of the 30-year term. At the end of 30 years, the homeowner is required to repay the principal amount of the loan in full. Habitat imputed a 7% discount rate based upon prevailing market interest rates for junior lien mortgages for these notes.

Habitat also pledges various mortgage notes receivable as collateral to secure various notes payable and obligations to its creditors. These arrangements may restrict Habitat's ability to sell, transfer or re-pledge these mortgages to other entities.

HABITAT FOR HUMANITY – GREATER LOS ANGELES
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For the years ended June 30, 2010 and 2009

Mortgage notes receivable and the related discount at June 30, 2010 and 2009, are summarized as follows:

<i>As of June 30,</i>	2010	2009
Mortgage notes receivable, first trust deeds	\$ 10,002,736	\$ 9,052,975
Mortgage notes receivable, junior lien position	1,000,000	1,000,000
Discount to present value	(5,659,007)	(5,303,516)
Present value of mortgage notes receivable	\$ 5,343,729	\$ 4,749,459

Scheduled mortgage notes receivable collections are summarized as follows:

<i>Years ending June 30,</i>	
2011	\$ 472,859
2012	476,034
2013	485,815
2014	490,487
2015	491,243
Thereafter	7,586,298
	\$ 10,002,736

Mortgage loan discount amortization for the years ended June 30, 2010 and 2009 was \$326,087 and \$306,220, respectively, and was included as revenue in the statement of activities.

During the year ended June 30, 2009, Habitat sold 15 mortgages to the California Housing Finance Agency (“CalHFA”) and First Republic Bank in order to raise additional funds for its projects. These mortgages had a face value of \$1,386,711 and a discounted value of \$619,961. Habitat received \$630,152 in net proceeds from the sale and recognized a gain of \$10,191 based on the difference in its internal discount rate on the 0% mortgages and the discount rate offered by the banks.

NOTE 5

INVENTORIES

Inventories consist of the following at June 30, 2010 and 2009:

<i>As of June 30,</i>	2010	2009
Building materials for home construction projects	\$ 268,355	\$ 114,231
Retail store inventory	519,348	353,635
	\$ 787,703	\$ 467,866

NOTE 6

CONSTRUCTION IN PROCESS

As of June 30, 2010 and 2009, construction in process is summarized by project as follows:

<i>As of June 30,</i>	2010	2009
Imperial Hwy - Lynwood	\$ 2,060,695	\$ 1,111,107
Norwalk projects	794,806	-
Long Beach projects	286,752	-
Lynwood - Palm Av	190,575	-
Burbank	63,726	3,524
Lawndale	15,432	-
Predevelopment and other costs	19,654	505
12812 Blodgett - Downey	-	148,336
South Gate	-	20,678
	\$ 3,431,640	\$ 1,284,150

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NOTES TO FINANCIAL STATEMENTS

For the years ended June 30, 2010 and 2009

Following is a summary of home building activity as of and for the years ended June 30, 2010 and 2009:

Home construction in process, beginning of year	11	\$ 1,284,150
Costs incurred on homes during fiscal 2010 - new and existing projects	15	2,543,710
Write-off of South Gate pre-development costs due to termination of project	0	(44,239)
Homes transferred to finished homes	(1)	(351,981)
	25	\$ 3,431,640
<hr/>		
Home construction in process, beginning of year	27	\$ 8,085,923
Costs incurred on homes during fiscal 2009 - new and existing projects	13	2,676,070
Reconveyance of Santa Monica property to the City.	(5)	(523,685)
Homes transferred to finished homes	(24)	(8,954,158)
	11	\$ 1,284,150

During the fiscal year ended June 30, 2008, Habitat and the City of Santa Monica (the “City”) jointly agreed to terminate the project at 2018 19th Street that was to have consisted of five affordable housing units. During the year ended June 30, 2009, Habitat conveyed title of the land and improvements built to date back to the City in exchange for full forgiveness of the outstanding City of Santa Monica note payable of \$523,685.

During the fiscal year ended June 30, 2010, Habitat and the City of South Gate jointly agreed to terminate the project on Church Street that was to have consisted of one affordable housing unit. During the year ended June 30, 2010, Habitat wrote off \$44,239 in predevelopment costs that it had incurred on this project; this is recorded as a

program expense in the statement of functional expenses.

NOTE 7

FINISHED HOMES HELD FOR SALE

As of June 30, 2010 and 2009, finished homes held for sale consisted of the following projects:

<i>As of June 30,</i>	2010	2009
Vermont Av - LA	\$ 69,804	\$ 1,926,007
5th Av - Venice	64,639	-
Pioneer Av - Wilmington	57,298	-
112th St / Grand Av - LA	-	1,045,877
4267 Fernwood - Lynwood	-	933,107
3076 Redwood - Lynwood	-	392,908
3927 Louise St - Lynwood	-	364,892
5255 Clark Av - Lynwood	-	354,070
227 S. Bonnie Beach	-	241,242
10519 Broadway - LA	-	78,311
	\$ 191,741	\$ 5,336,414

Following is a summary of finished homes activity as of and for the years ended June 30, 2010 and 2009:

<i>During the year ended June 30, 2010:</i>	Number of homes	Cost
Finished homes, beginning of year	18	\$ 5,336,414
Costs transferred to Finished Homes from construction in process	1	351,981
Additional costs incurred on finished homes during fiscal year	-	18,793
Reacquired from families	2	121,939
Homes transferred to new owners	(18)	(5,637,386)
	3	\$ 191,741

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For the years ended June 30, 2010 and 2009

<i>During the year ended June 30, 2009:</i>	Number of homes	Cost
Finished homes, beginning of year	20	\$ 6,046,474
Costs transferred to Finished Homes from construction in process	25	8,954,158
Additional costs incurred on finished homes during fiscal year	-	88,434
Homes transferred to new owners	(27)	(9,752,652)
	18	\$ 5,336,414

NOTE 8

PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following at June 30, 2010 and 2009:

<i>As of June 30,</i>	2010	2009
Autos & trucks	\$ 190,372	\$ 171,851
Construction equipment	13,265	13,265
Furniture & equipment	45,546	74,967
Computer software & hardware	122,343	107,939
Leasehold improvements	210,962	63,143
Total	582,488	431,165
Less: accumulated depreciation	(300,555)	(250,843)
Property & equipment, net	\$ 281,933	\$ 180,322

Depreciation expense for the years ended June 30, 2010 and 2009 was \$55,047 and \$31,476, respectively.

NOTE 9

DEPOSITS AND OTHER ASSETS

Deposits and other assets consist of the following at June 30, 2010 and 2009:

<i>As of June 30,</i>	2010	2009
Construction credits	\$ 72,825	\$ 218,485
Deposits	105,921	66,144
Loan fees	7,350	-
Beneficial interest in charitable remainder trusts	130,451	115,490
Other receivables	17,601	24,569
	\$ 334,148	\$ 424,688

Construction credits as of June 30, 2010 and 2009 consist of the remaining amount of a donation by the Home Depot, which originally provided Habitat with \$380,000 in store purchase credits for the purchase of environmentally-oriented construction materials.

Included within other assets at June 30, 2010 and 2009 is \$130,451 and \$115,490, respectively in beneficial interests in charitable remainder trusts.

Under a 1998 unitrust agreement, Habitat will receive 50% of the value of the trust at the time of the donor's and his income beneficiary's death. Assets held under the trust were \$177,537 and \$156,782 as of June 30, 2010 and 2009, respectively. Based on the donor and beneficiary life expectancy and the use of a 6% discount rate, the present value of future benefits expected to be received by the Organization were estimated to be \$56,453 and \$48,532, respectively. The \$7,921 increase and \$4,764 decrease in the estimated present value of the remainder interest at June 30, 2010 and 2009, respectively, were included in changes in value in split interest agreements in the statement of activities.

Under a 2002 unitrust agreement, Habitat will receive 100% of the value of the trust at the time of the donor's death. Assets held under the trust were \$74,484 and \$69,131 as of June 30, 2010 and 2009, respectively. Based on a donor and beneficiary life

For the years ended June 30, 2010 and 2009

expectancy and the use of a 5% discount rate, the present value of future benefits expected to be received by the Organization was estimated to be \$50,231 and \$45,583 at June 30, 2010 and 2009, respectively. The \$4,648 increase and \$19,283 decrease in the estimated present value of the remainder interest at June 30, 2010 and 2009, respectively, were included in changes in value in split interest agreements in the statement of activities.

Under a 2002 charitable remainder insurance trust agreement, Habitat will receive 50% of the value of the trust at the time of the donor's and his income beneficiary's death. Assets held under the trust were \$75,268 and \$69,501 as of June 30, 2010 and 2009, respectively. Based on a donor and beneficiary life expectancy and the use of a 5% discount rate, the present value of future benefits expected to be received by the Organization were estimated to be \$23,767 and \$21,375, respectively. The \$2,392 increase and \$9,185 decrease in the estimated present value of the remainder interest at June 30, 2010 and 2009, respectively, were included in changes in value in split interest agreements in the statement of activities.

NOTE 10

BANK LINE OF CREDIT

On or about February 11, 2008 the Organization entered into a revolving line-of-credit agreement (the "Credit Agreement") for borrowings not to exceed \$1,500,000 in the aggregate, until the Lender cancels the Organization's right to borrow. Under the Credit Agreement, interest is payable at the Wall Street Journal Prime Rate and is subject to certain covenants. Should the Lender cancel the Credit Agreement, the aggregate amount of all advances outstanding on the cancellation date shall be payable in 48 equal monthly principal installments. Indebtedness under the Credit Agreement is secured by substantially all of the Organization's personal property. As of June 30, 2010 and 2009, the Organization owed \$1,427,692 and \$1,327,692, respectively on this line of credit.

NOTE 11

ACCOUNTS PAYABLE

Accounts payable consists of the following at June 30, 2010 and 2009:

<i>As of June 30,</i>	2010	2009
Trade accounts payable	\$ 448,926	\$ 395,213
Related party payables	178,574	132,275
Other payables	4,528	10,516
	\$ 632,028	\$ 538,004

Related party payables consist mostly of tithes payable due to Habitat International and pass-through donations to be remitted to other Habitat for Humanity affiliates (see Note 19).

NOTE 12

ACCRUED EXPENSES

Accrued expenses consist of the following at June 30, 2010 and 2009:

<i>As of June 30,</i>	2010	2009
Accrued payroll and related	\$ 323,671	\$ 257,151
Accrued interest	3,234	94,860
Accrued rent	72,742	-
Accrued project expenses	-	13,008
Other accrued expenses	89,144	60,000
	\$ 488,791	\$ 425,019

Accrued interest consists of amounts due to various government agencies due to technical defaults on notes payable to these agencies. Generally, the interest is forgiven upon completion of the project and the related forgiveness of the note payable (see Note 15).

For the years ended June 30, 2010 and 2009

NOTE 13

NOTES PAYABLE, GOVERNMENTAL AGENCIES

Habitat is awarded grants by various governmental agencies, generally in the form of a loan to finance, in part, the acquisition and/or development of specific housing projects. These loans are secured by deeds of trust on the related development property. The loans generally are non-interest bearing and have a maturity date of the earlier of one to two years or the sale/transfer of the property. Upon project completion, if Habitat sells/transfers the property to a qualified buyer, the proportionate debt owed by Habitat on the property is forgiven and transfers to the buyer as a mortgage on the property. At the date of sale/transfer of the property and fulfillment of the terms of the note, the amount owed is reclassified as a portion of the sales price of the home.

The grant / loan agreements usually require a written disposition and development agreement (“DDA”) between Habitat and the city. These agreements require Habitat to comply with a number of requirements, including a promise to complete the project within a reasonable period of time and an agreement to sell the home or homes to low and very-low income families as defined in the DDA. If Habitat were to fail to comply with the terms of the DDA and related note payable, it could be required to repay principal and interest as set forth in the agreements. As of June 30, 2010 and 2009, management believes that it is in material compliance with all DDA’s and related grant/loan agreements.

Certain obligations with the City of Los Angeles and County of Los Angeles require that interest accrue on outstanding principal at an annual rate of 3% to 10%, commencing 24 months after the date of the loan should the project not be completed at that time. During the years ended June 30, 2010 and 2009, Habitat recorded \$0 and \$17,610, respectively of accrued capitalized interest. The capitalized interest amount was added to the value of the construction in process for the years then ended. As with the notes,

the accrued interest is fully forgiven upon completion of the project, with the debt forgiveness recorded as a component of sales proceeds from the property transfer/sale. Habitat recorded \$94,860 and \$65,083, respectively, during the years ended June 30, 2010 and 2009 of forgiven accrued interest. As with forgiveness of the note itself, forgiveness of accrued interest under these notes is considered part of the revenue from the sale of homes.

Between March 2008 and August 2008, Habitat entered into various notes payable and DDA’s with the City of Lynwood. The notes are secured by five different developments located throughout the City. These notes bear interest at 0% per annum, require no payments, and are forgivable to Habitat and may be transferred to the purchaser of each affordable home by the City of Lynwood. During the year ended June 30, 2010, Habitat completed and sold all of the homes secured by these loans except for the 10-unit project on Imperial Highway and accordingly, recognized \$1,191,216 of note forgiveness / sales revenue. At June 30, 2010 and 2009, \$1,051,000 and \$2,242,216, respectively, was outstanding on these loans.

During the year ended June 30, 2010, Habitat entered into various notes payable and DDA’s with the City of Norwalk as part of the federal Neighborhood Stabilization Program #1 (“NSP 1”). These notes are secured by three different developments located throughout the City. Two of these notes bear interest at 0% per annum and require no payments of principal and interest if the Organization is in compliance with the terms of the notes and DDA’s. Principal and interest are forgivable to Habitat and may be transferred to the purchaser of each affordable home by the City of Norwalk. The note secured by the development on 162nd Street requires that interest be accrued at the rate of 4% per annum but requires no payments of principal and interest. At June 30, 2010, \$762,564 was outstanding on these loans.

During the year ended June 30, 2010, Habitat entered into a note payable and DDA with the City of Lawndale, secured by a development located on

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For the years ended June 30, 2010 and 2009

163rd Street in the City. This note bears interest at 0% per annum and requires no payments of principal and interest if the Organization is in compliance with the terms of the note and DDA. Principal and interest are forgivable to Habitat and may be transferred to the purchaser of the affordable home by the City of Lawndale. At June 30, 2010, \$60,000 was outstanding on this loan.

Between June 2002 and September 2007, Habitat entered into various notes payable and DDA's with the City of Los Angeles Housing Department ("LAHD"). The notes are secured by developments located on Vermont Avenue, Grand Avenue, and 112th Street. These notes bear interest at rates ranging from 0% to 3% per annum and require no payments of principal or interest. During the year ended June 30, 2010, Habitat completed and sold all of the remaining homes secured by these loans and accordingly, recognized \$682,200 of note forgiveness / sales revenue. At June 30, 2010 and 2009, \$0 and \$682,200, respectively, was outstanding on these loans.

In March 2009, Habitat entered into a note payable and DDA with the City of Downey, secured by a development located on Blodgett Avenue in the City. This note bears interest at 0% per annum and requires no payments of principal and interest if the Organization is in compliance with the terms of the note and DDA. During the year ended June 30, 2010, Habitat completed and sold the home secured by this loan and accordingly, recognized \$90,000 of note forgiveness / sales revenue. At June 30, 2010 and 2009, \$0 and \$90,000, respectively, was outstanding on this loan.

On or around August 1995, Habitat entered into various notes payable and DDA's with the Los Angeles County Community Development Commission ("LACDC"). The notes are secured by developments located at 22 Dickerson and 225 and 227 Bonnie Beach. These notes bear interest at rates ranging from 3% to 10% per annum and require no payments of principal or interest. During the year ended June 30, 2010, Habitat completed and sold all of the remaining homes secured by these

loans and accordingly, recognized \$67,308 of note forgiveness / sales revenue. At June 30, 2010 and 2009, \$0 and \$67,308, respectively, was outstanding on these loans.

As set forth herein, the terms and conditions of these loans do not require Habitat to utilize cash to repay the obligation. Moreover, there are no scheduled maturities of the debt, since Habitat is relieved of an obligation to repay the loan upon transfer of the property to a qualified buyer. Accordingly, Habitat does not believe a table setting forth scheduled maturities of debt would be meaningful.

NOTE 14

NOTES PAYABLE, OTHER

Habitat entered into an unsecured note payable under the Self-Help Homeownership Opportunity Program ("SHOP") on November 1, 2009 with Habitat for Humanity International. The note bears interest at 0% per annum, requires payments of \$356 per month beginning in January 2012, and matures in January 2016. Habitat has imputed an interest rate of 6% on this note payable. As of June 30, 2010, Habitat owed \$17,101 on this note payable, net of present value discount.

Between 2003 and 2004, Habitat entered into two unsecured notes payable with Habitat for Humanity International where non-interest bearing funds were advanced under SHOP loans with monthly payments ranging between \$104 and \$156 and maturing between December 2011 and June 2012. As of June 30, 2010 and 2009, Habitat owed \$4,388 and \$7,508, respectively, on these notes payable.

In 2003 and 2004, Habitat entered into two secured notes payable with Habitat for Humanity International under the Accelerated Asset Recovery Program ("AARP"). The notes bear interest at 3.25% and 3.63% per annum, require monthly payments of principal and interest of \$2,247 and \$2,656, and mature on December 31, 2010 and December 31, 2011, respectively. Pursuant to the note entered into in 2003, Habitat granted a security

For the years ended June 30, 2010 and 2009

interest in 9 mortgage notes receivable with a net present value of \$179,639. As of June 30, 2010 and 2009, Habitat owed \$13,319 and \$39,318, respectively, on this note. Pursuant to the note entered into in 2004, Habitat granted a security interest in 11 mortgage notes receivable with a net present value of \$462,768. As of June 30, 2010 and 2009, Habitat owed \$46,318 and \$75,829, respectively, on this note.

On April 30, 2009, Habitat entered into a Loan and Security Agreement (“FlexCap Note 1”) with Habitat for Humanity International under which Habitat borrowed \$530,700 with a maturity date of June 30, 2019. The unpaid principal balance of the FlexCap Note 1 is payable in quarterly installments of \$18,147 including interest at 6.50% per annum. Habitat was required to establish a reserve fund of \$18,147 pursuant to the FlexCap Note 1, which is reported in the accompanying financial statements as deposits and other assets. Pursuant to the FlexCap Note 1, Habitat granted a security interest in 22 mortgage notes receivable with a net present value of \$912,273. As of June 30, 2010 and 2009, Habitat owed \$491,668 and \$530,700, respectively, on this Note.

On October 22, 2009, Habitat entered into a Loan and Security Agreement (“FlexCap Note 2”) with Habitat for Humanity International under which Habitat borrowed \$462,000 with a maturity date of December 31, 2019. The unpaid principal balance of the FlexCap Note 2 is payable in quarterly installments of \$15,805 including interest at 6.50% per annum. Habitat was required to establish a reserve fund of \$15,805 pursuant to the FlexCap Note 2, which is reported in the accompanying financial statements as deposits and other assets. Pursuant to the FlexCap Note 2, Habitat granted a security interest in 18 mortgage notes receivable with a net present value of \$712,358. At June 30, 2010, \$445,477 was outstanding under the Note.

The FlexCap Notes require Habitat to comply with certain covenants, including the following financial covenants:

- Habitat shall at all times maintain minimum net assets of \$250,000;
- Habitat shall have at least ten (10) mortgage loans in its performing mortgage pool;
- Habitat shall own free and clear of all liens and encumbrances at least 40% of the total of mortgage loans in the performing mortgage pool;
- Mortgage receivables pledged have aggregate mortgage payments equal to or greater than 105% of the quarterly payment;
- And have aggregate values equal to or greater than 125% of the outstanding note balance.

As of June 30, 2010 and 2009, management believes it was in compliance with the terms and conditions of the Notes.

On or about January 1, 1999, Habitat had entered into a note payable with an individual. The note bears interest at 7% per annum, is payable in monthly installments of \$134, and matures in January 2024. As of June 30, 2010 and 2009, Habitat owed \$13,712 and \$14,481, respectively, on this note.

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The following table summarizes the scheduled maturities of notes payable, other:

<i>Years ending June 30,</i>	Amounts
2011	\$ 124,266
2012	102,158
2013	92,160
2014	98,228
2015	104,712
Thereafter	506,647
Total	\$ 1,028,171

NOTE 15

CAPITAL LEASE OBLIGATION

Habitat is obligated under various capital leases related to the purchase of vehicles and certain office equipment, with interest rates between 5.0% and 13.93% per annum and maturing between July 2011 and November 2012.

Minimum future lease payments under the capital leases are as follows:

<i>As of June 30,</i>	2010	2009
Capital leases payable	\$ 37,102	\$ 50,185
Less: amounts representing interest	(3,184)	(2,675)
Present value of net lease payments	\$ 33,918	\$ 47,510

The following table summarizes the scheduled maturities of capital leases payable:

<i>Years ending June 30,</i>	
2011	\$ 22,278
2012	13,001
2013	1,823
Total	\$ 37,102

Included in property and equipment in the accompanying balance sheet are the following assets held under capital lease:

<i>As of June 30,</i>	2010	2009
Vehicles	\$ 15,440	\$ 31,811
Equipment	50,988	63,160
Less: accumulated depreciation	(36,835)	(51,810)
Assets under capital lease, net	\$ 29,593	\$ 43,161

NOTE 16

HOME IMPROVEMENT STORE

The Organization operates a Home Stores located in Gardena, California. The Home Store receives donations of building supplies, furniture, and appliances and sells these items to the general public. The donated items are recorded in the statement of activities at their fair market value, with fair market value generally determined by the selling price for that item. The accounting for the in-kind donations and the sales transactions is as follows:

<i>For the years ended June 30,</i>	2010	2009
Donations to Home Store	\$ 1,663,545	\$ 1,416,758
Sales of donated and purchased items	1,494,760	1,259,857
Delivery surcharges	1,100	1,120
Fair market value of items sold	(1,494,760)	(1,259,857)
Purchased inventory	(3,773)	(8,381)
Net revenue from retail store	\$ 1,660,872	\$ 1,409,497

For the years ended June 30, 2010 and 2009

NOTE 17

RELATED PARTY TRANSACTIONS

Habitat remits a discretionary portion of its unrestricted contributions (excluding in-kind contributions) to Habitat International on an annual basis. These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2010 and 2009, Habitat calculated \$37,404 and \$168,926 in tithes expense. Of this amount, \$95,560 and \$133,747 remained payable to Habitat International as of June 30, 2010 and 2009, respectively. These amounts are included in related party payables in Note 13.

Habitat received a federal pass-through grant from Habitat International for the year ended June 30, 2010 under a SHOP loan. In accordance with the terms of the program, 75%, or \$51,304 was considered as temporarily restricted support for the Lynwood – Imperial Highway project and 25%, or \$17,101, was considered to be a noninterest bearing loan that must be repaid over 48 months (see also Note 16).

During the year ended June 30, 2010, Habitat borrowed \$462,200 from Habitat International under a secured note (“Note”) payable. The note bears interest equal to 6.5% per annum, is payable in 40 quarterly installments of \$15,805, including principal and interest, and matures on December 31, 2019. Habitat is required to maintain a reserve account equal to one quarterly payment and is required to pledge as security a number of mortgages whose (a) aggregate principal payments equal to 105% of the equivalent monthly installment amount of \$5,268 and (b) whose aggregate mortgage value is equal to 125% of the loan balance. If any of these mortgages go into default, Habitat is required to substitute a mortgage in good standing in order to satisfy the terms above (see also Note 16).

During the year ended June 30, 2009, Habitat borrowed \$530,700 from Habitat International under a secured note (“Note”) payable. The note bears interest equal to 6.5% per annum, is payable in 30

quarterly installments of \$18,147, including principal and interest, and matures on June 30, 2019. Habitat is required to maintain a reserve account equal to one quarterly payment and is required to pledge as security a number of mortgages whose (a) aggregate principal payments equal to 105% of the equivalent monthly installment amount of \$6,049 and (b) whose aggregate mortgage value is equal to 125% of the loan balance. If any of these mortgages go into default, Habitat is required to substitute a mortgage in good standing in order to satisfy the terms above (see also Note 16).

NOTE 18

NEW MARKETS TAX CREDIT TRANSACTION

In December 2008, the Organization entered into a New Markets Tax Credit (“NMTC”) transaction involving U.S. Bancorp Community Development Corporation (“USBCDC”), its related entities and agents. The following is a summary of the NMTC Transaction.

HFHI-SA Leverage II, L.L.C.:

In general, in December 2008 the Organization acquired a 50% membership, interest in HFHI – SA Leverage II, L.L.C. (the “LLC”) in exchange for a capital contribution of \$2,420,299. The LLC is owned 50% by another affiliate of Habitat for Humanity International, Inc. The LLC was formed by USBCDC to provide financing for the borrower’s equity investment in a community development entity – MBS-UI Sub-CDE VIII, L.L.C (“CDE”). Accordingly, the LLC entered into a Loan Agreement to lend \$4,840,598 to MBS-UI Investment Fund VIII, L.L.C. (“Borrower”). The Borrower used the loan proceeds as its equity investment in the CDE which, in turn, used the proceeds of the Borrower’s equity investment to fund the loans to the members of the LLC set forth below. The loan receivable bears interest at a rate of 3.95%, with 1.00% being interest currently payable and 2.95% being accrual interest. The loan receivable matures on December 16, 2023 and requires semi-annual principal payments

For the years ended June 30, 2010 and 2009

commencing on December 16, 2015 sufficient to fully amortize the loan. The LLC is solely managed by a third party.

Simultaneous with these transactions, the LLC entered into an Option Agreement with USBCDC and the sole member (the “2008 Fund”) of MBS-UI Investment Fund VIII, LLC to put the ownership interest in the 2008 Fund for \$1,000 commencing on June 15, 2015 and continuing for 3 months, or call the ownership interest for a 12 month period following the expiration of the Put Option at fair market value.

Loan payable – MBS-UI Sub-CDE VIII, L.L.C.:

As a component of the NMTC transaction, the Organization and its affiliate (co-owner of the LLC) each received a loan of \$3,430,000 from the CDE and entered into a Loan and Security Agreement (“Agreement”) dated December 18, 2008. The Organization is obligated under the Agreement and related Promissory Note to pay interest on the borrowings at a rate of 0.706% per annum with a maturity date of December 18, 2023. Commencing on December 18, 2015 and semi-annually thereafter, the Organization is required to make equal principal and interest payments in an amount to fully amortize the loan by its maturity date.

As set forth in the 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 such that the Separate Business will qualify as a qualified active low-income community business as defined in IRC Section 45D. Only the Separate Business assets of the Organization were pledged as security under the Agreement to the CDE.

Financial statement presentation:

The Organization has imputed a fair value rate of interest of approximately 4.0% on the Note Payable to CDE, resulting in a discount of approximately \$1,010,000 of the Note Payable at December 18,

2008. This discount, net of the NMTC transaction costs of \$388,000, results in a net amortizable discount approximately equal to the cash flow received by the Organization. As a result, the Organization has recorded net deferred revenue of \$621,570 at December 18, 2008 to reflect the net revenue the Organization will effectively receive from the NMTC transaction over its term. After fees and expenses, the Organization received \$621,570 in net cash proceeds to invest in its low-income housing projects. The Organization is amortizing the net deferred revenue from the NMTC transaction over 7 years. As of June 30, 2010 and 2009, the Organization had amortized and reported as revenue, \$88,796 and \$44,398, respectively, of the net deferred revenue. Deferred revenue, consisting entirely of amounts related to the NMTC transaction, was \$488,376 and \$577,172 at June 30, 2010 and 2009, respectively.

The NMTC transaction, as set forth above, provides the Organization, from an economic perspective, a right of offset of the Loan Payable to the CDE versus the loan receivable from the Borrower. The right of offset arises in part due to the related party nature and flow of funds in the NMTC transaction, and in part, as a result of the Option Agreement effectively providing a legal right of offset. Accordingly, the Organization’s financial statements report only the net asset value of the NMTC transaction, after offsetting the discounted note payable CDE, transaction costs and investment in LLC.

For the years ended June 30, 2010 and 2009

NOTE 19

NEIGHBORHOOD STABILIZATION PROGRAM GRANTS

On or about December 23, 2009, Habitat executed an agreement with the City of Norwalk (“Norwalk”) in which Habitat would serve as Norwalk’s Community Housing Development Organization. The agreement calls for Habitat to receive up to \$1,273,249 in the form of loans to acquire, rehabilitate, and develop properties in the City for resale to qualified low-to-moderate income families. The funding is provided by the Neighborhood Stabilization Program 1 (“NSP 1”), which was authorized under the Housing and Recovery Act of 2008. During the year ended June 30, 2010, Habitat borrowed \$762,564 in NSP 1 funds from Norwalk to acquire and develop four land parcels for resale. These loans are included in notes payable, governmental agencies (see also Note 13).

On or about June 8, 2010, Habitat executed an agreement with Habitat International in which Habitat would provide services as a developer to conduct eligible activities in targeted census areas in the cities of Lynwood and South Gate. The agreement provides for Habitat to receive up to \$27,901,674 between the date of the agreement and December 2012 to conduct eligible activities, which include rehabilitation of up to 60 existing homes, construction of up to 13 new homes, and the provision of up to 35 “soft second” loans to assist individuals in the acquisition, rehabilitation, and/or improvement to existing abandoned or foreclosed-upon housing stock in the aforementioned cities. The funding under this agreement is provided by the Neighborhood Stabilization Program 2 (“NSP 2”), which was authorized under the American Recovery and Reinvestment Act of 2009. As of June 30, 2010, no funds were drawn for eligible activities under this agreement.

On or about April 2, 2010, Habitat received a commitment of funding under the NSP 2 program as part of a consortium with other non-profit organizations and the City of Long Beach. The

consortium as a whole is eligible to receive up to \$22,249,980 in funding for the acquisition and redevelopment of abandoned or foreclosed-upon housing stock in the City of Long Beach. Habitat, for its part, has been authorized to receive a maximum of \$5,562,495 for its activities as part of this consortium. During the year ended June 30, 2010, Habitat received a contribution of land located on Cerritos Avenue from the City of Long Beach, which was purchased with \$226,288 in NSP 2 grant funds. Habitat will receive additional funds under the NSP 2 program to rehabilitate and redevelop this property.

NOTE 20

COMMITMENTS AND CONTINGENCIES

Habitat leases its administrative offices as well as its “Home Store” retail operation facilities on a noncancellable operating lease through July 2015. In February 2010, the Organization leased an additional “Home Store” facility commencing on March 1, 2010 under an annual operating lease agreement from an unrelated party through July 31, 2016. Rent expense for the years ended June 30, 2010 and June 30, 2009 under these leases was \$296,188 and \$178,772, respectively.

In addition, Habitat also leased a warehouse to store building materials inventory on an operating lease running through August 2014. Rent expense for the years ended June 30, 2010 and June 30, 2009 was \$164,436 and \$168,111, respectively.

HABITAT FOR HUMANITY – GREATER LOS ANGELES
NOTES TO FINANCIAL STATEMENTS

For the years ended June 30, 2010 and 2009

Future minimum rental payments under the noncancellable operating leases are as follows:

<i>Years ending June 30,</i>	Building Lease	Warehouse Lease
2011	\$ 374,992	\$ 159,309
2012	437,372	163,296
2013	452,865	167,377
2014	460,484	171,556
2015	286,039	16,307
Thereafter	22,510	-
	\$ 2,034,262	\$ 677,845

NOTE 21

TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2010 and 2009 consist of amounts restricted by donor-imposed stipulations as follows:

<i>As of June 30,</i>	2010	2009
Long Beach projects	\$ 314,843	\$ -
Operation Home Delivery	291,535	291,535
Charitable remainder trusts	130,451	115,670
Burbank project	116,485	24,934
163rd St - Lawndale	42,028	4,150
A Brush with Kindness	26,000	35,000
Pfaffinger Foundation Grant	17,699	17,699
Other	9,524	
Housing Center for Excellence	-	84,200
12812 Blodgett - Downey	-	42,188
Imperial Hwy - Lynwood	-	19,854
Total	\$ 948,565	\$ 635,230

HABITAT FOR HUMANITY – GREATER LOS ANGELES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2010

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Disbursements/ Expenditures
U.S. Department of Housing and Urban Development			
Pass-through from the City of Los Angeles:			
Home Investment Partnerships Program Funds - Vermont Avenue	14.239	C-103805	\$450,000
Home Investment Partnerships Program Funds - 112th Street; Grand Avenue	14.239	C-89417	232,200
Total pass-through from the City of Los Angeles			682,200
Pass-through from the County of Los Angeles -			
Home Investment Partnerships Program - Bonnie Beach	14.239	HE0018	67,308
Pass-through from the City of Lynwood:			
Home Investment Partnerships Program - Fernwood Avenue	14.239		391,109
Home Investment Partnerships Program - Clark Street	14.239		201,295
Home Investment Partnerships Program - Redwood Avenue	14.239		376,637
Home Investment Partnerships Program - Imperial Highway	14.239		1,051,000
Home Investment Partnerships Program - Louise Street	14.239		75,000
Home Investment Partnerships Program - Palm Avenue	14.239		120,000
Total pass-through from the City of Lynwood			2,215,041
Pass-through from the City of Long Beach - ARRA -			
Neighborhood Stabilization Program	14.256		226,288
		02 #91046	
		02 #93012	
		04 #111113	
Pass-through from Habitat for Humanity International - Self-Help Homeownership Opportunity Program	14.247	08 #151049	72,792
Total			\$3,263,629

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards

HABITAT FOR HUMANITY – GREATER LOS ANGELES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

For the year ended June 30, 2010

Note to Schedule of Expenditures of Federal Awards:

Note A – **Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Habitat and is prepared on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

HABITAT FOR HUMANITY – GREATER LOS ANGELES

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

For the year ended June 30, 2010

Board of Directors
Habitat for Humanity – Greater Los Angeles
Gardena, California

We have audited the financial statements of Habitat for Humanity – Greater Los Angeles (“Habitat”) (a California non-profit organization) as of and for the year ended June 30, 2010, and have issued our report thereon dated February 25, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Habitat’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rossi Moskowitz & Finkelstein LLP

February 25, 2011

HABITAT FOR HUMANITY – GREATER LOS ANGELES

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

For the year ended June 30, 2010

Board of Directors

Habitat for Humanity – Greater Los Angeles

Gardena, California

COMPLIANCE

We have audited the compliance of Habitat (a California nonprofit organization) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on Habitat’s major federal program for the year ended June 30, 2010. Habitat’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Habitat’s management. Our responsibility is to express an opinion on Habitat’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Habitat’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Habitat’s compliance with those requirements.

In our opinion, Habitat complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2010.

INTERNAL CONTROL OVER COMPLIANCE

The management of Habitat is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Habitat’s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express such an opinion.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material

HABITAT FOR HUMANITY – GREATER LOS ANGELES

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)

For the year ended June 30, 2010

noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rossi Doskoil & Finkelstein LLP

February 25, 2011

HABITAT FOR HUMANITY – GREATER LOS ANGELES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2010

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of Habitat for Humanity – Greater Los Angeles.
2. No significant deficiencies relating to the audit of the financial statements are reported in the *Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Habitat for Humanity – Greater Los Angeles, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal programs are reported in the *Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133*.
5. The auditor's report on compliance for the major federal award program for Habitat for Humanity – Greater Los Angeles expresses an unqualified opinion on the major program.
6. No audit findings relating to the major federal award program that is required to be reported under Section 510(a) of OMB Circular A-133 were disclosed during the audit.
7. The program tested as a major program was the Home Investment Partnerships Program, CFDA # 14.239.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Habitat for Humanity – Greater Los Angeles was not determined to be a low-risk auditee.

B. Findings — Financial Statements Audit

NONE

C. Findings — Major Federal Award Programs Audit

NONE

D. Prior Year Findings and Questioned Costs:

NONE