Habitat for Humanity®
Greater Los Angeles

FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED
JUNE 30, 2013

HABITAT FOR HUMANITY OF GREATER LOS ANGELES, INC.
FINANCIAL STATEMENTS

CONTENTS

As of and for the year ended June 30, 2013	**Page**
Report of Independent Auditors	1 – 2
Financial statements:	
Statements of financial position as of June 30, 2013 and 2012	3
Statements of activities and changes in net assets for the year ended June 30, 2013, with comparative totals for June 30, 2012	4
Statements of functional expenses for the years ended June 30, 2013, with comparative totals for June 30, 2012	5
Statements of cash flows for the years ended June 30, 2013 and 2012	6
Notes to financial statements	7 – 25

RDF

ROSSI DOSKOCIL & FINKELSTEIN

LLP

Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Habitat for Humanity of Greater Los Angeles, Inc. ("HFHGLA") (a California Not-for-Profit Organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

400 Oceangate, Suite 1000 * Long Beach, California 90802 * Telephone (562) 495-3325 * Fax (562) 495-3425 * www.rdfcpas.com

Change in Accounting Principle

As described in Note 20 to the financial statements, HFH GLA changed its accounting policy for recognizing NSP grant revenue from its previous policy of reporting revenue at the time eligible costs were incurred under the Program to deferring NSP grant revenue and recognizing the revenue at the time the associated housing unit is sold to a qualified buyer. Accordingly, the June 30, 2012 summarized financial statements have been restated as a result of the accounting policy change. Our opinion is not modified with respect to this matter.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HFHGLA as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the HFHGLA's 2012 financial statements, and our report dated December 20, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented here in as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Rossi Doskocil & Finkelstein LLP

March 28, 2014
Long Beach, California

HABITAT FOR HUMANITY OF GREATER LOS ANGELES, INC.
STATEMENTS OF FINANCIAL POSITION

As of June 30,	2013	Restated 2012
ASSETS		
Cash and cash equivalents	$ 4,846,742	$ 1,514,138
Program service grants receivable, net of allowance for doubtful accounts	362,403	1,006,022
Unconditional promises to give, net of unamortized discount	707,942	764,711
Mortgage notes receivable, net of unamortized discount	8,694,414	6,076,619
Prepaid expenses	243,101	180,295
Inventories	642,703	708,047
Construction in process	1,728,500	19,047,871
Finished homes held for sale	17,456,947	70,273
Property and equipment, net of accumulated depreciation and amortization	292,427	309,809
Investments	32,259	48,954
Deposits and other assets	327,189	367,832
Total assets	$ 35,334,627	$ 30,094,571
LIABILITIES AND NET ASSETS		
Bank line of credit	$ 918,909	$ 1,246,692
Accounts payable	746,122	1,665,959
Accrued expenses	621,026	537,522
Deposits and impounds	207,755	259,108
Deferred revenue	18,565,070	15,408,354
Capital leases payable	19,992	29,320
Notes payable - governmental agencies	248,757	1,743,338
Notes payable - Habitat International	3,718,188	1,456,281
Total liabilities	25,045,819	22,346,574
Commitments		
Net assets:		
Unrestricted	9,259,937	6,488,693
Temporarily restricted	1,028,871	1,259,304
Total net assets	10,288,808	7,747,997
Total liabilities and net assets	$ 35,334,627	$ 30,094,571

The accompanying notes are an integral part of these financial statements

HABITAT FOR HUMANITY OF GREATER LOS ANGELES, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2013, WITH COMPARATIVE TOTALS FOR JUNE 30, 2012

For the year ended June 30, 2013	Unrestricted	Temporarily restricted	Totals	Restated June 30, 2012 Totals
Revenue, gains, and other support:				
Contributions	$ 1,697,022	$ 1,391,993	$ 3,089,015	$ 2,880,058
Government grants	-	172,995	172,995	99,509
NSP program service grants	10,954,036	-	10,954,036	5,419,443
Sales of homes	10,872,191	1,162,753	12,034,944	6,651,238
ReStores - donations and sales revenue	5,225,354	-	5,225,354	4,367,618
Mortgage loan discount amortization	429,093	-	429,093	352,833
In-kind contributions	734,760	420,428	1,155,188	712,842
New markets tax credits - amortized revenue	88,796	-	88,796	88,796
Other income	246,637	15,526	262,163	269,051
Net assets released from restrictions:				
Satisfaction of program/donor restrictions	3,394,128	(3,394,128)	-	-
Total revenue, gains, and other support	33,642,017	(230,433)	33,411,584	20,841,388
Expenses:				
Cost of homes sold and program support	29,102,362	-	29,102,362	18,247,044
Management and general	1,310,189	-	1,310,189	1,388,364
Fundraising	458,222	-	458,222	319,290
Total expenses	30,870,773	-	30,870,773	19,954,698
Change in net assets	2,771,244	(230,433)	2,540,811	886,690
Net assets, beginning of year	6,488,693	1,259,304	7,747,997	6,861,307
Net assets, end of year	$ 9,259,937	$ 1,028,871	$ 10,288,808	$ 7,747,997

The accompanying notes are an integral part of these financial statements

HABITAT FOR HUMANITY OF GREATER LOS ANGELES, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2013, WITH COMPARATIVE TOTALS FOR JUNE 30, 2012

For the year ended June 30, 2013	**Cost of homes transferred & program support**	**Management & general**	**Fundraising**	**Totals**	**Restated June 30, 2012 Totals**
Cost of homes sold - construction costs	$ 15,204,148	$ -	$ -	$ 15,204,148	$ 8,936,137
Cost of homes sold - mortgage discount expense	3,385,204	-	-	3,385,204	797,366
Cost of goods sold - ReStores	2,760,711	-	-	2,760,711	2,299,584
Salaries	2,616,365	644,169	266,603	3,527,137	3,341,412
Payroll taxes and benefits	756,461	157,037	52,993	966,491	823,390
Americorp	101,098	2,334	3,578	107,010	82,758
Bad debt expense	230,029	-	-	230,029	182,344
Bank fees and charges	56,984	23,160	14,318	94,462	59,614
A Brush with kindness - supplies	1,082,444	-	-	1,082,444	138,180
Build events and community programs	336,158	-	-	336,158	136,419
Contributions to other non-profit organizations	4,625	-	-	4,625	12,500
Depreciation	39,547	4,546	1,363	45,456	70,526
Facilities - rent / lease costs	647,516	21,273	8,846	677,635	669,369
Insurance	50,721	5,151	1,579	57,451	47,617
Interest and amortization of loan fees	121,608	1,651	-	123,259	155,147
Office and other	268,097	96,074	55,329	419,500	439,038
Professional and outside services	602,509	310,365	35,340	948,214	531,485
Real estate - closing and development	210,626	-	-	210,626	173,564
Telephone	76,555	12,554	6,005	95,114	132,712
Tithes	108,990	-	-	108,990	421,719
Travel	55,307	19,484	8,109	82,900	72,257
Utilities and facility maintenance	263,412	12,030	3,886	279,328	245,406
Vehicles	123,247	361	273	123,881	186,154
	$ 29,102,362	$ 1,310,189	$ 458,222	$ 30,870,773	$ 19,954,698

The accompanying notes are an integral part of these financial statements

HABITAT FOR HUMANITY OF GREATER LOS ANGELES, INC.
STATEMENTS OF CASH FLOWS

For the year ended June 30,	2013	Restated 2012
Operating activities:		
Change in net assets	$ 2,540,811	$ 886,690
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Origination of non-interest bearing mortgages, net	(6,173,235)	(1,821,750)
Discount on origination of non-interest bearing mortgages	3,385,205	797,366
Forgiveness / transfer of notes payable, government agencies and related accrued interest to homeowners	(1,944,059)	(2,349,519)
In-kind contributions of property, construction costs, and other assets	(486,113)	(274,869)
Mortgage discount amortization	(429,093)	(352,833)
Amortization of discounts on unconditional promises to give, capital leases, and loan fees, net	-	(5,500)
Loss (gain) on long-term assets	-	4,953
Loss on termination of development project	(20,374)	-
Depreciation	45,456	70,526
(Increase) decrease in assets:		
Program service grants receivable	643,619	(463,022)
Contributions receivable	56,769	72,443
Prepaid expenses	(62,806)	(65,385)
Inventories	65,344	(135,189)
Construction in process, net of non-cash items	17,837,348	(7,642,681)
Finished homes held for sale, net of non-cash reacquistion of properties	(17,386,674)	4,374,852
Deposits and other assets (except loan fees)	64,643	56,760
Increase (decrease) in liabilities:		
Accounts payable	(919,837)	83,321
Accrued expenses, net of accrued capitalized interest and forgiven interest	98,421	14,195
Deposits and impounds	(51,353)	128,123
Deferred revenue	3,156,716	4,773,777
Net cash and cash equivalents provided by (used in) operating activities	420,788	(1,847,742)
Investing activities:		
Proceeds from sale of investments	16,695	16,919
Acquisition of property and equipment	(28,074)	(31,018)
Proceeds from sale of equipment	-	-
Mortgage payments received	599,328	501,142
Net cash and cash equivalents provided by (used in) investing activities	587,949	487,043
Financing activities:		
Proceeds from bank line of credit	2,034,042	415,000
Payments on bank line of credit	(2,361,825)	(465,000)
Payment of loan fees	(24,000)	-
Cash proceeds from notes payable	2,823,071	1,459,255
Principal payments on notes payable	(138,093)	(143,169)
Payments on capital leases	(9,328)	(19,900)
Net cash and cash equivalents provided by (used in) financing activities	2,323,867	1,246,186
Net change in cash and cash equivalents	3,332,604	(114,513)
Cash and cash equivalents, beginning of the year	1,514,138	1,628,651
Cash and cash equivalents, end of the year	$ 4,846,742	$ 1,514,138

The accompanying notes are an integral part of these financial statements

As of and for the year ended June 30, 2013

NOTE 1

ORGANIZATION AND PURPOSE

Habitat for Humanity of Greater Los Angeles, Inc. (“HFH GLA” or the “Organization”) works in partnership with God, the community and people in need by building and renovating homes to make affordable home ownership possible for low-income, hardworking families and individuals. HFH GLA serves all of the neighborhoods throughout greater Los Angeles. Through volunteer labor and tax-deductible donations of money and materials, HFH GLA builds and renovates simple, sustainable and affordable homes with the help of the homeowner (partner) families and individuals. Habitat for Humanity (“HFH”) houses are sold to the partner homeowners at no profit and financed with affordable, no-interest loans. HFH is not a give-away program. In addition to a down payment and monthly mortgage payments, first-time homeowners who meet the selection criteria of the Homeowner Relations Committee invest up to 500 hours of their own labor (“sweat equity”) into the building of their homes.

HFH GLA is an affiliate of Habitat for Humanity International, Inc. (“Habitat International”). Although Habitat International assists with information resources, technical support, and national partnerships, HFH GLA is an independently governed entity.

HFH GLA strives to effectively address the growing housing crisis with comprehensive and creative strategies through its different housing initiatives, including:

New construction:

The HFH GLA traditional building model is to build new homes for hardworking, low-income families and individuals in need. The overwhelming need for housing in Los Angeles County has provided HFH GLA with a unique opportunity to change lives in our neighborhoods. Los Angeles ranks as one of the least affordable housing areas in the U.S. and yet HFH of the few – if not only – affordable homeownership programs that serves families and individuals earning 30-80% of the median area income. Cost burden and overcrowding are the most serious problems experienced by very low-income area residents. Working with volunteers, families and individuals, corporations, congregations and donors, HFH GLA is able to tackle this important housing issue throughout the greater Los Angeles area.

Neighborhood Stabilization Program:

HFH GLA has partnered with local cities and communities for over twenty years. HFH GLA understands first-hand what it takes to transform communities, wanting to ensure that the investment it has made in home ownership does not fall victim to a challenged economy nor places families and neighborhoods at risk of destabilization. In response, HFH GLA has expanded its rehabilitation program to transform foreclosed properties into homeownership opportunities for low and very low-income families.

HFH GLA joined with the U.S. Department of Housing and Urban Development (“HUD”) in the federal Neighborhood Stabilization Program (“NSP”) to purchase foreclosed properties and stabilize communities that have suffered from foreclosures and abandonment. Using NSP funds, HFH GLA has helped families realize the american dream of homeownership through responsible lending, creating a positive and immediate impact throughout the Greater Los Angeles region.

Home repairs:

HFH GLA helps low-income homeowners restore and maintain their homes through its Home Repair Program. HFH GLA’s Home Repair Program aims to alleviate critical health, life, and safety issues. Qualified and selected homeowners receive a variety of exterior home repair services including but not limited to exterior painting, landscaping, ramps, roofing, window and door replacements. Interior repairs can include plumbing, electrical work, insulation, and ceiling repairs. Homeowners participate in their repairs by contributing sweat equity volunteer hours if physically able. All home repairs are led by trained crew leaders and completed by volunteers.

Green building, Habitat style:

HFH GLA believes in developing affordable housing that is also sustainable. At HFH GLA "green building" is defined as providing housing for people with methods, products and processes that lessen the detrimental impacts on the health of the human and ecological environment. Economically, cost-benefit analyses show tremendous long-term savings to homeowners and society when we design and plan buildings and housing that is energy—and resource—efficient. HFH GLA is among a growing number of Habitat for Humanity affiliates that is incorporating green building elements that improves the affordability and sustainability for homeowners and the communities in which they live. Green building means addressing certain core elements during the stages of planning, design, development and construction.

Disaster relief:

Supporting families affected by disasters requires immediate, comprehensive and collaborative actions. Long after humanitarian aid organizations have completed their relief work, the need for quality shelter and housing remains for months and years. HFH GLA raises funds and sends volunteers to disaster areas to provide critically needed emergency relief when disasters occur.

Global builds:

HFH GLA raises funds and sends volunteer support to other cities and countries where HFH builds. To date, HFH GLA has raised nearly $3 million in "tithe" funds to build homes globally and domestically.

ReStore:

The HFH GLA retail stores (the "ReStores") are a social enterprise of HFH GLA, established to be a self-sustaining funding source for the Organization and to provide the local community with low-cost building and home improvement materials. HFH GLA has ReStore locations in Gardena and Norwalk. The ReStores sell donated materials including new and gently used furniture, appliances, lumber, hardware, vintage and unique items to the public. Product prices on average are approximately 50% of retail value and all proceeds from the ReStores are used toward the Habitat for Humanity mission to end substandard housing worldwide.

Hollywood for Habitat for Humanity:

Hollywood for Habitat for Humanity is an entertainment industry partnership with HFH. Actors, screenwriters, musicians, agents, directors, producers, studio executives and label executives are among the thousands of volunteers who have helped build homes for people in need, in the United States and around the world.

Habitat for Heroes:

Habitat for Heroes is an outreach initiative seeking to assist, engage, mobilize and educate military members and veterans about our programs and services. HFH GLA recognizes that the veteran population is rapidly growing, with thousands throughout Los Angeles struggling to meet everyday needs, including safe and affordable housing.

NOTE 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of financial statement presentation:

HFH GLA's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The Financial Accounting Standards Board ("FASB") has 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 US GAAP.

As of and for the year ended June 30, 2013

In preparing these financial statements, HFH GLA evaluated the period from June 30, 2013 through March 28, 2014, the date that the financial statements were available to be issued, for subsequent events requiring recognition or disclosure in the accompanying financial statements.

Use of estimates:

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Net assets:

In accordance with ASC 958-205, *Not-for-Profit Entities - Presentation of Financial Statements*, HFH GLA'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 due to the Organization's fulfillment of the restrictions and/or by the passage of time.

- *Temporarily restricted net assets* – Net assets that contain donor-imposed restrictions that permit Habitat to use or expend the donated net assets as specified and are satisfied either by the passage of time and/or by actions of Habitat.

- *Permanently restricted net assets* – Net assets that contain donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

Contributions:

In accordance with ASC 958-605, *Not-for-Profit Entities - Revenue Recognition*, unconditional promises to give are recorded as contributions based on their fair value when the underlying promises are received, based on management's estimate of the present value of future cash flows expected to be received by the Organization. Subsequent changes in these estimates are recorded as an allowance for uncollectible promises to give.

Unconditional promises to give, gifts of cash and other assets are reported as unrestricted support unless specifically restricted by the donor. All other donor-restricted contributions are reported as increases in temporarily restricted net assets, depending on the nature of the restriction. Donor restricted contributions for which the restrictions expire during the same fiscal year in which the contributions are made are recorded in the temporarily restricted net asset class and then are reclassified to the unrestricted net asset class as net assets released from restrictions. 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 statements of activities as net assets released from restrictions. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met.

In-kind contributions and services:

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

A substantial number of volunteers have made significant contributions of their time to HFH GLA'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:

HFH GLA 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." The Agencies provide funding to HFH GLA generally interest-free, with specified covenants and provisions that the property be used for low-income housing for the term of the note agreement. If HFH GLA complies with the provisions of the agreement, the note is forgiven by the agency when the property is sold to a qualified home buyer. At the date of property closing, the covenants and provisions of the note agreement transfer from HFH GLA 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.

Home sales and cost of homes transferred:

Revenue is recognized from the sale of homes when title passes to eligible purchasers. HFH GLA generally recognizes home sale revenue based on the sum of the 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.

Cost of homes sold consists of land cost, capitalized home construction costs and certain other related costs associated with the sale of a home. Cost of homes sold is considered a program expense in the statement of functional activities.

NSP program service grants receivable, revenue and deferred revenue:

HFH GLA has been awarded approximately $34.8 million in NSP funds in agreements with the City of Norwalk, Habitat International, and the City of Long Beach. These grants generally require HFH GLA to expend these funds for eligible activities on or before February 11, 2013. Funding is received under these grants in the form of direct reimbursement for eligible activities performed (such as land acquisition, construction costs, and/or provision of loans to eligible purchasers of distressed or foreclosed homes in targeted census tracts); under the agreement with Habitat International in the form of a developer fee; and under the agreement with the City of Long Beach as a program delivery fee.

During the fiscal year ended June 30, 2013, HFH GLA changed its accounting policy such that HFH GLA records NSP funds and cost reimbursements as deferred revenue and recognizes the revenue when the related housing unit is sold to a qualified purchaser. See Note 20. As a result of the change in accounting policy, HFH GLA reports NSP funds received as deferred revenue until the associated housing unit is sold. As a result, HFH GLA reported deferred revenue of $17,712,401 and $14,975,181 from NSP funding at June 30, 2013 and 2012, respectively.

Developer fees and program delivery fees are received by HFH GLA for each eligible property as specified in the agreement. HFH GLA is eligible to draw down the fees in full at the time of acquisition of each property. The NSP program agreement with Habitat International awarded HFH GLA developer fees of $3,394,229 for the acquisition and development of 108 residential units. The developer fee is also deferred and recognized as revenue at the time the housing unit is sold.

Program service grants receivable are reported net of an allowance for uncollectible amounts. The allowance consists of management's estimate of certain reimbursements for costs incurred that may be disallowed by grantors. As of June 30, 2013 and 2012, the allowance for doubtful accounts was $0 and $87,000, respectively.

Retail stores:

HFH GLA operates two ReStores in the cities of Gardena and Norwalk, California. The ReStores sell new and used home furnishings and building and home improvement materials to the general public. Donations to the ReStores are made by businesses, contractors, individuals, and other organizations that have surplus or discontinued merchandise.

The primary purpose of the ReStores is to raise funds in support of HFH GLA programs. Accordingly, expenses of operating the ReStores are reported as program expenses in the statement of functional expenses. The amount of revenue reported from the ReStores is its cash receipts plus the estimated fair market value of donated goods. The cost of goods sold is equivalent to the fair market value of the donated goods sold and the cost of purchased items. Cost of goods sold is reported as a program expense in the statement of functional expenses. As revenue earned by the ReStore is from donations, ReStore revenue is classified as public support in the statements of activities.

Fair value of financial instruments:

The Organization's financial instruments consist of cash and cash equivalents, unconditional promises to give, accounts receivable, mortgage notes receivable, investments, accounts payable, and certain notes payable, which are stated at cost or settlement value which approximates fair value.

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.

HFH GLA maintains its cash balances with various financial institutions. During the year, HFH GLA has maintained deposits at financial institutions in excess of the Federal Deposit Insurance Corporation ("FDIC") maximum insured deposit limit of $250,000 for all accounts combined at any one financial institution. However, HFH GLA has not experienced any loss in such accounts to date and does not anticipate nonperformance by any of the financial institutions.

Concentration of grants and revenue:

For the years ended June 30, 2013 and 2012, HFH GLA derived $10,036,448 and $5,419,443, or 30% and 26%, respectively, of its support and revenue from two grantors. HFH GLA recognized $7,880,096 and $4,008,157 or 24% and 19%, respectively, for the years ended June 30, 2013 and 2012, of support and revenue from Habitat International. The Organization earned $2,156,352 and $1,411,286, or 6% and 7%, respectively, for the years ended June 30, 2013 and 2012, of support and revenue from the City of Long Beach.

***Cash and cash equivalents*:**

For purposes of the statements of financial position and the statements of cash flows, HFH GLA considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents.

Mortgage notes receivable:

Mortgage notes receivable primarily consist of non-interest bearing residential home loans made to qualified borrowers that are secured by a deed of trust, payable in monthly installments over the term of the note, generally ranging from 20 to 30 years. The mortgage note receivable must be probable of collection, fixed and determinable, not conditional on future events occurring and HFH GLA must have fulfilled all of its obligation to the home buyer, other than normal warranty claims, before the note is reportedly in HFH GLA's financial statements. These non-interest bearing mortgages are discounted based upon prevailing market rates for low income housing at the inception of each mortgage.

Furthermore, during fiscal year ended June 30, 2013, the Organization entered into second and third trust deed mortgage notes receivable that had fixed and determinable repayment terms, generally due in 30 years. These mortgage notes receivable have been discounted and reported in the accompanying financial statements.

Homes may be encumbered with a trust deed in favor of either HFH GLA or a local government agency to ensure compliance with the terms of HFH's homeownership programs. These mortgage notes receivable are referred to as "silent". The primary purpose of these silent mortgages is to allow HFH GLA or the agency to capture a portion of any equity appreciation over and above a specified amount if the home is sold or transferred to a nonqualified homeowner before a certain number of years, usually 25 to 55; and to protect the homeowner by preventing predatory lenders from paying off the first mortgage and saddling the homeowner with an onerous new mortgage. These silent mortgage notes receivable bear no interest and are 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. Under certain equity agreements the equity accrues to the benefit of the homeowner ratably over the term of the mortgage. Accordingly, since these silent mortgage notes receivable have no value unless or until a homeowner fails to comply with the covenants and restrictions of the terms of the home sale, HFH GLA does not record a value for these silent mortgage notes receivable in its financial statements.

Allowance for mortgage receivable losses:

HFH GLA uses established lending criteria to ensure that only families who meet the Organization's financial and credit criteria are approved to be partner families, and receive a non-interest bearing mortgage loan from HFH GLA. This includes a thorough review of each prospective homeowner's credit report and scores, sources of income and financial history.

HFH GLA 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 HFH GLA are subject to foreclosure proceedings. As of the date of these financial statements, there are no mortgages subject to foreclosure proceedings.

Mortgage notes receivable are reported at a discounted value which at the time of sale is generally less than 50% of the home's fair market value. Therefore, HFH GLA believes that losses resulting from non-payment of mortgage notes receivable are not reasonably probable, and accordingly, no allowance for mortgage notes receivable has been recorded.

Inventories:

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

Construction-in -process and finished homes held for sale:

Construction-in-process represents costs incurred to build or rehabilitate single-family homes and condominiums for eventual sale to HFH GLA partner families. In the event a development is no longer deemed to be probable, the costs previously capitalized are expensed. The Organization's projects consist of new single-family home and condominium developments and major rehabilitations of existing homes acquired by HFH GLA. Since the purpose and mission of HFH GLA is to build affordable housing for low-income families, the Organization does not generally write down the value of construction-in-process to estimated sales value, because any excess cost over sales value is a component of program services. Projects are classified as construction-in-process until the build/rehabilitation project is substantially completed, at which time it is reclassified as "finished homes held for sale."

Property and equipment:

Expenditures which materially increase property lives are capitalized. The cost of maintenance and repair is charged to expense 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 statements of activities.

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

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

Investments:

During the year ended June 30, 2009, HFH GLA established a restricted bank account as part of its New Markets Tax Credits transaction (see Note 19). 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.

Deposits and impounds:

Generally, after a home receives its certificate of occupancy, the family who has committed to purchase the home is allowed to reside in the home prior to close of escrow. Payments made to HFH GLA during the period prior to the close of escrow, are based on the projected mortgage payment of the buyer, plus their estimated property taxes and insurance. Due to delays beyond the control of the qualified family, there can be an extended period of time between the move in date and the close of escrow. HFH GLA 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, HFH GLA records interim rent payments as a deposit liability in the accompanying statements of financial position, until the home is sold.

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

Retirement plan:

HFH GLA 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 employment commences. During the fiscal years ended June 30, 2013 and 2012, employer contributions to the Plan were $116,040 and $92,419, respectively.

Income taxes:

HFH GLA 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. HFH GLA does not believe that during the years ended June 30, 2013 and 2012 that it had unrelated business income and accordingly, no provision for income taxes has been recorded in the accompanying financial statements. A number of the Organization's tax returns remain subject to examination by taxing authorities. These include U.S federal returns for 2010 and later years and state tax returns for 2009 and later years.

HFH GLA follows the provisions of FASB ASC 740, *Income Taxes*. Accordingly, HFH GLA accounts for uncertain tax positions by recording a liability for unrecognized tax benefits resulting from uncertain tax positions taken, or expected to be taken, in its tax returns. HFH GLA recognizes the effect of income tax positions only if those positions are more likely than not of being sustained by the appropriate taxing authorities. HFH GLA does not believe that its financial statements include any uncertain tax positions and accordingly, has not recognized any liability for unrecognized tax benefits in the accompanying financial statements.

Functional expenses:

The Organization allocates expenses related to more than one functional expense classification based on its estimated functional use. 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.

Reclassifications:

Certain reclassifications have been made so that the June 30, 2012 amounts conform to the June 30, 2013 classifications. These reclassifications had no effect on the change in net assets for the year ended June 30, 2012.

NOTE 3

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Following is a supplemental disclosure of cash flow information for the years ended June 30, 2013 and 2012:

For the year ended June 30,	2013	2012
Recognition of in-kind contributions and related assets and expenses	$ 1,155,188	$ 712,842
Accrued capitalized interest added to construction in process	$ 11,490	$ 9,398
Interest paid	$ 115,237	$ 151,804

NOTE 4

UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of the following:

As of June 30,	2013	2012
Unconditional promises to give, gross	$ 713,981	$ 770,750
Less: unamortized discount	(6,039)	(6,039)
Unconditional promises to give, net	$ 707,942	$ 764,711

As of June 30,	2013	2012
Amounts due in:		
Less than one year	$ 713,981	$ 770,750
	$ 713,981	$ 770,750

Unconditional promises to give which are due more than twelve (12) months from the date of donation are discounted using an interest rate of approximately 6.00%. HFH GLA did not have any unconditional promises to give which were due in more than one year for the years ended June 30, 2013 and 2012.

NOTE 5

MORTGAGE NOTES RECEIVABLE

Mortgage notes receivable consist of non-interest bearing loans secured by real estate and payable in monthly installments over 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 3.42% to 8.30% per annum. During the fiscal years ended June 30, 2013 and 2012, HFH GLA imputed a discount interest of rate of approximately 3.42% to 3.66% and 4.60%, respectively, for loans originated during that year. The Organization recognizes the discount as interest income over the term of the mortgage using the effective interest method.

Mortgage notes receivable, second and third trust deeds, consist of non-interest bearing loans secured by trust deeds. During the fiscal year ended June 30, 2013, HFH GLA modified the payment terms of new second and third mortgage notes receivable to include fixed and determinable repayment terms. These second and third mortgages payment terms require a balloon payment upon the earlier of the sale or transfer of the property or 30 years. The mortgages are discounted using an interest rate of prime plus 2%. HFH GLA imputed a discount rate of 5.25% for the loans originated during the fiscal year ended June 30, 2013.

Mortgage notes receivable, junior lien position, consist of sixteen (16) mortgages originated with funds received from the California Department Housing and Community Development ("CalHome"). These mortgages have a term of 30 years, bear no interest, and require no payments, 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. HFH GLA imputed a 7% discount rate based upon prevailing market interest rates of junior lien mortgages for these notes.

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

Mortgage notes receivable and the related discount are summarized as follows:

As of June 30,	2013	2012
Mortgage notes receivable, first trust deeds	14,435,131	$ 10,852,199
Mortgage notes receivable, second/third trust deeds	1,990,975	-
Mortgage notes receivable, junior lien position	1,000,000	1,000,000
Discount to present value	(8,731,692)	(5,775,580)
Present value of mortgage notes receivable	$ 8,694,414	$ 6,076,619

Scheduled mortgage notes receivable collections are summarized as follows:

Year ending June 30,	
2014	$ 642,563
2015	638,484
2016	631,685
2017	618,869
2018	610,234
Thereafter	12,293,296
Total	$ 15,435,131

Mortgage loan discount amortization revenue for the years ended June 30, 2013 and 2012 was $429,093 and $352,833, respectively.

NOTE 6

INVENTORIES

Inventories consist of the following:

As of June 30,	2013	2012
Building materals for home construction projects	$ 326,255	$ 365,512
ReStore inventory	316,448	342,535
	$ 642,703	$ 708,047

NOTE 7

CONSTRUCTION- IN-PROCESS

Construction- in- process is summarized by project as follows:

As of June 30,	2013	2012
Burbank	$ -	$ 2,481,262
Compton	176,580	-
South Gate - NSP 2	-	5,418,962
Lawndale	-	592,958
Long Beach	190,074	-
Long Beach - NSP 2	1,071,240	3,857,063
Lynwood	99,624	-
Lynwood - NSP 2	-	6,430,946
Norwalk - NSP 1	-	230,959
Predevelopment and other project costs	190,982	35,721
	$ 1,728,500	$ 19,047,871

As of and for the year ended June 30, 2013

Following is a summary of home building activity:

During the year ended June 30, 2013:	**Number of homes**	**Cost**
Home construction in process, beginning of year	75	$ 19,047,871
Costs incurred on homes during fiscal 2013 - new and existing projects	31	14,860,340
Write-off of previously capitalized costs due to termination of projects	-	(20,374)
Homes transferred to finished homes	(100)	(32,159,337)
	6	$ 1,728,500

During the year ended June 30, 2012:	**Number of homes**	**Cost**
Home construction in process, beginning of year	54	$ 11,120,923
Costs incurred on homes during fiscal 2012 - new and existing projects	35	12,255,789
Homes transferred to finished homes	(14)	(4,328,841)
	75	$ 19,047,871

NOTE 8

FINISHED HOMES HELD FOR SALE

Finished homes held for sale consist of the following projects:

As of June 30,	**2013**	**2012**
Long Beach - NSP2	$ 1,471,556	$ -
Los Angeles - Vermont	70,273	70,273
Lynwood - NSP 2	10,975,151	-
Southgate - NSP2	4,939,967	-
	$ 17,456,947	$ 70,273

Following is a summary of finished homes activity:

During the year ended June 30, 2013:	**Number of homes**	**Cost**
Finished homes, beginning of year	1	$ 70,273
Costs transferred to Finished Homes from construction in process	100	32,159,337
Homes transferred to new owners	(47)	(14,772,663)
	54	$ 17,456,947

During the year ended June 30, 2012:	**Number of homes**	**Cost**
Finished homes, beginning of year	17	$ 4,445,125
Costs transferred to Finished Homes from construction in process	14	4,328,841
Additional costs incurred on finished homes during fiscal year	-	147,881
Homes transferred to new owners	(30)	(8,851,574)
	1	$ 70,273

NOTE 9

PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following:

As of June 30,	**2013**	**2012**
Autos and trucks	$ 206,391	$ 206,391
Construction equipment	13,265	13,265
Furniture and equipment	51,620	45,546
Computer software and hardware	171,239	162,054
Leasehold improvements	267,643	254,828
Total	710,158	682,084
Less: accumulated depreciation	(417,731)	(372,275)
Property and equipment, net	$ 292,427	$ 309,809

Depreciation expense for the years ended June 30, 2013 and 2012 was $45,456 and $70,526, respectively.

NOTE 10

DEPOSITS AND OTHER ASSETS

Deposits and other assets consist of the following:

As of June 30,	**2013**	**2012**
Construction credits	$ -	$ 82,477
Deposits	121,690	121,690
Loan fees	31,350	7,350
Beneficial interest in charitable remainder trusts	169,529	154,003
Other receivables	4,620	2,312
	$ 327,189	$ 367,832

Construction credits at June 30, 2012 are the unused portion of a donation by Lowe's Company, Inc., which originally provided HFH GLA with $150,000 in store purchase credits.

Included within other assets at June 30, 2013 and 2012 was $169,529 and $154,003, respectively, in beneficial interests in charitable remainder trusts as follows:

a. Under a 1998 unitrust agreement, HFH GLA receives 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 $206,032 and $198,152 as of June 30, 2013 and 2012, 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 $70,541 and $66,265 at June 30, 2013 and 2012, respectively. The $4,276 and $2,521 increase in the estimated present value of the remainder interest at June 30, 2013 and 2012, respectively, were included in changes in value - beneficial interest in charitable remainder trusts in the statements of activities.

b. Under a 2002 unitrust agreement, HFH GLA receives 100% of the value of the trust at the time of the donor's death. Assets held under the trust were $92,432 and $83,942 as of June 30, 2013 and 2012, 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 was estimated to be $67,731 and $59,064 at June 30, 2013 and 2012, respectively. The $8,667 increase and $2,793 decrease in the estimated present value of the remainder interest at June 30, 2013 and 2012, respectively, were included in changes in value - beneficial interest in charitable remainder trusts in the statements of activities.

c. Under a 2002 charitable remainder insurance trust agreement, HFH GLA receives 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 $93,444 and $86,406 as of June 30, 2013 and 2012, 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 $31,257 and $28,674, respectively. The $2,583 increase and $897 decrease in the estimated present value of the remainder interest at June 30, 2013 and 2012, respectively, were included in changes in value - beneficial interest in charitable remainder trusts in the statements of activities.

NOTE 11

BANK LINES 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, 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. Minimum monthly payments of accrued interest and fees are due each month; the Organization may prepay principal at any time without penalty. Should the lender cancel the

Credit Agreement, the outstanding balance on the cancellation date will 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, 2013 and 2012, the Organization owed $918,909 and $1,246,692, respectively, on this line of credit. Interest expense incurred under this Credit Agreement was $33,088 and $43,942, during the years ended June 30, 2013 and 2012, respectively.

In October 2012, the Organization entered into a line-of-credit note agreement (the "Note Agreement") for borrowings not to exceed $2,000,000 with the principal balance and any remaining interest due in full on June 30, 2013. Under the Note Agreement, interest accrues at 5.5% per annum with interest payments due monthly. The Note Agreement is secured by (1) $1,500,000 of NSP funds under the Habitat International NSP2 Agreement (see Note 20) and (2) $500,000 of NSP funds under the ReStore Neighborhoods Los Angeles ("RNLA") funds. Funding may only be used for the construction expenses for projects under the Habitat International NSP2 and RNLA NSP funding agreements. Since the note is a "bridge facility loan," HFH GLA is required to remit payment upon receipt of any NSP funding under the agreements noted above in an amount equal to the bridged amount. As of June 30, 2013, the Organization owed $60,318 under the Note Agreement.

In July 2013, the Note Agreement was extended through September 30, 2013, at which time all principal and accrued interest outstanding was paid.

NOTE 12

ACCOUNTS PAYABLE

Accounts payable consist of the following:

As of June 30,	2013	2012
Trade accounts payable	$ 609,369	$ 1,162,546
Related party payables	117,653	183,284
Other payables	19,100	320,129
	$ 746,122	$ 1,665,959

Related party payables consist mostly of tithes payable due to Habitat International and pass-through donations to be remitted to other HFH affiliates (see Note 18).

NOTE 13

ACCRUED EXPENSES

Accrued expenses consist of the following:

As of June 30,	2013	2012
Accrued payroll and related	$ 420,350	$ 437,829
Accrued interest	-	14,916
Accrued rent	72,742	72,742
Other accrued expenses	127,934	12,035
	$ 621,026	$ 537,522

Accrued interest consists of amounts due to various government agencies due to technical defaults on notes payable to these agencies. (See Note 14).

NOTE 14

NOTES PAYABLE - GOVERNMENTAL AGENCIES

HFH GLA is awarded grants by 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 development property, and are generally non-interest bearing with a maturity date of the earlier of one to two years or the sale/transfer of the property. No payments of interest of principal are due during the loan term except in the case of an "Event of Default" as defined in the loan agreement. Upon project completion, if HFH GLA sells/transfers the property to a qualified buyer, the proportionate amount of debt owed by HFH GLA on the property is forgiven as to HFH GLA, but remains a lien on the property that transfers to the home owner as a mortgage. Accordingly, at the date the property sale/transfer and fulfillment of the terms of the loan agreement occur, the debt owed is considered additional home sales proceeds.

Additionally, the grant / loan agreements usually require a written Disposition and Development Agreement ("DDA") between HFH GLA and the city. The DDA sets forth the terms and conditions of the loan, including a promise to complete the project within a reasonable period of time and an agreement to sell the home or homes to low or very-low income families as defined in the DDA. If HFH GLA failed to comply with the terms of the DDA and related note payable, it would be required to repay principal and interest as set forth in the grant/loan agreements. As of June 30, 2013 and 2012, management believes that it is in material compliance with the terms and conditions of the DDA's and related grant/loan agreements.

On or about December 23, 2009, HFH GLA executed an agreement with the City of Norwalk ("Norwalk") in which the Organization serves as Norwalk's Community Housing Development Organization using NSP1 funds. The agreement specifies that HFH GLA can receive up to $1,273,249 in the form of loans to acquire, rehabilitate, and develop properties in Norwalk for resale to qualified low-to-moderate income families. During the years ended June 30, 2013 and 2012, HFH GLA borrowed $178,456 and $28,287, respectively, in NSP1 funds from Norwalk to acquire and develop properties for resale.

The following is a summary of HFH GLA's notes payable that it has entered into with cities set forth below:

As of June 30,	**2013**	**2012**
City of Lynwood Redevelopment Agency notes payable, secured by real property, with interest at 0% per annum.	$ 173,709	$ 134,947
City of Compton notes payable under the NSP 3, secured by real property, with interest at 0% per annum.	75,048	-
Norwalk notes payable under the NSP, secured by real property, with interest at 4% per annum, and no scheduled payments of principal and interest.	-	206,634
City of Burbank and the Burbank Housing Corporation note payable, secured by real property with interest at 0% per annum, and no scheduled payments.	-	1,100,062
City of Lawndale notes payable, and DDA, secured by real property with interest at 0% per annum.	-	$ 301,695
	$ 248,757	$ 1,743,338

Accrued interest due on the Norwalk debt at June 30, 2013 and 2012 was $0 and $14,916, respectively. During the years ended June 30, 2013 and 2012, HFH GLA recorded $11,490 and $9,398, respectively, of accrued interest that was capitalized as construction-in-process. Additionally, HFH GLA recorded $26,407 and $14,490, during the years ended June 30, 2013 and 2012, respectively, of forgiven accrued interest. As with the forgiveness of the note itself, forgiveness of accrued interest under these notes is considered to be a component of home sale proceeds.

As set forth herein, the terms and conditions of notes payable – governmental agencies do not require HFH GLA to remit payments on the obligation. Accordingly, the Organization does not believe a table setting forth scheduled debt payments would be meaningful.

NOTE 15

NOTES PAYABLE - HABITAT INTERNATIONAL

HFH GLA has entered into a number of loan and grant agreements with Habitat International summarized as follows:

Flex CAP program loans through Habitat International which provide funding to HFH GLA, secured by mortgage notes receivable. Pursuant to the loan and security agreements entered into with Habitat International, HFH GLA has agreed to certain covenants and financial covenants, including but not limited to: at all times maintain minimum net assets of $250,000; have at least ten (10) mortgage loans in its performing mortgage pool; own free and clear of all liens and encumbrances at least 40% of the total of mortgage loans in the performing mortgage pool; that mortgage notes receivable pledged have aggregate mortgage payments equal to or greater than 105% of the quarterly payment; and assigned and pledged mortgage notes receivable aggregate values must be equal to or greater than, 125% of the outstanding note balance.

Capital Magnet Fund Sub-Award loans through Habitat International are to be used solely for the development, preservation, rehabilitation or purchase of affordable housing units for low-income families in Los Angeles County. The loan agreement requires monthly interest payments at 2.00% per annum.

Funds received under Self-Help Homeownership Opportunity Program ("SHOP") are to be used solely and exclusively for eligible expenses paid or incurred in connection with the construction or rehabilitation of low-income quality residential dwellings. Draws made by HFH GLA are allocated 75% to grant revenue and 25% to loans payable. The loan tranche of the SHOP funds requires equal monthly payments over 48 months, with imputed interest at 6.00% per annum. The following is a summary of outstanding Habitat International notes payable:

June 30,	**2013**	**2012**
Flex CAP 3, with interest at 5.50% per annum, quarterly principal and interest payments of $50,647, due on June 30, 2021. Secured by mortgage notes receivable with a net present value of $2,460,194.	$ 1,304,047	$ 1,430,536
Notes payable, Capital Magnet Fund, with interest at 2% per annum, with monthly interest payments and annual principal payments of $600,000, due starting June 30, 2015 and through June 30, 2018.	2,400,000	-
SHOP loans	17,952	29,556
Less: discount	(3,811)	(3,811)
Net loan	14,141	25,745
	$ 3,718,188	$ 1,456,281

As of June 30, 2013, management believes that the Organization was in compliance with the terms and conditions of the FlexCap Note program.

As of and for the year ended June 30, 2013

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

For the year ending June 30,	
2014	$ 142,169
2015	746,652
2016	749,012
2017	757,378
2018	766,214
Thereafter	556,763
Total	$ 3,718,188

NOTE 16

CAPITAL LEASE OBLIGATION

HFH GLA is obligated under various vehicle and equipment capital lease obligations, with interest rates ranging from 5.0% to 13.93% per annum, and maturing between February 2012 and December 2015.

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

As of June 30,	**2013**	**2012**
Capital leases payable	$ 23,176	$ 32,504
Less: amounts representing interest	(3,184)	(3,184)
Present value of net lease payments	$ 19,992	$ 29,320

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

For the year ending June 30,	
2014	$ 7,892
2015	7,892
2016	7,392
Total	$ 23,176

Included in property and equipment in the accompanying statements of financial position are the following assets held under capital lease:

As of June 30,	**2013**	**2012**
Equipment	$ 31,920	$ 82,908
Less: accumulated depreciation	(25,874)	(61,594)
Assets under capital lease, net	$ 6,046	$ 21,314

NOTE 17

RESTORES

The following is a summary of revenue and cost of goods sold for the ReStores:

For the year ended June 30,	**2013**	**2012**
Fair market value of goods donated	$ 2,766,017	$ 2,302,736
Cash sales of donated and purchased items	2,760,711	2,299,584
Delivery surcharges	3,080	8,160
Purchased inventory	(304,454)	(242,862)
ReStores - gross sales revenue	5,225,354	4,367,618
Cost of goods sold	(2,760,711)	(2,299,584)
Gross margin on ReStores - donations and sales	$ 2,464,643	$ 2,068,034

NOTE 18

RELATED PARTY TRANSACTIONS

HFH GLA remits a discretionary portion of its unrestricted contributions (excluding in-kind contributions) to Habitat International on an annual basis (the "Tithe"). The Tithe is used to construct homes in economically depressed areas around the world. In addition, HFH GLA receives significant pass-through funding on behalf of domestic and international HFH affiliates. In general, this pass-through funding is credited towards the Tithe. These pass-through funds generally do not permit HFH GLA variance power as to which affiliates the funds are designated for; accordingly, the Organization does not recognize contribution revenue upon receipt of the funds and does not record an expense upon the disbursement of these funds to other affiliates.

For the years ended June 30, 2013 and 2012, HFH GLA determined that Tithes due Habitat International were $108,990 and $130,184, respectively. These amounts represent a portion of the Organization's contribution revenue and are in addition to the pass-through funding noted above. Additionally, during the year ended June 30, 2012, HFH GLA remitted $291,535 in donations it had received for Operation Home Delivery to the New Orleans Area Habitat for Humanity.

At June 30, 2013 and 2012, $117,653 and $183,284, respectively, of Tithes and pass-through funding was payable to Habitat International and other Habitat for Humanity affiliates, which was included in related party payables in Note 12.

NOTE 19

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 International. 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 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.

As of and for the year ended June 30, 2013

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 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. The Organization had amortized and reported as revenue, $88,796 for each of the years ended June 30, 2013 and 2012of the net deferred revenue. Deferred revenue related to the NMTC transaction, was $221,988 and $310,785 at June 30, 2013 and 2012, 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.

NOTE 20

NEIGHBORHOOD STABILIZATION PROGRAM GRANTS AND CHANGE IN ACCOUNTING POLICY

During the fiscal year ended June 30, 2013, the Organization changed its accounting policy for recognizing NSP grant revenue. Previously, the Organization recognized NSP grant revenue at the time eligible expenses were incurred under the program for property acquisition and development. The Organization determined that a better matching of revenue and expenses occurred when NSP grant revenue was deferred until the time the associated housing unit was sold, because that was the date HFH GLA recognized the costs associated with the housing unit. Furthermore, HFH GLA previously recognized the housing unit's developer fee at the date of property acquisition (50%) with the balance prorated as eligible costs were incurred in proportion to estimated total housing unit costs to complete. During fiscal year ended June 30, 2013, the Organization determined that the developer's fees should be deferred and recognized at the time the housing unit is sold.

As a result of the change in accounting policy for NSP funds, HFH GLA recorded an adjustment to decrease net assets at June 30, 2011 by $9,806,417 to retroactively restate its financial statements for the cumulative effect of the change in accounting policy at June 30, 2011.

As of and for the year ended June 30, 2013

HFH GLA has recognized the following NSP grant revenue from Habitat International and the City of Long Beach for eligible costs, developer fees and program delivery fees as restated:

June 30,	2013	2012
Habitat International NSP2 Agreement, dated June 8, 2010, in an amount of $27,901,674 for the acquisition of property and completion of projects in certain target census tracts in the County of Los Angeles. Habitat International grant activity is summarized as follows:		
NSP funding received	$ 10,736,456	$ 6,253,303
NSP developer fees	1,409,640	926,552
Program costs	341,325	507,132
	12,487,421	7,686,987
Deferred revenue adjustment	(4,607,325)	(3,678,830)
	7,880,096	4,008,157
Contractor agreement with Restore Neighborhoods LA under the NSP program for HFH GLA's construction services in the development of three properties in the County of Los Angeles.	917,588	-
City of Long Beach consortium NSP2 agreement providing funding of $5,562,495 to HFH GLA for the acquisition and redevelopment of abandoned or foreclosed housing in the City of Long Beach.		
NSP funding received	731,321	2,472,637
Deferred revenue adjustment	1,425,031	(1,061,351)
	2,156,352	1,411,286
NSP revenue recognized	$ 10,954,036	$ 5,419,443

NOTE 21

COMMITMENTS AND CONTINGENCIES

HFH GLA leases its administrative offices as well as its ReStore facilities under a non-cancellable operating lease through July 2015. In February 2010, the Organization leased an additional ReStore facility commencing on March 1, 2010 under an operating lease agreement from an unrelated party through July 31, 2015. Rent expense for the years ended June 30, 2013 and 2012 under these leases was $500,797 and $488,573, respectively.

In addition, HFH GLA leased a warehouse to for building materials inventory under a non-cancelllable operating lease through August 2014. Rent expense for the years ended June 30, 2013 and 2012 was $176,838 and $180,796, respectively.

HFH GLA leases various vehicles under non-cancellable operating leases through December 2013. Vehicle rental expense for the year ended June 30, 2013 and 2012 was $34,814 and $107,547, respectively.

Future minimum rental payments under the non-cancellable operating leases are as follows:

Year ending June 30,	Building Lease	Warehouse Lease	Equipment Leases
2014	$ 460,484	$ 171,556	$ 25,795
2015	286,039	16,307	7,815
2016	22,510	-	-
Total	$ 769,033	$ 187,863	$ 33,610

As of and for the year ended June 30, 2013

NOTE 22

TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2013 and 2012 consist of amounts restricted by donor-imposed stipulations as follows:

As of June 30,	2013	2012
Home Repair Program	$ 147,943	$ 323,701
Operation Home Delivery	-	291,535
Lawndale - 163rd St	-	247,716
Charitable remainder trusts	169,529	154,003
Keck Foundation - Long Beach Neighborhood Revitalization Initiative	169,000	104,327
Time-related restrictions	-	47,170
Lynwood - Wright Road	-	42,617
Long Beach - NSP 2	-	24,573
Pfaffinger Foundation Grant	17,124	17,124
Culver City - Globe Ave	86,789	-
Ingelwood - FCB	87,900	-
Lynwood - Magnolia Ave	150,000	-
Deutsh Volunteer	5,586	5,776
Family Invest Program	30,000	-
Student Leaders Program	10,000	-
Harvest Home	5,000	-
Adopt-a-Family	-	762
Long Beach - Thrivent	150,000	-
Total	$ 1,028,871	$ 1,259,304

NOTE 23

SUBSEQUENT EVENTS

On October 18, 2013, HFH GLA acquired real property and buildings located in Bellflower, California to serve as its new corporate headquarters and ReStore facility. The Organization acquired the campus at a cost of approximately $4,500,000 and entered into a long-term mortgage note payable for $3,150,000.