Habitat for Humanity®
Greater Los Angeles

# Consolidated Financial Statements
# As of and For the Year Ended
# June 30, 2017

**CONTENTS**

Rossi LLP rossillp.com
Certified Public Accountants
Consultants

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
**Habitat for Humanity of Greater Los Angeles, Inc.**
Bellflower, California

### *Report on the Financial Statements*

We have audited the accompanying consolidated financial statements of Habitat for Humanity of Greater Los Angeles, Inc. ("Habitat LA") (a California Not-for-Profit Organization), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.



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

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Habitat LA as of June 30, 2017, and the consolidated 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 Habitat LA's 2016 consolidated financial statements, and our report dated October 25, 2016, expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented here in as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

### *Supplementary Information*

The supplementary information included on pages 22 – 25 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the procedures applied in the audit of the consolidated financial statements, and we did not become aware of any material modifications that should be made to such information.

Rossi LLP

October 19, 2017
Long Beach, California

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

| ***As of June 30,*** | **2017** | **2016** |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 2,589,960 | $ 2,080,309 |
| Program service grants receivable | 549,244 | - |
| Unconditional promises to give, net of unamortized discount | 2,217,450 | 3,216,431 |
| Mortgage notes receivable, net of unamortized discount | 11,860,786 | 11,995,713 |
| Prepaid expenses | 327,532 | 249,237 |
| Inventories | 1,579,175 | 1,041,473 |
| Construction in process | 8,482,601 | 7,966,705 |
| Finished homes held for sale | 1,619,938 | - |
| Property and equipment, net of accumulated depreciation and amortization | 4,509,159 | 4,458,312 |
| Deposits and other assets | 621,400 | 541,963 |
| **Total assets** | $ 34,357,245 | $ 31,550,143 |
| **LIABILITIES AND NET ASSETS** | | |
| Bank lines of credit | $ 1,188,275 | $ 952,275 |
| Accounts payable | 852,436 | 510,710 |
| Accrued expenses | 653,101 | 670,623 |
| Deposits and impounds | 74,076 | 47,900 |
| Deferred revenue | 722,278 | 1,401,251 |
| Capitalized lease obligations payable | 32,967 | 6,928 |
| Notes payable - governmental agencies | 4,223,452 | 1,701,441 |
| Notes payable - Habitat International | 3,106,400 | 3,004,019 |
| Notes payable - other | 3,800,704 | 4,079,986 |
| **Total liabilities** | 14,653,689 | 12,375,133 |
| **Commitments** | | |
| **Net assets:** | | |
| Unrestricted | 17,249,445 | 16,961,945 |
| Temporarily restricted | 2,454,111 | 2,213,065 |
| **Total net assets** | 19,703,556 | 19,175,010 |
| **Total liabilities and net assets** | $ 34,357,245 | $ 31,550,143 |

*The accompanying notes are an integral part of these financial statements*

**Habitat for Humanity of Greater Los Angeles, Inc.**

Consolidated Statements of Activities and Changes In Net Assets

Year Ended June 30, 2017, with Comparative Totals For June 30, 2016

| *For the year ended June 30, 2017* | Unrestricted | Temporarily restricted | Totals | Prior year-totals |
|---|---|---|---|---|
| **Support and revenue:** | | | | |
| Contributions | $ 1,142,589 | $ 2,604,519 | $ 3,747,108 | $ 3,665,635 |
| In-kind contributions | 476,060 | 500,625 | 976,685 | 863,899 |
| Sales of homes | 3,464,543 | - | 3,464,543 | 5,238,172 |
| ReStore sales | 4,667,359 | - | 4,667,359 | 3,938,504 |
| ReStore value of donated goods received | 4,668,007 | - | 4,668,007 | 3,940,381 |
| Government grants | 27,971 | 859,003 | 886,974 | 604,568 |
| Special events, net | 479,001 | 105,626 | 584,627 | 621,992 |
| Mortgage loan discount amortization | 920,918 | - | 920,918 | 652,889 |
| Other income (loss) | 285,805 | 14,433 | 300,238 | 306,807 |
| **Net assets released from restrictions:** | | | | |
| Satisfaction of program/donor restrictions | 3,843,160 | (3,843,160) | - | - |
| **Total revenue, gains, and other support** | 19,975,413 | 241,046 | 20,216,459 | 19,832,847 |
| **Expenses:** | | | | |
| Cost of homes sold and program support | 18,077,342 | - | 18,077,342 | 17,498,565 |
| Fundraising | 757,685 | - | 757,685 | 844,041 |
| Management and general | 852,886 | - | 852,886 | 922,455 |
| Total functional expenses | 19,687,913 | - | 19,687,913 | 19,265,061 |
| **Total expenses** | 19,687,913 | - | 19,687,913 | 19,265,061 |
| **Change in net assets** | 287,500 | 241,046 | 528,546 | 567,786 |
| **Net assets, beginning of year** | 16,961,945 | 2,213,065 | 19,175,010 | 18,607,224 |
| **Net assets, end of year** | $ 17,249,445 | $ 2,454,111 | $ 19,703,556 | $ 19,175,010 |

*The accompanying notes are an integral part of these financial statements*

**HABITAT FOR HUMANITY OF GREATER LOS ANGELES, INC.**

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017, WITH COMPARATIVE TOTALS FOR JUNE 30, 2016

| ***For the year ended June 30, 2017*** | **Cost of homes transferred & program support** | **Fundraising** | **Management & general** | **Totals** | **Prior year-totals** |
|---|---|---|---|---|---|
| Cost of homes sold - construction costs | $ 3,254,173 | $ - | $ - | $ 3,254,173 | $ 4,305,106 |
| Cost of homes sold - mortgage discount expense | 1,687,305 | - | - | 1,687,305 | 1,622,804 |
| Cost of goods sold - ReStore | 488,125 | - | - | 488,125 | 381,685 |
| Value of donated items sold - ReStore | 4,668,007 | - | - | 4,668,007 | 3,940,381 |
| Salaries | 3,955,732 | 462,896 | 533,721 | 4,952,349 | 4,382,111 |
| Payroll taxes and benefits | 937,350 | 88,723 | 96,985 | 1,123,058 | 993,940 |
| Americorp | 67,886 | - | - | 67,886 | 91,167 |
| Bad debt expense | 25,000 | - | - | 25,000 | 124,963 |
| Bank fees and charges | 98,496 | 21,031 | 17,672 | 137,199 | 81,619 |
| Home repair | 334,540 | - | - | 334,540 | 474,814 |
| Build events and community programs | 209,811 | 18,376 | 7,894 | 236,081 | 137,533 |
| Depreciation | 121,165 | 10,119 | 18,792 | 150,076 | 219,594 |
| Facilities - rent / lease costs | 281,112 | - | - | 281,112 | 266,220 |
| Insurance | 121,703 | 7,202 | 6,897 | 135,802 | 133,267 |
| Interest and amortization of loan fees | 335,407 | - | - | 335,407 | 344,743 |
| Office and other | 349,016 | 41,349 | 57,781 | 448,146 | 413,246 |
| Professional and outside services | 394,908 | 57,475 | 72,797 | 525,180 | 590,926 |
| Real estate - closing and development | 69,317 | - | - | 69,317 | 83,574 |
| Telephone | 133,752 | 10,357 | 10,247 | 154,356 | 132,485 |
| Tithes | 31,025 | 28,060 | 12,054 | 71,139 | 41,309 |
| Travel | 63,175 | 10,885 | 15,230 | 89,290 | 68,254 |
| Utilities and facility maintenance | 187,507 | 1,212 | 2,816 | 191,535 | 196,226 |
| Vehicle rent and operating costs | 262,830 | - | - | 262,830 | 239,094 |
| Totals | $ 18,077,342 | $ 757,685 | $ 852,886 | $ 19,687,913 | $ 19,265,061 |

*The accompanying notes are an integral part of these financial statements*

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

| *For the year ended June 30,* | 2017 | 2016 |
|---|---|---|
| **Operating activities:** | | |
| Change in net assets | $ 528,546 | $ 567,786 |
| 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 | (1,743,477) | (516,414) |
| Forgiveness / transfer of notes payable, government agencies and related accrued interest to homeowners | - | (559,438) |
| In-kind contributions - value of donated land | 415,000 | - |
| Issuance of unamortized mortgage discounts | 1,687,304 | - |
| Mortgage discount amortization | (920,918) | (652,889) |
| Provision for unconditional promises to give | 25,000 | 124,963 |
| Loss (gain) on long-term assets | (500) | (2,300) |
| Depreciation | 150,076 | 219,594 |
| (Increase) decrease in assets: | | |
| Program service grants receivable | (263,407) | 70,400 |
| Contributions receivable | 980,415 | (880,771) |
| Prepaid expenses | (78,295) | 205,775 |
| Inventories | (537,702) | (491,223) |
| Construction in process, net of non-cash items | (515,896) | (50,891) |
| Finished homes held for sale | (1,619,938) | 563,995 |
| Deposits and other assets (except loan fees) | (79,437) | (1,236) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 49,454 | 76,334 |
| Accrued expenses, net of accrued capitalized interest and forgiven interest | (17,979) | 164,993 |
| Deposits and impounds | 26,635 | (110,047) |
| Deferred revenue | (678,973) | (61,939) |
| **Net cash and cash equivalents provided by (used in) operating activities** | (2,594,092) | (1,333,308) |
| **Investing activities:** | | |
| Acquisition of property and equipment | (200,923) | (83,320) |
| Proceeds from sale of equipment | 500 | 2,300 |
| Mortgage payments received | 1,112,018 | 869,113 |
| **Net cash and cash equivalents provided by (used in) investing activities** | 911,595 | 788,093 |
| **Financing activities:** | | |
| Net proceeds (payments) on line of credit | 236,000 | (261,252) |
| Cash proceeds from notes payable | 3,052,955 | 210,000 |
| Principal payments on notes payable | (1,122,846) | (1,173,152) |
| Cash proceeds from capitalized lease obligations payable | 33,267 | - |
| Payments on capitalized lease obligations payable | (7,228) | (12,718) |
| **Net cash and cash equivalents provided by (used in) financing activities** | 2,192,148 | (1,237,122) |
| **Net change in cash and cash equivalents** | 509,651 | (1,782,337) |
| **Cash and cash equivalents, beginning of the year** | 2,080,309 | 3,862,646 |
| **Cash and cash equivalents, end of the year** | $ 2,589,960 | $ 2,080,309 |

*The accompanying notes are an integral part of these financial statements*

***As of and for the year ended June 30, 2017***

## NOTE 1

### ORGANIZATION AND PURPOSE

Habitat for Humanity of Greater Los Angeles, Inc. ("Habitat LA" or the "Organization"), is a nonprofit public benefit corporation incorporated in California in 1990 (originally as Habitat for Humanity South Bay/Long Beach, CA, Inc.). Effective September 8, 2005, Habitat for Humanity – Los Angeles was merged into Habitat for Humanity South Bay/Long Beach and the combined organization was renamed Habitat for Humanity of Greater Los Angeles, Inc. Habitat LA primarily serves the communities within Los Angeles County.

Habitat LA is committed to a vision of a world where everyone has a decent place to live. Through volunteer labor and tax-deductible donations of money and materials, Habitat LA builds, renovates and repairs simple, sustainable and affordable homes in partnership with homeowner (partner) families and individuals. Habitat for Humanity ("HFH") houses are sold to the partner homeowners at no profit and financed with affordable loans, issued by Habitat LA or by partner banking institutions. HFH is not a give-away program. In addition to a down payment and monthly mortgage payments, partner homeowners who meet the selection criteria invest up to 500 hours of their own labor ("sweat equity") into the building of their homes.

Habitat LA is an affiliate of Habitat for Humanity International, Inc. ("Habitat International") a housing ministry with ecumenical Christian roots. Although Habitat International assists with information resources, technical support, and national partnerships, Habitat LA is an independently operated and governed entity.

Habitat LA strives to effectively address the growing housing crisis with comprehensive and creative strategies through its different housing initiatives, including new construction, rehabilitating existing homes, home repairs, neighborhood revitalization, disaster relief and global builds. Currently, Habitat LA operates retail stores (the "ReStores") which principally sell donated building materials to the public. Proceeds from ReStore sales are used towards the Organization's mission.

## NOTE 2

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Principles of consolidation:***

The accompanying consolidated financial statements as of and for the years ended June 30, 2017 and 2016 include the activities of Partnership Housing, Inc., a wholly controlled subsidiary. Partnership Housing, Inc. ("PHI") was formed as a Community Housing Development Organization (CHDO) to be able to offer not only affordable homeownership opportunities but also affordable housing opportunities while maximizing the use of public funds available for the overall mission of eliminating substandard housing in the Greater Los Angeles Area. All material intercompany accounts and transactions have been eliminated in consolidation.

***Basis of financial statement presentation:***

Habitat LA'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.

**NOTE 2 – CONTINUED**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

In preparing these financial statements, Habitat LA evaluated the period from June 30, 2017 through October 19, 2017, 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 and assumptions, and such differences may be material to the financial statements.

***Net assets:***

In accordance with ASC 958-205, *Not-for-Profit Entities - Presentation of Financial Statements*, Habitat LA'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.

- *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 at 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.

Donor restricted contributions for which the restrictions expire during the same fiscal year in which the contributions are made are recorded as temporarily restricted net assets and released within the same year as an increase in temporarily restricted net assets and as a satisfaction of program 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.

Additionally, a substantial number of volunteers have made significant contributions of their time to Habitat LA'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.

**NOTE 2 – CONTINUED**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Donations of construction materials, property and equipment are recorded as in–kind contributions at their estimated fair value as of 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 LA 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 Habitat LA 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 Habitat LA 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 Habitat LA 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. Habitat LA 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.

***Retail stores:***

Habitat LA operates ReStores that sell new and used home furnishings, construction and home improvement materials to the general public. ReStore revenue is classified as public support in the consolidated statement of activities, and cost of goods sold, and operating expenses are reported as program expenses. ReStore revenue consists of cash receipts plus the estimated fair market value of donated goods, and cost of goods sold is the estimated fair market value of the donated goods plus the cost of purchased items. ReStore revenue is classified as public support in the statement of activities. Cost of goods sold is reported as a program expense in the statement of functional expenses.

***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 a concentration of credit risk are primarily cash and cash equivalents, unconditional promises to give, and mortgage notes receivable. While the concentration of credit risk of mortgage notes receivable is diversified through numerous

**NOTE 2 – CONTINUED**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

different borrowers, the borrowers are concentrated in Los Angeles County. Accordingly, the Organization's ability to collect these mortgage note receivables is dependent on its partner families' ability to pay, which could be affected by the overall economic conditions in this geographic area.

Habitat LA maintains cash balances with various financial institutions. During the year, Habitat LA 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, Habitat LA has not experienced any loss in such accounts to date and does not anticipate nonperformance by any of the financial institutions.

At June 30, 2017, a corporate multi-year unconditional promise to give comprised 24% of the outstanding balance. At June 30, 2016, a corporate multi-year unconditional promise to give comprised approximately 23% of the outstanding balance. Collection of these unconditional promises to give may be subject to a greater risk of uncertainty in the event of adverse economic, political or business developments, including tax law changes.

***Cash and cash equivalents*:**

For purposes of the statements of financial position and the statements of cash flows, Habitat LA 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 Habitat LA must have fulfilled all of its obligations to the home buyer, other than normal warranty claims, before the note is recorded in Habitat LA's financial statements. Non-interest bearing mortgages that meet the forgoing recognition criteria are discounted based upon prevailing market rates for low income housing at the inception of each mortgage.

Additionally, the Organization may enter into second, third and fourth trust deed mortgage notes receivable that have fixed and determinable repayment terms, generally due in 30 years, that are not conditional on future events occurring and for which Habitat LA has fulfilled all of its obligations to the home buyer. Mortgage notes receivable that meet the foregoing criteria are discounted based upon prevailing market rates for low income housing at the inception of each mortgage and are reported in the accompanying financial statements.

Homes may be encumbered with a trust deed in favor of either Habitat LA or a local government agency to ensure compliance with the terms of Habitat LA's homeownership programs. These mortgage notes receivable are referred to as "silent". Habitat LA does not record a value for these silent mortgage notes receivable in its financial statements.

***Allowance for mortgage receivable losses:***

Habitat LA uses established lending criteria to ensure that only families who meet the Organization's financial and credit criteria are

**NOTE 2 – CONTINUED**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

approved to be partner families, and receive a non-interest bearing mortgage loan from Habitat LA. This includes a thorough review of each prospective homeowner's credit report and scores, sources of income and financial history.

Habitat LA regularly reviews its mortgage receivables and monitors the accounts for delinquencies. As of the date of these financial statements, there are no mortgages subject to foreclosure proceedings. Habitat LA believes that losses resulting from non-payment of mortgage notes receivable are not reasonably probable, given that the mortgage notes receivable are secured by property with fair values that exceed the carrying value of the mortgage note receivable. Accordingly, no allowance for mortgage notes receivable losses has been recorded at June 30, 2017 and 2016.

***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 Habitat LA 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 Habitat LA. Since the purpose and mission of Habitat LA 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 | 3-10 years |

***Investments:***

Habitat LA established restricted bank accounts as part of its New Markets Tax Credits ("NMTC") Transactions (see Note 16). The terms of the agreements required that the restricted bank accounts be used to pay certain legal, accounting, and administrative costs associated with the NMTC Transaction and that the bank accounts be administered by a third-party.

**NOTE 2 – CONTINUED**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Deposits and impounds:***

Habitat LA generally follows a policy in which any interim payments received prior to the close of escrow are credited to the buyer's future mortgage, thus resulting in a reduction of the mortgage at the time of sale. Accordingly, Habitat LA records interim rent payments as a deposit liability until the home is sold.

Habitat LA collects monthly payments from homeowners for property taxes and insurance, referred to as impounds, and records a liability until the amounts are remitted to the appropriate third party.

***Retirement plan:***

Habitat LA 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, 2017 and 2016, employer contributions to the Plan were $104,103 and $87,753, respectively.

***Income taxes:***

Habitat LA 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 LA does not believe that during the years ended June 30, 2017 and 2016 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, including U.S. federal returns for 2014 and later years and state tax returns for 2013 and later years.

Habitat LA follows the provisions of FASB ASC 740, *Income Taxes*. Accordingly, Habitat LA 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. Habitat LA recognizes the effect of income tax positions only if those positions are more likely than not of being sustained by the appropriate taxing authorities. Habitat LA 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.

***Special event revenues, net of direct costs***

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

## NOTE 2 – CONTINUED

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

costs, along with the costs of organizing and operating the events. Total direct costs of events were $388,005 and $435,981 for the years ended June 30, 2017 and 2016, respectively.

***Reclassifications:***

Certain amounts reported in previous years, which are not material, have been combined and reclassified to conform to the current-year presentation.

## NOTE 3

### SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Following is a supplemental disclosure of cash flow information for the years ended June 30, 2017 and 2016:

| ***For the years ended June 30,*** | **2017** | **2016** |
|---|---|---|
| Recognition of in-kind contributions and related assets and expenses | $ 976,685 | $ 863,899 |
| Non-cash acquisition of property through financing | 33,267 | - |
| Interest paid | $ 335,407 | $ 344,743 |

## NOTE 4

### UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of the following:

| ***As of June 30,*** | **2017** | **2016** |
|---|---|---|
| Unconditional promises to give, gross | $ 2,493,264 | $ 3,499,409 |
| Less: unamortized discount | (75,814) | (107,978) |
| Less: allowance for doubtful accounts | (200,000) | (175,000) |
| Unconditional promises to give, net | $ 2,217,450 | $ 3,216,431 |

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 2.50%. At June 2017, Habitat LA had $1,481,870 of unconditional promises to give due in excess of one year.

## 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 to present value based upon prevailing market interest rates for low income housing ranging from 3.42% to 8.30% at the inception of each mortgage. During the fiscal year ended June 30, 2017, Habitat LA did not originate any first trust deed mortgage notes receivable. For first trust deed mortgage note receivable loans originated during the year ended June 30, 2016, Habitat LA imputed a discount rate of 3.88% to 4.38%. The Organization recognizes the discount as interest income over the term of the mortgage using the effective interest method.

Mortgage notes receivable secured by second, third and fourth trust deeds, consist of non-interest bearing loans, whose payment terms require a balloon payment upon the earlier of the

## NOTE 5 – CONTINUED

### MORTGAGE NOTES RECEIVABLE

sale or transfer of the property, or 30 years. These second, third and fourth mortgage notes receivable provide for fixed and determinable repayment terms, such that Habitat LA is able to report these mortgage notes receivable at their present value in the accompanying consolidated financial statements. Generally, the mortgage notes receivable are discounted using an interest rate of prime plus 2%; or a discount rate of 5.25% to 6.13% for any second, third and fourth trust deed loans originated during the fiscal years ended June 30, 2017 and 2016.

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. Habitat LA imputed a 7% discount rate based upon prevailing market interest rates of junior lien mortgages for these notes.

Habitat LA 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,* | 2017 | 2016 |
|---|---|---|
| First trust deeds | $ 15,984,912 | $ 16,805,215 |
| Second/third/fourth trust deeds | 11,839,204 | 10,387,442 |
| Junior lien position | 1,000,000 | 1,000,000 |
| Discount to present value | (16,963,330) | (16,196,944) |
| Present value of mortgage notes receivable | $11,860,786 | $11,995,713 |

Scheduled mortgage notes receivable collections are summarized as follows:

| *Year ending June 30,* | |
|---|---|
| 2018 | $ 705,490 |
| 2019 | 696,984 |
| 2020 | 876,438 |
| 2021 | 626,929 |
| 2022 | 614,622 |
| Thereafter | 25,303,653 |
| Total | $ 28,824,116 |

Mortgage loan discount amortization revenue for the years ended June 30, 2017 and 2016 was $920,918 and $652,889, respectively.

## NOTE 6

### INVENTORIES

Inventories consist of the following:

| *As of June 30,* | 2017 | 2016 |
|---|---|---|
| Building materials for home construction projects | $ 1,085,708 | $ 569,296 |
| Inventory received for sale at special events | 40,093 | 47,844 |
| ReStore inventory | 453,374 | 424,333 |
| | $ 1,579,175 | $ 1,041,473 |

***As of and for the year ended June 30, 2017***

## NOTE 7

### CONSTRUCTION- IN-PROCESS

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

| *As of June 30,* | 2017 | 2016 |
|---|---|---|
| Long Beach | $ 3,553,730 | $ 3,962,734 |
| Downey | 2,306,245 | 938,909 |
| Bellflower | 1,315,551 | - |
| Los Angeles | 980,917 | 1,196,050 |
| Lakewood | 326,158 | 319,529 |
| Community Development Commission- L.A. | - | 530,090 |
| Montebello | - | 770,400 |
| Inglewood | - | 248,993 |
| | $ 8,482,601 | $ 7,966,705 |

Following is a summary of home building activity:

| *During the year ended June 30, 2017* | Number of homes | Cost |
|---|---|---|
| Home construction in process, beginning of year | 104 | $ 7,966,705 |
| Costs incurred on homes during fiscal 2017 - new and existing projects | 33 | 5,292,298 |
| Homes transferred to finished homes | (14) | (4,776,402) |
| | 123 | $ 8,482,601 |

| *During the year ended June 30, 2016* | Number of homes | Cost |
|---|---|---|
| Home construction in process, beginning of year | 74 | $ 6,665,814 |
| Costs incurred on homes during fiscal 2016 - new and existing projects | 35 | 3,031,769 |
| Homes transferred to finished homes | (5) | (1,730,878) |
| | 104 | $ 7,966,705 |

## NOTE 8

### FINISHED HOMES HELD FOR SALE

Finished homes held for sale consist of the following projects:

| *As of June 30,* | 2017 | 2016 |
|---|---|---|
| Montebello | $ 1,619,938 | $ - |
| | $ 1,619,938 | $ - |

Following is a summary of finished homes activity:

| *During the year ended June 30, 2017* | Number of homes | Cost |
|---|---|---|
| Finished homes, beginning of year | 0 | $ - |
| Costs transferred to Finished Homes from construction in process | 14 | 4,780,291 |
| Homes transferred to new owners | (10) | (3,160,353) |
| | 4 | $ 1,619,938 |

| *During the year ended June 30, 2016* | Number of homes | Cost |
|---|---|---|
| Finished homes, beginning of year | 3 | $ 563,995 |
| Costs transferred to Finished Homes from construction in process | 5 | 1,730,878 |
| Homes transferred to new owners | (8) | (2,294,873) |
| | 0 | $ - |

## NOTE 9

### PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following:

| *As of June 30,* | 2017 | 2016 |
|---|---|---|
| Autos and trucks | $ 279,476 | $ 226,397 |
| Land and building | 4,723,573 | 4,719,723 |
| Construction equipment | 13,265 | 13,265 |
| Furniture and equipment | 55,670 | 55,670 |
| Computer software and hardware | 254,579 | 254,579 |
| Leasehold improvements | 515,937 | 393,513 |
| Total | 5,842,500 | 5,663,147 |
| Less: accumulated depreciation | (1,333,341) | (1,204,835) |
| Property and equipment, net | $ 4,509,159 | $ 4,458,312 |

Depreciation expense for the years ended June 30, 2017 and 2016 was $150,076 and $219,594, respectively.

## NOTE 10

### DEPOSITS AND OTHER ASSETS

Deposits and other assets consist of the following:

| *As of June 30,* | 2017 | 2016 |
|---|---|---|
| Deposits | $ 193,380 | $ 123,314 |
| Loan fees | 156,267 | 156,267 |
| Beneficial interest in charitable remainder trusts | 181,443 | 167,011 |
| Other receivables | 90,310 | 95,371 |
| | $ 621,400 | $ 541,963 |

Included within other assets at June 30, 2017 and 2016 are beneficial interests in charitable remainder trusts, summarized as follows.

Under a 1998 unitrust agreement, Habitat LA 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 $210,905 and $209,783 at June 30, 2017 and 2016, 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 $78,502 and $72,825 at June 30, 2017 and 2016, respectively.

Under a 2002 unitrust agreement, Habitat LA receives 100% of the value of the trust at the time of the donor's death. Assets held under the trust were $84,293 and $96,026 as of June 30, 2017 and 2016, 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 $65,311 and $58,124 at June 30, 2017 and 2016, respectively.

Under a 2002 charitable remainder insurance trust agreement, Habitat LA 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 $101,307 and $106,675, at June 30, 2017 and 2016, 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 $37,630 and $36,062, respectively.

## NOTE 11

### BANK LINES OF CREDIT

On February 11, 2008 the Organization entered into a revolving line-of-credit agreement (the "Credit Agreement") for borrowings not to exceed $1,500,000, available until the lender cancels the Organization's right to borrow. Under the Credit Agreement, interest is payable at 4.00% per annum and the Credit Agreement is subject to certain covenants. Minimum monthly payments of accrued interest and fees are due each month and 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

**NOTE 11 – CONTINUED**

**BANK LINES OF CREDIT**

monthly principal installments. Indebtedness under the Credit Agreement is secured by substantially all of the Organization's personal property. At June 30, 2017 and 2016, the Organization had outstanding borrowings of $747,266 and $952,275, respectively, on this line of credit, with interest expense incurred of $34,482 and $37,472, during the years ended June 30, 2017 and 2016, respectively.

On November 21, 2016, PHI entered into a revolving line of credit agreement with a financial institution (the "PHI Agreement") for borrowings not to exceed $500,000. The PHI Agreement is subject to certain financial covenants.

The PHI Agreement is guaranteed by Habitat LA, matures on November 30, 2017, and has stated interest payable at the Lender's Prime Rate plus 1.25%, currently 5.25% per annum. At June 30, 2017, the Organization had outstanding borrowings of $441,009 under the line of credit. Interest expense incurred under the PHI Agreement was $5,031 during the year ended June 30, 2017.

**NOTE 12**

**NOTES PAYABLE - GOVERNMENTAL AGENCIES**

Habitat LA is awarded grants by governmental agencies, generally in the form of loans to finance, in part, the acquisition and/or development of specific housing projects. The grant/loan agreements require a written Disposition and Development Agreement ("DDA") between Habitat LA and the city granting the funds. 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 or 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 Habitat LA sells/transfers the property to a qualified buyer, the proportionate amount of debt owed by Habitat LA on the property is forgiven as to Habitat LA, 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 amount of outstanding debt is recorded as additional home sale proceeds by Habitat LA.

As set forth herein, the terms and conditions of notes payable – governmental agencies do not require Habitat LA to remit principal or interest payments on the obligations.

The following is a summary of Habitat LA's notes payable – governmental agencies:

| *As of June 30,* | 2017 | 2016 |
|---|---|---|
| City of Downey | $ 1,510,500 | $ 881,185 |
| City of Montebello | 1,234,320 | 762,655 |
| City of Long Beach | 415,194 | 34,860 |
| City of Bellflower | 1,063,438 | 22,741 |
| | $ 4,223,452 | $ 1,701,441 |

**NOTE 13**

**NOTES PAYABLE - HABITAT INTERNATIONAL**

Habitat International provides funding to Habitat LA through its FlexCAP loan program. These loans are secured by certain of Habitat LA's mortgage notes receivable. Pursuant to the loan and security agreements, Habitat LA has agreed to certain covenants, including: (i) at all times maintain minimum net assets of $250,000; (ii) have at least ten (10) mortgage loans in its performing mortgage pool; (iii) own free and clear of all liens and encumbrances at least 40% of the total of mortgage loans in the performing mortgage pool; (iv) maintain as a pledge, mortgage notes receivable which have aggregate mortgage payments equal to or greater than 105% of the quarterly payment; and (v) have

***As of and for the year ended June 30, 2017***

## NOTE 13 – CONTINUED

### NOTES PAYABLE - HABITAT INTERNATIONAL

assigned and pledged mortgage notes receivable aggregate values equal to or greater than 125% of the outstanding note principal balance. In June 2014, the FlexCAP loans were refinanced under the following terms: interest payable at 4.75% per annum, quarterly principal and interest payments of $68,094 through June 30, 2024, and secured by mortgage notes receivable with an aggregate principal balance of $6,822,614.

In December 2016, the Organization borrowed $929,200 under a FlexCAP loan with essentially the same terms and covenants as set forth above, stated interest at 4.75% per annum, and quarterly principal and interest payments of $29,317 through December 31, 2026.

At June 30, 2017, management believes that the Organization was in compliance with the terms and conditions of the FlexCAP loan program.

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 and annual principal payments of $600,000, commencing June 30, 2015 through June 30, 2018.

The following is a summary of outstanding Habitat International notes payable:

| *June 30,* | 2017 | 2016 |
|---|---|---|
| Capital Magnet Fund | $ 600,000 | $ 1,200,000 |
| FlexCAP 2014 | 1,613,983 | 1,804,019 |
| FlexCAP 2016 | 892,417 | - |
| | $ 3,106,400 | $ 3,004,019 |

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

| *For the year ending June 30,* | |
|---|---|
| 2018 | $ 875,451 |
| 2019 | 288,770 |
| 2020 | 302,733 |
| 2021 | 317,371 |
| 2022 | 332,717 |
| Thereafter | 989,358 |
| Total | $ 3,106,400 |

## NOTE 14

### NOTES PAYABLE – OTHER

On October 1, 2013, Habitat LA entered into a Note Payable California Bank & Trust loan agreement for borrowings of $3,150,000 maturing August 31, 2020 which provided funding used to acquire the Organization’s facilities in Bellflower, California. The note is secured by a first deed of trust with interest at 4.94% per annum with a monthly principal and interest payment of $18,430 through July 31, 2020, and a onetime payment of $2,634,493 due on August 31, 2020. Pursuant to the loan and security agreement, Habitat LA is required to maintain a debt service coverage ratio of greater than 1.25 evaluated annually at year-end. The balance due on the note was $2,880,169 and $2,955,063, at June 30, 2017 and 2016, respectively.

On August 16, 2013, Habitat LA entered into a Note Payable Royal Business Bank (formerly Tomato Bank) loan agreement with an original maturity date of September 1, 2014 for borrowings of $950,000 to finance the purchase of properties located in Long Beach, California. Thereafter, the terms of the note payable were amended, such that the maturity date of the loan was extended to October 5, 2018. The note is secured by a first deed of trust on the acquired properties, stated interest at the Wall Street Journal Prime Rate plus 2.50% and has current monthly payments of principal and interest

## NOTE 14 – CONTINUED

### NOTES PAYABLE – OTHER

totaling $6,474. The outstanding balance due on the note was $920,535 and $914,923, at June 30, 2017 and 2016, respectively.

Habitat LA was awarded a grant of $210,000 by Restore Neighborhood Los Angeles ("RNLA") a not-for-profit, pursuant to a DDA to finance the acquisition and development of a property in the City of Los Angeles. The loan was secured by a deed of trust on the property, was non-interest bearing, and due on sale of the property. During the year ended June 30, 2017, Habitat LA

completed the sale of the property to a qualified buyer and remitted $35,000 to RNLA from the home sale proceeds. The remaining balance of $175,000 was forgiven as to Habitat LA, as the debt was deemed repaid in full, from the proceeds of a subordinate acquisition loan to the qualified buyer.

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

| ***For the year ending June 30,*** | |
|---|---|
| 2018 | $ 998,483 |
| 2019 | 81,948 |
| 2020 | 85,780 |
| 2021 | 2,634,493 |
| Total | $ 3,800,704 |

## NOTE 15

### DEFERRED REVENUE

Deferred revenue consists of amounts advanced to the Organization under down payment assistance grants (the "Grants") from the State of California Department of Housing and Community Development ("Cal Home") and NMTC deferred revenue (see Note 17). The Grants allow the Organization to provide down payment assistance to eligible low and moderate income homeowners. Actual assistance to each homeowner is limited based on a calculated gap between the price of the home and the financial resources available to the homeowner, but cannot exceed $60,000 per eligible family. At June 30, 2017 and 2016, the Organization reported deferred revenue of $722,278 and $1,401,251 respectively, of which $244,927 and $728,930, representing Cal Home grant draws in excess of down payment assistance and expenses incurred. Subsequent to year-end, the Organization refunded $150,000 of unexpended deferred revenue to Cal Home.

## NOTE 16

### RELATED PARTY TRANSACTIONS

Habitat LA 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, Habitat LA receives significant pass-through funding on behalf of domestic and international Habitat affiliates. In general, this pass-through funding is credited towards the Tithe. These pass-through funds generally do not permit Habitat LA 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. During the years ended June 30, 2017 and 2016, Habitat LA recorded $71,139 and $41,309, respectively, in Tithes expense. At June 30, 2017 and 2016, Tithes due Habitat International were $3,031 and $7,322, respectively.

During the years ended June 30, 2017 and 2016, Habitat LA recorded $965,207 and $753,379, respectively, in contributions and pledge payments from members of Habitat LA's Board of Directors or from parties related to Board members.

## NOTE 17

### NEW MARKETS TAX CREDIT TRANSACTIONS

In April 2015, the Organization became an investor in HFHI NMTC Leverage Lender 2013-1, LLC (Leverage Lender) for $1,436,986 along with three (3) other Habitat Affiliates, of which Habitat NMTC Management, LLC was the managing member. U.S. Bancorp Community Development Corporation ("USBCDC") structured the transaction in order to qualify for New Markets Tax Credits that would afford USBCDC the ability to provide funding for low-income housing construction by the members of the Leverage Lender. Through a series of transaction, the Organization obtained a loan from HFHI NMTC Sub-CDE I, LLC ("CDE I") in an amount of $2,104,359 with interest at 0.682930% per annum, payable in semi-annual payments of interest only through May 5, 2024, at which time the Organization shall make semi-annual principal payments in amounts sufficient to amortize the loan over twenty-one (21) years. The closing costs and structuring fees associated with this transaction were $146,667, which are being amortized over seven (7) years. Additionally, a cash reserve fund was established in the amount of $105,647 for compliance costs over the estimated life of the 2015 NMTC Transaction or seven (7) years. As a result of the 2015 NMTC Transaction, the Organization received $415,059 of net cash to invest in the construction of low-income housing projects. This amount represents the net profit the Organization expects to realize on the 2015 NMTC Transaction.

The loan payable CDE I is a below market interest rate loan. Furthermore, the cash flows of the 2015 NMTC Transaction are structured such that the Organization will not be obligated to fund any cash flow for repayment of the debt due CDE I. For financial statement presentation purposes, the Organization has offset the investment in Leverage Lender with its loan payable to CDE I based on a right of offset because of the economic substance of the 2015 NMTC Transaction. Accordingly, the Organization's financial statements report only the net asset value of the 2015 NMTC Transaction, after offsetting the discounted note payable CDE, transaction costs and investment in LLC.

The Organization recorded net deferred revenue of $668,291 from the 2015 NMTC Transaction, which is being amortized over seven (7) years, the expected life of the transaction. Accordingly, at June 30, 2017 and 2016, the Organization reported deferred revenue of $477,351 and $572,821, respectively, associated with the 2015 NMTC Transaction.

## NOTE 18

### COMMITMENTS AND CONTINGENCIES

Habitat LA leases ReStore facilities under non-cancellable operating leases. Rent expense for the years ended June 30, 2017 and 2016 under these leases were $281,112 and $266,220, respectively. One of the Organization's ReStore facility operating leases extends through July 2024.

Habitat LA leases various vehicles under non-cancellable operating leases through June 2019. Vehicle rental expense for the year ended June 30, 2017 and 2016 was $154,689 and $166,188, respectively.

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

| *Year ending June 30,* | Building leases | Equipment leases |
|---|---|---|
| 2018 | $ 259,512 | $ 66,200 |
| 2019 | 275,316 | 68,186 |
| 2020 | 275,316 | - |
| 2021 | 293,172 | - |
| 2022 | 293,172 | - |
| Thereafter | 899,649 | - |
| Total | $ 2,296,137 | $ 134,386 |

***As of and for the year ended June 30, 2017***

## NOTE 19

### TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2017 and 2016 consist of amounts restricted by donor-imposed stipulations as follows:

| *As of June 30,* | 2017 | 2016 |
|---|---|---|
| Home Sponsorships | $ 1,293,687 | $ 1,173,857 |
| Community Programs | 601,001 | 505,647 |
| Charitable Remainder Trusts | 181,444 | 167,011 |
| Multi-Year Capital Campaign Funds | 377,979 | 366,551 |
| Total | $ 2,454,111 | $ 2,213,065 |

## NOTE 20

### LEGAL CONTINGENCIES

The Organization is subject to various claims which might arise in the normal course of its activities. In the opinion of management, the ultimate disposition of any such claims will not have a material adverse effect on the financial position, liquidity or changes in net assets of the Organization.

**HABITAT FOR HUMANITY OF GREATER LOS ANGELES, INC.**
CONSOLIDATING STATEMENT OF FINANCIAL POSITION

| *As of June 30* | Habitat for Humanity - Greater Los Angeles | Partnership Housing, Inc. | Subtotal | Elimination | 2017 Consolidated | 2016 |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and cash equivalents | $ 2,576,197 | $ 13,763 | $ 2,589,960 | $ - | $ 2,589,960 | $ 2,080,309 |
| Program service grants receivable | - | 549,244 | 549,244 | - | 549,244 | |
| Unconditional promises to give, net of unamortized discount | 3,690,457 | - | 3,690,457 | (1,473,007) | 2,217,450 | 3,216,431 |
| Mortgage notes receivable, net of unamortized discount | 11,860,786 | - | 11,860,786 | - | 11,860,786 | 11,995,713 |
| Prepaid expenses | 327,532 | - | 327,532 | - | 327,532 | 249,237 |
| Inventories | 1,579,175 | - | 1,579,175 | - | 1,579,175 | 1,041,473 |
| Construction in process | 4,860,805 | 3,621,796 | 8,482,601 | - | 8,482,601 | 7,966,705 |
| Finished homes held for sale | - | 1,619,938 | 1,619,938 | - | 1,619,938 | - |
| Property and equipment, net of accumulated depreciation and amortization | 4,509,159 | - | 4,509,159 | - | 4,509,159 | 4,458,312 |
| Deposits and other assets | 621,400 | - | 621,400 | - | 621,400 | 541,963 |
| **Total assets** | $ 30,025,511 | $ 5,804,741 | $ 35,830,252 | $ (1,473,007) | $ 34,357,245 | $ 31,550,143 |
| **LIABILITIES AND NET ASSETS** | | | | | | |
| Bank line of credit | $ 747,266 | $ 441,009 | $ 1,188,275 | $ - | $ 1,188,275 | $ 952,275 |
| Accounts payable | 851,682 | 1,473,761 | 2,325,443 | (1,473,007) | 852,436 | 510,710 |
| Accrued expenses | 652,362 | 741 | 653,103 | - | 653,103 | 670,623 |
| Deposits and impounds | 74,076 | - | 74,076 | - | 74,076 | 47,900 |
| Deferred revenue | 722,278 | - | 722,278 | - | 722,278 | 1,401,251 |
| Capital leases payable | 32,967 | - | 32,967 | - | 32,967 | 6,928 |
| Notes payable - governmental agencies | 415,194 | 3,808,258 | 4,223,452 | - | 4,223,452 | 1,701,441 |
| Notes payable - Habitat International | 3,106,400 | - | 3,106,400 | - | 3,106,400 | 3,004,019 |
| Notes payable - other | 3,800,704 | - | 3,800,704 | - | 3,800,704 | 4,079,986 |
| **Total liabilities** | $ 10,402,929 | $ 5,723,769 | $ 16,126,698 | $ (1,473,007) | $ 14,653,691 | $ 12,375,133 |
| **Commitments** | | | | | | |
| **Net assets:** | | | | | | |
| Unrestricted | $ 17,168,471 | $ 80,972 | $ 17,249,443 | $ - | $ 17,249,445 | $ 16,961,945 |
| Temporarily restricted | 2,454,111 | - | 2,454,111 | - | 2,454,111 | 2,213,065 |
| **Total net assets** | $ 19,622,582 | $ 80,972 | $ 19,703,554 | $ - | $ 19,703,556 | $ 19,175,010 |
| **Total liabilities and net assets** | $ 30,025,511 | $ 5,804,741 | $ 35,830,252 | $ (1,473,007) | $ 34,357,247 | $ 31,550,143 |

*The accompanying notes are an integral part of these financial statements*

## HABITAT FOR HUMANITY OF GREATER LOS ANGELES, INC.
CONSOLIDATING STATEMENT OF ACTIVITIES

| | Habitat for Humanity- Greater Los Angeles | | | Partnership Housing, Inc. | | | Elimination | | | Consolidated | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ***For the year ended June 30, 2017*** | **Unrestricted** | **Temporarily restricted** | **Totals** | **Unrestricted** | **Temporarily restricted** | **Totals** | **Unrestricted** | **Temporarily restricted** | **Totals** | **Unrestricted** | **Temporarily restricted** | **Totals** | **Prior year-totals** |
| **Support and revenue:** | | | | | | | | | | | | | |
| Contributions | $ 1,142,589 | $ 2,604,519 | $ 3,747,108 | $ - | $ - | $ - | - | $ - | $ - | $ 1,142,589 | $ 2,604,519 | $ 3,747,108 | $ 3,665,635 |
| In-kind contributions | 476,060 | 500,625 | 976,685 | 3,090,098 | - | 3,090,098 | (3,090,098) | - | (3,090,098) | 476,060 | 500,625 | 976,685 | 863,899 |
| Sales of homes | 3,464,543 | - | 3,464,543 | - | - | - | - | - | - | 3,464,543 | - | 3,464,543 | 5,238,172 |
| ReStore sales | 4,667,359 | - | 4,667,359 | - | - | - | - | - | - | 4,667,359 | - | 4,667,359 | 3,938,504 |
| ReStore value of donated goods received | 4,668,007 | - | 4,668,007 | - | - | - | - | - | - | 4,668,007 | - | 4,668,007 | 3,940,381 |
| Government grants | 27,971 | 859,003 | 886,974 | - | - | - | - | - | - | 27,971 | 859,003 | 886,974 | 604,568 |
| Special events, net | 479,001 | 105,626 | 584,627 | - | - | - | - | - | - | 479,001 | 105,626 | 584,627 | 621,992 |
| Mortgage loan discount amortization | 920,918 | - | 920,918 | - | - | - | - | - | - | 920,918 | - | 920,918 | 652,889 |
| Other income | 3,375,733 | 14,433 | 3,390,166 | 170 | - | 170 | (3,090,098) | - | (3,090,098) | 285,805 | 14,433 | 300,238 | 306,807 |
| **Net assets released from restrictions:** | | | | | | | | | | | | | |
| Satisfaction of program/donor restrictions | 3,843,160 | (3,843,160) | - | - | - | - | - | - | - | 3,843,160 | (3,843,160) | - | - |
| **Total revenue, gains, and other support** | 23,065,341 | 241,046 | 23,306,387 | 3,090,268 | - | 3,090,268 | (6,180,196) | - | (6,180,196) | 19,975,413 | 241,046 | 20,216,459 | 19,832,847 |
| **Expenses:** | | | | | | | | | | | | | |
| Cost of homes sold and program support | 21,154,737 | - | 21,154,737 | 3,102,801 | - | 3,102,801 | (6,180,196) | - | (6,180,196) | 18,077,342 | - | 18,077,342 | 17,498,565 |
| Fundraising | 757,685 | - | 757,685 | - | - | - | - | - | - | 757,685 | - | 757,685 | 844,041 |
| Management and general | 852,886 | - | 852,886 | - | - | - | - | - | - | 852,886 | - | 852,886 | 922,455 |
| Total functional expenses | 22,765,308 | - | 22,765,308 | 3,102,801 | - | 3,102,801 | (6,180,196) | - | (6,180,196) | 19,687,913 | - | 19,687,913 | 19,265,061 |
| **Total expenses** | 22,765,308 | - | 22,765,308 | 3,102,801 | - | 3,102,801 | (6,180,196) | - | (6,180,196) | 19,687,913 | - | 19,687,913 | 19,265,061 |
| **Change in net assets** | 300,033 | 241,046 | 541,079 | (12,533) | - | (12,533) | - | - | - | 287,500 | 241,046 | 528,546 | 567,786 |
| **Net assets, beginning of year** | 16,868,438 | 2,213,065 | 19,081,503 | 93,505 | - | 93,505 | - | - | - | 16,961,945 | 2,213,065 | 19,175,010 | 18,607,224 |
| **Net assets, end of year** | $ 17,168,471 | $ 2,454,111 | $ 19,622,582 | $ 80,972 | $ - | $ 80,972 | $ - | $ - | $ - | $ 17,249,445 | $ 2,454,111 | $ 19,703,556 | $ 19,175,010 |

*The accompanying notes are an integral part of these financial statements*

**HABITAT FOR HUMANITY OF GREATER LOS ANGELES, INC.**

CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES

| | Habitat for Humanity- Greater Los Angeles | | | Partnership Housing, Inc. | | | Subtotal | | | Eliminations | | | Consolidated | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *For the year ended June 30, 2017* | Cost of homes transferred & program support | Fundraising | Management & general | Cost of homes transferred & program support | Fundraising | Management & general | Cost of homes transferred & program support | Fundraising | Management & general | Cost of homes transferred & program support | Fundraising | Management & general | Cost of homes transferred & program support | Fundraising | Management & general | Totals | Prior year-totals |
| Cost of homes sold - construction costs | $ 6,344,271 | $ - | $ - | $ 3,090,098 | $ - | $ - | $ 9,434,369 | $ - | $ - | $ (6,180,196) | $ - | $ - | $ 3,254,173 | $ - | $ - | $ 3,254,173 | $ 4,305,106 |
| Cost of homes sold - mortgage discount | 1,687,305 | - | - | - | - | - | 1,687,305 | - | - | - | - | - | 1,687,305 | - | - | 1,687,305 | 1,622,804 |
| Cost of goods sold - ReStore | 488,125 | - | - | - | - | - | 488,125 | - | - | - | - | - | 488,125 | - | - | 488,125 | 381,685 |
| Value of donated goods sold - ReStore | 4,668,007 | - | - | - | - | - | 4,668,007 | - | - | - | - | - | 4,668,007 | - | - | 4,668,007 | 3,940,381 |
| Salaries | 3,948,232 | 462,896 | 533,721 | 7,500 | - | - | 3,955,732 | 462,896 | 533,721 | - | - | - | 3,955,732 | 462,896 | 533,721 | 4,952,349 | 4,382,111 |
| Payroll taxes and benefits | 936,453 | 88,723 | 96,985 | 897 | - | - | 937,350 | 88,723 | 96,985 | - | - | - | 937,350 | 88,723 | 96,985 | 1,123,058 | 993,940 |
| Americorp | 67,886 | - | - | - | - | - | 67,886 | - | - | - | - | - | 67,886 | - | - | 67,886 | 91,167 |
| Bad debt expense | 25,000 | - | - | - | - | - | 25,000 | - | - | - | - | - | 25,000 | - | - | 25,000 | 124,963 |
| Bank fees and charges | 98,470 | 21,031 | 17,672 | 26 | - | - | 98,496 | 21,031 | 17,672 | - | - | - | 98,496 | 21,031 | 17,672 | 137,199 | 81,619 |
| Home repair | 334,540 | - | - | - | - | - | 334,540 | - | - | - | - | - | 334,540 | - | - | 334,540 | 474,814 |
| Build events and community programs | 209,811 | 18,376 | 7,894 | - | - | - | 209,811 | 18,376 | 7,894 | - | - | - | 209,811 | 18,376 | 7,894 | 236,081 | 137,533 |
| Depreciation | 121,165 | 10,119 | 18,792 | - | - | - | 121,165 | 10,119 | 18,792 | - | - | - | 121,165 | 10,119 | 18,792 | 150,076 | 219,594 |
| Facilities - rent / lease costs | 281,112 | - | - | - | - | - | 281,112 | - | - | - | - | - | 281,112 | - | - | 281,112 | 266,220 |
| Insurance | 121,703 | 7,202 | 6,897 | - | - | - | 121,703 | 7,202 | 6,897 | - | - | - | 121,703 | 7,202 | 6,897 | 135,802 | 133,267 |
| Interest and amortization of loan fees | 335,407 | - | - | - | - | - | 335,407 | - | - | - | - | - | 335,407 | - | - | 335,407 | 344,743 |
| Office and other | 346,512 | 41,349 | 57,781 | 2,505 | - | - | 349,017 | 41,349 | 57,781 | - | - | - | 349,017 | 41,349 | 57,781 | 448,147 | 413,246 |
| Professional and outside services | 393,132 | 57,475 | 72,797 | 1,775 | - | - | 394,907 | 57,475 | 72,797 | - | - | - | 394,907 | 57,475 | 72,797 | 525,179 | 590,926 |
| Real estate - closing and development | 69,317 | - | - | - | - | - | 69,317 | - | - | - | - | - | 69,317 | - | - | 69,317 | 83,574 |
| Telephone | 133,752 | 10,357 | 10,247 | - | - | - | 133,752 | 10,357 | 10,247 | - | - | - | 133,752 | 10,357 | 10,247 | 154,356 | 132,485 |
| Tithes | 31,025 | 28,060 | 12,054 | - | - | - | 31,025 | 28,060 | 12,054 | - | - | - | 31,025 | 28,060 | 12,054 | 71,139 | 41,309 |
| Travel | 63,175 | 10,885 | 15,230 | - | - | - | 63,175 | 10,885 | 15,230 | - | - | - | 63,175 | 10,885 | 15,230 | 89,290 | 68,254 |
| Utilities and facility maintenance | 187,507 | 1,212 | 2,816 | - | - | - | 187,507 | 1,212 | 2,816 | - | - | - | 187,507 | 1,212 | 2,816 | 191,535 | 196,226 |
| Vehicles | 262,830 | - | - | - | - | - | 262,830 | - | - | - | - | - | 262,830 | - | - | 262,830 | 239,094 |
| Totals | $ 21,154,737 | $ 757,685 | $ 852,886 | $ 3,102,801 | $ - | $ - | $ 24,257,538 | $ 757,685 | $ 852,886 | $ (6,180,196) | $ - | $ - | $ 18,077,342 | $ 757,685 | $ 852,886 | $ 19,687,913 | $ 19,265,061 |

*The accompanying notes are an integral part of these financial statements*

**HABITAT FOR HUMANITY OF GREATER LOS ANGELES, INC.**

CONSOLIDATING STATEMENT OF CASH FLOWS

| *For the year ended June 30,* | Habitat for Humanity-Greater Los Angeles | Partnership Housing, Inc. | Subtotal | Elimination | 2017 Consolidated | 2016 |
|---|---|---|---|---|---|---|
| **Operating activities:** | | | | | | |
| Change in net assets | $ 541,079 | $ (12,533) | $ 528,546 | $ - | $ 528,546 | $ 567,786 |
| 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 | (1,743,477) | - | (1,743,477) | | (1,743,477) | (516,414) |
| Forgiveness / transfer of notes payable, government agencies and related accrued interest to homeowners | - | - | - | | - | (559,438) |
| In-kind contributions - value of donated land | 415,000 | - | 415,000 | | 415,000 | - |
| Issuance of unamortized mortgage discounts | 1,687,304 | - | 1,687,304 | | 1,687,304 | - |
| Mortgage discount amortization | (920,918) | - | (920,918) | | (920,918) | (652,889) |
| Provision for unconditional promises to give | 25,000 | - | 25,000 | | 25,000 | 124,963 |
| Loss (gain) on long-term assets | (500) | - | (500) | | (500) | (2,300) |
| Depreciation | 150,076 | - | 150,076 | | 150,076 | 219,594 |
| (Increase) decrease in assets: | | | | | | |
| Program service grants receivable | - | (263,407) | (263,407) | | (263,407) | 70,400 |
| Contributions receivable | (492,592) | - | (492,592) | 1,473,007 | 980,415 | (880,771) |
| Prepaid expenses | (78,295) | - | (78,295) | | (78,295) | 205,775 |
| Inventories | (537,702) | - | (537,702) | | (537,702) | (491,223) |
| Construction in process, net of non-cash items | 958,850 | (1,474,746) | (515,896) | | (515,896) | (50,891) |
| Finished homes held for sale | - | (1,619,938) | (1,619,938) | | (1,619,938) | 563,995 |
| Deposits and other assets (except loan fees) | (79,437) | - | (79,437) | | (79,437) | (1,236) |
| Increase (decrease) in liabilities: | | | | | | |
| Accounts payable | 346,297 | 1,176,164 | 1,522,461 | (1,473,007) | 49,454 | 76,334 |
| Accrued expenses, net of accrued capitalized interest and forgiven interest | (18,261) | 282 | (17,979) | | (17,979) | 164,993 |
| Deposits and impounds | 26,635 | - | 26,635 | | 26,635 | (110,047) |
| Deferred revenue | (678,973) | - | (678,973) | | (678,973) | (61,939) |
| **Net cash and cash equivalents provided by (used in) operating activities** | (399,914) | (2,194,178) | (2,594,092) | - | (2,594,092) | (1,333,308) |
| **Investing activities:** | | | | | | |
| Acquisition of property and equipment | (200,923) | - | (200,923) | | (200,923) | (83,320) |
| Proceeds from sale of equipment | 500 | - | 500 | | 500 | 2,300 |
| Mortgage payments received | 1,112,018 | - | 1,112,018 | | 1,112,018 | 869,113 |
| **Net cash and cash equivalents provided by (used in) investing activities** | 911,595 | - | 911,595 | - | 911,595 | 788,093 |
| **Financing activities:** | | | | | - | |
| Net proceeds (payments) on line of credit | (205,009) | 441,009 | 236,000 | | 236,000 | (261,252) |
| Cash proceeds from notes payable | 1,326,278 | 1,726,677 | 3,052,955 | | 3,052,955 | 210,000 |
| Principal payments on notes payable | (1,122,846) | - | (1,122,846) | | (1,122,846) | (1,173,152) |
| Cash proceeds from capitalized lease obligations payable | 33,267 | - | 33,267 | | 33,267 | - |
| Payments on capitalized lease obligations payable | (7,228) | - | (7,228) | | (7,228) | (12,718) |
| **Net cash and cash equivalents provided by (used in) financing activities** | 24,462 | 2,167,686 | 2,192,148 | - | 2,192,148 | (1,237,122) |
| **Net change in cash and cash equivalents** | 536,143 | (26,492) | 509,651 | - | 509,651 | (1,782,337) |
| **Cash and cash equivalents, beginning of the year** | 2,040,054 | 40,255 | 2,080,309 | - | 2,080,309 | 3,862,646 |
| **Cash and cash equivalents, end of the year** | $ 2,576,197 | $ 13,763 | $ 2,589,960 | $ - | $ 2,589,960 | $ 2,080,309 |

*The accompanying notes are an integral part of these financial statements*