Habitat for Humanity®
Greater Los Angeles

CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED
JUNE 30, 2018

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, 2018, 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 audit. We conducted our audit 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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INDEPENDENT AUDITOR'S REPORT
(Continued)

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, 2018, 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 2017 consolidated financial statements, and in our report dated October 19, 2017, we expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedules on pages 23 – 26 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Rossi LLP

Long Beach, California
December 3, 2018

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

As of June 30,	2018	2017
ASSETS		
Cash and cash equivalents	$ 2,099,800	$ 2,589,960
Program service grants receivable	72,023	549,244
Unconditional promises to give, net of unamortized discount	2,982,689	2,217,450
Mortgage notes receivable, net of unamortized discount	11,842,855	11,860,786
Prepaid expenses	233,211	327,532
Inventories	1,878,162	1,579,175
Construction in process	11,565,349	8,482,601
Finished homes held for sale	-	1,619,938
Property and equipment, net of accumulated depreciation and amortization	4,413,029	4,509,159
Deposits and other assets	797,414	621,400
Total assets	$ 35,884,532	$ 34,357,245
LIABILITIES AND NET ASSETS		
Bank lines of credit	$ 586,392	$ 1,188,275
Accounts payable	1,001,973	852,436
Accrued expenses	925,257	653,101
Deposits and impounds	69,756	74,076
Deferred revenue	991,016	722,278
Capitalized lease obligations payable	25,531	32,967
Notes payable - governmental agencies	5,538,527	4,223,452
Notes payable - Habitat International	2,830,951	3,106,400
Notes payable - other	3,760,904	3,800,704
Total liabilities	15,730,307	14,653,689
Commitments		
Net assets:		
Unrestricted	17,339,431	17,249,445
Temporarily restricted	2,814,794	2,454,111
Total net assets	20,154,225	19,703,556
Total liabilities and net assets	$ 35,884,532	$ 34,357,245

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, 2018, WITH COMPARATIVE TOTALS FOR JUNE 30, 2017

For the year ended June 30, 2018	**Unrestricted**	**Temporarily restricted**	**Totals**	**Prior year-totals**
Support and revenue:				
Contributions	$ 1,737,348	$ 2,398,848	$ 4,136,196	$ 3,747,108
In-kind contributions	622,650	249,633	872,283	976,685
Sales of homes	7,411,965	-	7,411,965	3,464,543
ReStore sales	5,202,873	-	5,202,873	4,667,359
ReStore value of donated goods received	4,893,967	-	4,893,967	4,668,007
Government grants	837,005	241,717	1,078,722	886,974
Special events, net of direct costs	335,652	-	335,652	584,627
Mortgage loan discount amortization	606,472	-	606,472	920,918
Other income	552,501	-	552,501	300,238
Net assets released from restrictions:				
Satisfaction of program/donor restrictions	2,529,515	(2,529,515)	-	-
Total revenue, gains, and other support	24,729,948	360,683	25,090,631	20,216,459
Expenses:				
Cost of homes sold and program support	22,419,928	-	22,419,928	18,077,342
Fundraising	825,306	-	825,306	757,685
Management and general	1,099,618	-	1,099,618	852,886
Total functional expenses	24,344,852	-	24,344,852	19,687,913
Loss on impairment of capitalized headquarter renovation cost	295,110	-	295,110	-
Total expenses	24,639,962	-	24,639,962	19,687,913
Change in net assets	89,986	360,683	450,669	528,546
Net assets, beginning of year	17,249,445	2,454,111	19,703,556	19,175,010
Net assets, end of year	$ 17,339,431	$ 2,814,794	$ 20,154,225	$ 19,703,556

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, 2018, WITH COMPARATIVE TOTALS FOR JUNE 30, 2017

For the year ended June 30, 2018	**Cost of homes transferred & program support**	**Fundraising**	**Management & general**	**Totals**	**Prior year-totals**
Cost of homes sold - construction costs	$ 8,251,621	$ -	$ -	$ 8,251,621	$ 3,254,173
Cost of homes sold - mortgage discount expense	277,437	-	-	277,437	1,687,305
Cost of goods sold - ReStore	440,343	-	-	440,343	488,125
Value of donated items sold - ReStore	4,643,692	-	-	4,643,692	4,668,007
Salaries	4,138,859	549,650	739,992	5,428,501	4,952,349
Payroll taxes and benefits	997,157	95,564	163,222	1,255,943	1,123,058
Americorp	42,587	-	-	42,587	67,886
Bad debt expense	-	-	-	-	25,000
Bank fees and charges	122,885	26,017	7,460	156,362	137,199
Home repair	607,532	-	-	607,532	334,540
Build events and community programs	330,788	25,858	14,186	370,832	236,081
Depreciation	57,677	-	-	57,677	150,076
Facilities - rent / lease costs	466,807	8,640	4,740	480,187	281,112
Insurance	138,549	6,654	9,562	154,765	135,802
Interest and amortization of loan fees	314,006	-	-	314,006	335,407
Office and other	277,938	50,944	47,834	376,716	448,146
Professional and outside services	381,024	46,049	76,435	503,508	525,180
Real estate - closing and development	135,023	-	-	135,023	69,317
Telephone	126,043	8,368	20,775	155,186	154,356
Tithes	92,720	-	-	92,720	71,139
Travel	27,898	7,165	11,486	46,549	89,290
Utilities and facility maintenance	234,404	397	3,926	238,727	191,535
Vehicle rent and operating costs	314,938	-	-	314,938	262,830
Totals	$ 22,419,928	$ 825,306	$ 1,099,618	$ 24,344,852	$ 19,687,913

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 years ended June 30,	**2018**	**2017**
Operating activities:		
Change in net assets	$ 450,669	$ 528,546
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	(1,061,259)	(1,743,477)
Issuance of unamortized mortgage discounts	957,434	1,687,304
Mortgage discount amortization	(606,472)	(920,918)
Amortization of discount on multi-year pledges	(37,248)	-
In-kind contributions of property, construction costs, and other assets	(479,682)	415,000
Forgiveness / transfer of notes payable, government agencies and related accrued interest to homeowners	(3,808,258)	-
Provision for doubtful grants receivable	-	25,000
Loss (gain) on long-term assets	295,110	(500)
Depreciation	57,676	150,076
(Increase) decrease in assets:		
Program service grants receivable	1,957,017	(263,407)
Contributions receivable	(255,098)	980,415
Prepaid expenses	94,324	(78,295)
Inventories	(298,987)	(537,702)
Construction in process, net of non-cash items	2,042,252	(515,896)
Finished homes held for sale	1,619,938	(1,619,938)
Deposits and other assets (except loan fees)	(176,014)	(79,437)
Increase (decrease) in liabilities:		
Accounts payable	(1,323,470)	49,454
Accrued expenses	272,154	(17,979)
Deposits and impounds	(4,320)	26,635
Deferred revenue	268,738	(678,973)
Net cash and cash equivalents provided by (used in) operating activities	(35,496)	(2,594,092)
Investing activities:		
Acquisition of property and equipment	(256,656)	(200,923)
Proceeds from sale of equipment	-	500
Mortgage payments received	728,227	1,112,018
Net cash and cash equivalents provided by (used in) investing activities	471,571	911,595
Financing activities:		
Net proceeds (payments) on line of credit	(601,883)	236,000
Cash proceeds from notes payable	53,591	3,052,955
Principal payments on notes payable	(370,507)	(1,122,846)
Cash proceeds from capitalized lease obligations payable	-	33,267
Payments on capitalized lease obligations payable	(7,436)	(7,228)
Net cash and cash equivalents provided by (used in) financing activities	(926,235)	2,192,148
Net change in cash and cash equivalents	(490,160)	509,651
Cash and cash equivalents, beginning of the year	2,589,960	2,080,309
Cash and cash equivalents, end of the year	$ 2,099,800	$ 2,589,960

The accompanying notes are an integral part of these financial statements

As of and for the year ended June 30, 2018

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 Harbor Area/Long Beach, CA, Inc.). Over the years, as neighboring affiliates merged into this affiliate, its name changed to Habitat for Humanity South Bay/Long Beach and 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, Habitat LA builds, renovates and repairs simple, sustainable and affordable homes in partnership with homeowner (partner) families and volunteers. Habitat for Humanity ("HFH") houses are sold to the partner homeowners at no profit and financed with affordable loans. HFH is not a give-away program as 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 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. 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.

Habitat LA is an affiliate of Habitat for Humanity International, Inc. ("Habitat International") a housing ministry with ecumenical Christian roots, serving people from all faiths and walks of life. Although Habitat International assists with information resources, financial support in the form of loans and grants, technical support, and national partnerships, Habitat LA is an independently operated and governed entity.

NOTE 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation:

The accompanying consolidated financial statements as of and for the years ended June 30, 2018 and 2017 include the activities of Partnership Housing, Inc.("PHI"), a wholly controlled subsidiary. 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 consolidated 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 consolidated financial statements, Habitat LA evaluated the period from June 30, 2018 through December 3, 2018, the date that the consolidated financial statements were available to be issued, for subsequent events requiring recognition or disclosure in the accompanying consolidated financial statements.

Use of estimates:

The preparation of consolidated 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 consolidated 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 consolidated 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 LA 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.

At June 30, 2018 and 2017, Habitat LA did not have any net assets that were permanently restricted.

In August 2016, the FASB issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 was issued to improve the current net asset classification requirements and the information presented in the consolidated financial statements and notes thereto about a not-for-profit entity's liquidity, financial performance, and cash flows. Additionally, the amendments in ASU 2016-14, among other matters, reduce the current three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) to two classes of net assets (net assets with donor restrictions and net assets without donor restrictions). The amendments in ASU 2016-14 are effective for the fiscal years beginning after December 15, 2017. Management is currently evaluating the impact of the pending adoption of ASU 2016-14 on the consolidated financial statements.

Contributions:

In accordance with ASC 958-605, *Not-for-Profit Entities - Revenue Recognition*, unconditional promises to give are recognized as revenue when the underlying promises are received, 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.

NOTE 2 – CONTINUED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Contributions: - continued

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 June 2018, the FASB issued Accounting Standards Update ("ASU") 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 requires that an entity determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. After a contribution has been deemed unconditional, an entity would then consider whether the contribution is restricted on the basis of the current definition of the term *donor-imposed restriction*, which includes a consideration of how broad or narrow the purpose of the agreement is, and whether the resources are available for use only after a specified date. The amendments in ASU 2018-08 are effective on a modified prospective basis for the fiscal years beginning after December 15, 2018. Management is currently evaluating the impact of the pending adoption of ASU 2018-08 on the consolidated financial statements.

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 consolidated 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 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 and Habitat LA is relieved of any of its obligations pursuant to the loan agreement.

NOTE 2 – CONTINUED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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. Habitat LA maintains its cash balances in the form of bank demand deposits and money market accounts with financial institutions, including securities brokerage firms, that management believes are credit worthy.

Habitat LA has no significant financial instruments with off-balance sheet risk of accounting loss. The concentration of credit risk of mortgage notes receivable is diversified through numerous different borrowers, however, 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. Furthermore, the mortgage note receivables are secured by a trust deed on the real property which reduces the risk of loss to Habitat LA.

At June 30, 2018, one corporate multi-year donation pledge comprised 10% of the balance of unconditional promises to give. As of June 30, 2017, one corporate multi-year donation pledge promise to give comprised 24% of the balance of unconditional promises to give. 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 consist primarily 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

NOTE 2 – CONTINUED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mortgage notes receivable: - continued

conditional on future events occurring and Habitat LA must have fulfilled substantially all of its obligations to the home buyer, other than normal warranty claims, before the note is recorded in Habitat LA's consolidated 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 origination date of each mortgage.

Additionally, homes may be encumbered with a second, third, fourth, and/or fifth 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". The primary purpose of these silent mortgages is to allow Habitat LA or the agency to capture a portion of any equity at time of sale that is not captured in other senior position trust deeds. These silent loans are repaid if the home is sold or transferred to a nonqualified homeowner before a certain number of years have elapsed since the original sale to the qualified homeowner, 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 typically bear no interest and are forgiven if the homeowner lives in the home for the required period of time and complies with all other covenants and restrictions per the deed of trust. Accordingly, Habitat LA does not record a value for these silent mortgage notes receivable in its consolidated financial statements.

Allowance for mortgage notes receivable losses:

Habitat LA 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 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 did not record an allowance for losses within its mortgage notes receivable portfolio at June 30, 2018 and 2017, because the fair value of its collateral interest in the properties securing the mortgage notes receivable exceeds the net carrying value of the mortgage notes receivable.

Inventories:

Inventories consist primarily 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 of completion, 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

As of and for the year ended June 30, 2018

NOTE 2 – CONTINUED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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 consolidated statement 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

Deposits and impounds:

Habitat LA generally follows a policy in which any interim payments received from a qualified home-buyer prior to the close of escrow are applied as a credit towards the buyer's future mortgage note receivable. 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 by Habitat LA 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, 2018 and 2017, employer contributions to the Plan were $116,014 and $104,103, respectively.

Income taxes:

Habitat LA 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, 2018 and 2017 that it had unrelated business taxable income and accordingly, no provision for income taxes has been recorded in the accompanying consolidated financial statements.

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 income tax returns include any uncertain tax positions and accordingly, has not recognized any liability for unrecognized tax benefits in the accompanying consolidated financial statements.

As of and for the year ended June 30, 2018

NOTE 2 – CONTINUED

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 costs, along with the costs of organizing and operating the events. Total direct costs of events were $429,655 and $388,005 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017:

For the years ended June 30,	**2018**	**2017**
Recognition of in-kind contributions and related assets and expenses	$ 1,157,451	$ 976,685
Non-cash acquisition of property through financing	$ 5,125,000	$ 35,267
Interest paid	$ 314,006	$ 335,407

NOTE 4

UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of the following:

As of June 30,	**2018**	**2017**
Unconditional promises to give, gross	$ 3,221,255	$ 2,493,264
Less: unamortized discount	(38,566)	(75,814)
Less: allowance for doubtful accounts	(200,000)	(200,000)
Unconditional promises to give, net	$ 2,982,689	$ 2,217,450

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 2018, Habitat LA had $1,457,479 of unconditional promises to give due in excess of one year.

As of and for the year ended June 30, 2018

NOTE 5

MORTGAGE NOTES RECEIVABLE

Mortgage notes receivable consist primarily of non-interest bearing residential home loans secured by a deed of trust which are payable in monthly installments over 20 to 30 years. These non-interest bearing mortgages have been discounted to and recorded at present value by Habitat LA based upon prevailing market interest rates for low income housing mortgages. 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, fourth, and fifth trust deeds, are non-interest bearing loans whose payment terms are forgiven, or require a balloon payment upon the earlier of the sale or transfer of the property, or 30 years. These second, third, fourth, and fifth mortgage notes receivable have fixed and determinable repayment terms, and are recorded at their present value in the accompanying consolidated financial statements. Generally, mortgage notes receivable are discounted at the time the mortgage is originated using an interest rate of prime plus 2%.

Mortgage notes receivable, junior lien position, consist of sixteen (16) mortgages originated with funds received from the California Department of 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,	2018	2017
First trust deeds	$ 15,256,685	$ 15,984,912
Second/third/fourth trust deeds	11,949,598	11,839,204
Junior lien position	1,000,000	1,000,000
Discount to present value	(16,363,428)	(16,963,330)
Present value of mortgage notes receivable	$11,842,855	$11,860,786

Scheduled mortgage notes receivable collections are summarized as follows:

Year ending June 30,	
2019	$ 675,183
2020	646,419
2021	609,280
2022	598,993
2023	580,104
Thereafter	25,096,304
Total	$ 28,206,283

Mortgage loan discount amortization revenue for the years ended June 30, 2018 and 2017 was $606,472 and $920,918, respectively.

NOTE 6

INVENTORIES

Inventories consist of the following:

As of June 30,	2018	2017
Building materials for home construction projects	$ 1,167,806	$ 1,085,708
Inventory received for sale at special events	6,708	40,093
ReStore inventory	703,648	453,374
	$ 1,878,162	$ 1,579,175

As of and for the year ended June 30, 2018

NOTE 7

CONSTRUCTION- IN-PROCESS

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

As of June 30,	2018	2017
Culver City	$ 3,957,477	-
Long Beach	3,951,501	3,553,730
Los Angeles	3,098,170	980,917
Lakewood	342,996	326,158
Wilmington	205,241	-
Compton	9,964	-
Downey	-	2,306,245
Bellflower	-	1,315,551
	$11,565,349	$ 8,482,601

Following is a summary of home building activity:

During the year ended June 30, 2018	Number of homes	Cost
Home construction in process, beginning of year	123	$ 8,482,601
Costs incurred on homes during fiscal 2018 - new and existing projects	19	8,942,208
Homes transferred to finished homes	(14)	(5,859,460)
	128	$ 11,565,349

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

NOTE 8

FINISHED HOMES HELD FOR SALE

Finished homes held for sale consist of the following projects:

As of June 30,	2018	2017
Montebello	$ -	$ 1,619,938
	$ -	$ 1,619,938

Following is a summary of finished homes activity:

During the year ended June 30, 2018	Number of homes	Cost
Finished homes, beginning of year	4	$ 1,619,938
Costs transferred to Finished Homes from construction in process	14	5,859,460
Homes transferred to new owners	(18)	(7,479,398)
	0	$ -

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	4,776,402
Homes transferred to new owners	(10)	(3,156,464)
	4	$ 1,619,938

As of and for the year ended June 30, 2018

NOTE 9

RETAIL STORES

Habitat LA operates three ReStores that sell new and used home furnishings, construction and home improvement materials to the general public. ReStore revenue is classified as unrestricted support; cost of goods sold, and operating expenses are reported as program expenses in the consolidated statement of activities. The following is a summary of Habitat LA's retail operation for the years ended June 30, 2018 and 2017:

For the years ended June 30,	**2018**	**2017**
Revenue and support:		
ReStore sales	$ 5,202,625	$ 4,668,007
Fair market value of donated items sold	4,893,967	4,036,165
Total revenue and support	10,096,592	8,704,172
Expenses:		
Cost of goods sold - purchased	440,343	488,125
Cost of goods sold - donated	4,643,692	4,002,624
Operating expenses	4,002,257	3,481,120
Total expenses	9,086,292	7,971,869
Total ReStore revenue over expenses	$ 1,010,300	$ 732,303

NOTE 10

PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following:

As of June 30,	**2018**	**2017**
Autos and trucks	$ 279,476	$ 279,476
Land and building	4,728,039	4,723,573
Construction equipment	13,265	13,265
Furniture and equipment	55,670	55,670
Computer software and hardware	254,579	254,579
Leasehold improvements	473,017	515,937
Total	5,804,046	5,842,500
Less: accumulated depreciation	(1,391,017)	(1,333,341)
Property and equipment, net	$ 4,413,029	$ 4,509,159

Depreciation expense for the years ended June 30, 2018 and 2017 was $57,677 and $150,076, respectively.

During the year ended June 30, 2018, Habitat LA's service area was significantly enlarged causing the administrative offices located in Bellflower, CA, to become less geographically desirable as Habitat LA's central headquarters. Plans to replace these offices with a new corporate facility at the Bellflower site were therefore indefinitely put on hold. Habitat LA had incurred and capitalized $295,110 of costs pertaining to this effort. Since the completion of this effort is now very unlikely, Habitat LA decided to write off these costs as an impairment loss.

NOTE 11

DEPOSITS AND OTHER ASSETS

Deposits and other assets consist of the following:

As of June 30,	**2018**	**2017**
Deposits	$ 372,172	$ 193,380
Loan fees	156,267	156,267
Beneficial interest in charitable remainder trusts	184,454	181,443
Other receivables	84,521	90,310
	$ 797,414	$ 621,400

Included within other assets at June 30, 2018 and 2017 are beneficial interests in charitable remainder trusts, summarized as follows:

Under a 1998 charitable remainder insurance trust agreement, Habitat LA is to receive 50% of the value of the trust at the time of the donor's and his income beneficiary's death. Both events had occurred as of June 30, 2018. The remaining 50% of the value is to be distributed to twelve (12) different organizations. Assets held under the trust were $215,241 and $210,905 at June 30, 2018 and 2017 respectively. Based on a donor and beneficiary life expectance and the use of a 5% discount rate, the present value of

As of and for the year ended June 30, 2018

NOTE 11 – CONTINUED

DEPOSITS AND OTHER ASSETS

future benefits expected to be received by Habitat LA were estimated to be $107,621 and $78,502 at June 30, 2018 and 2017, respectively.

Under a 2002 charitable remainder insurance trust agreement, Habitat LA is to receive 47.5% of the value of the trust at the time of the donor's death if the income beneficiary is not deceased. The donor passed away during the fiscal year ended June 30, 2018. If the income beneficiary is alive at the time of the donor's death, she receives 5% of the of the value of the trust at time of the donor's death and Habitat LA receives 47.5% and three (3) organizations each receive one third of the remaining 47.5%. If the income beneficiary is deceased at the time of the donor's death, Habitat LA receives 50% of the value of the trust at the time of the donor's death and three (3) organizations each receive one third of the remaining 50%. Assets held under the trust were $161,754 and $101,307 at June 30, 2018 and 2017 respectively. Based on a donor and beneficiary life expectance and the use of a 5% discount rate, the present value of future benefits expected to be received by Habitat LA were estimated to be $76,833 and $37,630 at June 30, 2018 and 2017, respectively.

Under a 2002 unitrust agreement, Habitat LA was to receive 95% of the value of the trust at the time of the donor's death and the remaining 5% was to go to the donor's estate. The donor passed away during the fiscal year ended June 30, 2018 and Habitat LA received $99,283. Assets held under the trust at June 30, 2017 were $104,252. Based on a donor and beneficiary life expectance and the use of a 5% discount rate, the present value of future benefits expected to be received by Habitat LA were estimated to be $65,311 at June 30, 2017.

NOTE 12

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. Effective May 31, 2018, the credit facility was cancelled with the outstanding principal balance in the amount of $586,392 due and payable in forty-eight (48) equal monthly installments with interest at Wall Street Journal Prime Rate. Indebtedness under the Credit Agreement is secured by substantially all of the Organization's personal property. At June 30, 2018 and 2017, the Organization had outstanding borrowings of $586,392 and $747,266, respectively, on this line of credit, with interest expense incurred of $30,118 and $34,482, during the years ended June 30, 2018 and 2017, respectively.

Habitat LA has a revolving line of credit agreement with a financial institution for borrowings not to exceed $750,000. The agreement is subject to certain financial covenants, including that the combined liquidity of the Organization must be not less than $1,500,000 at the end of each quarter. The Agreement matures on November 30, 2018 and has stated interest payable at the Lender's Prime Rate plus 1.25%, or 6.25% at June 30, 2018. At June 30, 2018, the Organization had no outstanding borrowings under the line of credit. Interest expense incurred under the line of credit for the years ended June 30, 2018 and 2017 were $13,256 and $5,031, respectively.

NOTE 13

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 being forgiven 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,	2018	2017
City of Culver City	$ 3,100,000	$ -
City of Los Angeles	2,025,000	-
City of Long Beach	413,527	415,194
City of Downey	-	1,510,500
City of Montebello	-	1,234,320
City of Bellflower	-	1,063,438
	$ 5,538,527	$ 4,223,452

NOTE 14

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 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 $5,506,659.

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 19, 2026, and secured by mortgage notes receivable with an aggregate principal balance of $3,540,761.

At June 30, 2018, 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

NOTE 14 – CONTINUED

NOTES PAYABLE - HABITAT INTERNATIONAL

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,	2018	2017
Capital Magnet Fund	$ 600,000	$ 600,000
FlexCAP 2014	1,414,758	1,613,983
FlexCAP 2016	816,193	892,417
	$ 2,830,951	$ 3,106,400

Subsequent to the year-end, Habitat LA and Habitat International have agreed to amend the original term of the Capital Magnet Fund Sub-Award loan to be paid back in three installments by January 31, 2019 with 4% interest per annum.

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

For the year ending June 30,	
2019	$ 888,770
2020	302,733
2021	317,371
2022	332,717
2023	348,805
Thereafter	640,555
Total	$2,830,951

NOTE 15

NOTES PAYABLE – OTHER

On August 16, 2013, Habitat LA entered into a Note Payable Royal Business Bank (formerly Tomato Bank) loan agreement 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 January 5, 2019. The note is secured by a first deed of trust on certain Long Beach development properties, stated interest rate at the Wall Street Journal Prime Rate plus 2.50% and has current monthly payments of principal and interest totaling $6,913. The outstanding balance due on the note was $905,881 and $920,535, at June 30, 2018 and 2017, respectively.

On October 1, 2013, Habitat LA entered into a loan agreement with California Bank & Trust 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 $2,801,432 and $2,880,169, at June 30, 2018 and 2017, respectively.

On November 28, 2017, Habitat LA entered into a construction loan agreement with California Bank & Trust for borrowings up to $2,000,000 maturing on November 28, 2019, to provide funding for projects located in Culver City, California. The note is secured by a first deed of trust, with variable interest at an adjusted LIBOR rate. Interest is to be paid monthly and a onetime payment of outstanding principal is due at maturity. Pursuant to the loan and security agreement, Habitat LA is required to maintain a liquidity of not less than $1,000,000 and debt to net worth ratio of less than 2 evaluated annually at year-end. The balance due on the note was $53,591 at June 30, 2018.

On March 6, 2018, Habitat LA entered into a working capital credit facility with Genesis LA Economic Growth Corporation for borrowings up to $2,500,000 to be used in funding the

As of and for the year ended June 30, 2018

NOTE 15 – CONTINUED

NOTES PAYABLE – OTHER

development of several affordable housing projects. The lender will close a separate loan for each development project until outstanding balances of all loans reach $2,500,000. The loan is secured by a second deed of trust with fixed interest at 6.5% per annum, payable over 60 months. Pursuant to the loan and security agreement, Habitat LA is required to maintain no less than 30 days operating cash reserve; current ratio of not less than 1; debt to net worth ratio of less than 1.25 evaluated annually at year-end. There were no borrowings under this credit facility during the year ended June 30, 2018. In September 2018, Habitat LA closed on approximately $137,000 of available financing through this credit facility.

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

For the year ending June 30,	
2019	$ 987,039
2020	139,371
2021	2,634,494
Total	$ 3,760,904

NOTE 16

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 18). 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, 2018 and 2017, the Organization reported deferred revenue of $991,016 and $722,278 respectively, of which $199,135 and $244,927, represented Cal Home grant draws in excess of down payment assistance and expenses incurred. During the year ended June 30, 2018, Habitat LA refunded $150,000 of unexpended deferred revenue to Cal Home.

NOTE 17

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, since it is an agent in these transactions. During the years ended June 30, 2018 and 2017, Habitat LA recorded $92,720 and $71,139, respectively, in Tithes expense. At June 30, 2018 and 2017, Tithes due Habitat International were $28,307 and $3,031, respectively.

During the years ended June 30, 2018 and 2017, Habitat LA recorded $1,020,822 and $965,207 respectively, in contributions and pledge payments from members of Habitat LA’s Board of Directors or from parties related to Board members.

NOTE 18

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. Through a series of transactions, 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 and a cash reserve fund of $105,647 was established. 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 to 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 consolidated 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 the 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, 2018 and 2017, Habitat LA reported deferred revenue of $381,881 and $477,351, respectively, associated with the 2015 NMTC Transaction.

NOTE 19

COMMITMENTS AND CONTINGENCIES

Habitat LA leases two ReStore facilities under non-cancellable operating leases through July 2024 and August 2027. Rent expense for the years ended June 30, 2018 and 2017 under these leases was $480,187 and $281,112, respectively.

Habitat LA leases various vehicles under non-cancellable operating leases through June 2019. Vehicle rental expense for the years ended June 30, 2018 and 2017 was $183,861 and $154,689, respectively.

In February of 2016, the FASB issued Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842). Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with Generally Accepted Accounting Principles ("GAAP"), the recognition, measurement, and presentation of expenses and cashflows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP, which requires only capital leases to be recognized on the statement of financial position, the new ASU will require both types of leases to be recognized on the statement of financial position. ASU 2016-02 will take effect for fiscal years beginning after December 15, 2019 with early adoption permitted. Management is currently evaluating the impact of the pending adoption of ASU 2016-02 on its consolidated financial statements.

NOTE 19 – CONTINUED

COMMITMENTS AND CONTINGENCIES

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

Year ending June 30,	Building leases	Equipment leases
2019	$ 683,990	$ 68,186
2020	697,607	-
2021	726,644	-
2022	741,181	-
2023	731,954	-
Thereafter	2,632,344	-
Total	$ 6,213,720	$ 68,186

NOTE 20

TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2018 and 2017 consist of amounts restricted by donor-imposed stipulations as follows:

As of June 30,	2018	2017
Home Sponsorships	$ 1,337,168	$ 1,293,687
Community Programs	1,003,830	601,001
Charitable Remainder Trusts	283,736	181,444
Multi-Year Capital Campaign Funds	190,060	377,979
Total	$ 2,814,794	$ 2,454,111

NOTE 21

LEGAL CONTINGENCIES

Habitat LA 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	2018 Consolidated	2017
ASSETS						
Cash and cash equivalents	$ 2,070,533	$ 29,267	$ 2,099,800	$ -	$ 2,099,800	$ 2,589,960
Program service grants receivable	72,023	-	72,023	-	72,023	549,244
Unconditional promises to give, net of unamortized discount	2,982,689	-	2,982,689	-	2,982,689	2,217,450
Mortgage notes receivable, net of unamortized discount	11,770,189	72,666	11,842,855	-	11,842,855	11,860,786
Prepaid expenses	233,211	-	233,211	-	233,211	327,532
Inventories	1,878,162	-	1,878,162	-	1,878,162	1,579,175
Construction in process	11,565,349	-	11,565,349	-	11,565,349	8,482,601
Finished homes held for sale	-	-	-	-	-	1,619,938
Property and equipment, net of accumulated depreciation and amortization	4,413,029	-	4,413,029	-	4,413,029	4,509,159
Deposits and other assets	797,414	450,000	1,247,414	(450,000)	797,414	621,400
Total assets	$ 35,782,599	$ 551,933	$ 36,334,532	$ (450,000)	$ 35,884,532	$ 34,357,245
LIABILITIES AND NET ASSETS						
Bank line of credit	$ 586,392	$ -	$ 586,392	$ -	$ 586,392	$ 1,188,275
Accounts payable	999,973	2,000	1,001,973	-	1,001,973	852,436
Accrued expenses	924,605	652	925,257	-	925,257	653,101
Deposits and impounds	69,756	-	69,756	-	69,756	74,076
Deferred revenue	581,016	410,000	991,016	-	991,016	722,278
Capital leases payable	25,531	-	25,531	-	25,531	32,967
Notes payable - governmental agencies	5,538,527	-	5,538,527	-	5,538,527	4,223,452
Notes payable - Habitat International	3,280,951	-	3,280,951	(450,000)	2,830,951	3,106,400
Notes payable - other	3,760,904	-	3,760,904	-	3,760,904	3,800,704
Total liabilities	15,767,655	412,652	16,180,307	(450,000)	15,730,307	14,653,689
Commitments						
Net assets:						
Unrestricted	17,200,150	139,281	17,339,431	-	17,339,431	17,249,445
Temporarily restricted	2,814,794	-	2,814,794	-	2,814,794	2,454,111
Total net assets	20,014,944	139,281	20,154,225	-	20,154,225	19,703,556
Total liabilities and net assets	$ 35,782,599	$ 551,933	$ 36,334,532	$ (450,000)	$ 35,884,532	$ 34,357,245

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, 2018	**Unrestricted**	**Temporarily restricted**	**Totals**	**Unrestricted**	**Temporarily restricted**	**Totals**	**Unrestricted**	**Temporarily restricted**	**Totals**	**Unrestricted**	**Temporarily restricted**	**Totals**	**Prior year-totals**
Support and revenue:													
Contributions	$ 1,737,348	$ 2,398,848	$ 4,136,196	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,737,348	$ 2,398,848	$ 4,136,196	$ 3,747,108
In-kind contributions	622,649	249,633	872,282	1,323,736	-	1,323,736	(1,323,735)	-	(1,323,735)	622,650	249,633	872,283	976,685
Sales of homes	745,965	-	745,965	6,666,000	-	6,666,000	-	-	-	7,411,965	-	7,411,965	3,464,543
ReStore sales	5,202,873	-	5,202,873	-	-	-	-	-	-	5,202,873	-	5,202,873	4,667,359
ReStore value of donated goods received	4,893,967	-	4,893,967	-	-	-	-	-	-	4,893,967	-	4,893,967	4,668,007
Government grants	-	241,717	241,717	837,005	-	837,005	-	-	-	837,005	241,717	1,078,722	886,974
Special events, net	335,652	-	335,652	-	-	-	-	-	-	335,652	-	335,652	584,627
Mortgage loan discount amortization	604,593	-	604,593	1,879	-	1,879	-	-	-	606,472	-	606,472	920,918
Other income	1,876,236	-	1,876,236	-	-	-	(1,323,735)	-	(1,323,735)	552,501	-	552,501	300,238
Net assets released from restrictions:													
Satisfaction of program/donor restrictions	2,529,515	(2,529,515)	-	-	-	-	-	-	-	2,529,515	(2,529,515)	-	-
Total revenue, gains, and other support	18,548,798	360,683	18,909,481	8,828,620	-	8,828,620	(2,647,470)	-	(2,647,470)	24,729,948	360,683	25,090,631	20,216,459
Expenses:													
Cost of homes sold and program support	16,297,087	-	16,297,087	8,770,311	-	8,770,311	(2,647,470)	-	(2,647,470)	22,419,928	-	22,419,928	18,077,342
Fundraising	825,306	-	825,306	-	-	-	-	-	-	825,306	-	825,306	757,685
Management and general	1,099,618	-	1,099,618	-	-	-	-	-	-	1,099,618	-	1,099,618	852,886
Total functional expenses	18,222,011	-	18,222,011	8,770,311	-	8,770,311	(2,647,470)	-	(2,647,470)	24,344,852	-	24,344,852	19,687,913
Loss on impairment of capitalized headquarter renovation cost	295,110	-	295,110	-	-	-	-	-	-	295,110	-	295,110	-
Total expenses	18,517,121	-	18,517,121	8,770,311	-	8,770,311	(2,647,470)	-	(2,647,470)	24,639,962	-	24,639,962	19,687,913
Change in net assets	31,677	360,683	392,360	58,309	-	58,309	-	-	-	89,986	360,683	450,669	528,546
Net assets, beginning of year	17,168,473	2,454,111	19,622,584	80,972	-	80,972	-	-	-	17,249,445	2,454,111	19,703,556	19,175,010
Net assets, end of year	$ 17,200,150	$ 2,814,794	$ 20,014,944	$ 139,281	$ -	$ 139,281	$ -	$ -	$ -	$ 17,339,431	$ 2,814,794	$ 20,154,225	$ 19,703,556

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, 2018	**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	$ 2,149,204	$ -	$ -	$ 8,749,887	$ -	$ -	$ 10,899,091	$ -	$ -	$ (2,647,470)	$ -	$ -	$ 8,251,621	$ -	$ -	$ 8,251,621	$ 3,254,173
Cost of homes sold - mortgage discount	277,437	-	-	-	-	-	277,437	-	-	-	-	-	277,437	-	-	277,437	1,687,305
Cost of goods sold - ReStore	440,343	-	-	-	-	-	440,343	-	-	-	-	-	440,343	-	-	440,343	488,125
Value of donated goods sold - ReStore	4,643,692	-	-	-	-	-	4,643,692	-	-	-	-	-	4,643,692	-	-	4,643,692	4,668,007
Salaries	4,129,259	549,650	739,992	9,600	-	-	4,138,859	549,650	739,992	-	-	-	4,138,859	549,650	739,992	5,428,501	4,952,349
Payroll taxes and benefits	996,017	95,564	163,222	1,140	-	-	997,157	95,564	163,222	-	-	-	997,157	95,564	163,222	1,255,943	1,123,058
Americorp	42,587	-	-	-	-	-	42,587	-	-	-	-	-	42,587	-	-	42,587	67,886
Bad debt expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	25,000
Bank fees and charges	122,632	26,017	7,460	253	-	-	122,885	26,017	7,460	-	-	-	122,885	26,017	7,460	156,362	137,199
Home repair	607,532	-	-	-	-	-	607,532	-	-	-	-	-	607,532	-	-	607,532	334,540
Build events and community programs	330,788	25,858	14,186	-	-	-	330,788	25,858	14,186	-	-	-	330,788	25,858	14,186	370,832	236,081
Depreciation	57,677	-	-	-	-	-	57,677	-	-	-	-	-	57,677	-	-	57,677	150,076
Facilities - rent / lease costs	466,807	8,640	4,740	-	-	-	466,807	8,640	4,740	-	-	-	466,807	8,640	4,740	480,187	281,112
Insurance	138,549	6,654	9,562	-	-	-	138,549	6,654	9,562	-	-	-	138,549	6,654	9,562	154,765	135,802
Interest and amortization of loan fees	314,006	-	-	-	-	-	314,006	-	-	-	-	-	314,006	-	-	314,006	335,407
Office and other	270,257	50,944	47,834	7,681	-	-	277,938	50,944	47,834	-	-	-	277,938	50,944	47,834	376,716	448,147
Professional and outside services	379,274	46,049	76,435	1,750	-	-	381,024	46,049	76,435	-	-	-	381,024	46,049	76,435	503,508	525,179
Real estate - closing and development	135,023	-	-	-	-	-	135,023	-	-	-	-	-	135,023	-	-	135,023	69,317
Telephone	126,043	8,368	20,775	-	-	-	126,043	8,368	20,775	-	-	-	126,043	8,368	20,775	155,186	154,356
Tithes	92,720	-	-	-	-	-	92,720	-	-	-	-	-	92,720	-	-	92,720	71,139
Travel	27,898	7,165	11,486	-	-	-	27,898	7,165	11,486	-	-	-	27,898	7,165	11,486	46,549	89,290
Utilities and facility maintenance	234,404	397	3,926	-	-	-	234,404	397	3,926	-	-	-	234,404	397	3,926	238,727	191,535
Vehicles	314,938	-	-	-	-	-	314,938	-	-	-	-	-	314,938	-	-	314,938	262,830
Totals	$ 16,297,087	$ 825,306	$ 1,099,618	$ 8,770,311	$ -	$ -	$ 25,067,398	$ 825,306	$ 1,099,618	$ (2,647,470)	$ -	$ -	$ 22,419,928	$ 825,306	$ 1,099,618	$ 24,344,852	$ 19,687,913

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**	**2018 Consolidated**	**2017**
Operating activities:						
Change in net assets	$ 392,359	$ 58,310	$ 450,669		$ 450,669	$ 528,546
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	(310,474)	(750,785)	(1,061,259)		(1,061,259)	(1,743,477)
Issuance of unamortized mortgage discounts	277,437	679,997	957,434		957,434	1,687,304
Mortgage discount amortization	(604,593)	(1,879)	(606,472)		(606,472)	(920,918)
Amortization of discount on multi-year pledges	(37,248)	-	(37,248)		(37,248)	-
In-kind contributions of property, construction costs, and other assets	(479,682)	-	(479,682)		(479,682)	415,000
Forgiveness / transfer of notes payable, government agencies and related accrued interest to homeowners	-	(3,808,258)	(3,808,258)		(3,808,258)	-
Provision for unconditional promises to give	-	-	-		-	25,000
Loss (gain) on long-term assets	295,110	-	295,110		295,110	(500)
Depreciation	57,676	-	57,676		57,676	150,076
(Increase) decrease in assets:						
Program service grants receivable	1,407,773	549,244	1,957,017		1,957,017	(263,407)
Contributions receivable	(255,098)	-	(255,098)		(255,098)	980,415
Prepaid expenses	94,324	-	94,324		94,324	(78,295)
Inventories	(298,987)	-	(298,987)		(298,987)	(537,702)
Construction in process, net of non-cash items	(1,579,544)	3,621,796	2,042,252		2,042,252	(515,896)
Finished homes held for sale	-	1,619,938	1,619,938		1,619,938	(1,619,938)
Deposits and other assets (except loan fees)	(176,014)	(450,000)	(626,014)	450,000	(176,014)	(79,437)
Increase (decrease) in liabilities:						
Accounts payable	148,291	(1,471,761)	(1,323,470)		(1,323,470)	49,454
Accrued expenses, net of accrued capitalized interest and forgiven interest	272,243	(89)	272,154		272,154	(17,979)
Deposits and impounds	(4,320)	-	(4,320)		(4,320)	26,635
Deferred revenue	(141,262)	410,000	268,738		268,738	(678,973)
Net cash and cash equivalents provided by (used in) operating activities	(942,009)	456,513	(485,496)	450,000	(35,496)	(2,594,092)
Investing activities:						
Acquisition of property and equipment	(256,656)	-	(256,656)		(256,656)	(200,923)
Proceeds from sale of equipment	-	-	-		-	500
Mortgage payments received	728,227	-	728,227		728,227	1,112,018
Net cash and cash equivalents provided by (used in) investing activities	471,571	-	471,571	-	471,571	911,595
Financing activities:					-	
Net proceeds (payments) on line of credit	(160,874)	(441,009)	(601,883)		(601,883)	236,000
Cash proceeds from notes payable	503,591	-	503,591	(450,000)	53,591	3,052,955
Principal payments on notes payable	(370,507)	-	(370,507)		(370,507)	(1,122,846)
Cash proceeds from capitalized lease obligations payable	-	-	-		-	33,267
Payments on capitalized lease obligations payable	(7,436)	-	(7,436)		(7,436)	(7,228)
Net cash and cash equivalents provided by (used in) financing activities	(35,226)	(441,009)	(476,235)	(450,000)	(926,235)	2,192,148
Net change in cash and cash equivalents	(505,664)	15,504	(490,160)	-	(490,160)	509,651
Cash and cash equivalents, beginning of the year	2,576,197	13,763	2,589,960	-	2,589,960	2,080,309
Cash and cash equivalents, end of the year	$ 2,070,533	$ 29,267	$ 2,099,800	$ -	$ 2,099,800	$ 2,589,960

The accompanying notes are an integral part of these financial statements