Habitat for Humanity®
Greater Los Angeles

# Financial Statements
# As of and For the Year Ended
# June 30, 2014

Habitat for Humanity®
Greater Los Angeles

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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 financial statements of Habitat for Humanity of Greater Los Angeles, Inc. ("HFHGLA") (a California Not-for-Profit Organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

400 Oceangate | Suite 1000 Long Beach | California 90802
t 562. 495. 3325 | f 562. 495. 3425

**INDEPENDENT AUDITOR'S REPORT**
*(Continued)*

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HFH GLA as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Information***

We have previously audited the HFH GLA's 2013 financial statements, and our report dated March 28, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented here in as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Rossi LLP

April 29, 2015
Long Beach, California

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

| ***As of June 30,*** | **2014** | **2013** |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 5,224,546 | $ 4,846,742 |
| Program service grants receivable, net of allowance for doubtful accounts | - | 362,403 |
| Unconditional promises to give, net of unamortized discount | 1,157,213 | 707,942 |
| Mortgage notes receivable, net of unamortized discount | 11,591,158 | 8,694,414 |
| Prepaid expenses | 239,614 | 243,101 |
| Inventories | 815,075 | 642,703 |
| Construction in process | 4,453,452 | 1,728,500 |
| Finished homes held for sale | 633,096 | 17,456,947 |
| Property and equipment, net of accumulated depreciation and amortization | 4,631,953 | 292,427 |
| Investments | 21,508 | 32,259 |
| Deposits and other assets | 355,034 | 327,189 |
| **Total assets** | $ 29,122,649 | $ 35,334,627 |
| **LIABILITIES AND NET ASSETS** | | |
| Bank line of credit | $ 978,625 | $ 918,909 |
| Accounts payable | 576,067 | 746,122 |
| Accrued expenses | 483,918 | 621,026 |
| Deposits and impounds | 151,668 | 207,755 |
| Deferred revenue | 594,639 | 18,565,070 |
| Capital leases payable | 11,035 | 19,992 |
| Notes payable - governmental agencies | - | 248,757 |
| Notes payable - Habitat International | 4,560,737 | 3,718,188 |
| Notes payable - other | 4,043,706 | - |
| **Total liabilities** | 11,400,395 | 25,045,819 |
| **Commitments** | | |
| **Net assets:** | | |
| Unrestricted | 16,468,330 | 9,259,937 |
| Temporarily restricted | 1,253,924 | 1,028,871 |
| **Total net assets** | 17,722,254 | 10,288,808 |
| **Total liabilities and net assets** | $ 29,122,649 | $ 35,334,627 |

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

**HABITAT FOR HUMANITY OF GREATER LOS ANGELES, INC.**
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2014, WITH COMPARATIVE TOTALS FOR JUNE 30, 2013

| ***For the year ended June 30, 2014*** | **Unrestricted** | **Temporarily restricted** | **Totals** | **Prior year-Totals** |
|---|---|---|---|---|
| **Revenue, gains, and other support:** | | | | |
| Contributions | $ 1,952,475 | $ 1,888,231 | $ 3,840,706 | $ 3,089,015 |
| Government grants | - | 1,001,667 | 1,001,667 | 172,995 |
| NSP program service grants | 17,828,791 | - | 17,828,791 | 10,954,036 |
| Sales of homes | 15,650,032 | 936,968 | 16,587,000 | 12,034,944 |
| ReStores - donations and sales revenue | 5,555,098 | - | 5,555,098 | 5,225,354 |
| Mortgage loan discount amortization | 529,389 | - | 529,389 | 429,093 |
| In-kind contributions | 588,082 | 873,467 | 1,461,549 | 1,155,188 |
| New markets tax credits - amortized revenue | 88,796 | - | 88,796 | 88,796 |
| Other income | 366,538 | 12,518 | 379,056 | 262,163 |
| **Net assets released from restrictions:** | | | | |
| Satisfaction of program/donor restrictions | 4,487,798 | (4,487,798) | - | - |
| Total revenue, gains, and other support | 47,046,999 | 225,053 | 47,272,052 | 33,411,584 |
| **Expenses:** | | | | |
| Cost of homes sold and program support | 37,510,535 | - | 37,510,535 | 29,102,362 |
| Management and general | 1,526,174 | - | 1,526,174 | 1,310,189 |
| Fundraising | 622,319 | - | 622,319 | 458,222 |
| Total functional expenses | 39,659,028 | - | 39,659,028 | 30,870,773 |
| Relocation costs of organizational headquarters | 179,578 | - | 179,578 | - |
| Total expenses | 39,838,606 | - | 39,838,606 | 30,870,773 |
| **Change in net assets** | 7,208,393 | 225,053 | 7,433,446 | 2,540,811 |
| **Net assets, beginning of year** | 9,259,937 | 1,028,871 | 10,288,808 | 7,747,997 |
| **Net assets, end of year** | $ 16,468,330 | $ 1,253,924 | $ 17,722,254 | $ 10,288,808 |

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

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

STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2014, WITH COMPARATIVE TOTALS FOR JUNE 30, 2013

| ***For the year ended June 30, 2014*** | **Cost of homes transferred & program support** | **Management & general** | **Fundraising** | **Totals** | **Prior year-Totals** |
|---|---|---|---|---|---|
| Cost of homes sold - construction costs | $ 19,784,784 | $ - | $ - | $ 19,784,784 | $ 15,204,148 |
| Cost of homes sold - mortgage discount expense | 7,121,340 | - | - | 7,121,340 | 3,385,204 |
| Cost of goods sold - ReStores | 3,020,925 | - | - | 3,020,925 | 2,760,711 |
| Salaries | 2,973,012 | 516,617 | 295,824 | 3,785,452 | 3,527,137 |
| Payroll taxes and benefits | 700,965 | 72,059 | 53,527 | 826,551 | 966,491 |
| Americorp | 53,540 | 78,335 | 1,481 | 133,355 | 107,010 |
| Bad debt expense | 64,000 | - | - | 64,000 | 230,029 |
| Bank fees and charges | 57,229 | 9,945 | 5,694 | 72,868 | 94,462 |
| Home repair | 402,526 | - | - | 402,526 | 260,589 |
| RNLA program contract expense | 124,031 | - | - | 124,031 | 821,855 |
| Build events and community programs | 257,745 | - | - | 257,745 | 336,158 |
| Contributions to other non-profit organizations | 1,557 | - | - | 1,557 | 4,625 |
| Depreciation | 270,141 | 46,942 | 26,880 | 343,964 | 45,456 |
| Facilities - rent / lease costs | 517,432 | 89,914 | 51,486 | 658,832 | 677,635 |
| Insurance | 55,411 | 9,629 | 5,514 | 70,554 | 57,451 |
| Interest and amortization of loan fees | 259,975 | 32,002 | - | 291,977 | 123,259 |
| Office and other | 461,246 | 80,150 | 45,895 | 587,292 | 419,500 |
| Professional and outside services | 511,069 | 496,459 | 33,733 | 1,041,260 | 948,214 |
| Real estate - closing and development | 202,157 | - | - | 202,157 | 210,626 |
| Telephone | 93,850 | 17,238 | 8,013 | 119,101 | 95,114 |
| Tithes | 99,228 | 52,572 | 79,600 | 231,400 | 108,990 |
| Travel | 48,530 | 17,584 | 11,896 | 78,010 | 82,900 |
| Utilities and facility maintenance | 192,850 | 6,729 | 2,778 | 202,356 | 279,328 |
| Vehicles | 236,991 | - | - | 236,991 | 123,881 |
| | $ 37,510,535 | $ 1,526,174 | $ 622,319 | $ 39,659,028 | $ 30,870,773 |

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

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

| ***For the year ended June 30,*** | **2014** | **2013** |
|---|---|---|
| **Operating activities:** | | |
| Change in net assets | $ 7,433,446 | $ 2,540,811 |
| 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 | (8,328,655) | (6,173,235) |
| Discount on origination of non-interest bearing mortgages | 5,310,388 | 3,385,205 |
| Forgiveness / transfer of notes payable, government agencies and related accrued interest to homeowners | (248,757) | (1,944,059) |
| Provision for doubtful grants receivable | - | - |
| In-kind contributions of property, construction costs, and other assets | (400,000) | (486,113) |
| Mortgage discount amortization | (529,389) | (429,093) |
| Provision for contributions receivable | 64,000 | - |
| Loss on termination of development project | - | (20,374) |
| Depreciation | 343,964 | 45,456 |
| (Increase) decrease in assets: | | |
| Program service grants receivable | 362,403 | 643,619 |
| Contributions receivable | (513,271) | 56,769 |
| Prepaid expenses | 3,487 | (62,806) |
| Inventories | (172,372) | 65,344 |
| Construction in process, net of non-cash items | (2,324,952) | 17,837,348 |
| Finished homes held for sale, net of non-cash reacquistion of properties | 16,823,851 | (17,386,674) |
| Deposits and other assets (except loan fees) | (6,845) | 64,643 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (170,055) | (919,837) |
| Accrued expenses, net of accrued capitalized interest and forgiven interest | (137,108) | 98,421 |
| Deposits and impounds | (56,087) | (51,353) |
| Deferred revenue | (17,970,431) | 3,156,716 |
| Net cash and cash equivalents provided by (used in) operating activities | (516,383) | 420,788 |
| **Investing activities:** | | |
| Proceeds from sale of investments | 10,751 | 16,695 |
| Acquisition of property and equipment | (1,533,490) | (28,074) |
| Mortgage payments received | 650,912 | 599,328 |
| Net cash and cash equivalents provided by (used in) investing activities | (871,827) | 587,949 |
| **Financing activities:** | | |
| Net proceeds (payments) on line of credit | 59,716 | (327,783) |
| Payment of loan fees | (21,000) | (24,000) |
| Cash proceeds from notes payable | 3,108,200 | 2,823,071 |
| Principal payments on notes payable | (1,371,945) | (138,093) |
| Payments on capital leases | (8,957) | (9,328) |
| Net cash and cash equivalents provided by (used in) financing activities | 1,766,014 | 2,323,867 |
| **Net change in cash and cash equivalents** | 377,804 | 3,332,604 |
| **Cash and cash equivalents, beginning of the year** | 4,846,742 | 1,514,138 |
| **Cash and cash equivalents, end of the year** | $ 5,224,546 | $ 4,846,742 |

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

***As of and for the year ended June 30, 2014***

## NOTE 1

### ORGANIZATION AND PURPOSE

Habitat for Humanity of Greater Los Angeles, Inc. ("HFH GLA" or the "Organization") is an ecumenical Christian not-for-profit organization whose purpose is to build and renovate homes to make affordable home ownership possible for low-income, hardworking families and individuals throughout greater Los Angeles. Through volunteer labor and tax-deductible donations of money and materials, HFH GLA builds and renovates simple, sustainable and affordable homes with the help of the homeowner (partner) families and individuals. Habitat for Humanity ("HFH") houses are sold to the partner homeowners at no profit and financed with affordable, no-interest loans. HFH is not a give-away program. In addition to a down payment and monthly mortgage payments, first-time homeowners who meet the selection criteria of the Homeowner Relations Committee invest up to 500 hours of their own labor ("sweat equity") into the building of their homes.

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

HFH GLA strives to effectively address the growing housing crisis with comprehensive and creative strategies through its different housing initiatives, including new construction, neighborhood stabilization program, home repairs, Habitat for Heroes, disaster relief and Global builds.

Currently, HFH GLA operates three retail stores (the "ReStores") which principally sell donated building materials to the public. Proceeds from ReStore sales are used toward the Organization's mission.

## NOTE 2

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

HFH GLA's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The Financial Accounting Standards Board ("FASB") has established the FASB Accounting Standards Codification ("ASC") as the sole source of authoritative accounting to be applied by nongovernmental entities in the preparation of financial statements in conformity with US GAAP.

In preparing these financial statements, HFH GLA evaluated the period from June 30, 2014 through April 29, 2015, 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*, HFH GLA's net assets, revenues, gains, expenses, and losses are classified as permanently restricted, temporarily restricted, and unrestricted based on the existence or absence of donor-imposed restrictions.

These classifications are defined as follows:

- *Unrestricted net assets* – Net assets that do not contain donor restrictions or the donor-imposed restrictions have expired due to the Organization's fulfillment of the restrictions and/or by the passage of time.

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

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

***Contributions:***

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

Unconditional promises to give, gifts of cash and other assets are reported as unrestricted support unless specifically restricted by the donor. All other donor-restricted contributions are reported as increases in temporarily restricted net assets, depending on the nature of the restriction. Donor restricted contributions for which the restrictions expire during the same fiscal year in which the contributions are made are recorded in the temporarily restricted net asset class and then are reclassified to the unrestricted net asset class as net assets released from restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met.

***In-kind contributions and services:***

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

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

Donations of construction materials, property and equipment are recorded as in–kind contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose.

***Government funding:***

HFH GLA receives funds from various government agencies ("Agencies") for pre-development costs associated with the development of land acquired for construction projects pursuant to "loan agreements." The

***As of and for the year ended June 30, 2014***

Agencies provide funding to HFH GLA generally interest-free, with specified covenants and provisions that the property be used for low-income housing for the term of the note agreement. If HFH GLA complies with the provisions of the agreement, the note is forgiven by the agency when the property is sold to a qualified home buyer. At the date of property closing, the covenants and provisions of the note agreement transfer from HFH GLA to the qualified home buyer. Subsequent to the property's sale, if a covenant or provision is violated, the note is due and payable for the face amount of the note by the home buyer.

***Home sales and cost of homes transferred:***

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

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

***NSP program service grants receivable, revenue and deferred revenue:***

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

During the fiscal year ended June 30, 2013, HFH GLA changed its accounting policy such that HFH GLA recorded NSP funds and cost reimbursements as deferred revenue and recognized the revenue when the related housing unit was sold to a qualified purchaser. Previously, the Organization recognized NSP grant revenue at the time eligible expenses were incurred under the program for property acquisition and development. The Organization determined that a better matching of revenue and expenses occurred when NSP grant revenue was deferred until the time the associated housing unit was sold, because that was the date HFH GLA recognized the costs associated with the housing unit. Furthermore, HFH GLA previously recognized the housing unit's developer fee at the date of property acquisition (50%) with the balance prorated as eligible costs were incurred in proportion to estimated total housing unit costs to complete. During fiscal year ended June 30, 2013, the Organization determined that the developer's fees should be deferred and recognized at the time the housing unit was sold. Accordingly, HFH GLA reports NSP funds received as deferred revenue until the associated housing unit is sold. HFH GLA reported deferred revenue of $0 and $17,712,401 from NSP funding at June 30, 2014 and 2013, respectively.

Developer fees and program delivery fees received by HFH GLA for each eligible property are deferred and recognized as revenue at the time the housing unit is sold.

Program service grants receivable are reported net of an allowance for uncollectible amounts. The allowance consists of management's estimate of certain reimbursements for costs incurred that may be disallowed by grantors. As of June 30, 2014 and 2013, management has not recorded any allowance for uncollectible amounts.

***Retail stores:***

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

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

***Fair value of financial instruments:***

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

***Concentration of credit risk:***

Financial instruments that potentially subject the Organization to concentration of credit risk are primarily cash and cash equivalents and mortgage notes receivable. While the concentration of credit risk of mortgage notes receivable is diversified through numerous different borrowers, the borrowers are concentrated in Los Angeles County.

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

***Concentration of grants and revenue:***

For the years ended June 30, 2014 and 2013, HFH GLA derived $15,770,585 and $7,880,096, or 34% and 24%, respectively, of its support and revenue from Habitat International.

***Cash and cash equivalents*:**

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

***Mortgage notes receivable:***

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

Additionally, the Organization enters into second and third trust deed mortgage notes receivable that have fixed and determinable repayment terms, generally due in 30 years. These mortgage notes receivable have been discounted and reported in the accompanying financial statements.

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

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

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

HFH GLA regularly reviews its mortgage receivables and monitors the accounts for delinquencies. Homeowners whose mortgages are 10 to 70 days past due are considered to be in various stages of default. Homeowners whose mortgages are more than 70 days past due who have not made satisfactory payment arrangements with HFH GLA are subject to foreclosure proceedings. As of the date of these financial statements, there are no mortgages subject to foreclosure proceedings.

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

***Inventories:***

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

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

Construction-in-process represents costs incurred to build or rehabilitate single-family homes and condominiums for eventual sale to HFH GLA partner families. In the event a development is no longer deemed to be probable, the costs previously capitalized are expensed. The

Organization's projects consist of new single-family home and condominium developments and major rehabilitations of existing homes acquired by HFH GLA. Since the purpose and mission of HFH GLA is to build affordable housing for low-income families, the Organization does not generally write down the value of construction-in-process to estimated sales value, because any excess cost over sales value is a component of program services. Projects are classified as construction-in-process until the build/rehabilitation project is substantially completed, at which time it is reclassified as "finished homes held for sale."

***Property and equipment:***

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

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

| | |
|---|---|
| Autos and trucks | 3-5 years |
| Construction equipment | 7 years |
| Furniture and equipment | 5-7 years |
| Computer software and hardware | 3-5 years |
| Leasehold improvements | 3-10 years |

***Investments:***

During the year ended June 30, 2009, HFH GLA established a restricted bank account as part of a New Markets Tax Credits ("NMTC") transaction (see Note 19). The terms of the agreement required that the restricted bank account be used to pay certain legal, accounting, and administrative costs associated with the NMTC and that the bank account be administered by a third-party.

***Deposits and impounds:***

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

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

***Retirement plan:***

HFH GLA adopted a 401(k) plan (the "Plan") in May 2000 for the benefit of all permanent employees. All full time employees who are over the age of 21 may participate at the first enrollment period after employment commences. During the fiscal years ended June 30, 2014 and 2013, employer contributions to the Plan were $121,779 and $116,040, respectively.

***As of and for the year ended June 30, 2014***

***Income taxes:***

HFH GLA is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is exempt from state franchise taxes under Section 23701(d) of the California Revenue and Taxation Code, whereby only unrelated business income, as defined by Section 509(a)(1) of the Internal Revenue Code, is subject to federal income tax. HFH GLA does not believe that during the years ended June 30, 2014 and 2013 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 2011 and later years and state tax returns for 2010 and later years.

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

***Functional expenses:***

The Organization allocates expenses related to more than one functional expense classification based on its estimated functional use. Salaries, benefits and other related expenses are allocated based on job function. Directly identifiable expenses are charged to construction and program support, management and general, or fundraising as applicable.

***Relocation costs of organizational headquarters:***

The Organization reclassified portions of it payroll, legal, repair, and leasehold disposal costs that pertained to the relocation of its headquarters and newest ReStore location in Bellflower. The Organization believes that this reclassification results in a more transparent presentation of its results of operations.

***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, 2014 and 2013:

| ***For the year ended June 30,*** | **2014** | **2013** |
|---|---|---|
| Recognition of in-kind contributions and related assets and expenses | $ 1,461,549 | $ 1,155,188 |
| Non-cash acquisition of property through financing | 3,150,000 | - |
| Accrued capitalized interest added to construction in process | - | 11,490 |
| Interest paid | $ 291,977 | $ 115,237 |

***As of and for the year ended June 30, 2014***

## NOTE 4

### UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of the following:

| ***As of June 30,*** | **2014** | **2013** |
|---|---|---|
| Unconditional promises to give, gross | $1,221,213 | $ 713,981 |
| Less: unamortized discount | - | (6,039) |
| Less: allowance for doubtful accounts | (64,000) | - |
| Unconditional promises to give, net | $1,157,213 | $ 707,942 |

Unconditional promises to give which are due more than twelve (12) months from the date of donation are discounted using an interest rate of approximately 6.00%. HFH GLA did not have any unconditional promises to give which were due in more than one year for the years ended June 30, 2014 and 2013. As of June 30, 2014 and 2013, the allowance for doubtful unconditional promises to give was $64,000 and $0 respectively.

## NOTE 5

### MORTGAGE NOTES RECEIVABLE

Mortgage notes receivable consist of non-interest bearing loans secured by real estate and payable in monthly installments over 20 to 30 years. These non-interest bearing mortgages have been discounted based upon prevailing market interest rates for low income housing at the inception of each mortgage and range from 3.41% to 8.30% per annum. During the fiscal year ended June 30, 2014, HFH GLA imputed a discount interest rate of 4.16% to 4.49% for loans originated during that year. HFH GLA imputed a discount rate of 3.41% to 4.07% for loans originated during the year ended June 30, 2013. The Organization recognizes the discount as interest income over the term of the mortgage using the effective interest method.

Mortgage notes receivable, second and third trust deeds, consist of non-interest bearing loans secured by trust deeds. During the fiscal year ended June 30, 2013, HFH GLA modified the payment terms of new second and third mortgage notes receivable to include fixed and determinable repayment terms. These second and third mortgages payment terms require a balloon payment upon the earlier of the sale or transfer of the property or 30 years. The mortgages are discounted using an interest rate of prime plus 2%. HFH GLA imputed a discount rate of 5.25% for second and third trust deed loans originated during the fiscal years ended June 30, 2014 and 2013.

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

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

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

| ***As of June 30,*** | **2014** | **2013** |
|---|---|---|
| Mortgage notes receivable, first trust deeds | $ 17,284,815 | $ 14,435,131 |
| Mortgage notes receivable, second/third trust deeds | 8,629,985 | 1,990,975 |
| Mortgage notes receivable, junior lien position | 1,000,000 | 1,000,000 |
| Discount to present value | (15,323,642) | (8,731,692) |
| Present value of mortgage notes receivable | $11,591,158 | $ 8,694,414 |

Scheduled mortgage notes receivable collections are summarized as follows:

| ***Year ending June 30,*** | |
|---|---|
| 2015 | $ 718,920 |
| 2016 | 715,728 |
| 2017 | 704,467 |
| 2018 | 690,670 |
| 2019 | 686,360 |
| Thereafter | 22,398,655 |
| Total | $ 25,914,800 |

Mortgage loan discount amortization revenue for the years ended June 30, 2014 and 2013 was $529,389 and $429,093, respectively.

## NOTE 6

### INVENTORIES

Inventories consist of the following:

| ***As of June 30,*** | **2014** | **2013** |
|---|---|---|
| Building materals for home construction projects | $ 290,275 | $ 326,255 |
| ReStore inventory | 524,800 | 316,448 |
| | $ 815,075 | $ 642,703 |

## NOTE 7

### CONSTRUCTION- IN-PROCESS

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

| ***As of June 30,*** | **2014** | **2013** |
|---|---|---|
| Long Beach | $ 2,362,092 | $ 190,074 |
| Lynwood | 1,073,796 | 99,624 |
| Community Development Commission- L.A. | 440,977 | - |
| Inglewood | 328,027 | - |
| Predevelopment and other project costs | 248,560 | 190,982 |
| Compton | - | 176,580 |
| Long Beach - NSP 2 | - | 1,071,240 |
| | $ 4,453,452 | $ 1,728,500 |

Following is a summary of home building activity:

| ***During the year ended June 30, 2014*** | **Number of homes** | **Cost** |
|---|---|---|
| Home construction in process, beginning of year | 6 | $ 1,728,500 |
| Costs incurred on homes during fiscal 2014 - new and existing projects | 91 | 5,564,322 |
| Homes transferred to finished homes | (7) | (2,839,370) |
| | 90 | $ 4,453,452 |

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

***As of and for the year ended June 30, 2014***

## NOTE 8

### FINISHED HOMES HELD FOR SALE

Finished homes held for sale consist of the following projects:

| *As of June 30,* | 2014 | 2013 |
|---|---|---|
| Long Beach - NSP2 | $ 284,215 | $ 1,471,556 |
| Compton | 276,784 | - |
| Los Angeles - Vermont | 72,097 | 70,273 |
| Lynwood - NSP 2 | - | 10,975,151 |
| Southgate - NSP2 | - | 4,939,967 |
| | $ 633,096 | $ 17,456,947 |

Following is a summary of finished homes activity:

| *During the year ended June 30, 2014* | Number of homes | Cost |
|---|---|---|
| Finished homes, beginning of year | 54 | $ 17,456,947 |
| Costs transferred to Finished Homes from construction in process | 7 | 2,839,370 |
| Homes transferred to new owners | (58) | (19,663,221) |
| | 3 | $ 633,096 |

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

## NOTE 9

### PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following:

| *As of June 30,* | 2014 | 2013 |
|---|---|---|
| Autos and trucks | $ 211,391 | $ 206,391 |
| Land and building | 4,194,119 | - |
| Construction equipment | 13,265 | 13,265 |
| Furniture and equipment | 55,670 | 51,620 |
| Computer software and hardware | 245,579 | 171,239 |
| Leasehold improvements | 673,623 | 267,643 |
| Total | 5,393,647 | 710,158 |
| Less: accumulated depreciation | (761,694) | (417,731) |
| Property and equipment, net | $ 4,631,953 | $ 292,427 |

Depreciation expense for the years ended June 30, 2014 and 2013 was $343,963 and $45,456, respectively.

## NOTE 10

### DEPOSITS AND OTHER ASSETS

Deposits and other assets consist of the following:

| *As of June 30,* | 2014 | 2013 |
|---|---|---|
| Deposits | $ 140,937 | $ 121,690 |
| Loan fees | 31,350 | 31,350 |
| Beneficial interest in charitable remainder trusts | 182,047 | 169,529 |
| Other receivables | 700 | 4,620 |
| | $ 355,034 | $ 327,189 |

Included within other assets at June 30, 2014 and 2013 was $182,047 and $169,529, respectively, in beneficial interests in charitable remainder trusts as follows:

a. Under a 1998 unitrust agreement, HFH GLA receives 50% of the value of the trust at the time of the donor's and his income beneficiary's death. Assets held under the trust were $214,225 and $206,032 as of June 30, 2014 and 2013, 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 $73,346 and $70,541 at June 30, 2014 and 2013, respectively. The $2,805 and $4,276 increase in the estimated present value of the remainder interest at June 30, 2014 and 2013, respectively, were included in changes in value - beneficial interest in charitable remainder trusts in the statements of activities.

b. Under a 2002 unitrust agreement, HFH GLA receives 100% of the value of the trust at the time of the donor's death. Assets held under the trust were $102,214 and $92,432 as of June 30, 2014 and 2013, 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 $74,899 and $67,731 at June 30, 2014 and 2013, respectively. The $7,168 and $8,667 increase in the estimated present value of the remainder interest at June 30, 2014 and 2013, respectively, were included in changes in value - beneficial interest in charitable remainder trusts in the statements of activities.

c. Under a 2002 charitable remainder insurance trust agreement, HFH GLA receives 50% of the value of the trust at the time of the donor's and his income beneficiary's death. Assets held under the trust were $101,055 and $93,444, as of June 30, 2014 and 2013, 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 $33,802 and $31,257, respectively. The $2,545 and $2,583 increase in the estimated present value of the remainder interest at June 30, 2014 and 2013, respectively, were included in changes in value - beneficial interest in charitable remainder trusts in the statements of activities.

## NOTE 11

### BANK LINES OF CREDIT

On or about February 11, 2008 the Organization entered into a revolving line-of-credit agreement (the "Credit Agreement") for borrowings not to exceed $1,500,000, until the lender cancels the Organization's right to borrow. Under the Credit Agreement, interest is payable at the Wall Street Journal Prime Rate and is subject to certain covenants. Minimum monthly payments of accrued interest and fees are due each month 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 monthly principal installments. Indebtedness under the Credit Agreement is secured by substantially all of the Organization's personal property. As of June 30, 2014 and 2013, the Organization owed $978,625 and $858,591, respectively, on this line of credit. Interest expense incurred under this Credit Agreement was $37,753 and $33,088, during the years ended June 30, 2014 and 2013, respectively.

In October 2012, the Organization entered into a line-of-credit note agreement (the "Note Agreement") for borrowings not to exceed $2,000,000 with the principal balance and any remaining interest due in full on June 30, 2013. Under the Note Agreement, interest accrues at 5.5% per annum with interest payments due monthly. The Note Agreement is secured by (1) $1,500,000 of NSP funds under the Habitat

International NSP2 Agreement (see Note 20) and (2) $500,000 of NSP funds under the ReStore Neighborhoods Los Angeles ("RNLA") funds. Funding may only be used for the construction expenses for projects under the Habitat International NSP2 and RNLA NSP funding agreements. Since the note is a "bridge facility loan," HFH GLA is required to remit payment upon receipt of any NSP funding under the agreements noted above in an amount equal to the bridged amount. As of June 30, 2013, the Organization owed $60,318 under the Note Agreement. In July 2013, the Note Agreement was extended through September 30, 2013, at which time all principal and accrued interest outstanding was paid.

## NOTE 12

### ACCOUNTS PAYABLE

Accounts payable consist of the following:

| *As of June 30,* | 2014 | 2013 |
|---|---|---|
| Trade accounts payable | $ 402,047 | $ 628,469 |
| Related party payables | 174,020 | 117,653 |
| | $ 576,067 | $ 746,122 |

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

## NOTE 13

### ACCRUED EXPENSES

Accrued expenses consist of the following:

| *As of June 30,* | 2014 | 2013 |
|---|---|---|
| Accrued payroll and related | $ 470,446 | $ 420,350 |
| Accrued rent | - | 72,742 |
| Other accrued expenses | 13,472 | 127,934 |
| | $ 483,918 | $ 621,026 |

## NOTE 14

### NOTES PAYABLE - GOVERNMENTAL AGENCIES

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

The grant / loan agreements usually require a written Disposition and Development Agreement ("DDA") between HFH GLA and the city. The DDA sets forth the terms and conditions of the loan, including a promise to complete the project within a reasonable period of time and an agreement to sell the home or homes to low or very-low income families as defined in the DDA. If HFH GLA failed to comply with the terms of the DDA and related note payable, it would be required to repay principal and interest as set forth in the grant/loan agreements. As of June 30, 2014 and 2013, management believes that it is in material compliance with the terms and conditions of the DDA's and related grant/loan agreements.

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

| ***As of June 30,*** | **2014** | **2013** |
|---|---|---|
| City of Lynwood Redevelopment Agency notes payable, secured by real property, with interest at 0% per annum. | $ - | $ 173,709 |
| City of Compton notes payable under the NSP 3, secured by real property, with interest at 0% per annum. | - | 75,048 |
| | $ - | $ 248,757 |

There was no accrued interest due on the Norwalk debt at June 30, 2014 and 2013 . During the years ended June 30, 2014and 2013, HFH GLA recorded $0 and $11,490, respectively, of accrued interest that was capitalized as construction- in-process. Additionally, HFH GLA recorded $0 and $26,407, during the years ended June 30, 2014 and 2013, respectively, of forgiven accrued interest. As with the forgiveness of the note itself, forgiveness of accrued interest under these notes is considered to be a component of the home sale proceeds.

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

## NOTE 15

### NOTES PAYABLE - HABITAT INTERNATIONAL

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

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

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

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

***As of and for the year ended June 30, 2014***

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

| *June 30,* | 2014 | 2013 |
|---|---|---|
| Flex CAP 3, refinanced in June 2014 with interest at 4.75% per annum, quarterly principal and interest payments of $68,094 through June 30, 2024. Secured by mortgage notes receivable with aggregate principal balance of $6,822,614. | $ 2,158,200 | $ 1,304,047 |
| Notes payable, Capital Magnet Fund, with interest at 2% per annum, with monthly interest and annual principal payments of $600,000, commencing June 30, 2015 through June 30, 2018. | 2,400,000 | 2,400,000 |
| SHOP loans | 6,348 | 17,952 |
| Less: discount | (3,811) | (3,811) |
| Net loan | 2,537 | 14,141 |
| | $ 4,560,737 | $ 3,718,188 |

As of June 30, 2014, management believes that the Organization was in compliance with the terms and conditions of the FlexCap Note program.

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

| *For the year ending June 30,* | |
|---|---|
| 2015 | $ 775,448 |
| 2016 | 781,273 |
| 2017 | 790,038 |
| 2018 | 799,227 |
| 2019 | 208,860 |
| Thereafter | 1,205,891 |
| Total | $ 4,560,737 |

## NOTE 16

### NOTES PAYABLE – OTHER

HFH GLA has entered into a number of loan agreements with various financial institutions summarized as follows:

Note Payable with California Bank & Trust entered into on October 1, 2013 and maturing August 31, 2020 for borrowings of $3,150,000 which provided funding to purchase the new headquarters facility in the city of 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 $2,645,677 due on August 31, 2020. Pursuant to the loan and security agreement, HFH GLA 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 $3,093,706 at June 30, 2014.

Note Payable with Tomato Bank, N.A. entered into on August 16, 2013 with an original maturity date of September 1, 2014 for borrowings of $950,000 to finance the purchase of developmental properties located in Long Beach, California. The note is secured by a first deed of trust on the acquired properties with interest ranging between 7.0% to 8.0% per annum, and a onetime payment of $956,544 due on September 1, 2014. The note was refinanced, subsequent to the balance sheet date, which extended the maturity date to September 1, 2015 with a fixed interest rate of 6.0% per annum and monthly principal and interest payments of $6,171 through August 1, 2015. A onetime payment of $939,439 is due on September 1, 2015. The note contains covenants including, but not limited to, restrictions on HFH GLA's ability to: (1) sell, transfer, mortgage, assign, pledge, lease, grant a security interest in, or encumber the collateralized asset, (2) engage in any business activities substantially different than those in which HFH GLA is presently engaged in, (3) cease operations, liquidate, merge, transfer, acquire or consolidate with any other entity, and (4) loan, invest in or advance money or assets to any other person, enterprise or entity, purchase, create or acquire any interest in any other enterprise or entity. The balance due on the note was $950,000 at June 30, 2014.

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

| ***For the year ending June 30,*** | |
|---|---|
| 2015 | $ 1,017,096 |
| 2016 | 70,122 |
| 2017 | 74,141 |
| 2018 | 77,947 |
| 2019 | 81,948 |
| Thereafter | 2,725,577 |
| Total | $ 4,046,831 |

## NOTE 17

### RESTORES

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

| ***For the year ended June 30,*** | **2014** | **2013** |
|---|---|---|
| Fair market value of goods donated | $ 3,138,851 | $ 2,766,017 |
| Cash sales of donated and purchased items | 2,902,763 | 2,760,711 |
| Delivery surcharges | - | 3,080 |
| Purchased inventory | (486,516) | (304,454) |
| ReStores - gross sales revenue | 5,555,098 | 5,225,354 |
| Cost of goods sold | (3,020,925) | (2,760,711) |
| Gross margin on ReStores - donations and sales | $ 2,534,173 | $ 2,464,643 |

## NOTE 18

### RELATED PARTY TRANSACTIONS

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

For the years ended June 30, 2014 and 2013, HFH GLA determined that Tithes due Habitat International were $168,849 and $111,680, respectively. These amounts represent a portion of the Organization’s contribution revenue, included in related party payables in Note 12, and are in addition to the pass-through funding noted above.

## NOTE 19

### NEW MARKETS TAX CREDIT TRANSACTION

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

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

In general, in December 2008 the Organization acquired a 50% membership interest in HFHI – SA Leverage II, L.L.C. (the “LLC”) in exchange for a capital contribution of $2,420,299. The LLC is owned 50% by another affiliate of Habitat International. The LLC was formed by USBCDC to provide financing for the borrower's equity investment in a community development entity – MBS-UI Sub-CDE VIII, L.L.C ("CDE"). Accordingly, the LLC entered into a Loan Agreement to lend $4,840,598 to MBS-UI Investment Fund VIII, L.L.C. ("Borrower"). The Borrower used the loan proceeds as its equity investment in the CDE which, in turn, used the proceeds of the Borrower's equity investment to fund the loans to the members of the LLC set forth below. The loan receivable bears interest at a rate of 3.95%, with 1.00% being interest currently payable and 2.95% being accrual interest. The loan receivable matures on December 16, 2023 and requires semi-annual principal payments commencing on December 16, 2015 sufficient to fully amortize the loan. The LLC is solely managed by a third party.

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

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

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

As set forth in the Agreement, the Organization is required to comply with the NMTC requirements as generally set forth in the Internal Revenue Code ("IRC") Section 45D, including that the Organization maintain a separate business such that the separate business will qualify as a qualified active low-income community business as defined in IRC Section 45D. Only the separate business assets of the Organization were pledged as security under the Agreement to the CDE.

***Financial statement presentation:***

The Organization has imputed a fair value rate of interest of approximately 4.0% on the Note Payable to CDE, resulting in a discount of approximately $1,010,000 of the note payable at December 18, 2008. This discount, net of the NMTC transaction costs of $388,000, results in a net amortizable discount approximately equal to the cash flow received by the Organization. As a result, the Organization recorded net deferred revenue of $621,570 at December 18, 2008 to reflect the net revenue the Organization will effectively receive from the NMTC transaction over its term. After fees and expenses, the Organization received $621,570 in net cash proceeds to invest in its low-income housing projects. The Organization is amortizing the net deferred revenue from the NMTC transaction over 7 years. The Organization had amortized and reported as revenue, $88,796 for each of the years ended June 30, 2014 and 2013 of the net deferred revenue. Deferred revenue related to the NMTC transaction, was $133,192 and $221,988 at June 30, 2014 and 2013, respectively.

The NMTC transaction, as set forth above, provides the Organization, from an economic perspective, a right of offset of the loan payable to the CDE versus the loan receivable from the

***As of and for the year ended June 30, 2014***

Borrower. The right of offset arises in part due to the related party nature and flow of funds in the NMTC transaction, and in part, as a result of the option agreement effectively providing a legal right of offset. Accordingly, the Organization's financial statements report only the net asset value of the NMTC transaction, after offsetting the discounted note payable CDE, transaction costs and investment in LLC.

## NOTE 20

### NEIGHBORHOOD STABILIZATION PROGRAM GRANTS

The Organization defers NSP grant revenue and developer fees until the time the associated housing unit is sold, because that is the date HFH GLA recognized the costs associated with the housing unit.

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

| *June 30,* | 2014 | 2013 |
|---|---|---|
| Habitat International NSP2 Agreement, dated June 8, 2010, in an amount of $27,901,674 for the acquisition of property and completion of projects in certain target census tracts in the County of Los Angeles. Habitat International grant activity is summarized as follows: | | |
| NSP funding received | $ - | $ 10,736,456 |
| NSP developer fees | - | 1,409,640 |
| Program costs | - | 341,325 |
| | - | 12,487,421 |
| Deferred revenue adjustment | 15,770,585 | (4,607,325) |
| | 15,770,585 | 7,880,096 |
| Contractor agreement with Restore Neighborhoods LA under the NSP program for HFH GLA's construction services in the development of three properties in the County of Los Angeles. | - | 917,588 |
| City of Long Beach consortium NSP2 agreement providing funding of $5,562,495 to HFH GLA for the acquisition and redevelopment of abandoned or foreclosed housing in the City of Long Beach. | | |
| NSP funding received | - | 731,321 |
| Deferred revenue adjustment | 2,058,206 | 1,425,031 |
| | 2,058,206 | 2,156,352 |
| NSP revenue recognized | $ 17,828,791 | $ 10,954,036 |

## NOTE 21

### COMMITMENTS AND CONTINGENCIES

HFH GLA leases administrative offices as well as ReStore facilities under non-cancellable operating leases through July 2024. Rent expense for the years ended June 30, 2014 and 2013 under these leases was $442,551 and $500,797, respectively. Subsequent to year end, the Organization renewed one of its ReStore facility operating leases through July 2024.

In addition, HFH GLA leased a warehouse for building materials inventory under a non-cancelllable operating lease through August 2014. Rent expense for the years ended June 30, 2014 and 2013 under this lease was $210,881 and $176,838, respectively.

HFH GLA leases various vehicles under non-cancellable operating leases through December

2015. Vehicle rental expense for the year ended June 30, 2014 and 2013 was $137,159 and $34,814, respectively.

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

| ***Year ending June 30,*** | **Building Lease** | **Warehouse Lease** | **Equipment Leases** |
|---|---|---|---|
| 2015 | $ 489,887 | $ 14,443 | $ 2,559 |
| 2016 | 42,895 | - | - |
| Total | $ 532,782 | $ 14,443 | $ 2,559 |

## NOTE 22

### TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2014 and 2013 consist of amounts restricted by donor-imposed stipulations as follows:

| ***As of June 30,*** | **2014** | **2013** |
|---|---|---|
| Home Repair Program | $ 178,685 | $ 147,943 |
| Charitable remainder trusts | 182,047 | 169,529 |
| Keck Foundation - Long Beach Neighborhood Revitalization Initiative | - | 169,000 |
| Long Beach - NSP 2 | 4,630 | - |
| Pfaffinger Foundation Grant | 17,124 | 17,124 |
| Culver City - Globe Ave | 486,994 | 86,789 |
| Ingelwood - FCB | 14,046 | 87,900 |
| Lynwood - Magnolia Ave | | 150,000 |
| Deutsh Volunteer | 5,586 | 5,586 |
| Family Invest Program | 112,500 | 30,000 |
| Student Leaders Program | 10,000 | 10,000 |
| Harvest Home | - | 5,000 |
| Long Beach - Thrivent | 242,312 | 150,000 |
| Total | $ 1,253,924 | $ 1,028,871 |

## NOTE 23

### SUBSEQUENT EVENTS

Subsequent to June 30, 2014, the Organization established a community housing development organization ("CHDO") to focus on the development and construction of housing within low-income communities. This partnership will receive funding from HUD, and as of the financial statement date, HFH GLA's Board had approved the acceptance of CHDO funding on for a 4 unit development from the City of Lynwood.

Subsequent to June 30, 2014, the Organization was awarded a CalHome Program grant, by way of the Department of Housing and Community Development, in the amount of $1 million.

## NOTE 24

### 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.