



CONSOLIDATED FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED  
JUNE 30, 2019



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## 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, 2019, 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.

**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, 2019, 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 2018 consolidated financial statements, and in our report dated December 3, 2018, 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, 2018 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 26 – 29 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  
November 20, 2019

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

<b>As of June 30,</b>	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,364,763	\$ 2,099,800
Program service grants receivable	-	72,023
Unconditional promises to give, net of unamortized discount	2,459,604	2,982,689
Mortgage notes receivable, net of unamortized discount	11,928,725	11,842,855
Prepaid expenses	195,450	233,211
Inventories	1,730,670	1,878,162
Construction in process	13,237,949	11,565,349
Property and equipment, net of accumulated depreciation and amortization	4,369,724	4,413,029
Deposits and other assets	533,945	797,414
<b>Total assets</b>	<b>\$ 36,820,830</b>	<b>\$ 35,884,532</b>
<b>LIABILITIES AND NET ASSETS</b>		
Bank lines of credit	\$ -	\$ 586,392
Accounts payable	729,877	1,001,973
Accrued expenses	1,090,121	925,257
Deposits and impounds	32,425	69,756
Deferred revenue	696,411	991,016
Capitalized lease obligations payable	19,073	25,531
Notes payable - governmental agencies	5,361,860	5,538,527
Notes payable - Habitat International	-	2,830,951
Notes payable - other	7,399,467	3,760,904
<b>Total liabilities</b>	<b>15,329,234</b>	<b>15,730,307</b>
<b>Commitments</b>		
<b>Net assets:</b>		
Without donor restrictions	18,755,211	17,339,431
With donor restrictions	2,736,385	2,814,794
<b>Total net assets</b>	<b>21,491,596</b>	<b>20,154,225</b>
<b>Total liabilities and net assets</b>	<b>\$ 36,820,830</b>	<b>\$ 35,884,532</b>

*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, 2019, WITH COMPARATIVE TOTALS FOR JUNE 30, 2018

<i>For the year ended June 30, 2019</i>	Without donor restrictions	With donor restrictions	Totals	Prior year- totals
<b>Support and revenue:</b>				
Contributions	\$ 2,054,801	\$ 2,820,232	\$ 4,875,033	\$ 4,136,196
In-kind contributions	137,250	1,006,574	1,143,824	872,283
Sales of homes	2,987,698	-	2,987,698	7,411,965
ReStore sales	7,149,314	-	7,149,314	5,202,873
ReStore value of donated goods received	6,441,602	-	6,441,602	4,893,967
Government grants	-	238,430	238,430	1,078,722
Special events revenue, net of costs of direct benefit to donors	648,720	-	648,720	635,339
Mortgage loan discount amortization	624,088	-	624,088	606,472
Other income	299,251	-	299,251	552,501
<b>Net assets released from restrictions:</b>				
Satisfaction of program/donor restrictions	4,062,218	(4,062,218)	-	-
Expiration of time restrictions	81,427	(81,427)	-	-
<b>Total revenue, gains, and other support</b>	<b>24,486,369</b>	<b>(78,409)</b>	<b>24,407,960</b>	<b>25,390,318</b>
<b>Expenses:</b>				
Cost of homes sold and program support	20,831,699	-	20,831,699	22,327,208
Fundraising	1,306,669	-	1,306,669	1,124,993
Management and general	826,037	-	826,037	1,099,618
Total functional expenses	22,964,405	-	22,964,405	24,551,819
Unallocated payments to national organization	106,184	-	106,184	92,720
Loss on impairment of capitalized headquarter renovation cost	-	-	-	295,110
<b>Total expenses</b>	<b>23,070,589</b>	<b>-</b>	<b>23,070,589</b>	<b>24,939,649</b>
<b>Change in net assets</b>	<b>1,415,780</b>	<b>(78,409)</b>	<b>1,337,371</b>	<b>450,669</b>
<b>Net assets, beginning of year</b>	<b>17,339,431</b>	<b>2,814,794</b>	<b>20,154,225</b>	<b>19,703,556</b>
<b>Net assets, end of year</b>	<b>\$ 18,755,211</b>	<b>\$ 2,736,385</b>	<b>\$ 21,491,596</b>	<b>\$ 20,154,225</b>

*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, 2019, WITH COMPARATIVE TOTALS FOR JUNE 30, 2018

<i>For the year ended June 30, 2019</i>	<b>Cost of homes transferred &amp; program support</b>	<b>Fundraising</b>	<b>Management &amp; general</b>	<b>Totals</b>	<b>Prior year-totals</b>
Cost of homes sold - construction costs	\$ 2,791,784	\$ -	\$ -	\$ 2,791,784	\$ 8,251,621
Cost of homes sold - mortgage discount expense	987,574	-	-	987,574	277,437
Cost of goods sold - ReStore	849,447	-	-	849,447	440,343
Value of donated items sold - ReStore	6,199,224	-	-	6,199,224	4,643,692
Salaries	4,390,462	739,992	549,650	5,680,104	5,428,501
Payroll taxes and benefits	965,591	163,222	95,564	1,224,377	1,255,943
Americorp	43,476	-	-	43,476	42,587
Bank fees and charges	220,848	7,460	26,115	254,423	156,362
Home repair	890,889	-	-	890,889	607,532
Build events and community programs	592,605	14,186	25,858	632,649	370,832
Special events other costs	-	207,051	-	207,051	299,687
Depreciation	45,987	-	-	45,987	57,677
Facilities - rent / lease costs	729,589	4,740	8,640	742,969	480,187
Insurance	122,949	9,562	6,654	139,165	154,765
Interest and amortization of loan fees	295,527	-	-	295,527	314,006
Office and other	309,189	47,834	51,577	408,600	376,716
Professional and outside services	505,286	76,435	46,049	627,770	503,508
Real estate - closing and development	33,619	-	-	33,619	135,023
Telephone	85,858	20,775	8,368	115,001	155,186
Travel	46,340	11,486	7,165	64,991	46,549
Utilities and facility maintenance	324,444	3,926	397	328,767	238,727
Vehicle rent and operating costs	401,011	-	-	401,011	314,938
<b>Totals</b>	<b>\$ 20,831,699</b>	<b>\$ 1,306,669</b>	<b>\$ 826,037</b>	<b>\$ 22,964,405</b>	<b>\$ 24,551,819</b>

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

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

<i>For the years ended June 30,</i>	<b>2019</b>	<b>2018</b>
<b>Operating activities:</b>		
Change in net assets	\$ 1,337,371	\$ 450,669
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	(1,198,217)	(1,061,259)
Issuance of unamortized mortgage discounts	987,574	957,434
Mortgage discount amortization	(624,089)	(606,472)
Amortization of discount on multi-year pledges	2,235	(37,248)
In-kind contributions of property, construction costs, and other assets	(987,588)	(479,682)
Forgiveness / transfer of notes payable, government agencies and related accrued interest to homeowners	(382,000)	(3,808,258)
Loss (gain) on long-term assets	-	295,110
Depreciation	45,987	57,676
(Increase) decrease in assets:		
Program service grants receivable	72,023	1,957,017
Contributions receivable	520,850	(255,098)
Prepaid expenses	37,759	94,324
Inventories	147,492	(298,987)
Construction in process, net of non-cash items	(478,012)	2,042,252
Finished homes held for sale	-	1,619,938
Deposits and other assets (except loan fees)	263,469	(176,014)
Increase (decrease) in liabilities:		
Accounts payable	(272,096)	(1,323,470)
Accrued expenses	164,866	272,154
Deposits and impounds	(37,331)	(4,320)
Deferred revenue	(294,605)	268,738
<b>Net cash and cash equivalents (used in) operating activities</b>	<b>(694,312)</b>	<b>(35,496)</b>
<b>Investing activities:</b>		
Acquisition of property and equipment	(2,682)	(256,656)
Mortgage payments received	748,862	728,227
<b>Net cash and cash equivalents provided by investing activities</b>	<b>746,180</b>	<b>471,571</b>
<b>Financing activities:</b>		
Net proceeds (payments) on line of credit	(586,392)	(601,883)
Cash proceeds from notes payable	7,345,876	53,591
Principal payments on notes payable	(6,539,931)	(370,507)
Payments on capitalized lease obligations payable	(6,458)	(7,436)
<b>Net cash and cash equivalents provided by (used in) financing activities</b>	<b>213,095</b>	<b>(926,235)</b>
<b>Net change in cash and cash equivalents</b>	<b>264,963</b>	<b>(490,160)</b>
<b>Cash and cash equivalents, beginning of the year</b>	<b>2,099,800</b>	<b>2,589,960</b>
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 2,364,763</b>	<b>\$ 2,099,800</b>

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

***As of and for the year ended June 30, 2019***

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**NOTE 1 ORGANIZATION AND PURPOSE**

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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**

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***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.

In preparing these consolidated financial statements, Habitat LA evaluated the period from July 1, 2019 through November 20, 2019, 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.

*As of and for the year ended June 30, 2019*

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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

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***Principles of consolidation:***

The accompanying consolidated financial statements as of and for the years ended June 30, 2019 and 2018 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.

***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:***

As of June 30, 2019, Habitat LA adopted Accounting Standards Update (“ASU”) 2016-14 which requires that net assets be either classified as with donor restrictions or without donor restrictions. Accordingly, 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 with donor restrictions or without donor restrictions as follows:

Net assets without donor restrictions are available for use at the discretion of the Board of Trustees (the Board) and/or management for general operating purposes. From time to time, the Board designates a portion of these net assets for specific purposes which makes them unavailable for use at management’s discretion.

Net assets with donor restrictions consist of assets whose use is limited by donor-imposed, time and/or purpose restrictions. The Organization reports gifts of cash and other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets are reclassified as net assets without donor restriction and reported in the consolidated statements of activities as net assets released from restrictions.

Some net assets with donor restrictions include a stipulation that assets provided be maintained permanently (perpetual in nature) while permitting the Organization to expend the income generated by the assets in accordance with the provisions of additional donor-imposed stipulations or a Board approved spending policy.

See Note 19 for more information on the composition of net assets with donor restrictions.

*As of and for the year ended June 30, 2019*

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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

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***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.

Contributions with donor restrictions which expire during the same fiscal year in which the contributions are made are recorded as net assets with donor restrictions and released within the same year as an increase in net assets without donor restrictions 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.

*As of and for the year ended June 30, 2019*

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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

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***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.

***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 major financial institutions, including securities brokerage firms, that management has determined to be 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, the borrowers are concentrated in Los Angeles County. Accordingly, the Organization’s ability to collect these mortgage notes receivable is dependent on its partner families’ ability to pay, which could be affected by the overall economic conditions in this geographic area. The mortgage notes receivable are secured by a trust deed on the real property which reduces the risk of loss to Habitat LA.

*As of and for the year ended June 30, 2019*

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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

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***Concentration of credit risk – continued:***

At June 30, 2019, one corporate multi-year donation pledge comprised 10% of the balance of unconditional promises to give. As of June 30, 2018, one corporate multi-year donation pledge 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 of non-forgivable non-interest bearing residential home loans made to qualified borrowers that are secured by a deed of trust, with terms generally ranging from 20 to 30 years. The mortgage note receivable must be probable of collection, fixed and determinable, not conditional on future events occurring and Habitat LA must have fulfilled substantially all of its obligations to the home buyer, other than normal warranty claims, before the note is reported in Habitat LA's consolidated financial statements. Non-forgivable and 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, Habitat LA enters into forgivable mortgage notes receivable that are secured 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 expected to be forgiven and are referred to as "silent". The primary purpose of these silent mortgages is to allow the mortgage holder the right to capture a portion of any equity if the home is sold or transferred to a nonqualified homeowner before a certain number of years, usually 25 to 55, have elapsed since the original purchase. These silent mortgages also protect the homeowner by preventing predatory lenders from paying off the first mortgage and encumbering the property and 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 report a value for these silent mortgage notes receivable that are forgivable in its consolidated financial statements as it is assumed they have no economic value.

***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.

*As of and for the year ended June 30, 2019*

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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

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***Allowance for mortgage notes receivable losses – continued:***

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, 2019 and 2018, because the fair value of its collateral interest in the properties securing the mortgage notes receivable generally exceeds the net carrying value of the mortgage notes receivable. Accordingly, management believes that losses resulting from non-payment of mortgage notes receivable are not reasonably probable.

***Inventories:***

Inventories consist primarily of building materials, which are used in the construction of homes, and donated materials including home furnishings and home improvement 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 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

***As of and for the year ended June 30, 2019***

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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

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***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, 2019 and 2018, employer contributions to the Plan were \$119,351 and \$116,014, 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, 2019 and 2018 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.

***Functional expenses:***

The costs of providing program and supporting services have been reported on a functional basis in the consolidated statements of functional expenses. 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:***

The Organization conducts special events in which a portion of the gross proceeds paid by the donor represents payments for the direct costs of the benefits received by the donor at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of meals and entertainment

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

*As of and for the year ended June 30, 2019*

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

***Special event revenues – continued:***

provided at special events is measured at the actual cost to the Organization. The direct costs of special events of \$111,818 and \$129,968 for the years ended June 30, 2019 and 2018, respectively, which ultimately benefit the donor rather than the Organization, are deducted from gross special events revenue. Other direct costs of special events were \$209,051 and \$299,687 for the years ended June 30, 2019 and 2018, 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 LIQUIDITY AND AVAILABILITY**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet dates, are comprised of the following:

<i>For the years ended June 30,</i>	<b>2019</b>	<b>2018</b>
Financial assets at year-end:		
Cash and cash equivalents	\$ 2,364,759	\$ 2,099,800
Mortgage notes receivable	651,949	675,183
Contributions and grants receivable	2,700,405	3,054,712
Total financial assets available	5,717,113	5,829,695
Less amounts not available to be used within one year:		
Pledges to be collected after year-end	1,166,640	1,457,479
Net assets with donor restrictions	2,736,386	2,814,794
Less net assets with donor restrictions to be met in less than a year	(1,581,408)	(1,950,000)
Subtotal	2,321,618	2,322,273
Financial assets available to meet general expenditures over the next twelve months	<b>\$ 3,395,495</b>	<b>\$ 3,507,422</b>

As of June 30, 2019, the Organization had available funds of \$3,395,495 consisting of financial assets and unused line of credit borrowings to meet cash needs for general expenditures within one (1) year of the balance sheet date. The Organization has available two (2) revolving lines of credit to provide financial support for construction projects and general expenditures. One (1) such line is for total borrowings of \$5,000,000, of which \$5,000,000 is available and can be used for both construction projects and general expenditures. The other line is for borrowings of \$2,500,000 of which \$2,182,000 is available and can be used for construction projects. Habitat LA could draw upon these lines of credit in the event of an unanticipated liquidity need. As part of Habitat LA's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

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

***As of and for the year ended June 30, 2019***

**NOTE 4 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Following is a supplemental disclosure of cash flow information for the years ended June 30, 2019 and 2018:

<b><i>For the years ended June 30,</i></b>	<b>2019</b>	<b>2018</b>
Non-cash items:		
Recognition of in-kind contributions and related assets and expenses	\$ 1,143,824	\$ 1,157,451
Non-cash acquisition of property through financing	207,000	5,125,000
Interest paid	\$ 294,671	\$ 314,006

**NOTE 5 UNCONDITIONAL PROMISES TO GIVE**

Unconditional promises to give consist of the following:

<b><i>As of June 30,</i></b>	<b>2019</b>	<b>2018</b>
Unconditional promises to give, gross	\$ 2,700,405	\$ 3,221,255
Less: unamortized discount	(40,801)	(38,566)
Less: allowance for doubtful accounts	(200,000)	(200,000)
Unconditional promises to give, net	\$ 2,459,604	\$ 2,982,689

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 30, 2019 and 2018, Habitat LA had the following unconditional promises to give due:

<b><i>As of June 30,</i></b>	<b>2019</b>	<b>2018</b>
Amounts due in:		
Less than one year	\$ 1,533,765	\$ 1,763,776
One to five years	1,166,640	1,457,479
	\$ 2,700,405	\$ 3,221,255

**NOTE 6 MORTGAGE NOTES RECEIVABLE**

Mortgage notes receivable consist of non-forgivable non-interest bearing residential home loans secured by a deed of trust which are generally payable in monthly installments, if secured by a first deed of trust, over 20 to 30 years. These non-forgivable 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 note receivable using the effective interest method.

In addition, Habitat LA enters into mortgage notes receivable secured by second, third, fourth, and fifth trust deeds, that are non-forgivable non-interest bearing which 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 which have fixed and determinable repayment terms are reported at their present value in the accompanying consolidated financial statements.

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

*As of and for the year ended June 30, 2019*

**NOTE 6 MORTGAGE NOTES RECEIVABLE – CONTINUED**

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 pledge these mortgage notes receivable to other entities.

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

<i>As of June 30,</i>	<b>2019</b>	<b>2018</b>
First trust deeds	\$ 14,507,821	\$ 15,256,685
Second/third/fourth/fifth trust deeds	13,147,815	11,949,598
Junior lien position	1,000,000	1,000,000
Discount to present value	(16,726,911)	(16,363,428)
Present value of mortgage notes receivable	<b>\$ 11,928,725</b>	<b>\$ 11,842,855</b>

Scheduled mortgage notes receivable collections are summarized as follows:

<i>Year ending June 30,</i>	
2020	\$ 651,949
2021	606,737
2022	595,399
2023	578,072
2024	568,022
Thereafter	25,655,457
Total	<b>\$ 28,655,636</b>

Mortgage loan discount amortization revenue for the years ended June 30, 2019 and 2018 was \$624,088 and \$606,472, respectively.

**NOTE 7 INVENTORIES**

Inventories consist of the following:

<i>As of June 30,</i>	<b>2019</b>	<b>2018</b>
Building materials for home construction projects	\$ 777,417	\$ 1,167,806
Inventory received for sale at special events	7,227	6,708
ReStore inventory	946,026	703,648
	<b>\$ 1,730,670</b>	<b>\$ 1,878,162</b>

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

***As of and for the year ended June 30, 2019***

**NOTE 8 HOME CONSTRUCTION ACTIVITY**

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

<b><i>As of June 30,</i></b>	<b>2019</b>	<b>2018</b>
City of Los Angeles, County of Los Angeles, and unincorporated cities	\$ 5,171,240	\$ 3,098,170
Culver City	5,041,617	3,957,477
Long Beach	2,633,783	3,951,501
Lakewood	346,380	342,996
Other	34,965	-
Compton	9,964	9,964
Wilmington	-	205,241
	<b>\$ 13,237,949</b>	<b>\$ 11,565,349</b>

Following is a summary of home building activity:

<b><i>During the year ended June 30,</i></b>	<b>2019</b>		<b>2018</b>	
	<b>Number of homes</b>	<b>Cost</b>	<b>Number of homes</b>	<b>Cost</b>
Home construction in process, beginning of year	128	\$ 11,565,349	123	\$ 8,482,601
Costs incurred on homes during fiscal 2019 - new and existing projects	1	3,922,348	19	8,942,208
Homes transferred to finished homes	(14)	(2,249,748)	(14)	(5,859,460)
	<b>115</b>	<b>\$ 13,237,949</b>	<b>128</b>	<b>\$ 11,565,349</b>

Following is a summary of finished homes activity:

<b><i>During the year ended June 30,</i></b>	<b>2019</b>		<b>2018</b>	
	<b>Number of homes</b>	<b>Cost</b>	<b>Number of homes</b>	<b>Cost</b>
Finished homes, beginning of year	0	\$ -	4	\$ 1,619,938
Costs transferred to Finished Homes from construction in process	14	2,249,748	14	5,859,460
Homes transferred to new owners	(14)	(2,249,748)	(18)	(7,479,398)
	<b>0</b>	<b>\$ -</b>	<b>0</b>	<b>\$ -</b>

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

*As of and for the year ended June 30, 2019*

**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 reported 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 operations for the years ended June 30, 2019 and 2018:

<i>For the years ended June 30,</i>	<b>2019</b>	<b>2018</b>
<b>Revenue and support:</b>		
ReStore sales	\$ 7,149,314	\$ 5,202,625
Fair market value of donated items sold	6,441,602	4,893,967
Total revenue and support	13,590,916	10,096,592
<b>Expenses:</b>		
Cost of goods sold - purchased	849,447	440,343
Cost of goods sold - donated	6,199,224	4,643,692
Operating expenses	5,070,127	4,002,257
Total expenses	12,118,798	9,086,292
Total ReStore revenue over expenses	\$ 1,472,118	\$ 1,010,300

**NOTE 10 PROPERTY AND EQUIPMENT, NET**

Property and equipment consist of the following:

<i>As of June 30,</i>	<b>2019</b>	<b>2018</b>
Autos and trucks	\$ 279,476	\$ 279,476
Land and building	4,728,039	4,728,039
Construction equipment	13,265	13,265
Furniture and equipment	55,670	55,670
Computer software and hardware	254,579	254,579
Leasehold improvements	475,699	473,017
Total	5,806,728	5,804,046
Less: accumulated depreciation	(1,437,004)	(1,391,017)
Property and equipment, net	\$ 4,369,724	\$ 4,413,029

Depreciation expense for the years ended June 30, 2019 and 2018 was \$45,987 and \$57,677, respectively.

During the year ended June 30, 2018, Habitat LA recorded an impairment charge of \$295,110 for costs capitalized pertaining to the construction of a new corporate facility in Bellflower, as the project has been deferred indefinitely.

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***As of and for the year ended June 30, 2019***

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**NOTE 11 DEPOSITS AND OTHER ASSETS**

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Deposits and other assets consist of the following:

<b><i>As of June 30,</i></b>	<b>2019</b>	<b>2018</b>
Deposits	\$ 223,306	\$ 372,172
Loan fees	146,667	156,267
Beneficial interest in charitable remainder trusts	76,833	184,454
Other receivables	87,139	84,521
	<b>\$ 533,945</b>	<b>\$ 797,414</b>

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Included within other assets at June 30, 2019 and 2018, are beneficial interests in charitable remainder trusts, summarized as follows:

- (i) During the year ended June 30, 2018, pursuant to a 1998 charitable remainder insurance trust agreement, Habitat LA received 50% of the value, or \$107,620 because of the donor's and his income beneficiary's death. Additionally, Habitat LA received \$107,621 representing the remaining 50% of the Trust value to be distributed to twelve (12) different organizations. Accordingly, Habitat LA recorded a liability of \$107,621 pending the distribution of the cash to these twelve (12) organizations.
- (ii) During the year ended June 30, 2018, pursuant to a 2002 Charitable Remainder Insurance Trust agreement, Habitat LA received a 47.5% interest in the Trust, as a result of the donor's death. The income beneficiary received a 5.0% interest along with three (3) other organizations each receiving a one third interest in the remaining 47.5% of Trust assets. Assets held under the Trust were \$161,754, at June 30, 2019 and 2018. Accordingly, based on the income beneficiary's life expectancy and using a 5% discount rate, the present value of the future benefits expected to be received by Habitat LA are estimated to be \$76,833 at June 30, 2019 and 2018.
- (iii) During the year ended June 30, 2018, pursuant to a 2002 unitrust agreement, Habitat LA received 95% of the value of the Trust or \$99,283 at the time of the donor's death.

**NOTE 12 DEFERRED REVENUE**

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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, 2019 and 2018, the Organization reported deferred revenue of \$696,411 and \$991,016 respectively, of which \$0 and \$199,135, 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.

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

*As of and for the year ended June 30, 2019*

**NOTE 13 NOTES PAYABLE**

Habitat LA's notes payable are summarized as follows:

<i>As of June 30,</i>	<b>2019</b>	<b>2018</b>
Revolving loans, due on the earliest of (i) the date that is 18 months from the date the advance was made, and (ii) December 20, 2020. Loans bear interest at the U.S. prime rate plus .50%. The Note is secured by substantially all the assets of Habitat LA, including a Second Deed of Trust of up to \$5.0 million on its corporate facility located in Bellflower, California. No borrowings were outstanding under the revolving loans.	\$ -	\$ -
Term loan, in equal monthly principal installments of \$10,000 commencing February 1 2019 through December 31, 2023, at which time all outstanding principal is due. The Term Loan bears interest at a fixed rate of 5.25%.	700,000	-
Promissory Note maturing on January 1, 2026, interest at a fixed rate of 5.07%, payable in monthly principal and interest payments of \$28,996, with the balance due at maturity. The Note is collateralized by a Deed of Trust on Habitat LA's corporate facility located in Bellflower, California.	4,848,653	-
Promissory note maturing on January 1, 2020, interest at prime rate plus .50%, principal and interest due on January 1, 2020, Cathay Bank established a payment reserve of \$58,000 and withheld that amount as an estimate of the interest due on the Note. The Note is collateralized by Deed of Trust on the 200 – 210 East 14 <sup>th</sup> Street, 1332 Locust Avenue, Long Beach properties.	1,000,000	-
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 June 30, 2020, 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.	532,873	53,591
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 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.	317,941	-
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 was 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.	-	2,801,432
Subtotal	<b>\$ 7,399,467</b>	<b>\$ 2,855,023</b>

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

***As of and for the year ended June 30, 2019***

**NOTE 13 NOTES PAYABLE – CONTINUED**

<b><i>As of June 30,</i></b>	<b>2019</b>	<b>2018</b>
Subtotal	\$ 7,399,467	\$ 2,855,023
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 maturity date of the loan was extended to January 5, 2019. The note was 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% with monthly payments of principal and interest of \$6,913.	-	905,881
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 was secured by substantially all of the Organization's personal property.	-	586,392
Habitat LA had a revolving line of credit agreement with a financial institution for borrowings not to exceed \$750,000. The agreement was subject to certain financial covenants, and has stated interest payable at the Lender's Prime Rate plus 1.25%.	-	-
<b>Total</b>	<b>\$ 7,399,467</b>	<b>\$ 4,347,296</b>

In December 2018, Habitat LA entered into a Credit and Security Agreement and Business Loan Agreement with Cathay Bank set forth above. The borrowings from Cathay Bank are subject to various covenants including the following financial covenants:

- Maintain a minimum liquidity of not less than \$1.5 million as of each quarter-end.
- Maintain a minimum current ratio of not less than 2.00 to 1.00.
- Maximum debt to tangible net worth (total net assets) ratio of not more than 2.00 to 1.00 as of each quarter-end.
- Maintain minimum effective tangible net worth (total net assets) of not less than \$19.0 million as of each quarter-end.
- Maintain minimum net income (change in net assets) of not less than \$1.00.
- Maintain a consolidated debt service coverage ratio (as defined in the Cathay Bank agreements) of not less than 1.20 to 1.00.

At June 30, 2019, Habitat LA was in substantial compliance with these covenants and its interpretation thereof.

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

*As of and for the year ended June 30, 2019*

**NOTE 13 NOTES PAYABLE – CONTINUED**

Minimum scheduled future principal payments for notes payable are summarized as follows:

<i>For the year ending June 30,</i>	
2020	\$ 1,757,400
2021	229,951
2022	235,657
2023	241,659
2024	665,914
Thereafter	4,268,886
<b>Total</b>	<b>\$ 7,399,467</b>

**NOTE 14 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 homeowner 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:

<i>As of June 30,</i>	<b>2019</b>	<b>2018</b>
City of Culver City	\$ 3,100,000	\$ 3,100,000
City of Los Angeles	2,232,000	2,025,000
City of Long Beach	29,860	413,527
	<b>\$ 5,361,860</b>	<b>\$ 5,538,527</b>

**NOTE 15 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

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

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***As of and for the year ended June 30, 2019***

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**NOTE 15 NOTES PAYABLE - HABITAT INTERNATIONAL – CONTINUED**

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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 loan principal balance.

Capital Magnet Fund Sub-Award loans through Habitat International are solely for the development, preservation, rehabilitation or purchase of affordable housing units for low-income families in Los Angeles County. The loan agreement required monthly interest payments at 2.00% per annum and annual principal payments of \$600,000, through June 30, 2018. Subsequent to June 30, 2018, the loan terms were amended to provide for repayment in three installments, with interest at 4.0%, due January 31, 2019.

During the year ended June 30, 2019, the FlexCap loan and the Capital Magnet Fund Sub-Award loans were paid off in full. The following is a summary of outstanding Habitat International notes payable:

<b><i>As of June 30,</i></b>	<b>2019</b>	<b>2018</b>
Capital Magnet Fund	\$ -	\$ 600,000
FlexCAP 2014	-	1,414,758
FlexCAP 2016	-	816,193
	<b>\$ -</b>	<b>\$ 2,830,951</b>

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**NOTE 16 RELATED PARTY TRANSACTIONS**

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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 since Habitat LA is an agent in these transactions. During the years ended June 30, 2019 and 2018, Habitat LA recorded \$106,184 and \$92,720, respectively, in Tithes expense. At June 30, 2019 and 2018, Tithes due Habitat International were \$0 and \$28,307, respectively.

During the years ended June 30, 2019 and 2018, Habitat LA recorded \$915,987 and \$1,020,822 respectively, in contributions and pledge payments from members of Habitat LA's Board of Directors or from parties related to Board members.

**NOTE 17 NEW MARKET TAX CREDIT TRANSACTIONS**

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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

*As of and for the year ended June 30, 2019*

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**NOTE 17 NEW MARKET TAX CREDIT TRANSACTIONS – CONTINUED**

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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, 2019 and 2018, Habitat LA reported deferred revenue of \$286,411 and \$381,881, respectively, associated with the 2015 NMTC Transaction.

**NOTE 18 COMMITMENT AND CONTINGENCIES**

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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, 2019 and 2018 under these operating leases was \$742,969 and \$480,187, respectively.

In addition, Habitat LA leases various vehicles under non-cancellable operating leases through June 2019. Vehicle rental expense for the years ended June 30, 2019 and 2018 was \$233,460 and \$183,861, 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, 2020 with early adoption permitted. Management is currently evaluating the impact of the pending adoption of ASU 2016-02 on its consolidated financial statements.

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

*As of and for the year ended June 30, 2019*

**NOTE 18 COMMITMENT AND CONTINGENCIES – CONTINUED**

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

<i>Year ending June 30,</i>	<b>Building leases</b>	<b>Equipment leases</b>	<b>Total</b>
2020	\$ 869,327	\$ 171,720	\$ 1,041,047
2021	898,364	171,720	1,070,084
2022	912,901	171,720	1,084,621
2023	898,174	166,220	1,064,394
2024	893,693	108,525	1,002,218
Thereafter	1,982,464	135,288	2,117,752
Total	\$ 6,454,923	\$ 925,193	\$ 7,380,116

**NOTE 19 NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions at June 30, 2019 and 2018 consist of amounts restricted by donor-imposed stipulations as follows:

<i>As of June 30,</i>	<b>2019</b>	<b>2018</b>
Home Sponsorships	\$ 716,361	\$ 1,337,168
Community Programs	801,196	579,387
Wildfire Relief	805,197	424,443
Charitable Remainder Trusts	142,145	283,736
Multi-Year Capital Campaign Funds	271,486	190,060
Total net assets with donor restrictions	\$ 2,736,385	\$ 2,814,794

**NOTE 20 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**

<i>As of June 30</i>	Habitat for Humanity - Greater Los Angeles	Partnership Housing, Inc.	Subtotal	Elimination	2019 Consolidated	2018
<b>ASSETS</b>						
Cash and cash equivalents	\$ 2,356,724	\$ 8,039	\$ 2,364,763	\$ -	\$ 2,364,763	2,099,800
Program service grants receivable	-	-	-	-	-	72,023
Unconditional promises to give, net of unamortized discount	2,459,604	-	2,459,604	-	2,459,604	2,982,689
Mortgage notes receivable, net of unamortized discount	11,852,150	76,575	11,928,725	-	11,928,725	11,842,855
Prepaid expenses	195,451	-	195,451	-	195,450	233,211
Inventories	1,730,670	-	1,730,670	-	1,730,670	1,878,162
Construction in process	13,237,949	-	13,237,949	-	13,237,949	11,565,349
Finished homes held for sale	-	-	-	-	-	-
Property and equipment, net of accumulated depreciation	4,369,724	-	4,369,724	-	4,369,724	4,413,029
Deposits and other assets	533,945	450,000	983,945	(450,000)	533,945	797,414
<b>Total assets</b>	<b>\$ 36,736,217</b>	<b>\$ 534,614</b>	<b>\$ 37,270,831</b>	<b>\$ (450,000)</b>	<b>\$ 36,820,830</b>	<b>\$ 35,884,532</b>
<b>LIABILITIES AND NET ASSETS</b>						
Bank line of credit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 586,392
Accounts payable	726,838	3,040	729,878	-	729,877	1,001,973
Accrued expenses	1,089,847	274	1,090,121	-	1,090,121	925,257
Deposits and impounds	32,425	-	32,425	-	32,425	69,756
Deferred revenue	286,411	410,000	696,411	-	696,411	991,016
Capital leases payable	19,073	-	19,073	-	19,073	25,531
Notes payable - governmental agencies	5,361,860	-	5,361,860	-	5,361,860	5,538,527
Notes payable - Habitat International	-	-	-	-	-	2,830,951
Notes payable - related party	450,000	-	450,000	(450,000)	-	-
Notes payable - other	7,399,467	-	7,399,467	-	7,399,467	3,760,904
<b>Total liabilities</b>	<b>15,365,921</b>	<b>413,314</b>	<b>15,779,235</b>	<b>(450,000)</b>	<b>15,329,234</b>	<b>15,730,307</b>
<b>Commitments</b>						
<b>Net assets:</b>						
Without donor restrictions	18,633,910	121,300	18,755,210	-	18,755,210	17,339,431
With donor restrictions	2,736,386	-	2,736,386	-	2,736,386	2,814,794
<b>Total net assets</b>	<b>21,370,296</b>	<b>121,300</b>	<b>21,491,596</b>	<b>-</b>	<b>21,491,596</b>	<b>20,154,225</b>
<b>Total liabilities and net assets</b>	<b>\$ 36,736,217</b>	<b>\$ 534,614</b>	<b>\$ 37,270,831</b>	<b>\$ (450,000)</b>	<b>\$ 36,820,830</b>	<b>\$ 35,884,532</b>

*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			Prior year-totals
	Without donor restrictions	With donor restrictions	Totals	Without donor restrictions	With donor restrictions	Totals	Without donor restrictions	With donor restrictions	Totals	Without donor restrictions	Without donor restrictions	Totals	
<i>For the year ended June 30, 2019</i>													
<b>Support and revenue:</b>													
Contributions	\$ 2,054,801	\$ 2,820,232	\$ 4,875,033	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,054,801	\$ 2,820,232	\$ 4,875,033	\$ 4,136,196
In-kind contributions	137,249	1,006,575	1,143,824	-	-	-	-	-	-	137,249	1,006,575	1,143,824	872,283
Sales of homes	2,987,698	-	2,987,698	-	-	-	-	-	-	2,987,698	-	2,987,698	7,411,965
ReStore sales	7,149,314	-	7,149,314	-	-	-	-	-	-	7,149,314	-	7,149,314	5,202,873
ReStore value of donated goods received	6,441,602	-	6,441,602	-	-	-	-	-	-	6,441,602	-	6,441,602	4,893,967
Government grants	-	238,430	238,430	-	-	-	-	-	-	-	238,430	238,430	1,078,722
Special events revenue, net of costs of direct benefit to donors	648,720	-	648,720	-	-	-	-	-	-	648,720	-	648,720	635,339
Mortgage loan discount amortization	620,180	-	620,180	3,908	-	3,908	-	-	-	624,088	-	624,088	606,472
Other income	299,251	-	299,251	-	-	-	-	-	-	299,251	-	299,251	552,501
<b>Net assets released from restrictions:</b>													
Satisfaction of program restrictions	4,062,218	(4,062,218)	-	-	-	-	-	-	-	4,062,218	(4,062,218)	-	-
Expiration of time restrictions	81,427	(81,427)	-	-	-	-	-	-	-	81,427	(81,427)	-	-
<b>Total revenue, gains, and other support</b>	<b>24,482,460</b>	<b>(78,408)</b>	<b>24,404,052</b>	<b>3,908</b>	<b>-</b>	<b>3,908</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>24,486,368</b>	<b>(78,408)</b>	<b>24,407,960</b>	<b>25,390,318</b>
<b>Expenses:</b>													
Cost of homes sold and program support	20,810,541	-	20,810,541	21,158	-	21,158	-	-	-	20,831,699	-	20,831,699	22,327,208
Fundraising	1,306,669	-	1,306,669	-	-	-	-	-	-	1,306,669	-	1,306,669	1,124,993
Management and general	825,306	-	825,306	731	-	731	-	-	-	826,037	-	826,037	1,099,618
Total functional expenses	22,942,516	-	22,942,516	21,889	-	21,889	-	-	-	22,964,405	-	22,964,405	24,551,819
Unallocated payments to national organization	106,184	-	106,184	-	-	-	-	-	-	106,184	-	106,184	92,720
Loss on impairment of capitalized headquarter renovation cost	-	-	-	-	-	-	-	-	-	-	-	-	295,110
<b>Total expenses</b>	<b>23,048,700</b>	<b>-</b>	<b>23,048,700</b>	<b>21,889</b>	<b>-</b>	<b>21,889</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23,070,589</b>	<b>-</b>	<b>23,070,589</b>	<b>24,939,649</b>
<b>Change in net assets</b>	<b>1,433,760</b>	<b>(78,408)</b>	<b>1,355,352</b>	<b>(17,981)</b>	<b>-</b>	<b>(17,981)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,415,779</b>	<b>(78,408)</b>	<b>1,337,371</b>	<b>450,669</b>
<b>Net assets, beginning of year</b>	<b>17,200,150</b>	<b>2,814,794</b>	<b>20,014,944</b>	<b>139,281</b>	<b>-</b>	<b>139,281</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,339,431</b>	<b>2,814,794</b>	<b>20,154,225</b>	<b>19,703,556</b>
<b>Net assets, end of year</b>	<b>\$ 18,633,910</b>	<b>\$ 2,736,386</b>	<b>\$ 21,370,296</b>	<b>\$ 121,300</b>	<b>\$ -</b>	<b>\$ 121,300</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 18,755,210</b>	<b>\$ 2,736,386</b>	<b>\$ 21,491,596</b>	<b>\$ 20,154,225</b>

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				
	Cost of homes transferred & program support			Cost of homes transferred & program support			Cost of homes transferred & program support			Cost of homes transferred & program support			Cost of homes transferred & program support				
<i>For the year ended June 30, 2019</i>	Fundraising	Management & general		Fundraising	Management & general		Fundraising	Management & general		Fundraising	Management & general		Fundraising	Management & general	Totals	Prior year-totals	
Cost of homes sold - construction costs	\$ 2,779,147	\$ -	\$ -	\$ 3,037	\$ -	\$ -	\$ 2,782,184	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,782,184	\$ -	\$ -	\$ 2,782,184	\$ 8,251,621
Cost of homes sold - mortgage discount	997,174	-	-	-	-	-	997,174	-	-	-	-	-	997,174	-	-	997,174	277,437
Cost of goods sold - ReStore	849,447	-	-	-	-	-	849,447	-	-	-	-	-	849,447	-	-	849,447	440,343
Value of donated goods sold - ReStore	6,199,224	-	-	-	-	-	6,199,224	-	-	-	-	-	6,199,224	-	-	6,199,224	4,643,692
Salaries	4,379,614	739,992	549,650	10,848	-	-	4,390,462	739,992	549,650	-	-	-	4,390,462	739,992	549,650	5,680,104	5,428,501
Payroll taxes and benefits	964,376	163,222	95,564	1,215	-	-	965,591	163,222	95,564	-	-	-	965,591	163,222	95,564	1,224,377	1,255,943
Americorp	43,476	-	-	-	-	-	43,476	-	-	-	-	-	43,476	-	-	43,476	42,587
Bank fees and charges	220,848	7,460	26,017	-	-	98	220,848	7,460	26,115	-	-	-	220,848	7,460	26,115	254,423	156,362
Home repair	890,889	-	-	-	-	-	890,889	-	-	-	-	-	890,889	-	-	890,889	607,532
Build events and community programs	592,605	14,186	25,858	-	-	-	592,605	14,186	25,858	-	-	-	592,605	14,186	25,858	632,649	370,832
Special events other costs	-	207,051	-	-	-	-	-	207,051	-	-	-	-	-	207,051	-	207,051	299,687
Depreciation	45,987	-	-	-	-	-	45,987	-	-	-	-	-	45,987	-	-	45,987	57,677
Facilities - rent / lease costs	729,589	4,740	8,640	-	-	-	729,589	4,740	8,640	-	-	-	729,589	4,740	8,640	742,969	480,187
Insurance	122,949	9,562	6,654	-	-	-	122,949	9,562	6,654	-	-	-	122,949	9,562	6,654	139,165	154,765
Interest and amortization of loan fees	295,527	-	-	-	-	-	295,527	-	-	-	-	-	295,527	-	-	295,527	314,006
Office and other	309,190	47,834	50,944	-	-	633	309,190	47,834	51,577	-	-	-	309,190	47,834	51,577	408,601	376,716
Professional and outside services	499,227	76,435	46,049	6,058	-	-	505,285	76,435	46,049	-	-	-	505,285	76,435	46,049	627,769	503,508
Real estate - closing and development	33,619	-	-	-	-	-	33,619	-	-	-	-	-	33,619	-	-	33,619	135,023
Telephone	85,858	20,775	8,368	-	-	-	85,858	20,775	8,368	-	-	-	85,858	20,775	8,368	115,001	155,186
Travel	46,340	11,486	7,165	-	-	-	46,340	11,486	7,165	-	-	-	46,340	11,486	7,165	64,991	46,549
Utilities and facility maintenance	324,444	3,926	397	-	-	-	324,444	3,926	397	-	-	-	324,444	3,926	397	328,767	238,727
Vehicles	401,011	-	-	-	-	-	401,011	-	-	-	-	-	401,011	-	-	401,011	314,938
<b>Totals</b>	<b>\$ 20,810,541</b>	<b>\$ 1,306,669</b>	<b>\$ 825,306</b>	<b>\$ 21,158</b>	<b>\$ -</b>	<b>\$ 731</b>	<b>\$ 20,831,699</b>	<b>\$ 1,306,669</b>	<b>\$ 826,037</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 20,831,699</b>	<b>\$ 1,306,669</b>	<b>\$ 826,037</b>	<b>\$ 22,964,405</b>	<b>\$ 24,551,819</b>

The accompanying notes are an integral part of these financial statements

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

<i>For the year ended June 30,</i>	<b>Habitat for Humanity- Greater Los Angeles</b>	<b>Partnership Housing, Inc.</b>	<b>Subtotal</b>	<b>Elimination</b>	<b>2019 Consolidated</b>	<b>2018</b>
<b>Operating activities:</b>						
Change in net assets	\$ 1,355,352	\$ (17,981)	\$ 1,337,371		\$ 1,337,371	\$ 450,669
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	(1,198,217)	-	(1,198,217)		(1,198,217)	(1,061,259)
Issuance of unamortized mortgage discounts	987,574	-	987,574		987,574	957,434
Mortgage discount amortization	(620,180)	(3,909)	(624,089)		(624,089)	(606,472)
Amortization of discount on multi-year pledges	2,235	-	2,235		2,235	(37,248)
In-kind contributions of property, construction costs, and other assets	(987,588)	-	(987,588)		(987,588)	(479,682)
Forgiveness / transfer of notes payable, government agencies and related accrued interest to homeowners	(382,000)	-	(382,000)		(382,000)	(3,808,258)
Loss (gain) on long-term assets	-	-	-		-	295,110
Depreciation	45,987	-	45,987		45,987	57,676
(Increase) decrease in assets:						
Program service grants receivable	72,023	-	72,023		72,023	1,957,017
Contributions receivable	520,850	-	520,850		520,850	(255,098)
Prepaid expenses	37,759	-	37,759		37,759	94,324
Inventories	147,492	-	147,492		147,492	(298,987)
Construction in process, net of non-cash items	(478,012)	-	(478,012)		(478,012)	2,042,252
Finished homes held for sale	-	-	-		-	1,619,938
Deposits and other assets (except loan fees)	263,469	-	263,469		263,469	(176,014)
Increase (decrease) in liabilities:						
Accounts payable	(273,135)	1,039	(272,096)		(272,096)	(1,323,470)
Accrued expenses, net of accrued capitalized interest and forgiven interest	165,243	(377)	164,866		164,866	272,154
Deposits and impounds	(37,331)	-	(37,331)		(37,331)	(4,320)
Deferred revenue	(294,605)	-	(294,605)		(294,605)	268,738
<b>Net cash and cash equivalents provided by (used in) operating activities</b>	<b>(673,084)</b>	<b>(21,228)</b>	<b>(694,312)</b>	<b>-</b>	<b>(694,312)</b>	<b>(35,496)</b>
<b>Investing activities:</b>						
Acquisition of property and equipment	(2,682)	-	(2,682)		(2,682)	(256,656)
Mortgage payments received	748,862	-	748,862		748,862	728,227
<b>Net cash and cash equivalents provided by (used in) investing activities</b>	<b>746,180</b>	<b>-</b>	<b>746,180</b>	<b>-</b>	<b>746,180</b>	<b>471,571</b>
<b>Financing activities:</b>						
Payments on line of credit	(586,392)	-	(586,392)		(586,392)	(601,883)
Proceeds from notes payable	7,345,876	-	7,345,876		7,345,876	53,591
Principal payments on notes payable	(6,539,931)	-	(6,539,931)		(6,539,931)	(370,507)
Payments on capitalized lease obligations payable	(6,458)	-	(6,458)		(6,458)	(7,436)
<b>Net cash and cash equivalents provided by (used in) financing activities</b>	<b>213,095</b>	<b>-</b>	<b>213,095</b>	<b>-</b>	<b>213,095</b>	<b>(926,235)</b>
<b>Net change in cash and cash equivalents</b>	<b>286,191</b>	<b>(21,228)</b>	<b>264,963</b>	<b>-</b>	<b>264,963</b>	<b>(490,160)</b>
<b>Cash and cash equivalents, beginning of the year</b>	<b>2,070,533</b>	<b>29,267</b>	<b>2,099,800</b>	<b>-</b>	<b>2,099,800</b>	<b>2,589,960</b>
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 2,356,724</b>	<b>\$ 8,039</b>	<b>\$ 2,364,763</b>	<b>\$ -</b>	<b>\$ 2,364,763</b>	<b>\$ 2,099,800</b>

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