Habitat For Humanity Greater San Francisco, Inc.

Financial Statements

June 30, 2016
(With Comparative Totals for 2015)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Habitat For Humanity Greater San Francisco, Inc.
San Francisco, California

We have audited the accompanying financial statements of Habitat For Humanity Greater San Francisco, Inc. (a California nonprofit corporation) (the "Organization"), which comprise the statement of financial position as of June 30, 2016, 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 (the "U.S."); 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the U.S. 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat For Humanity Greater San Francisco, Inc. as of June 30, 2016, 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 U.S.

Report on Summarized Comparative Information

We have previously audited Habitat For Humanity Greater San Francisco, Inc.'s 2015 financial statements, and our report dated November 16, 2015 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Armanino LLP

Armanino LLP
San Jose, California

November 8, 2016

Habitat For Humanity Greater San Francisco, Inc.
Statement of Financial Position
June 30, 2016
(With Comparative Totals for 2015)

	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	$ 3,565,204	$ 2,273,112
Accounts receivable	11,093	7,760
Impound receivable	12,224	31,953
Current portion of mortgage notes receivables, net	999,969	1,051,482
Current portion of pledges receivable	955,816	808,384
Inventory of homes	633,820	255,185
Prepaid expenses	38,218	46,997
Total current assets	6,216,344	4,474,873
Property and equipment, net	419,614	454,318
Other assets		
Restricted cash	936,476	2,220,195
Mortgage notes receivable, net of unamortized discount	6,987,070	7,316,958
Grants receivable	1,952,370	1,819,000
Pledges receivable, net of current portion	999,608	1,295,936
Construction in progress	16,713,801	13,253,230
Deposits	102,833	102,183
Intangibles, net	272,864	345,463
NMTC Investment - 1, HFHI-SA Leverage VI, LLC	6,995,049	6,876,129
NMTC Investment - 2, HFHGSF Leverage Lender, LLC	8,437,257	8,299,484
Total other assets	43,397,328	41,528,578
Total assets	$ 50,033,286	$ 46,457,769

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

Habitat For Humanity Greater San Francisco, Inc.
Statement of Financial Position
June 30, 2016
(With Comparative Totals for 2015)

	2016	2015
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable, operating	$ 272,243	$ 67,006
Accounts payable, construction	194,345	266,048
Accounts payable, ReStore	8,511	15,630
Accrued liabilities	237,865	172,720
Accrued interest	18,347	18,347
Unearned revenue	43,173	35,000
Current portion of notes payable	30,944	31,704
Line of credit	-	700,000
Impound liability	13,529	26,465
Current portion of deferred lease obligation	-	17,986
Total current liabilities	818,957	1,350,906
Long-term liabilities		
Notes payable, net of current portion	211,333	243,440
Refundable advances	3,341,438	2,319,000
Loan payable, NMTC financing - 1	8,328,107	8,328,107
Loan payable, NMTC financing - 2	10,330,844	10,330,844
Deferred lease obligation, net of current portion	126,624	90,652
Total long-term liabilities	22,338,346	21,312,043
Total liabilities	23,157,303	22,662,949
Net assets		
Unrestricted	24,207,471	21,669,593
Temporarily restricted	2,668,512	2,125,227
Total net assets	26,875,983	23,794,820
Total liabilities and net assets	$ 50,033,286	$ 46,457,769

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

Habitat For Humanity Greater San Francisco, Inc.
Statement of Activities
For the Year Ended June 30, 2016
(With Comparative Totals for 2015)

	Unrestricted	Temporarily Restricted	2016 Total	2015 Total
Support and revenue				
Support				
Contributions	$ 1,773,338	$ 1,846,161	$ 3,619,499	$ 5,309,697
Special events, net	323,828	-	323,828	305,409
Grants	396,065	-	396,065	198,595
Donated services	258,673	-	258,673	179,825
Donated materials	133,878	-	133,878	154,213
Total support	2,885,782	1,846,161	4,731,943	6,147,739
Revenue				
ReStore revenue	1,471,777	-	1,471,777	1,453,322
Inclusionary BMR revenue	2,710,716	-	2,710,716	1,129,465
Mortgage discount amortization	553,613	-	553,613	695,559
Sale of homes	-	-	-	479,500
NMTC investment income	398,939	-	398,939	398,940
Gain on sale and repurchase of note receivables	33,539	-	33,539	341,134
Other income	19,066	-	19,066	2,370
Net assets released from restriction	1,302,876	(1,302,876)	-	-
Total revenue	6,490,526	(1,302,876)	5,187,650	4,500,290
Total support and revenue	9,376,308	543,285	9,919,593	10,648,029
Functional expenses				
Program services				
Housing development	815,133	-	815,133	1,710,701
Homeowner dev., volunteers, NR	1,947,040	-	1,947,040	1,615,689
ReStore	1,569,666	-	1,569,666	1,260,449
Total program services	4,331,839	-	4,331,839	4,586,839
Support services				
General and administrative	1,200,705	-	1,200,705	1,185,878
Fundraising	1,305,886	-	1,305,886	1,162,906
Total support services	2,506,591	-	2,506,591	2,348,784
Total functional expenses	6,838,430	-	6,838,430	6,935,623
Change in net assets	2,537,878	543,285	3,081,163	3,712,406
Net assets, beginning of year	21,669,593	2,125,227	23,794,820	20,082,414
Net assets, end of year	$ 24,207,471	$ 2,668,512	$ 26,875,983	$ 23,794,820

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

Habitat For Humanity Greater San Francisco, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2016
(With Comparative Totals for 2015)

	Housing development	Homeowner dev., volunteers, NR	ReStore	Total program services	General and administrative	Fundraising	Total support services	2016 Total	2015 Total
Expenses									
Direct housing expenses									
Cost of sales - homes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 480,901
(Gain) loss on construction in progress	(34,682)	-	-	(34,682)	-	-	-	(34,682)	63,255
Total direct housing expenses	(34,682)	-	-	(34,682)	-	-	-	(34,682)	544,156
Salaries and benefits									
Salaries and wages	263,586	1,109,604	665,709	2,038,899	400,512	637,980	1,038,492	3,077,391	2,561,194
Employee benefits	26,416	116,907	78,627	221,950	42,886	61,752	104,638	326,588	356,349
Payroll taxes	21,219	91,862	55,338	168,419	31,268	48,292	79,560	247,979	208,118
Stipend - Vista/AmeriCorp	(650)	86,263	18,873	104,486	11	47,687	47,698	152,184	133,865
Workers' compensation insurance	12,691	41,823	41,119	95,633	3,935	6,284	10,219	105,852	71,167
Total salaries and benefits	323,262	1,446,459	859,666	2,629,387	478,612	801,995	1,280,607	3,909,994	3,330,693
Total expenses	288,580	1,446,459	859,666	2,594,705	478,612	801,995	1,280,607	3,875,312	3,874,849
Professional services	33,130	88,994	67,645	189,769	92,492	161,107	253,599	443,368	579,737
Rent	78,884	79,974	461,816	620,674	63,996	63,996	127,992	748,666	597,162
Donated services and goods	53,727	695	8,984	63,406	173,542	-	173,542	236,948	33,634
Promotions and supplies	419	45,522	-	45,941	1,046	68,512	69,558	115,499	128,406
Interest	163,099	187	-	163,286	12,114	-	12,114	175,400	168,752
NMTC annual fees	-	-	-	-	156,837	-	156,837	156,837	157,252
Tithe	128,000	-	-	128,000	-	-	-	128,000	130,099
Communications	20,692	45,897	3,819	70,408	20,544	34,578	55,122	125,530	113,504
Office expenses	6,508	29,679	49,420	85,607	63,784	19,627	83,411	169,018	116,745
Postage and printing	3,449	9,198	2,294	14,941	1,406	99,020	100,426	115,367	85,851
Depreciation	-	-	-	-	73,298	-	73,298	73,298	80,789
Amortization	-	-	-	-	72,599	-	72,599	72,599	72,599
Travel and training	14,503	32,419	19,016	65,938	5,552	13,334	18,886	84,824	100,682
Neighborhood revitalization project expense	-	126,443	-	126,443	-	-	-	126,443	98,115
Computer software/hardware	4,085	21,980	14,071	40,136	11,012	15,408	26,420	66,556	65,043
Bank fees	107	150	21,719	21,976	6,526	23,864	30,390	52,366	57,856
Insurance	8,714	9,150	10,468	28,332	5,361	1,860	7,221	35,553	40,013
Employee engagement	2,482	2,602	-	5,084	15,043	1,888	16,931	22,015	-
Equipment rental and maintenance	4,045	7,691	20,529	32,265	5,013	697	5,710	37,975	51,975
Miscellaneous construction	4,709	-	-	4,709	-	-	-	4,709	37,754
Discount on pledges receivable	-	-	-	-	(58,072)	-	(58,072)	(58,072)	119,601
Discount on mortgage issued	-	-	-	-	-	-	-	-	197,850
Marketing	-	-	30,219	30,219	-	-	-	30,219	27,355
	$ 815,133	$ 1,947,040	$ 1,569,666	$ 4,331,839	$ 1,200,705	$ 1,305,886	$ 2,506,591	$ 6,838,430	$ 6,935,623
Percentage of total	11.9 %	28.5 %	23.0 %	63.4 %	17.6 %	19.1 %	36.7 %	100.1 %	

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

Habitat For Humanity Greater San Francisco, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2016
(With Comparative Totals for 2015)

	2016	2015
Cash flows from operating activities		
Change in net assets	$ 3,081,163	$ 3,712,406
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	145,897	79,092
Loss on disposal of fixed assets	488	2,478
Amortization of mortgage notes receivable discount	(553,163)	(695,559)
Discount on mortgages issued	-	197,850
Gain on sale and repurchase of mortgages receivable	(33,539)	(341,134)
Amortization of notes payable discount	19,810	20,493
Changes in operating assets and liabilities		
Accounts and impound receivable	16,396	721,394
Grants and pledges receivable	15,526	(1,426,036)
Inventory of homes	(378,635)	463,158
Construction in progress	(3,460,571)	(5,396,540)
Prepaid expenses and deposits	8,129	(100,356)
Restricted cash	1,283,719	540,565
Accounts payable	126,415	(264,961)
Accrued expenses and other liabilities	78,368	43,764
Net cash provided by (used in) operating activities	350,003	(2,443,386)
Cash flows from investing activities		
Purchase of property and equipment	(39,082)	(411,605)
Property and equipment write off	-	71,817
Payments received on mortgage notes receivable	1,117,722	1,137,460
Proceeds from mortgage notes receivable sold	-	1,134,548
Repurchase of mortgage notes receivable	(149,619)	-
Issuance of home mortgages notes	-	(479,500)
Investment in new markets tax credit venture	(256,693)	(256,693)
Net cash provided by investing activities	672,328	1,196,027
Cash flows from financing activities		
Proceeds (payments) on line of credit	(700,000)	700,000
Proceeds from refundable advances	1,022,438	500,000
Payments on notes payable	(52,677)	(70,232)
Borrowings under notes payable	-	27,900
Net cash provided by financing activities	269,761	1,157,668
Net increase (decrease) in cash and cash equivalents	1,292,092	(89,691)
Cash and cash equivalents, beginning of year	2,273,112	2,362,803
Cash and cash equivalents, end of year	$ 3,565,204	$ 2,273,112

Supplemental disclosure of cash flow information

	2016	2015
Cash paid during the year for interest	$ 175,400	$ 168,752

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

1. ORGANIZATION

Habitat for Humanity Greater San Francisco, Inc., (the "Organization"), is a nonprofit public benefit corporation incorporated in California in 1988 (originally as Peninsula Habitat for Humanity). Effective August 1, 2008, Habitat for Humanity San Francisco merged into Peninsula Habitat for Humanity and the combined entities were renamed Habitat for Humanity Greater San Francisco, Inc. The new Organization serves San Francisco, San Mateo, and Marin Counties. The Organization is affiliated with Habitat for Humanity International, Inc.

The Organization partners with working families and the community to develop affordable homes for first-time home ownership. The Organization builds homes by engaging volunteers to work alongside carefully selected candidate families. Nearly 90% of the construction labor is done by volunteers and the qualified families selected. The candidate families invest approximately 500 hours of "sweat equity" in the home in lieu of a down payment. The Organization provides financing for the homes at zero percent interest.

The following is a brief description of the Organization's program services:

Housing development

- *Land acquisition* - Fosters relationships with Marin, San Francisco and San Mateo Counties and their municipalities; locates and acquires land for home construction; obtains funding from multiple affordable housing sources.
- *Construction* - Builds and rehabilitates homes; trains, organizes and supervises on-site volunteers.
- *Tithe* - Contributes a portion of undesignated donated funds annually to Habitat for Humanity International, Inc. for the construction of homes outside the United States.

Programs

- *Homeowner development* - Selects, qualifies, and mentors candidate families, and provides them financial and home ownership education; manages long-term homeowner relationships.
- *Volunteer services* - Recruits, trains, schedules, and supports volunteers for work at the construction sites, NR projects, in the office, and on committees.
- *Neighborhood revitalization (NR)* - Habitat Greater San Francisco's Neighborhood Revitalization program aims to extend the work of Habitat for Humanity into the neighborhoods where we build – beautifying parks and gardens, renovating community assets like schools and community centers and delivering critical home repairs to improve the health, safety and well-being of residents in our two focus neighborhoods: the Bayview and East Palo Alto.

1. ORGANIZATION (continued)

Programs (continued)

- *ReStore* - In September 2012, the Organization opened its first ReStore. Habitat for Humanity Greater San Francisco ReStore is a volunteer-driven home improvement resale outlet that accepts and resells new and gently used building materials, appliances and furniture to the public at a fraction of their retail price. The ReStore keeps materials out of landfills through reuse. Funds raised help build homes for families in need in San Francisco, Marin, and on the Peninsula.

New Markets Tax Credit Financing

In July 2010, the Organization invested in a New Markets Tax Credit (NMTC) financing joint venture, HFHI-SA Leverage VI, LLC, along with three other Habitat affiliates, to take advantage of tax credit equity financing (see Notes 9, 10, 12, 22).

In December 2011, the Organization invested in its second New Markets Tax Credit (NMTC) financing venture, HFHGSF Leverage Lender, LLC, as the sole Habitat affiliate, to take advantage of tax credit equity financing (see Notes 9, 10, 13, 22).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The Organization's financial statements are presented in accordance with accounting principles generally accepted in the United States of America on an accrual basis. Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

The Organization follows standards of accounting and financial reporting for voluntary health and welfare organizations as prescribed by the American Institute of Certified Public Accountants, reporting its financial position and operating activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

- *Unrestricted net assets* - include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization.

- *Temporarily restricted net assets* - include those assets which are subject to donor restriction and for which the applicable restriction was not met as of the year end of the current reporting period.

- *Permanently restricted net assets* - include those assets which are subject to a non-expiring donor restriction, such as endowments. The Organization does not have any permanently restricted net assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments and investments with a maturity of three months or less, and exclude donor restricted receipts and amounts designated for long-term purposes.

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Restricted cash

Restricted cash is comprised of the following:

- *Restricted cash - New Market Tax Credit Investment Housing Funds* - New Market Tax Credit restricted cash are funds set aside to cover transaction and management fees. The balance of the New Market Tax Credit Investment Housing Funds totaled $895,059 and $883,195 as of June 30, 2016 and 2015, respectively.
- *Restricted cash - homeowners impound funds* - The Organization services the mortgages on the homes it sells. Included in restricted cash are amounts received for insurance and property taxes on such homes. The Organization records a related liability as an offset to these impound amounts. The balance of the homeowners impound funds totaled $13,526 and $26,465 as of June 30, 2016 and 2015, respectively.
- *Restricted cash - construction in progress performance deposit* - In lieu of posting a performance bond on active construction projects, the Organization pledges a certificate of deposit. The money is released once the project is completed. The balance of the construction in progress performance deposit totaled $27,891 and $1,310,535 as of June 30, 2016 and 2015, respectively.

Mortgage notes receivable

The Organization records home sales mortgages at the gross amount of payments to be received over the lives of the mortgages. These mortgage payments do not include interest and, accordingly, the notes have been discounted at various interest rates using the effective interest method over the lives of the mortgages and reported net of amortized cost. Management does not believe an allowance for doubtful accounts is necessary because the deed restrictions give them right of first refusal period.

Grants, donations and pledges receivables

The Organization considers all grants, donations and pledges receivable to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventory of homes

The Organization classifies as inventory the following: completed new construction homes; homes purchased under the NR program in which rehabilitation is substantially complete; and Habitat built homes that are bought back from the homeowner (resale homes). Completed new construction homes and NR homes are stated at the lower of cost or market using the specific identification method. Habitat resale homes are stated at buy back cost (the original sales price plus appreciation).

Construction in progress

Construction in progress is stated at the lower of cost or market using the specific identification method. Construction in progress consists of new home building projects under construction, NR homes undergoing rehabilitation, and pre-development costs of future projects (see Note 8).

Property and equipment

Furniture, equipment, leasehold improvements, and vehicles are carried at cost or, if donated, at the approximate fair value at the date of donation. The Organization capitalizes all acquisitions of property and equipment in excess of $3,000. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets, which range from three to seven years.

Impairment of long-lived assets

The Organization reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of the property and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. For the years ended June 30, 2016 and 2015, there were no events or changes in circumstances indicating that the carrying amount of the property and equipment may not be recoverable.

Contributions

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the nature of donor restrictions and depending on whether the restrictions are met in the current fiscal period. As of June 30, 2016 and 2015, there were no permanently restricted contributions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expense allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on a time study analysis and other reasonable methods.

Advertising

The Organization's policy is to expense advertising costs as the costs are incurred. Advertising expenses (included as a component of the "Marketing" and "Promotions, Supplies" in the accompanying statement of functional expenses) for the years ended June 30, 2016 and 2015, were $37,551 and $32,224, respectively.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

Income taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). The Organization is also exempt from state income tax under Section 23701(d) of the California Revenue and Taxation Code.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Organization in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination.

The Organization's federal returns for the fiscal years ended June 30, 2014, 2013 and 2012 could be subject to examination by federal taxing authorities, generally for three years after they are filed. The Organization's state returns for the fiscal years ended June 30, 2014, 2013, 2012 and 2011 could be subject to examination by state taxing authorities, generally for four years after they are filed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comparative financial statements

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional expense categories. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Reclassifications

Certain amounts in the prior year have been reclassified in order to be consistent with the current year presentation.

Subsequent events

Management of the Organization has evaluated events and transactions subsequent to June 30, 2016 for potential recognition or disclosure in the financial statements. The Organization did not have subsequent events that required recognition or disclosure in the financial statements for the fiscal year ended June 30, 2016. Subsequent events have been evaluated through the date the financial statements became available to be issued, November 8, 2016.

3. MORTGAGE NOTES RECEIVABLE

As of June 30, 2016, the Organization holds 121 mortgage notes receivable, totaling $14,092,157 at gross value with maturities of 1 to 40 years. The notes are non-interest bearing mortgages, payable in equal monthly installments, and are secured by deeds of trust on the properties. According to an agreement with Habitat for Humanity International, Inc., the collections on these notes receivable are to be used to construct additional homes. The notes have been discounted at various interest rates ranging from 6% to 10% using the effective interest method over the lives of the mortgages. Mortgages are reported net of amortized cost.

3. MORTGAGE NOTES RECEIVABLE (continued)

Principal payments due on mortgage notes receivable are as follows:

Year ending June 30,	
2017	$ 999,969
2018	994,693
2019	971,434
2020	910,332
2021	876,108
Thereafter	9,339,621
	14,092,157
Less unamortized discount	(6,105,118)
Net present value of mortgages	7,987,039
Less current portion	(999,969)
	$ 6,987,070

In the year ended June 30, 2016, the Organization repurchased one mortgage note. The total principal balance of the mortgage repurchased was $178,757 and the gain from the repurchase was $33,539.

4. GRANTS RECEIVABLE

Grants receivable consist of the following:

	2016	2015
Department of Housing and Community Development (CalHome Grant) - various projects	$ 1,610,000	$ 1,610,000
Affordable Housing Program - Habitat Terrace Project (Capital Avenue)	209,000	209,000
Community Development Block Grant Program - City of Redwood City (Jefferson Avenue)	28,370	-
Other Non-Government Grants - various projects	105,000	-
	$ 1,952,370	$ 1,819,000

5. PLEDGES RECEIVABLE

Pledges receivable consist of the following:

	2016	2015
Receivable in less than one year	$ 955,816	$ 808,384
Receivable in one to five years	1,058,137	1,415,537
	2,013,953	2,223,921
Less discounts to net present value	(58,529)	(119,601)
	1,955,424	2,104,320
Less current portion	(955,816)	(808,384)
	$ 999,608	$ 1,295,936

6. INVENTORY OF HOMES

Inventory of homes consist of the following:

	2016	2015
Habitat resale homes	$ 619,486	$ 240,851
Materials	14,334	14,334
	$ 633,820	$ 255,185

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2016	2015
Furniture and equipment	$ 237,171	$ 240,129
Vehicles	114,521	114,521
Leasehold improvements	380,353	341,271
	732,045	695,921
Accumulated depreciation	(312,431)	(241,603)
	$ 419,614	$ 454,318

Depreciation expense for the year ended June 30, 2016 and 2015, was $73,298 and $80,789, respectively.

8. CONSTRUCTION IN PROGRESS

Construction in progress consist of the following:

	2016	2015
New construction		
San Francisco: Capital Ave. (28 homes)	$ 10,066,656	$ 8,224,101
Novato: Mt. Burdell Place (10 homes)	4,192,839	2,886,350
Redwood City: Jefferson Ave. (20 homes)	2,006,648	1,824,342
	16,266,143	12,934,793
Pre-development		
San Francisco: Whitney Young II (17 homes estimated)	171,303	171,303
San Francisco: Hunter's View (30 homes estimated)	276,355	147,134
	447,658	318,437
	$ 16,713,801	$ 13,253,230

9. NMTC INVESTMENT - 1, HFHI-SA LEVERAGE VI, LLC

In July 2010, the Organization invested, along with three other Habitat affiliates, in a joint venture (HFHI-SA Leverage VI, LLC) to take advantage of New Markets Tax Credit (NMTC) financing. NMTC financing allows an entity to receive a loan or investment capital from outside investors, who will receive new markets tax credits to be applied against their federal tax liability. The Organization invested a combination of cash and construction in progress totaling $6,381,480 for a 33.9% ownership stake and securing a loan in the amount of $8,328,107 payable to Clearinghouse NMTC (Sub 21), LLC (a community development entity). The net proceeds resulting from the joint venture totaled $1,646,171 and are to be used solely for the purpose of constructing and selling qualified housing properties to low-income residents.

The investment is accounted for using the equity method and the carrying amount of the investment is increased for the Organization's proportionate share of the joint venture's earnings and decreased for the Organization's proportionate share of the joint venture's losses and distributions.

The balance of the investment in HFHI-SA Leverage VI, LLC is as follows:

	2016	2015
Balance, beginning of year	$ 6,876,129	$ 6,757,208
Share of income	182,735	182,736
Distributions received	(63,815)	(63,815)
Balance, end of year	$ 6,995,049	$ 6,876,129

10. NMTC INVESTMENT - 2, HFHGSF LEVERAGE LENDER, LLC

In December 2011, the Organization entered into its second NMTC financing venture, investing in a sole venture (HFHGSF Leverage Lender, LLC). The Organization contributed a combination of cash, construction in progress, and NR inventory homes totaling $7,922,319 for a 100% ownership stake and securing a loan in the amount of $10,330,844 payable to Northern California Community Loan Fund NMTC Sub-CDE V, LLC (a community development entity). The net proceeds resulting from the venture totaled $1,207,165 and are to be used solely for the purpose of constructing and selling qualified housing properties to low-income residents.

The balance of the investment in HFHGSF Leverage Lender, LLC is as follows:

	2016	2015
Balance, beginning of year	$ 8,299,484	$ 8,161,711
Share of income	216,204	216,204
Distributions received	(78,431)	(78,431)
Balance, end of year	$ 8,437,257	$ 8,299,484

11. INTANGIBLE ASSETS

The Organization incurred costs for qualified active low-income business guarantor fees related to its NMTC financing to be amortized over 7 years, the period to which the guarantees apply. The Organization also incurred closing costs related to its two NMTC loans, to be amortized over each of the 15-year note terms.

Intangible assets consist of the following:

	2016	2015
Qualified active low income community business (QALICB) guarantor fees	$ 398,744	$ 398,744
NMTC loan closing costs	234,528	234,528
	633,272	633,272
Accumulated amortization	(360,408)	(287,809)
	$ 272,864	$ 345,463

11. INTANGIBLE ASSETS (continued)

Estimated annual NMTC amortization expense at June 30,

Year ending June 30,		
2017	$	72,598
2018		55,249
2019		34,654
2020		15,635
2021		94,728
		272,864
	$	272,864

Amortization expense for the year ended June 30, 2016 and 2015, was $72,599 and $72,599, respectively.

12. NOTES PAYABLE

Notes payable are detailed as follows:

	2016	2015
Payable to the County of San Mateo - Home Program federal funds used for site construction costs of two housing units, secured by individual deeds of trust on property located in Brisbane, CA, due in semi-annual non-interest bearing payments of $698 through June 2037.	$ 28,840	$ 30,235
Payable to the County of San Mateo - Home Program federal funds used for site construction costs of five housing units, secured by individual deeds of trust on property located in Brisbane, CA, due in semi-annual non-interest bearing payments of $2,111 through June 2032.	66,217	70,440
Payable to the County of San Mateo - Home Program federal funds used for site construction of four housing units, secured by individual deeds of trust on property located in South San Francisco, CA, due in semi-annual non-interest bearing payments of $7,261 through December 2025.	133,826	148,348
Payable to the County of San Mateo - CDBG Program federal funds used for the purchase of land and pre-development costs for 24 housing units, secured by individual deeds of trust on property located in East Palo Alto, due in semi-annual non-interest bearing payments of $13,617 through November 2033.	83,189	110,422
Payable to Habitat for Humanity International, Inc. - 0% interest, federal funds used for housing construction costs, payable in 47 monthly installments of $581.	27,900	27,900
Payable to Habitat for Humanity International, Inc. - 0% interest, federal funds used for housing construction costs, monthly installments of $364 began in October 2011 and last through December 2015.	-	2,212
Payable to the Community Development Agency of the City of Menlo Park, 0% interest, used for the purchase of land for housing units in Menlo Park, CA, secured by deeds of trust on the units. Due in semi-annual installments of $1,625 through December 2018.	8,125	11,375

12. NOTES PAYABLE (continued)

	348,097	400,932
Less discount on notes payable	(105,820)	(125,788)
	242,277	275,144
Current portion	(30,944)	(31,704)
	$ 211,333	$ 243,440

The discount rates on the notes payable range from 7.5% to 8.4% based on an annual simple average using rates published by Habitat for Humanity International, Inc. Interest expense on the notes for the years ended June 30, 2016 and 2015 was $19,968 and $20,493, respectively.

The discounted principal payments due on the notes payable are as follows:

Year ending June 30,	
2017	$ 30,944
2018	40,319
2019	43,679
2020	30,389
2021	15,176
Thereafter	81,770
	$ 242,277

13. LOANS PAYABLE

Loan Payable, NMTC Financing - 1

The Organization recorded a loan payable to Clearinghouse NMTC Sub 21, LLC (a NMTC community development entity) dated July 28, 2010 as part of the NMTC financing transaction. It is a 15-year loan bearing interest at 0.766% interest with semi-annual interest-only payments for 7 years from December 5, 2010 until December 5, 2017. Principal payments are scheduled to begin on December 5, 2017, due semi-annually to fully amortize the principal balance over the following 8 years. The loan is secured by substantially all the assets acquired by the Organization from the project loan proceeds. The loan has a put option feature, defined in an option agreement between the joint venture's related parties that is expected to be exercised in 2017 that will effectively remove the liability from the Organization (see Note 22). The balance of the loan for each of the years ending June 30, 2016 and 2015, is $8,328,107. Interest expense on the loan for the years ended June 30, 2016 and 2015 was $63,900 and $63,821, respectively.

13. LOANS PAYABLE (continued)

Loan Payable, NMTC Financing - 2

The Organization has a loan payable to Northern California Community Loan Fund NMTC Sub-CDE V, LLC (a NMTC community development entity) dated December 23, 2011 as part of the NMTC financing transaction. It is a 15-year loan bearing interest at 0.767% interest with semi-annual interest-only payments for 7 years from May 5, 2012 until November 5, 2019. Principal payments are scheduled to begin on November 5, 2019, due semi-annually to fully amortize the principal balance over the following 8 years. The loan is secured by substantially all the assets acquired by the Organization from the project loan proceeds. The loan has a put option feature defined by an option agreement between the related parties of the transaction that is expected to be exercised in 2019 that will effectively remove the liability from the Organization (see Note 23). The balance of the loan for each of the years ending June 30, 2016 and 2015, was $10,330,844. Interest expense on the loan for each of the years ended June 30, 2016 and 2015 was $79,231.

14. REFUNDABLE ADVANCES

The Organization receives funds from governmental agencies for the purpose of constructing homes, and ultimately lowering the mortgage of the prospective homeowners. There are no payments or interest due by the Organization. At the time of home sale, the loans are transferred to the buyers and forgiven over varying time periods. The Organization recognizes revenue from the sale of homes upon the transfer of their liabilities to the homeowners.

14. REFUNDABLE ADVANCES (continued)

Refundable advances are detailed as follows:

	2016	2015
Department of Housing and Community Development (CalHome Program) - various projects	$ 1,610,000	$ 1,610,000
Housing Endowment and Regional Trust of San Mateo County (HEART): used for the acquisition of real property at 612 Jefferson Avenue, Redwood City, CA.	500,000	500,000
AHP Federal Home Loan Bank of San Francisco: used for the reduction of principal balance on 11 homeowner mortgages. A liability of $19,000 will be transferred to each homeowner upon purchase	209,000	209,000
Marin Workforce Housing Trust: used for the development of 10 three-bedroom homes located in the City of Novato, CA (Mt. Burdell Place)	595,000	-
City of Novato: used for the development of 10 single family homes located in Novato, CA (Mt. Burdell Place), restricted for sale to first time low-income homebuyers	427,438	-
	$ 3,341,438	$ 2,319,000

15. LINE OF CREDIT

During February 2014, the Organization entered into a revolving line of credit agreement with City National Bank. The line of credit is for a maximum amount of $2,000,000, and is secured by the Organization's assets. The original term of the line was for twelve months from the effective date and is automatically renewed unless the Organization gives prior notice. Interest accrues monthly at an annual rate of 3.5%. Interest is due monthly on the fifteenth calendar day of the following month. Any unpaid interest will be added to principal amount due. At June 30, 2016, there was no outstanding balance due on the line of credit. Interest expense for the years ended June 30, 2016 and 2015 totaled $12,114 and $4,764, respectively.

16. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	2016	2015
Growth campaign	$ 1,764,313	$ 1,927,520
Low-income housing acquisition and construction	875,820	182,707
Construction internship	28,380	15,000
	$ 2,668,513	$ 2,125,227

Temporarily restricted net assets released from restriction during the year were as follows:

	2016	2015
Low-income housing acquisition and construction	$ 1,157,203	$ 1,127,886
Homeowner readiness program	145,673	157,446
	$ 1,302,876	$ 1,285,332

17. SALE OF HOMES

During the fiscal year ending June 30, 2016 there were no resales of Habitat homes. During the fiscal year ending June 30, 2015 the Organization sold two resale Habitat homes. The loss from the sale of these homes totaled $1,400, and is comprised of revenue from sale of resale homes of $479,500 and cost of resale homes sold of $480,900.

18. INCLUSIONARY AGREEMENT

The Organization entered into an agreement with RCS Brotherhood Way LLC in April 2014 to build seventeen off-site below market rate housing units to satisfy the San Francisco City Inclusionary Housing Ordinance. As part of the agreement, the Organization was paid $597,992 for construction costs ("Construction Deposit") and $85,000 for transaction costs ("Additional Cost Deposit") by RCS Brotherhood Way LLC. The Organization incurred these costs during 2014, and accounted for the RCS Brotherhood payments as inclusionary revenue. RCS Brotherhood Way LLC will pay the Organization a total of $261,069 for each below market rate housing unit upon completion within the time set forth in the agreement. This amount will be offset by any previously paid construction deposit. The agreement also required the Organization to deliver a letter of credit in the amount of $1,817,079. The letter of credit is subject to draw down by RCS Brotherhood Way LLC for each below market rate unit that is not completed by the date set forth in the completion schedule.

18. INCLUSIONARY AGREEMENT (continued)

In 2016, the Organization collected $2,710,716 inclusionary revenue after twelve units were completed. According to the agreement, the letter of credit was reduced by $1,282,644 after completion of those twelve units. As of June 30, 2016, there was no remaining balance on the letter of credit.

19. SPECIAL EVENT REVENUE, NET

Special events revenue is presented on the statement of activities net of event related expense. For the years ended June 30, 2016 and 2015, revenue from special events was $562,052 and $377,828 and related expense was $238,224 and $72,419, respectively.

20. DONATED MATERIALS AND SERVICES

Donated materials

The value of donated office supplies and construction materials for the years ended June 30, 2016 and 2015, was $133,878 and $154,213, respectively.

Donated services

Donated services which require a specialized skill and which the Organization would have paid for if not donated, are recorded in the financial statements as in-kind contribution revenue at the estimated fair value at the time the services are rendered.

Donated services of a specialized or professional nature are as follows:

	2016	2015
Legal services	$ 87,748	$ 119,679
Financial services	137,185	4,872
Miscellaneous office	33,740	55,274
	$ 258,673	$ 179,825

The Organization also receives significant donated services of an unskilled nature, primarily volunteers who work on the construction and rehabilitation of homes, as well as in the office. During the years ended June 30, 2016 and 2015, volunteers donated approximately 85,135 and 129,817 hours, respectively, whose value management has estimated at $2,180,714 and $3,205,712, respectively.

21. RETIREMENT PLAN

The Organization has a 403(b) retirement plan in which the employer matches employee contributions up to 5% of gross salary. The plan covers all employees with one year of service or more and who are at least 21 years of age. Employer contributions to the employee accounts for the years ended June 30, 2016 and 2015, were $54,748 and $85,322, respectively.

22. RELATED PARTY TRANSACTIONS

HFHI Tithe

The Organization donates to Habitat for Humanity International, Inc. (HFHI) annually for the construction of homes outside of the United States, as determined by the Organization's Board of Directors. These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2016 and 2015, the amount contributed was $128,000 and $130,099, respectively. The current year amount is included in housing development expense under program services in the Statement of Activities.

Insurance policy

The Organization has a blanket policy for auto, general and builder's risk insurance through Habitat for Humanity International, Inc. For the years ended June 30, 2016 and 2015, the insurance expense was $35,553 and $40,013, respectively.

SHOP loans

The Organization has received a SHOP (Self-Help Ownership Program) loan from Habitat for Humanity International, Inc. The balance of the loan as of June 30, 2016 and 2015, was $27,900 and $30,112, respectively.

New Markets Tax Credit Investment - 1

As a component of the NMTC financing transaction, the Organization recorded debt of $8,328,107 (see Note 13) payable to Clearinghouse NMTC (Sub 21), LLC, a community development entity (CDE) and an affiliate of the joint venture. Simultaneous with these transactions, the LLC entered into an option agreement with U.S. Bancorp Community Development Corporation (USBCDC), the federal tax credit investor, who is the sole-member of Habitat California Investment Fund, LLC (the Fund), an affiliate of the joint venture, and the upstream effective owner of Clearinghouse NMTC (Sub 21), LLC. Under the terms of the option agreement, USBCDC is expected to place its ownership interest into the Fund during the six month put-option period beginning July 31, 2017. Exercise of this option will effectively extinguish the Organization's outstanding debt owed to the Fund. The Organization will recognize income on the forgiveness of debt in an amount approximating the difference in the book value of the investment and the debt. The investment and debt will then have a balance of zero. All entities related to the joint venture including HFHI-SA LeverageVI, LLC will then be dissolved, ending the NMTC structured financing deal.

22. RELATED PARTY TRANSACTIONS (continued)

New Markets Tax Credit Investment - 1 (continued)

A requirement in NMTC financing transactions as generally set forth in IRC Section 45D, states 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. The Organization has set up separate accounting books and records to comply with this requirement. Only the separate business assets of the Organization were pledged as security to the CDE.

New Markets Tax Credit Investment - 2

As a component of the NMTC financing transaction, the Organization recorded debt of $10,330,844 (see Note 13) payable to Northern California Community Loan Fund NMTC Sub-CDE, LLC, a community development entity (CDE) and an affiliate of the joint venture. Simultaneous with these transactions, the LLC entered into an option agreement with U.S. Bancorp Community Development Corporation (USBCDC), the federal tax credit investor, who is the sole-member of NCCLF NMTC V Investment Fund, LLC (the Fund), an affiliate of the joint venture, and the upstream effective owner of Northern California Community Loan Fund NMTC Sub-CDE, LLC. Under the terms of the option agreement, USBCDC is expected to place its ownership interest into the Fund during the six month put option period beginning December 31, 2019. Exercise of this option will effectively extinguish the Organization's outstanding debt owed to the Fund. The Organization will recognize income on the forgiveness of debt in an amount approximating the difference in the book value of the investment and the debt. The investment and debt will then have a balance of zero. All entities related to the joint venture including HFHGSF Leverage Lender, LLC will then be dissolved, ending the NMTC structured financing deal.

A requirement in NMTC financing transactions as generally set forth in IRC Section 45D, states 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. The Organization has set up separate accounting books and records to comply with this requirement. Only the separate business assets of the Organization were pledged as security to the CDE.

23. COMMITMENTS

Right of first purchase

Upon the acquisition of land granted to the Organization for construction, various agreements require the Organization to maintain the properties as affordable housing for a certain period of time. These affordability restrictions vary from 45 to 55 years. A right of first purchase is recorded at the time of sale giving the Organization the right to purchase the property should the homeowner decide to sell. The Organization resells purchased Habitat built homes to newly qualified families at an updated but below market value price, at which time the required affordability term continues.

23. COMMITMENTS (continued)

Office lease

In August 2014, the Organization entered into a new office lease agreement in the city of San Francisco under a non-cancelable lease expiring in December 2021, and leases retail space under a non-cancelable lease for its ReStore in the city of San Carlos as of June, 2012 expiring in September 2019.

The scheduled minimum lease payments under the lease terms are as follows:

Year ending June 30,	
2017	$ 733,888
2018	752,177
2019	770,609
2020	444,761
2021	338,431
Thereafter	171,840
	$ 3,211,706

The rent expense for the years ended June 30, 2016 and 2015, was $748,666 and $597,162, respectively.