

**HABITAT FOR HUMANITY EAST
BAY/SILICON VALLEY AND
SUBSIDIARIES**

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED JUNE 30, 2015 AND 2014

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES
(A California Nonprofit Public Benefit Corporation)
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015 AND 2014

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INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Habitat for Humanity East Bay/Silicon Valley, a California nonprofit public benefit corporation, and Subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the years 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 audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

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 financial position of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards on page 37 is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations* 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.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued a report dated November 24, 2015 on our consideration of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' internal control over financial reporting and compliance.

Sindquist, von Husen and Joyce LLP

November 24, 2015

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2015 AND 2014

	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,941,002	\$ 4,760,769
Restricted cash – current (Note 3)	484,708	447,442
Receivables, net:		
Grants and contributions – current (Note 4)	214,606	1,389,042
Mortgages and notes – current (Note 5)	614,168	616,618
Other	191,963	322,040
Inventory:		
Property held for sale (Note 6)	1,919,619	10,637,493
Cost of homes in progress – current (Note 6)	-	917,413
ReStore inventory	313,298	177,588
Prepaid expenses and deposits – current	176,028	163,907
Total current assets	9,855,392	19,432,312
Restricted cash – net of current portion (Note 3)	672,139	956,725
Receivables, net:		
Grants and contributions – net of current portion (Note 4)	80,775	71,332
Mortgages and notes – net of current portion (Note 5)	15,716,056	14,561,172
Cost of homes in progress – net of current portion (Note 6)	6,496,313	5,190,243
Prepaid expenses and deposits – net of current portion	162,463	135,857
Property and equipment, net (Note 7)	250,942	157,581
Total assets	\$ 33,234,080	\$ 40,505,222

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

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2015 AND 2014

	2015	2014
LIABILITIES AND NET ASSETS		
Current liabilities:		
Line of credit (Note 9)	\$ 163,566	\$ 612,377
Accounts payable and accrued expenses	924,431	654,339
Cash held for others (Note 3)	156,614	126,149
Interest payable (Note 11)	40,756	60,251
Notes payable – current portion (Note 10)	851,072	1,306,887
Reconveyable notes payable – current portion (Note 11)	443,184	1,903,904
Deferred revenue – current portion (Note 12)	810,959	810,959
Total current liabilities	3,390,582	5,474,866
Notes payable – net of current portion (Note 10)	3,653,407	3,706,224
Reconveyable notes payable – net of current portion (Note 11)	1,048,130	3,867,551
Deferred revenue – net of current portion (Note 12)	2,243,219	3,054,177
Total liabilities	10,335,338	16,102,818
Net assets:		
Unrestricted:		
Board designated (Note 13)	33,099	34,289
Undesignated	21,455,831	23,371,275
Total unrestricted	21,488,930	23,405,564
Temporarily restricted (Note 13)	1,409,812	996,840
Total net assets	22,898,742	24,402,404
Total liabilities and net assets	\$ 33,234,080	\$ 40,505,222

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

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2015 AND 2014

	2015		
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total</i>
Support and revenue:			
Sales of homes	\$ 7,381,095	\$ -	\$ 7,381,095
Forgiveness of debt	3,525,142	-	3,525,142
Grants and contributions	3,854,300	1,915,830	5,770,130
In-kind contributions (Note 14)	1,934,975	-	1,934,975
Fundraising event contributions	13,356	-	13,356
Less: fundraising event costs	(13,733)	-	(13,733)
Other income	213,068	-	213,068
Net assets released from restrictions (Note 13)	1,502,858	(1,502,858)	-
Total support and revenue	18,411,061	412,972	18,824,033
Expenses:			
Program services:			
Housing	15,730,068	-	15,730,068
ReStore	1,602,047	-	1,602,047
Supporting services:			
Management and general	1,650,593	-	1,650,593
Fundraising	980,075	-	980,075
Total expenses	19,962,783	-	19,962,783
Change in net assets before other revenue and expenses:	(1,551,722)	412,972	(1,138,750)
Other revenue and expenses:			
Mortgage discount amortization	412,660	-	412,660
Mortgage discount expenses	(1,587,756)	-	(1,587,756)
Investment income – NMTC (Note 12)	245,007	-	245,007
Interest expense – NMTC (Note 12)	(245,782)	-	(245,782)
Amortization of deferred revenue – NMTC (Note 12)	810,959	-	810,959
Total other revenue and expenses	(364,912)	-	(364,912)
Change in net assets	(1,916,634)	412,972	(1,503,662)
Net assets, beginning of year	23,405,564	996,840	24,402,404
Net assets, end of year	\$ 21,488,930	\$ 1,409,812	\$ 22,898,742

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

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2015 AND 2014

	2014		
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total</i>
Support and revenue:			
Sales of homes	\$ 4,332,107	\$ -	\$ 4,332,107
Forgiveness of debt	1,325,708	-	1,325,708
Grants and contributions	4,334,952	1,144,279	5,479,231
In-kind contributions (Note 14)	1,965,348	-	1,965,348
Fundraising event contributions	1,028,223	-	1,028,223
Less: fundraising event costs	(326,090)	-	(326,090)
Other income	179,742	-	179,742
Net assets released from restrictions (Note 13)	1,083,191	(1,083,191)	-
Total support and revenue	13,923,181	61,088	13,984,269
Expenses:			
Program services:			
Housing	10,177,743	-	10,177,743
ReStore	1,331,388	-	1,331,388
Supporting services:			
Management and general	1,870,405	-	1,870,405
Fundraising	1,027,748	-	1,027,748
Total expenses	14,407,284	-	14,407,284
Change in net assets before other revenue and expenses:	(484,103)	61,088	(423,015)
Other revenue and expenses:			
Mortgage discount amortization	364,728	-	364,728
Mortgage discount expenses	(691,986)	-	(691,986)
Investment income – NMTC (Note 12)	245,006	-	245,006
Interest expense – NMTC (Note 12)	(245,782)	-	(245,782)
Amortization of deferred revenue – NMTC (Note 12)	810,959	-	810,959
Total other revenue and expenses	482,925	-	482,925
Change in net assets	(1,178)	61,088	59,910
Net assets, beginning of year	23,406,742	935,752	24,342,494
Net assets, end of year	\$ 23,405,564	\$ 996,840	\$ 24,402,404

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

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2015 AND 2014

	2015					
	<i>Program Services</i>			<i>Supporting Services ⁽¹⁾</i>		
	<i>Housing</i>	<i>ReStore</i>	<i>Program Services Total</i>	<i>Management and General</i>	<i>Fundraising</i>	<i>Total</i>
Cost of homes sold	\$ 13,300,371	\$ -	\$ 13,300,371	\$ -	\$ -	\$ 13,300,371
Personnel	2,479,275	900,621	3,379,896	1,163,149	684,804	5,227,849
Homeowner relations	16,173	-	16,173	39	-	16,212
Office	102,979	38,207	141,186	24,371	17,693	183,250
Professional services	274,200	35,843	310,043	158,362	43,911	512,316
Travel	30,690	6,527	37,217	24,944	3,131	65,292
Tithe to international projects (Note 8)	91,925	-	91,925	-	-	91,925
Property management	3,517	-	3,517	-	-	3,517
Public relations	182,253	47,913	230,166	-	2,595	232,761
Rent (Note 15)	105,228	180,422	285,650	99,301	19,109	404,060
Warehouse lease (Note 15)	22,953	12,137	35,090	-	-	35,090
Equipment	37,953	9,267	47,220	6,420	5,387	59,027
Education	3,537	5,039	8,576	6,688	1,336	16,600
Insurance	21,235	16,165	37,400	(4,493)	-	32,907
Depreciation	-	21,407	21,407	47,637	-	69,044
Cancelled project cost	227,966	-	227,966	-	-	227,966
Interest	-	-	-	14,173	-	14,173
Asset management, compliance and facilitation fees – NMTC (Note 11)	284,077	-	284,077	-	-	284,077
ReStore	(165,246)	206,178	40,932	-	-	40,932
Miscellaneous	133,447	122,321	255,768	110,002	202,109	567,879
Allocation to cost of homes in progress	(1,422,465)	-	(1,422,465)	-	-	(1,422,465)
Total expenses as shown in the consolidated statements of activities	15,730,068	1,602,047	17,332,115	1,650,593	980,075	19,962,783
Interest expense – NMTC (Note 11)	245,782	-	245,782	-	-	245,782
Mortgage discount expenses	1,587,756	-	1,587,756	-	-	1,587,756
Fundraising event costs	-	-	-	-	13,733	13,733
Total expenses	\$ 17,563,606	\$ 1,602,047	\$ 19,165,653	\$ 1,650,593	\$ 993,808	\$ 21,810,054

⁽¹⁾ For the last three fiscal periods ended 2013 through 2015, supporting services expenses have averaged 16.7% of total expenses. The supporting services expense percentage fluctuates by year depending on the number of homes sold.

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

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2015 AND 2014

	2014					
	Program Services			Supporting Services ⁽²⁾		
	Housing	ReStore	Program Services Total	Management and General	Fundraising	Total
Cost of homes sold	\$ 8,201,944	\$ -	\$ 8,201,944	\$ -	\$ -	\$ 8,201,944
Personnel	2,948,999	766,252	3,715,251	1,167,471	463,500	5,346,222
Homeowner relations	20,535	-	20,535	1,006	-	21,541
Office	69,707	52,596	122,303	65,928	14,567	202,798
Professional services	231,082	27,455	258,537	164,896	82,108	505,541
Travel	36,673	9,289	45,962	19,924	6,007	71,893
Tithe to international projects (Note 8)	32,623	-	32,623	-	-	32,623
Property management	16,073	-	16,073	-	-	16,073
Public relations	1,612	74,878	76,490	567	110,703	187,760
Rent (Note 15)	129,305	150,528	279,833	61,456	33,523	374,812
Warehouse lease (Note 15)	12,162	8,802	20,964	-	-	20,964
Equipment	73,829	10,461	84,290	10,876	5,849	101,015
Education	4,211	1,097	5,308	7,672	97	13,077
Insurance	15,137	16,362	31,499	47,827	-	79,326
Depreciation	-	9,136	9,136	30,689	-	39,825
Bad debt	-	-	-	-	121,882	121,882
Interest	-	-	-	26,903	-	26,903
Asset management, compliance and facilitation fees – NMTC (Note 11)	127,191	-	127,191	142,161	-	269,352
ReStore	8,860	110,168	119,028	-	-	119,028
Miscellaneous	120,894	94,364	215,258	123,029	189,512	527,799
Allocation to cost of homes in progress	(1,873,094)	-	(1,873,094)	-	-	(1,873,094)
Total expenses as shown in the consolidated statements of activities	10,177,743	1,331,388	11,509,131	1,870,405	1,027,748	14,407,284
Interest expense – NMTC (Note 11)	245,782	-	245,782	-	-	245,782
Mortgage discount expenses	691,986	-	691,986	-	-	691,986
Fundraising event costs	1,815	-	1,815	-	324,275	326,090
Total expenses	\$ 11,117,326	\$ 1,331,388	\$ 12,448,714	\$ 1,870,405	\$ 1,352,023	\$ 15,671,142

⁽²⁾ For the last three fiscal periods ended 2012 through 2014, supporting services expenses have averaged 15.0% of total expenses. The supporting services expense percentage fluctuates by year depending on the number of homes sold. The fiscal period ended 2012 represents combined expenses for the merged entities for comparative purposes.

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

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ (1,503,662)	\$ 59,910
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Forgiveness of debt	(3,525,142)	(1,325,708)
Amortization of deferred revenue – NMTC	(810,959)	(810,959)
Mortgage discount amortization	(412,660)	(364,728)
Mortgage discount expenses	1,587,756	691,986
Depreciation	69,044	39,825
Notes payable discount amortization	9,725	9,726
Loss on disposal of property and equipment	-	(2,838)
(Increase) decrease in assets:		
Grants and contributions receivable	1,164,993	(265,335)
Other receivables	130,077	(64,567)
Property held for sale	8,717,874	(5,425,363)
Cost of homes in progress	(388,657)	3,047,735
ReStore inventory	(135,710)	9,765
Prepaid expenses and deposits	(38,727)	(18,240)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	270,093	(782,422)
Interest payable	89,456	9,575
Deferred revenue	-	990,417
Net cash provided by (used in) operating activities	5,223,501	(4,201,221)
Cash flows from investing activities:		
Net decrease in restricted cash	277,785	280,716
Issuance of mortgages receivable	(3,454,489)	(1,736,413)
Collection of mortgages receivable	1,126,959	1,125,232
Purchase of property and equipment	(162,405)	(95,410)
Net cash used in investing activities	(2,212,150)	(425,875)
Cash flows from financing activities:		
Proceeds from line of credit	733,367	1,701,201
Payment of line of credit	(1,182,178)	(1,397,418)
Proceeds from notes payable	933,261	5,605,132
Payment of notes payable	(2,315,568)	(1,923,936)
Net cash provided by (used in) financing activities	(1,831,118)	3,984,979
Increase (decrease) in cash and cash equivalents	1,180,233	(642,117)
Cash and cash equivalents, beginning of year	4,760,769	5,402,886
Cash and cash equivalents, end of year	\$ 5,941,002	\$ 4,760,769
Supplementary information:		
Cash paid for interest – net of capitalized portion	\$ 279,450	\$ 268,922

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

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Habitat for Humanity East Bay/Silicon Valley (HEBSV) is a California nonprofit public benefit corporation which is the surviving corporation from a merger, effective July 1, 2012, between Habitat for Humanity East Bay (HHEB) and Habitat for Humanity Silicon Valley (HHSV), California nonprofit public benefit corporations incorporated in 1987 and 1986, respectively. Seeking to put God's love into action, Habitat for Humanity brings people together to build home, communities, and hope. HEBSV pursues its mission of building affordable housing by utilizing volunteer labor and donated materials and funds.

The following programs are included in the accompanying financial statements:

Building Affordable Homes

Finished affordable homes are sold to qualified families who have been approved by the board of directors based upon the recommendation of the Family Selection Committee. The families are selected based upon income, current housing need, and a willingness to partner with HEBSV. HEBSV's policy is that each family is generally required to complete a minimum of 500 hours of "sweat equity" (voluntary labor). The mortgages for all homes are generally interest-free, have terms of no more than 30 years, and generally have monthly payments no greater than 30% of the family's monthly income. In recent years, HEBSV has been selling homes at a rate of approximately 25-35 homes per year. Due to the unpredictable nature of final home sales and the timing relative to the accounting fiscal year, revenue from home sales can fluctuate significantly from year to year.

Home Repair Program

HEBSV helps low-income homeowners restore and maintain their homes through its Home Repair Program. All repairs impact the safety of residents and/or the preservation of the home. Qualified and selected homeowners receive a variety of home repair services including but not limited to exterior painting, landscaping, ramps, exterior carpentry, roofing, window and door replacements. Homeowners participate in their repairs by contributing sweat equity volunteer hours if physically able. All home repairs are led by trained crew leaders and completed by volunteers.

ReStores

HEBSV operates retail stores (ReStore) for excess building materials.

HEBSV is the sole member of Habitat for Humanity East Bay Funding Company, LLC (HEBFC) and Habitat for Humanity East Bay Funding Company II, LLC (HEBFCII), California limited liability companies formed in December 2009 and April 2011, respectively. HEBFC and HEBFCII were created for the sole purpose of acquiring and holding mortgage loans originated by HEBSV.

HEBSV is an affiliate of Habitat for Humanity International, Inc. (HFHI), a nondenominational Christian nonprofit organization whose purpose is to create decent, affordable housing for those in need, and to make decent shelter a matter of conscience with people everywhere. Although HFHI assists with information resources, training, publications, prayer support and other ways, HEBSV is directly responsible for its own operations.

HFHI has granted to HEBSV a limited right to use the Habitat for Humanity California (HFHCA) name, service mark and logo in connection with specific advocacy initiatives that HEBSV may engage in on behalf of, and as authorized by, Habitat for Humanity affiliates in the state of California. The term of the license is in effect indefinitely until terminated in accordance with the terms and conditions of the License Agreement. HFHI may terminate the agreement in its sole discretion. Effective July 1, 2015, HFHCA is a separate 501(c)(3) state support organization and HEBSV will no longer be the fiscal agent.

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 AND 2014

HEBSV is especially vulnerable to the inherent risks associated with voluntary labor and with revenue that is substantially dependent on public support and contributions. The continued growth and well-being of HEBSV are contingent upon successful achievement of its long-term revenue-raising goals. In response to these risks, HEBSV has established a self-imposed Operating Reserve of \$2,000,000 to bridge any fundamental changes in the funding source structure that might take place over an intermediate term.

Various agreements dictate the maximum income level and other qualifications of eligible homebuyers for various extended periods.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of subsidiaries HEBFC and HEBFCII. All significant intercompany transactions and balances have been eliminated in the consolidation.

HEBSV accounts for the activities relating to HFHCA as fiscal agent transactions, which are not reflected in the consolidated statements of activities. The cash balance is presented as restricted cash and cash held for others liability on the consolidated statements of financial position.

Accounting Methods

HEBSV uses the accrual method of accounting, which recognizes income in the period earned and expenses when incurred, regardless of the timing of payments.

Estimates

The preparation of consolidated 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the reserves for costs in excess of projected sales price, value of the donated material and facilities, and expenses allocated to cost of homes.

Basis of Presentation

HEBSV reports information regarding its financial position and activities according to three classes of net assets, as applicable: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. There were no permanently restricted net assets as of June 30, 2015 and 2014, respectively.

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 AND 2014

Revenue Recognition

Contributions are recognized as revenue when they are unconditionally communicated. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. Contributions are recorded at their fair value as unrestricted support, temporarily restricted support, or permanently restricted support, depending on the absence or existence of donor-imposed restrictions as applicable. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. If donors' restrictions are satisfied in the same period that the contribution is received, the contribution is reported as unrestricted support. Contributions restricted for the purchase of long-lived assets, are reported as unrestricted support when expended for that purpose.

Contributed services are stated at their estimated fair value, if they are ordinarily purchased and are of a specialized nature.

Income on sales of property acquired for improvements is recognized only upon the sale of the property. Rental income received during the rehabilitation period and prior to sale is recognized as deferred income, and such income is used to defray the costs of the improvement to the property.

Forgiveness of debt is comprised of forgivable loans that are recognized upon the sale of the home to which they relate.

Cash and Cash Equivalents

Cash is defined as cash in demand deposit accounts as well as cash on hand. Not included as cash are funds restricted as to their use, regardless of liquidity, such as the New Markets Tax Credit reserve and California Advocacy Fund. HEBSV occasionally maintains cash on deposit at a bank in excess of the Federal Deposit Insurance limit or Security Investor Protection Corporation Coverage. The uninsured cash balance, including restricted accounts, was approximately \$5,339,000 as of June 30, 2015. HEBSV has not experienced any losses in such accounts.

Cash equivalents are highly liquid investments that are readily convertible to known amounts of cash. Generally, only investments with original maturities of three months or less qualify as cash equivalents.

Mortgages and Notes Receivable

Mortgages receivable bear no interest and are discounted to reflect imputed interest using the effective interest method over the lives of the mortgages. The discount rate used to impute interest of the first liens and second/third liens is 3% and 4%, respectively. Mortgages are reported net of unamortized discount and amortization is recognized on a straight-line basis. Management estimates that the difference between amortization calculated using the straight-line method and the effective interest method is not material.

Notes receivable are secured by the properties, bear no interest and are due upon sale of the home.

Management may sell a portion of the first-lien mortgages originated by HEBSV. Due to the uncertainty of the timing and amount of each sale of those mortgage receivables, any loss resulting from such transactions will be recorded when the transactions are settled or when amounts can be reasonably estimated.

Inventory

Inventory is stated at the lesser of cost, or net realizable value. Donated inventory is recorded at fair market value at the date of receipt, determined based on retail prices at ReStore. Inventory of ReStore is held for sale at HEBSV's retail outlet. For donated inventory, since the sales revenue equals the cost of goods sold, the balances are not presented in the consolidated financial statements.

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The specific identification method is used to charge inventory to cost of homes sold. When a home is sold, the specific costs to build the home are charged to cost of homes sold. Any known amounts which are estimated to be non-recoverable from the ultimate sales price of the homes will be recorded, when known, in the consolidated financial statements.

Any funds expended on a project that do not pass beyond the pre-construction stage are recorded as expenses when further activity on the project ceases.

Costs to build playhouses are recorded as inventory until donated.

Capitalized Interest

HEBSV capitalizes interest incurred during construction as a component of costs of homes. During the years ended 2015 and 2014, HEBSV capitalized interest of \$139,233 and \$93,902, respectively.

Property and Equipment

Property and equipment are stated at cost of acquisition, or fair market value if donated. The costs of maintenance and repairs are charged to expense as incurred. Depreciation is computed based on the straight-line method over the estimated useful lives of the assets.

The useful lives of the assets are estimated as follows:

Leasehold Improvements	4 to 5 years
Furniture and Equipment	3 to 5 years

Notes Payable

Notes payable that bear no interest are discounted to reflect imputed interest using the effective interest method over the lives of the loan. Notes payable to governmental entities are exempt from imputed interest treatment.

In-Kind Contributions

In-kind contributions consist of donated land, building materials, labor, and use of facilities. Donated land, building materials, and use of facilities are valued at market values on the date of donation. Donated labor consisting of sweat equity (i.e., family homebuyer voluntary labor) and/or volunteer labor is not considered to be contribution revenue to HEBSV.

Allocation to Cost of Homes in Progress

Allocations to costs of homes in progress consist of various program service expenses that are capitalized and recorded as costs of homes in progress for the various projects, based on time incurred as estimated by management.

Income Taxes

HEBSV is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and the related California code sections. Contributions to HEBSV qualify for the charitable contribution deduction and HEBSV is not classified as a private foundation.

No income tax provision has been included in the consolidated financial statements for the single member limited liability companies (LLCs) which are generally considered disregarded entities. The income and loss of the LLCs is included in the tax returns of HEBSV. Only the annual California limited liability company minimum tax and the annual fee appear as expense in the consolidated financial statements.

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HEBSV believes that it has appropriate support for any tax positions taken, and as such, do not have any uncertain tax positions that are material to the consolidated financial statements. HEBSV's federal and state information returns for the years 2011 through 2014 are subject to examination by regulatory agencies, generally for three years and four years after they were filed federal and state, respectively.

Functional Expenses Allocation

The costs of providing program services and supporting services are summarized on a functional basis in the statements of activities and statements of functional expenses. Accordingly, certain costs are allocated among program services and supporting services based on estimates of employees' time incurred and on usage of resources.

Subsequent Events

Management has evaluated subsequent events through November 24, 2015, the date on which the financial statements were available to be issued.

Reclassification

Certain amounts previously reported in the 2014 consolidated financial statements were reclassified to conform to the 2015 presentation for comparative purposes.

NOTE 3 – RESTRICTED CASH

Restricted cash consists of the following:

	2015	2014
New Markets Tax Credits reserve	\$ 965,900	\$ 1,249,975
Habitat for Humanity California	162,922	126,167
Stormwater Reserve	28,025	28,025
	<u>1,156,847</u>	<u>1,404,167</u>
Less: current portion	<u>(484,708)</u>	<u>(447,442)</u>
Long-term portion	<u>\$ 672,139</u>	<u>\$ 956,725</u>

New Markets Tax Credits Reserve

As a result of the New Markets Tax Credits transactions, HEBSV is required to maintain funds in separate accounts to fund guaranteed obligations and lender fees of the separate portion of business throughout the New Markets Tax Credits compliance period.

Habitat for Humanity California

HEBSV is a fiduciary agent for other Habitat for Humanity affiliates in the state of California that have banded together to educate policymakers and others about affordable housing issues, Habitat for Humanity's mission, and the potential impact of relevant policies. The fund, which is maintained in a separate bank account, consists of HEBSV funds and contributions from these affiliates to fund consulting expenses to help achieve those aims. The fund was transferred to HFHCA subsequent to year end.

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Stormwater Reserve

HEBSV is required to maintain a replacement fund for certain planters located in a housing project built by HEBSV. The requirement expires in 2018, which is 15 years after the homes are sold.

NOTE 4 – GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable consist of the following:

	2015	2014
Private contributions	\$ 156,870	\$ 1,338,333
Multi-year pledges	279,063	246,121
	435,933	1,584,454
Less: allowance for uncollectible pledges	(140,552)	(124,080)
Grants and contributions receivable, net	\$ 295,381	\$ 1,460,374
Amounts due in:		
Less than one year	\$ 214,606	\$ 1,389,042
One to five years	\$ 80,775	\$ 71,332

HEBSV receives multi-year pledges from donors ranging from one to five years. The face amounts instead of the present value of these unconditional promises to give are reflected in the consolidated financial statements since the amounts are immaterial.

NOTE 5 – MORTGAGES AND NOTES RECEIVABLE

All homes are sold to qualifying buyers under mortgage arrangements. A home is considered sold when a formal closing transaction has been finalized.

Mortgages and notes receivable is summarized as follows:

	2015	2014
Mortgages and notes receivable, gross	\$ 26,273,983	\$ 23,946,453
Less: unamortized discount	(9,943,759)	(8,768,663)
	16,330,224	15,177,790
Less: current portion	(614,168)	(616,618)
Long-term portion	\$ 15,716,056	\$ 14,561,172

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HEBSV considers the homeowners' payment of the mortgage receivable due more than 30 days as delinquent. For the years ended June 30, 2015 and 2014, the aged mortgages receivable is summarized as follows:

	<i>30-59 Days Past Due</i>	<i>60-89 Days Past Due</i>	<i>Greater Than 90 Days</i>	<i>Total Past Due</i>	<i>Current</i>	<i>Total Mortgage Receivable</i>
2015	\$ 29,236	\$ 24,152	\$ 125,023	\$ 178,411	\$ 26,095,572	\$ 26,273,983
2014	\$ 29,998	\$ 21,181	\$ 93,418	\$ 144,597	\$ 23,801,856	\$ 23,946,453

In August 2013, HEBSV entered into a loan origination agreement with Patelco Credit Union, whereby Patelco Credit Union has committed to originate thirty (30) first lien mortgage loans at a fixed interest rate of 2.85%. HEBSV considers these mortgages as Zero Interest Equivalent Mortgage (ZEM), where the payments are the same as the traditional non-interest bearing mortgage. Both interest and principle are amortized in the similar manner of the conventional amortized mortgage. HEBSV covenants and agrees that it shall either purchase any defective mortgage loans or provide Substitute Mortgage Loans for such defective mortgage loans. Patelco Credit Union's obligation to originate mortgage loans expires on December 31, 2016. As of June 30, 2015, Patelco Credit Union originated seventeen (17) first lien mortgage loans in relation to the agreement.

HEBSV has elected to institute a self-imposed requirement to retain a minimum of 50% of the cash proceeds from the ZEM sales in a Retained Mortgage Cash Reserve. The retention is based on HEBSV's desire to retain a strong asset base and liquidity consistent with the strategic objective to maintain sustainability.

HEBSV evaluates notes receivable based on the following credit quality indicators: collateral and lien position. These credit quality indicators are updated at least annually. Details about the non-interest bearing mortgages and notes receivable, as of June 30, 2015 and 2014 as follows:

	2015			2014		
	<i>Non-interest bearing</i>	<i>Discount</i>	<i>Total</i>	<i>Non-interest bearing</i>	<i>Discount</i>	<i>Total</i>
1 st liens	\$ 19,911,707	\$ (6,069,121)	\$ 13,842,586	\$ 18,887,613	\$ (5,654,060)	\$ 13,233,553
2 nd and 3 rd liens	6,355,535	(3,874,638)	2,480,897	5,054,765	(3,114,603)	1,940,162
Other notes	6,741	-	6,741	4,075	-	4,075
Total	\$ 26,273,983	\$ (9,943,759)	\$ 16,330,224	\$ 23,946,453	\$ (8,768,663)	\$ 15,177,790

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NOTE 6 – COSTS OF HOMES IN PROGRESS AND PROPERTY HELD FOR SALE

Costs of homes in progress and property held for sale are summarized as follows:

	2015									
	<i>Kinsell Commons Tassafroga Village Oakland</i>	<i>Fremont- 4369 Central</i>	<i>Brookfield Court/9507 Edes</i>	<i>Pleasant Creek</i>	<i>Muir Ridge, Pacheco Blvd, CCC</i>	<i>NSP Projects</i>	<i>CDBG CCC & II</i>	<i>Rehab Programs</i>	<i>Other Projects</i>	<i>Total</i>
Costs since inception of project:										
Land	\$ 700,001	\$ 542,000	\$ 421,500	\$ 520,000	\$ 1,475,000	\$ 3,211,664	\$ 461,650	\$ 2,750,847	\$ 2,133,986	\$ 12,216,648
Materials and subcontractors	4,856,302	487,830	3,961,700	3,946,712	1,656,718	2,496,330	520,289	877,795	2,186,225	20,989,901
Administration (including project manager and labor)	865,174	164,536	794,464	740,074	353,633	424,881	144,394	550,570	1,416,243	5,453,969
Costs of homes	6,421,477	1,194,366	5,177,664	5,206,786	3,485,351	6,132,875	1,126,333	4,179,212	5,736,454	38,660,518
Costs of finished homes not yet sold	-	-	(522,466)	-	-	-	-	(1,005,581)	(391,572)	(1,919,619)
Costs of homes sold	(6,421,477)	-	(4,655,198)	(5,206,786)	-	(6,132,875)	(1,126,333)	(3,160,633)	(3,541,284)	(30,244,586)
Costs of homes in progress at June 30, 2015	\$ -	\$ 1,194,366	\$ -	\$ -	\$ 3,485,351	\$ -	\$ -	\$ 12,998	\$ 1,803,598	\$ 6,496,313
Number of finished houses	-	-	1	-	-	-	-	2	2	5
Unfinished homes planned or in progress	-	30	-	-	20	-	-	11	46	107
Number of homes sold in prior fiscal years	22	-	-	-	-	18	3	2	7	52
Number of homes sold in 2015	-	-	11	10	-	-	1	3	1	26
Total no. of homes	22	30	12	10	20	18	4	18	56	190

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	2014									
	<i>Kinsell Commons Tassafroga Village Oakland</i>	<i>Fremont- 4369 Central</i>	<i>Brookfield Court/9507 Edes</i>	<i>Pleasant Creek</i>	<i>Muir Ridge, Pacheco Blvd, CCC</i>	<i>NSP Projects</i>	<i>CDBG CCC & II</i>	<i>Rehab Programs</i>	<i>Other Projects</i>	<i>Total</i>
Costs since inception of project:										
Land	\$ 700,001	\$ 542,000	\$ 421,500	\$ 520,000	\$ 1,475,000	\$ 6,390,467	\$ 461,650	\$ 2,370,847	\$ 1,660,575	\$ 14,542,040
Materials and subcontractors	4,869,357	110,952	3,765,555	3,515,039	282,545	5,148,142	504,407	615,930	1,682,686	20,494,613
Administration (including project manager and labor)	863,906	83,477	748,198	693,737	92,848	1,323,492	142,160	394,912	1,064,976	5,407,706
Costs of homes	6,433,264	736,429	4,935,253	4,728,776	1,850,393	12,862,101	1,108,217	3,381,689	4,408,237	40,444,359
Costs of finished homes not yet sold	-	-	(4,718,853)	(4,568,163)	-	-	(320,612)	(535,210)	(494,655)	(10,637,493)
Loss reserve on costs of homes	-	-	(216,400)	(160,613)	-	-	-	-	-	(377,013)
Cost of homes sold	(6,433,264)	-	-	-	-	(12,757,304)	(707,480)	(1,145,991)	(2,278,158)	(23,322,197)
Costs of homes in progress at June 30, 2014	-	736,429	-	-	1,850,393	104,797	80,125	1,700,488	1,635,424	6,107,656
Less current portion	-	-	-	-	-	(104,797)	(80,125)	(552,233)	(180,258)	(917,413)
Long-term cost of home in progress	\$ -	\$ 736,429	\$ -	\$ -	\$ 1,850,393	\$ -	\$ -	\$ 1,148,255	\$ 1,455,166	\$ 5,190,243
Number of finished homes	-	-	12	10	-	-	1	1	2	26
Unfinished homes planned or in progress	-	30	-	-	20	-	-	15	56	121
Number of homes sold in prior fiscal years	14	-	-	-	-	35	2	-	4	55
Number of homes sold in 2014	8	-	-	-	-	6	1	2	3	20
Total number of homes	22	30	12	10	20	41	4	18	65	222

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NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	2015	2014
Office equipment	\$ 292,787	\$ 242,839
Site equipment	111,068	111,067
ReStore leasehold improvements	213,471	108,266
ReStore equipment	150,642	143,391
	<u>767,968</u>	<u>605,563</u>
Less: accumulated depreciation	(517,026)	(447,982)
Total property and equipment	<u>\$ 250,942</u>	<u>\$ 157,581</u>

NOTE 8 – RELATED-PARTY TRANSACTIONS

Tithe to HFHI

HEBSV contributes a portion of its annual unrestricted cash contribution income and net event income to the international work of HFHI. The costs of tithes to HFHI were \$91,925 and \$32,623 for the years ended June 30, 2015 and 2014, respectively. Payable to HFHI were \$-0- and \$42,877 as of June 30, 2015 and 2014, respectively.

U.S. Stewardship and Organizational Sustainability Initiative (US-SOSI)

Effective November 2013, to create a sustainable revenue stream to help finance a portion of the operational costs incurred by HFHI to support the work of U.S. affiliates, HEBSV is required to pay an annual US-SOSI fee. The amount of the annual fee is determined by the population within the approved geographic service area with a minimum payment of \$1,500. The US-SOSI fees were \$16,700 and \$8,300 for the years ended June 30, 2015 and 2014, respectively.

NOTE 9 – LINE OF CREDIT

HEBSV has a revolving line of credit of \$2,750,000 with First Republic Bank, of which \$163,566 and \$612,377 was outstanding at June 30, 2015 and 2014, respectively. The line requires monthly interest only payments equal to the prime rate, subject to a floor of 3.25%. The effective interest rate at June 30, 2015 and 2014 was 3.25%. The bank advances on the credit line are payable in full by April 30, 2016. Certain financial covenants are required to be maintained, including a current ratio of 1.5 to 1.0, a debt/worth ratio not greater than 1.0 to 1.0, and a minimum tangible net worth of not less than \$18,000,000, as defined in the agreement. The line is also secured by property as described in the Commercial Security Agreement. Interest expenses were \$16,705 and \$16,157 for the years ended June 30, 2015 and 2014, respectively.

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NOTE 10 – NOTES PAYABLE

Notes payable are secured by the projects unless otherwise noted and consist of the following:

	2015		2014	
	<i>Interest Payable</i>	<i>Principal</i>	<i>Interest Payable</i>	<i>Principal</i>
HEBSV:				
<u>Heritage Bank of Commerce</u>				
Maximum amount of \$318,500, bears variable interest at the lender's prime rate plus .5% (3.75% as of June 30, 2015), payable in full in January 2015. (457 Andrews, Livermore)	\$ -	\$ -	\$ -	\$ 214,670
Maximum amount of \$292,815, bears variable interest at the lender's prime rate plus .5% (3.75% as of June 30, 2015), payable in full in February 2015. The maturity date has been extended to February 2016. (538 Ruth Way, Livermore)	-	230,580	-	230,580
Maximum amount of \$364,000, bears variable interest at the lender's prime rate plus .5% (3.75% as of June 30, 2015), payable in full in September 2015. (1081 Palm Street, San Jose).	-	278,807	-	-
Maximum amount of \$190,370, bears variable interest at the lender's prime rate plus .5% (3.75% as of June 30, 2015), payable in full in October 2014. The maturity date has been extended to January 2015. (1827 Mason)	-	-	-	131,634
Maximum amount of \$143,500, bears variable interest at the lender's prime rate plus .5% (3.75% as of June 30, 2015), payable in full in January 2015. The maturity date has been extended to July 2015. (1784 Habitat Way, Concord)	-	138,440	-	137,193
Maximum amount of \$775,000, bears variable interest at the lender's prime rate plus 1% (4.25% as of June 30, 2015). The note was refinanced in the amount of \$3,000,000, payable in full in October 2015, with the option to extend for two 6-month extensions. (4762 Pacheco, Martinez)	-	802,589	-	775,000

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	2015		2014	
	<i>Interest Payable</i>	<i>Principal</i>	<i>Interest Payable</i>	<i>Principal</i>
<u>Presidio Bank</u>				
Maximum amount of \$562,500, bears interest at 4.25%, payable in full in January 2015. (Pleasant Creek Homes, Walnut Creek)	-	-	-	455,460
<u>First Republic Bank</u>				
Repurchase of mortgage receivable from a homeowner, assumed amount of \$138,591, bears no interest, payable in monthly installments of \$499 until the house is re-sold to a new homeowner. (10950 Edes Ave)	-	137,095	-	-
<u>Governmental Agencies</u>				
County of Santa Clara, CDBG loan, in the maximum amount of \$400,000, bears no interest, monthly payments of \$555, due in full June 2032. (Victor Avenue, Campbell)	-	117,222	-	123,889
City of Richmond, in the maximum amount of \$250,000, bears no interest, payable in 300 monthly payments upon the sale of final home. (Spencer Court, Richmond)	-	244,302	-	244,302
<u>Habitat for Humanity International</u>				
Self-Help Homeownership Opportunity Program (SHOP) loans, in original amounts aggregating \$187,500, bears no interest, payable in monthly installments aggregating \$1,717 (increasing to \$4,216 in 2016), maturing on various dates through July 2019.	-	154,416	-	175,019
Other notes payable	-	3,720	-	11,001
<u>HFHEB Funding Co.:</u>				
Presidio Bank, in the original amount of \$868,606, bears no interest, with monthly installments of \$2,570, payable in full in January 2019. ⁽¹⁾	-	698,993	-	729,832

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	2015		2014	
	<i>Interest Payable</i>	<i>Principal</i>	<i>Interest Payable</i>	<i>Principal</i>
<i>HFHEB Funding Co. II:</i>				
Umpqua Bank, in the original amount of \$2,181,455, bears no interest, with monthly installments of \$7,995, payable in full in November 2035. ⁽¹⁾	-	1,797,691	-	1,893,632
Total	-	4,603,855	-	5,122,212
Less discount on notes payable ⁽¹⁾	-	(99,376)	-	(109,101)
Net present value of notes payable	-	4,504,479	-	5,013,111
Less portion due in one year	-	(851,072)	-	(1,306,887)
Long-term portion	\$ -	\$ 3,653,407	\$ -	\$ 3,706,224

Scheduled principal payments on the notes payable for the next five years are estimated as follows:

2016	\$ 851,072
2017	197,097
2018	989,720
2019	743,607
2020	118,363
Thereafter	1,703,996
Total	<u>\$ 4,603,855</u>

NOTE 11 – RECONVEYABLE NOTES PAYABLE

Reconveyable notes payable generally shall be reconveyed to an eligible purchaser of the property subject to terms outlined in the original loan documents. These notes payable are secured by the projects unless otherwise noted and consist of the following:

	2015		2014	
	<i>Interest Payable</i>	<i>Principal</i>	<i>Interest Payable</i>	<i>Principal</i>
<i>Brookfield Court, Oakland</i>				
City of Oakland, in the maximum amount of \$1,867,000, bears no interest, reconveyable to eligible purchasers with any remaining balance payable in full the earlier of the final unit sale or August 2016. The note was partially reconveyed to eligible purchasers in 2015, with the remaining balance reconveyed to an eligible purchaser upon the final home sale in 2016.	\$ -	\$ 131,580	\$ -	\$ 1,578,967

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	2015		2014	
	<i>Interest Payable</i>	<i>Principal</i>	<i>Interest Payable</i>	<i>Principal</i>
State of California Department of Housing and Community Development (HCD), CalHome loan, in the original amount of \$1,200,000 (together with the funding for Pleasant Creek Homes project), bears interest at 6%, which may be forgiven, reconveyable to eligible purchasers with any remaining balance payable in full the earlier of the final home sale or October 2015. The note was partially reconveyed to eligible purchasers in 2015, with the remaining balance reconveyed to an eligible purchaser upon the final home sale in 2016.	898	60,000	12,321	720,000
<u><i>Bryon Avenue, Oakland</i></u> City of Oakland, in the original amount of \$386,550, bears no interest, payable in full by the earlier of the date the property is sold or refinanced or March 2020.	-	386,550	-	386,550
City of Oakland, in the maximum amount of \$29,200, bears interest at 6%, payable in full with accrued interest upon receiving construction or permanent financing sufficient to repay the loan.	2,063	4,938	1,768	4,938
<u><i>CDBG Contra Costa County II</i></u> Contra Costa County, CDBG loan, in the maximum amount of \$75,000, bears no interest, reconveyable to an eligible purchaser with any remaining balance payable in full the earlier of the sale of property to an eligible purchaser or November 2014. During 2015, \$37,100 was reconveyed to an eligible purchaser and the remaining \$19,150 was paid off in full (1827 Mason).	-	-	-	56,250
<u><i>Freemont-Central</i></u> City of Fremont, CDBG loan, in the original amount of \$530,000, bears no interest, reconveyable to eligible purchasers with any remaining balance payable in full the earlier of the final unit sale or August 2020. (4369 Central Avenue)	-	530,000	-	530,000

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	2015		2014	
	<i>Interest Payable</i>	<i>Principal</i>	<i>Interest Payable</i>	<i>Principal</i>
<u><i>Muir Ridge, Martinez</i></u>				
Contra Costa County, HOME loan, in the maximum amount of \$ 1,500,000 (\$750,000 apportioned to phase I and \$750,000 apportioned to phase II), bears no interest, reconveyable to eligible purchasers with any remaining balance payable in full the earlier of the final home sale or June 2016 (phase I) and August 2017 (phase II).	-	229,246	-	-
<u><i>Pleasant Creek Homes, Walnut Creek</i></u>				
HCD, CalHome loan, in the maximum amount of \$1,200,000 (together with the funding for Brookfield Court project), bears interest at 6%, which may be forgiven, reconveyable to eligible purchasers with any remaining balance payable in full the earlier of the final home sale or October 2015. The note was fully reconveyed to eligible purchasers in 2015.	-	-	10,467	480,000
Contra Costa County, HOME loan, in the original amount of \$320,000, bears no interest, reconveyable to eligible purchasers with any remaining balance payable in full the earlier of the final home sale or December 2014. During 2015, \$172,000 was reconveyed to eligible purchasers and the remaining \$148,000 was paid off in full.	-	-	-	320,000
City of Walnut Creek, in the original amount of \$370,000, bears no interest, payable at the earlier of March 2016 or the date on which the last home is sold. The note was fully reconveyed to eligible purchasers in 2015 (Barkley Avenue).	-	-	-	370,000
<u><i>Redwood Hill, Oakland</i></u>				
City of Oakland, bears interest at 6%, payable in full in February 2014.	11,098	35,000	8,998	35,000
<u><i>Rehab-Livermore</i></u>				
City of Livermore, original amount of \$126,335, bears no interest. The note was fully reconveyed to an eligible purchaser in 2015 (4139 Freeda Court).	-	-	-	126,335

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

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	2015		2014	
	<i>Interest Payable</i>	<i>Principal</i>	<i>Interest Payable</i>	<i>Principal</i>
City of Livermore, in the original amount of \$173,716, bears no interest. During 2015, \$117,704 was reconveyed to an eligible purchaser and the remaining \$56,012 was paid off in full (457 Andrews).	-	-	-	173,716
City of Livermore, in the original amount of \$114,000, bears no interest, reconveyable to an eligible purchaser with any remaining balance payable in full the earlier of the sale of property or February 2015 (538 Ruth Way).	-	114,000	-	114,000
<u>Rehab-Sunnyvale</u> City of Sunnyvale, in the maximum amount of \$880,000, bears no interest, a portion of loan will be forgiven and the remaining payable in full the earlier of the final home sale or November 2016. During 2015, \$132,000 was forgiven by the city and the remaining \$743,699 was paid off in full (239 and 279 Jackson Street).	-	-	-	875,699
Total	14,059	1,491,314	33,554	5,771,455
Less portion due in one year	(14,059)	(443,184)	(33,554)	(1,903,904)
Long-term portion	\$ -	\$ 1,048,130	\$ -	\$ 3,867,551

Interest payable also includes interest related to NMTC loans of \$26,697 as of June 30, 2015 and 2014 (see Note 12).

Scheduled principal payments on the notes payable for the next five years are estimated as follows:

2016	\$ 443,184
2017	131,580
2018	-
2019	-
2020	386,550
Thereafter	530,000
Total	<u>\$ 1,491,314</u>

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YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 12 – DEFERRED REVENUE

Deferred revenue is summarized as follows:

	2015	2014
New Markets Tax credits:		
Investments in leverage lenders	\$ (24,575,253)	\$ (24,575,253)
Notes payable from CDEs	31,475,958	31,475,958
Transaction costs	(1,223,990)	(1,223,990)
Net amortizable benefit	5,676,715	5,676,715
Less accumulated amortization	(3,697,954)	(2,886,996)
New Markets Tax credits, net	1,978,761	2,789,719
Offsite Affordable Housing Agreement	1,075,000	1,075,000
Other	417	417
	3,054,178	3,865,136
Less: current portion	(810,959)	(810,959)
Long-term portion	\$ 2,243,219	\$ 3,054,177

New Markets Tax Credits

HEBSV entered into New Markets Tax Credit (“NMTC”) transactions involving U.S. Bancorp Community Development Corporation (“USBCDC”), its related entities and agents. The NMTC program was established as part of the Community Renewal Tax Relief Act of 2000. The goal of the NMTC program is to spur revitalization efforts of low-income and impoverished communities across the United States and its Territories by providing tax credit incentives to investors in a certified community development entity. The tax credit for investors equals 39% of the investment, which is credited over a seven-year period. A community development entity is required to participate and has a primary mission of providing financing for revitalization projects in low-income communities.

NMTC financing allows organizations such as affiliates of Habitat International to receive low-interest loans or investment capital from community development entities, primarily financial institutions, which allow their investors to receive tax credits to be applied against their federal tax liability.

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The following is a summary of the NMTC Transactions:

New Markets Tax Credit Transaction – Stonehenge

HFHI-SA Leverage IV, L.L.C.:

In April 2010 HHEB acquired a 71.43% membership, interest in HFHI – SA Leverage IV, L.L.C. (the “LLC”) in exchange for investing a combination of cash and construction in progress totaling \$11,848,403. The LLC is owned 28.57% by another affiliate of Habitat for Humanity International, Inc. The LLC was formed by USBCDC to provide financing for the borrower’s equity investment in a community development entity – Stonehenge Community Development XVIII, LLC (“CDE”) and is solely managed by a third party. Accordingly, the LLC entered into a Loan Agreement to lend \$16,587,764 to Habitat Stonehenge Investment Fund, LLC. (“Borrower”). The Borrower used the loan proceeds as its equity investment in the CDE which, in turn, used the proceeds of the Borrower’s equity investment to fund the loans to the members of the LLC set forth below.

The loan receivable bears interest at a rate of 2.05%, with 1.00% being interest currently payable and 1.05% being accrual interest. The loan receivable matures on April 15, 2040 and requires semi-annual accrued interest payments until June 15, 2017 and semi-annual principal payments commencing on June 16, 2017 sufficient to fully amortize the loan. Simultaneous with these transactions, the LLC entered into an Option Agreement with USBCDC to put the ownership interest in the Fund for \$1,000 commencing on April 30, 2017 and continuing for 3 months, or call the ownership interest for a 12-month period following the expiration of the Put Option at fair market value.

Loan payable – Stonehenge Community Development XVIII, LLC:

As a component of the NMTC transaction, HHEB and its affiliate (co-owner of the LLC) received loans of \$15,000,000 and \$6,000,000 from the CDE and entered into a Loan and Security Agreement (“Agreement”) dated April 15, 2010. HHEB is obligated under the Agreement and related Promissory Note to pay interest on the borrowings at a rate of 0.79% per annum with a maturity date of April 15, 2040. Commencing on June 1, 2010 and semi-annually until June 1, 2017, HHEB is required to make payments of accrued interest. Commencing on June 1, 2017 and semi-annually thereafter, HHEB is required to make equal principal and interest payments in an amount to fully amortize the loan by its maturity date. Pursuant to the Agreement, HHEB is required to comply with the NMTC requirements as generally set forth in the Internal Revenue Code (“IRC”) Section 45D, including that HHEB maintain a Separate Business such that the Separate Business will qualify as a qualified active low-income community business as defined in IRC Section 45D. Only the Separate Business assets of HHEB were pledged as security under the Agreement to the CDE.

New Markets Tax Credit Transaction – Clearinghouse

HFHI-SA Leverage VI, L.L.C.:

In July 2010 HHEB acquired a 28.07% membership, interest in HFHI – SA Leverage VI, L.L.C. (the “LLC”) in exchange investing a combination of cash and construction in progress totaling \$5,268,759. The LLC is owned 71.93% by three other affiliates of Habitat for Humanity International, Inc. The LLC was formed by USBCDC to provide financing for the borrower’s equity investment in a community development entity – Clearinghouse NMTC (Sub 21), LLC (“Sub-CDE”) and is solely managed by a third party. Accordingly, the LLC entered into a Loan Agreement to lend \$18,773,324 to Habitat California Investment Fund, LLC. (“Borrower”). The Borrower used the loan proceeds as its equity investment in the Sub-CDE which, in turn, used the proceeds of the Borrower’s equity investment to fund the loans to the members of the LLC set forth below.

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The loan receivable bears interest at a rate of 2.86%, with 1.00% being interest currently payable and 1.86% being accrual interest. The loan receivable matures on June 28, 2025 and requires semi-annual accrued interest payments until June 15, 2017 and semi-annual principal payments commencing on June 16, 2017 sufficient to fully amortize the loan. Simultaneous with these transactions, the LLC entered into an Option Agreement with USBCDC to put the ownership interest in the Fund for \$1,000 commencing on June 30, 2017 and continuing for 3 months, or call the ownership interest for a 12 month period following the expiration of the Put Option at fair market value.

Loan payable – Clearinghouse NMTC (Sub 21), LLC:

As a component of the NMTC transaction, HHEB and its affiliates (co-owners of the LLC) received loans of \$6,875,958 and \$6,000,000 from the Sub-CDE and entered into a Loan and Security Agreement (“Agreement”) dated July 28, 2010. HHEB is obligated under the Agreement and related Promissory Note to pay interest on the borrowings at a rate of 0.77% per annum with a maturity date of July 28, 2025. Commencing on December 5, 2010 and semi-annually until December 5, 2017, HHEB is required to make payments of accrued interest. Commencing on December 5, 2017 and semi-annually thereafter, HHEB is required to make equal principal and interest payments in an amount to fully amortize the loan by its maturity date. Pursuant to the Agreement, HHEB is required to comply with the NMTC requirements as generally set forth in the Internal Revenue Code (“IRC”) Section 45D, including that HHEB maintain a Separate Business such that the Separate Business will qualify as a qualified active low-income community business as defined in IRC Section 45D. Only the Separate Business assets of HHEB were pledged as security under the Agreement to the CDE.

New Markets Tax Credit Transaction – LCD

LCD NMF Leverage Lender XI, L.L.C.:

In January 2012 HHEB acquired a 99.00% membership, interest in LCD NMF Leverage Lender XI, LLC (the “LLC”) in exchange investing a combination of cash and construction in progress totaling \$7,458,091. The LLC was formed by USBCDC to provide financing for the borrower’s equity investment in a community development entity – LCD New Markets Fund XI, LLC (“CDE”) and is solely managed by a third party. Accordingly, the LLC entered into a Loan Agreement to lend \$7,458,091 to LCD NMF XI Investment Fund, LLC. (“Borrower”). The Borrower used the loan proceeds as its equity investment in the CDE which, in turn, used the proceeds of the Borrower’s equity investment to fund the loans to the members of the LLC set forth below.

The loan receivable bears interest at a rate of 2.70%, with 1.00% being interest currently payable and 1.70% being accrual interest. The loan receivable matures on January 23, 2027 and requires semi-annual accrued interest payments until January 23, 2019 and semi-annual principal payments commencing on January 24, 2019 sufficient to fully amortize the loan. Simultaneous with these transactions, the LLC entered into an Option Agreement with USBCDC to put the ownership interest in the Fund for \$1,000 commencing on January 23, 2019 and continuing for 3 months, or call the ownership interest for a 12-month period following the expiration of the Put Option at fair market value.

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Loan payable – LCD New Markets Fund XI, LLC:

As a component of the NMTC transaction, HHEB received loans of \$7,680,000 and \$1,920,000 from the CDE and entered into Loan and Security Agreements (“Agreements”) dated January 24, 2012. HHEB is obligated under the Agreements and related Promissory Notes to pay interest on the borrowings at a rate of 0.78% per annum with a maturity date of January 23, 2027. Commencing on May 5, 2012 and semi-annually until November 5, 2018, HHEB is required to make payments of accrued interest. Commencing on May 5, 2019 and semi-annually thereafter, HHEB is required to make equal principal and interest payments in an amount to fully amortize the loan by its maturity date. Pursuant to the Agreement, HHEB is required to comply with the NMTC requirements as generally set forth in the Internal Revenue Code (“IRC”) Section 45D, including that HHEB maintain a Separate Business such that the Separate Business will qualify as a qualified active low-income community business as defined in IRC Section 45D. Only the Separate Business assets of HHEB were pledged as security under the Agreement to the CDE.

Financial Statement Presentation of New Markets Tax Credit Transactions:

HEBSV’s investments in the LLCs are accounted for on the cost basis since HEBSV is not able to influence the operating and financial policies of the LLCs. Accordingly, distributions received from the LLCs are reported as revenue on the statement of activities.

HEBSV has imputed a fair value rates of interest of 3.4% – 3.8% on the notes payable to the CDEs, resulting in discounts totaling \$6,900,705 on the notes payable. This discount, net of the NMTC transaction costs of \$1,223,990, results in a net amortizable benefit of \$5,676,715, equal to approximately the cash flow received by HEBSV. As a result, HEBSV has recorded net deferred revenue of \$5,676,715 to reflect the net revenue HEBSV will effectively receive from the NMTC transaction over their term. After fees and expenses, HEBSV received \$3,619,143 in net cash proceeds to invest in its low-income housing projects.

The NMTC transactions, as set forth above, provide HEBSV, from an economic perspective, a right of offset of the loans payable to the CDE versus the investment in the Borrower. The right of offset arises in part due to the related party nature and flow of funds in the NMTC transactions, and in part, as a result of the Option Agreements effectively providing a legal right of offset. Exercise of these options will effectively extinguish HEBSV’s outstanding debt owed to the CDEs. Upon execution, the investment and debt will then have a balance of zero. All entities related to the NMTC transactions will be dissolved, ending the NMTC structures. Accordingly, HEBSV’s financial statements report only the net deferred benefit of the NMTC transaction, after offsetting the investments in LLCs, discounted notes payable CDEs, and transaction costs.

HEBSV is amortizing the net deferred revenue from the NMTC transaction over seven years. Amortization of the net deferred revenue totaled \$810,959 for the years ended June 30, 2015 and 2014. Interest expense on the notes payable to the CDE’s totaled \$245,782 for the years ended June 30, 2015 and 2014. The interest expense on the notes payable is effectively returned to HEBSV through distributions received from the investments in the LLC’s totaling \$245,007 and \$245,006 for the years ended June 30, 2015 and 2014, respectively. HEBSV also paid and expensed \$284,077 and \$269,352 of annual new markets tax credit fees related to the asset management, compliance and facilitation fees for the years ended June 30, 2015 and 2014, respectively. These annual expenses are paid from the new markets tax credit restricted cash reserves (see Note 3).

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Offsite Affordable Housing Agreement

In April 2013, HEBSV entered into an offsite affordable housing agreement with a for-profit housing developer (the Developer) to assist the Developer on satisfying their obligations under a city ordinance relating to affordable housing. The Developer provided \$1,075,000 for HEBSV to design, acquire, develop and construct at least 6 affordable units on a site specified by the city of Fremont. The entire funding has been received by HEBSV, which can only be spent on the permitted uses approved by the city of Fremont. Any funds not spent for the permitted uses are required to be returned to the city. HEBSV will recognize a pro-rata portion of the revenue on the sale of each home in order to properly match the recognition of the related expenditures.

NOTE 13 – BOARD DESIGNATED AND TEMPORARILY RESTRICTED NET ASSETS
Board Designated Funds

HEBSV established a charitable fund with the Lutheran Community Foundation to encourage and procure legacy gifts. It intends to use income from the fund as an operating source for future housing and other Habitat projects. Included in unrestricted net assets are designated net assets of \$33,099 and \$34,289 as of June 30, 2015 and 2014, respectively, relating to the cause.

Temporarily Restricted Net Assets

Temporarily restricted net assets are summarized as follows:

	2015			
	<i>June 30, 2014</i>	<i>Contributions</i>	<i>Released from Restrictions</i>	<i>June 30, 2015</i>
Contributions restricted for specific programs:				
NRI (Bay Point and San Jose)	\$ 423,306	\$ 20,700	\$ (444,006)	\$ -
Sequoia Grove	140,764	49,878	(67,450)	123,192
EIC Restore	104,941	-	(82,233)	22,708
Rehab Program – City of Oakland	66,027	695,000	(10,525)	750,502
Delmas, San Jose	261,802	167,905	(246,633)	183,074
Repairs – City of Santa Clara	-	135,471	(132,235)	3,236
Rehab Program – City of Livermore	-	118,018	(90,474)	27,544
Rehab Program – City of San Jose	-	728,858	(429,302)	299,556
	<u>\$ 996,840</u>	<u>\$ 1,915,830</u>	<u>\$ (1,502,858)</u>	<u>\$ 1,409,812</u>

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	2014			
	June 30, 2013	Contributions	Released from Restrictions	June 30, 2014
Contributions restricted for specific programs:				
El Rincon (Bay Point)	\$ 46,875	\$ 161,212	\$ (208,087)	\$ -
NRI (Bay Point and San Jose)	462,410	45,000	(84,104)	423,306
Sequoia Grove	9,832	234,230	(103,298)	140,764
Tri-Valley project	35,565	8,876	(44,441)	-
Jackson St. Sunnyvale	277,091	230,990	(508,081)	-
Golf Links	10,000	-	(10,000)	-
EIC Restore	-	122,790	(17,849)	104,941
Ivy Lane, Antioch	80,320	5,441	(85,761)	-
Rehab Program – City of Oakland	-	68,500	(2,473)	66,027
Delmas, San Jose	10,891	267,239	(16,328)	261,802
Others	2,768	-	(2,768)	-
	<u>\$ 935,752</u>	<u>\$ 1,144,279</u>	<u>\$ (1,083,191)</u>	<u>\$ 996,840</u>

NOTE 14 – IN-KIND CONTRIBUTIONS

In-kind contributions are summarized as follows:

	2015	2014
Donated land and building	\$ -	\$ 250,000
Donated use of facilities	79,682	80,623
Donated equipment and building materials	1,849,613	1,609,194
Donated professional services	5,680	25,531
Total in-kind donations	<u>\$ 1,934,975</u>	<u>\$ 1,965,348</u>

Donated equipment and building materials include inventory received and sold at ReStore.

NOTE 15 – EMPLOYEE BENEFIT PLAN

HEBSV maintains a 403(b) retirement plan of which the employer contribution is 100% of the employee's contribution, up to 4% of gross salary. Eligible employees include full-time and part-time employees who have completed one year of service and who have worked at least 1,000 hours. Employee contributions are vested 100% after three years of service. HEBSV contributed \$104,827 and \$98,612 to the plan in 2015 and 2014, respectively.

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NOTE 16 – OPERATING LEASES

HEBSV leases its Oakland ReStore site and a warehouse under operating lease agreements that expire in August 2015 and February 2015, respectively. The lease for the Oakland ReStore site has an option to extend for a period of three years. HEBSV leases its two San Jose ReStore sites under operating lease agreements that expire in June 2015 and April 2022. The lease expiring April 2022 includes an option to extend for a period of five years. HEBSV also opened two ReStores in Santa Clara and Concord subsequent to year end. These sites will operate on lease agreements expiring in August 2019 and March 2020, respectively.

HEBSV also has an operating lease for the use of office facilities in Oakland that expires in February 2018, with an option to extend for an additional five years. HEBSV also operates an office facility in Milpitas consisting of donated office space valued at \$79,682 and \$80,623 for the years ended June 30, 2015 and 2014, respectively. HEBSV is required to reimburse the lessors for common area maintenance and related charges for the use of both facilities.

In addition, HEBSV has several other operating leases for the use of office equipment and vehicles that expire through June 2017. Rental expenses, including common area maintenance charges and reimbursements for taxes, maintenance and utilities totaled \$439,150 and \$395,776 for the years ended June 30, 2015 and 2014, respectively.

The following represents the future minimum lease payments:

	<i>Year Ending June 30,</i>
2016	\$ 641,116
2017	655,914
2018	637,590
2019	542,681
2020	366,978
Thereafter	635,619
	<u>\$ 3,479,898</u>

NOTE 17 – COMMITMENT AND CONTINGENCIES

During the normal course of business, HEBSV entered into various contracts relating to its ongoing construction projects.

HEBSV is named in certain claims and legal actions in the normal course of its activities. Based upon counsel and management's opinion, the outcome of such matters is not expected to have a material adverse effect on HEBSV's financial position or changes in net assets.



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SCOTT K. SMITH

Board of Directors
Habitat for Humanity East Bay/Silicon Valley and Subsidiaries
Oakland, California

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries, which comprise the consolidated statement of financial position as of June 30, 2015, 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, and have issued our report thereon dated November 24, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weakness may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lindquist, von Huen and Joyce LLP

November 24, 2015



JAMES M. KRAFT
S. SCOTT SEAMANDS
MARK O. BRITTAIN
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CATHY L. HWANG
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Board of Directors
Habitat for Humanity East Bay/Silicon Valley and Subsidiaries
Oakland, California

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Report on Compliance for Each Major Federal Program

We have audited Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' major federal programs for the year ended June 30, 2015. Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' compliance.

Opinion on Each Major Federal Program

In our opinion, Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Lindquist, von Huen and Joyce LLP

November 24, 2015

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2015

<i>Federal Grantor/Pass-Through Grantor/Program Title</i>	<i>Federal CFDA Number</i>	<i>Agency or Pass-Through Number</i>	<i>Federal Expenditures</i>
<u>U.S. Department of Housing and Urban Development</u>			
Community Development Block Grants Program:			
Pass-through grant from the City of Livermore	14.218	N/A	\$ 42,560
Pass-through loan from Contra Costa County in prior years for which continuing compliance is required	14.218	N/A	56,250
Pass-through loan from the City of Fremont in prior years for which continuing compliance is required	14.218	N/A	530,000
Pass-through loan from the County of Santa Clara in prior years for which continuing compliance is required	14.218	N/A	<u>123,889</u>
			<u>752,699</u>
Home Investment Partnership Program:			
Pass-through grants from the City of San Jose	14.239	N/A	317,093
Pass-through loan from Contra Costa County	14.239	N/A	229,246
Pass-through loan from Contra Costa County in prior years for which continuing compliance is required	14.239	N/A	<u>320,000</u>
			<u>866,339</u>
Self-Help Ownership Opportunity Program:			
Pass-through loans from Habitat for Humanity International in prior years for which continuing compliance is required	14.247	N/A	<u>175,020</u>
			<u>175,020</u>
TOTAL FEDERAL AWARDS			<u><u>\$ 1,794,058</u></u>

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2015

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant and loan activities of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

NOTE 2 – PRIOR YEARS' EXPENDITURES

The accompanying schedule of expenditures of federal awards includes \$1,205,159 in expenditures from prior years for which continuing compliance is required.

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2015

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified that are not considered to be material weakness(es)?

_____ Yes X None reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified that are not considered to be material weakness(es)?

_____ Yes X None reported

Type of auditor’s report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

_____ Yes X No

Identification of major programs:

Name of Federal Program or Cluster

CFDA #14.218

Community Development Block
Grants/Entitlement Grants

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

 X Yes _____ No

Section II – Financial Statement Findings

None noted.

Section III – Federal Award Findings and Questioned Costs

None noted.