

Habitat for Humanity Greater San Francisco, Inc.

Financial Statements and Supplementary Information on
Federal Financial Awards

For the Year Ended June 30, 2015
(With Comparative Totals for the Year Ended June 30, 2014)



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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 public benefit corporation) which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 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, 2015, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

Habitat for Humanity Greater San Francisco, Inc.'s financial statements as of and for the year ended June 30, 2014 were audited by Berger Lewis Accountancy Corporation, whose practice became part of Armanino^{LLP} as of January 1, 2015, and whose report dated November 12, 2014, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and other governmental awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2015, on our consideration of Habitat for Humanity Greater San Francisco, Inc.'s 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 Greater San Francisco, Inc.'s internal control over financial reporting and compliance.

Armanino LLP

Armanino^{LLP}
San Jose, California

November 16, 2015

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
Statement of Financial Position
June 30, 2015
(With Comparative Totals as of June 30, 2014)

ASSETS

	2015	2014
Current assets		
Cash and cash equivalents	\$ 2,273,112	\$ 2,362,803
Accounts receivable	7,760	691,566
Impound receivable	31,953	69,541
Current portion of mortgage notes receivable, net	1,051,482	1,124,995
Current portion of grants receivable	-	27,500
Pledges receivable	808,384	650,784
Inventory of homes	255,185	718,343
Prepaid expenses	46,997	10,593
Total current assets	4,474,873	5,656,125
Property and equipment		
Furniture and equipment	240,129	210,365
Vehicles	114,521	81,719
Leasehold improvements	341,271	66,527
	695,921	358,611
Accumulated depreciation	(241,603)	(235,109)
Total property and equipment, net	454,318	123,502
Other assets		
Mortgage notes receivable, net of unamortized discount	7,316,958	8,197,111
Grants receivable, net of current portion	1,819,000	1,709,000
Pledges receivable, net of current portion	1,295,936	-
Construction in progress	13,253,230	7,856,690
Deposits	102,183	38,230
Intangible assets, net of accumulated amortization	345,463	418,061
NMTC Investment - 1, HFHI-SA Leverage VI, LLC	6,876,129	6,757,208
NMTC Investment - 2, HFHGSF Leverage Lender, LLC	8,299,484	8,161,711
Total other assets	39,308,383	33,138,011
Restricted deposits		
Cash - NMTC investment housing funds	883,195	849,415
Cash - homeowner impound funds	26,465	66,375
Cash - construction in progress performance deposits	1,310,535	1,844,970
Total restricted deposits	2,220,195	2,760,760
Total assets	\$ 46,457,769	\$ 41,678,398

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

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
Statement of Financial Position
(Continued)
June 30, 2015
(With Comparative Totals as of June 30, 2014)

LIABILITIES AND NET ASSETS

	2015	2014
Current liabilities		
Accounts payable, operating	\$ 67,006	\$ 96,100
Accounts payable, construction	266,048	495,551
Accounts payable, restore	15,630	21,993
Accrued liabilities	172,720	180,830
Accrued interest	18,347	18,347
Unearned revenue	35,000	-
Current portion of notes payable	31,704	22,631
Line of credit	700,000	-
Impound liability	26,465	66,375
Current portion of deferred lease obligation	17,986	10,036
Total current liabilities	1,350,906	911,863
Long-term liabilities		
Notes payable, net of current portion	243,440	274,352
Refundable advances	2,319,000	1,709,000
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	90,652	41,818
Total long-term liabilities	21,312,043	20,684,121
Total liabilities	22,662,949	21,595,984
Net assets		
Unrestricted net assets	21,669,593	19,769,674
Temporarily restricted net assets	2,125,227	312,740
Total net assets	23,794,820	20,082,414
Total liabilities and net assets	\$ 46,457,769	\$ 41,678,398

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

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
Statement of Activities
Year Ended June 30, 2015
(With Comparative Totals for the Year Ended June 30, 2014)

	2015			2014
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	TOTAL
Support and revenue				
Support				
Contributions	\$ 2,428,144	\$ 2,881,553	\$ 5,309,697	\$ 3,621,428
Special events, net	305,409	-	305,409	269,894
Grants	198,595	-	198,595	22,747
Donated services	59,128	121,901	181,029	202,373
Donated materials	<u>58,644</u>	<u>94,365</u>	<u>153,009</u>	<u>32,507</u>
Total support	<u>3,049,920</u>	<u>3,097,819</u>	<u>6,147,739</u>	<u>4,148,949</u>
Revenue				
ReStore revenue	1,453,322	-	1,453,322	1,240,508
Inclusionary BMR revenue	1,129,465	-	1,129,465	682,992
Mortgage discount amortization	695,559	-	695,559	567,899
Sales of homes	479,500	-	479,500	4,828,100
NMTC investment income	398,940	-	398,940	398,939
Gain on sale and repurchase of note receivables	341,134	-	341,134	961,651
Other income	<u>2,370</u>	<u>-</u>	<u>2,370</u>	<u>7,245</u>
Total revenue	<u>4,500,290</u>	<u>-</u>	<u>4,500,290</u>	<u>8,687,334</u>
Total support and revenue	7,550,210	3,097,819	10,648,029	12,836,283
Net assets released from restrictions	<u>1,285,332</u>	<u>(1,285,332)</u>	<u>-</u>	<u>-</u>
Total support, revenue and net assets released from restrictions	<u>8,835,542</u>	<u>1,812,487</u>	<u>10,648,029</u>	<u>12,836,283</u>
Expenses				
Program services				
Housing development	1,710,701	-	1,710,701	7,246,836
Families, volunteers and NR	1,615,689	-	1,615,689	773,141
ReStore	<u>1,260,449</u>	<u>-</u>	<u>1,260,449</u>	<u>895,577</u>
Total program services	<u>4,586,839</u>	<u>-</u>	<u>4,586,839</u>	<u>8,915,554</u>
Supporting services				
General and administrative	1,185,878	-	1,185,878	1,069,903
Fundraising	<u>1,162,906</u>	<u>-</u>	<u>1,162,906</u>	<u>890,166</u>
Total supporting services	<u>2,348,784</u>	<u>-</u>	<u>2,348,784</u>	<u>1,960,069</u>
Total expenses	<u>6,935,623</u>	<u>-</u>	<u>6,935,623</u>	<u>10,875,623</u>
Change in net assets	<u>1,899,919</u>	<u>1,812,487</u>	<u>3,712,406</u>	<u>1,960,660</u>
Net assets, beginning of year	<u>19,769,674</u>	<u>312,740</u>	<u>20,082,414</u>	<u>18,121,754</u>
Net assets, end of year	<u>\$ 21,669,593</u>	<u>\$ 2,125,227</u>	<u>\$ 23,794,820</u>	<u>\$ 20,082,414</u>

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

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
Statement of Functional Expenses
Year Ended June 30, 2015
(With Comparative Totals for the Year Ended June 30, 2014)

	PROGRAM SERVICES				SUPPORTING SERVICES			TOTALS	
	Housing Development	Families, Volunteers, NR	ReStore	Total	General and Administrative	Fundraising	Total	2015	2014
Expenses									
Cost of sales - homes	\$ 480,900	\$ -	\$ -	\$ 480,900	\$ -	\$ -	\$ -	\$ 480,900	\$ 4,837,347
Loss on construction in progress	63,255	-	-	63,255	-	-	-	63,255	-
Total direct housing expenses	544,155	-	-	544,155	-	-	-	544,155	4,837,347
Salaries and wages	369,182	758,199	502,856	1,630,237	403,248	527,709	930,957	2,561,194	2,162,245
Employee benefits	51,460	103,028	56,035	210,523	52,875	92,951	145,826	356,349	248,548
Payroll taxes	28,041	63,518	47,383	138,942	29,938	39,238	69,176	208,118	179,559
Stipend - Vista/AmeriCorp	-	99,753	100	99,853	-	34,012	34,012	133,865	73,606
Workers' compensation insurance	13,090	19,596	28,884	61,570	3,750	5,847	9,597	71,167	37,359
Total salaries and benefits	461,773	1,044,094	635,258	2,141,125	489,811	699,757	1,189,568	3,330,693	2,701,317
Rent	74,488	71,406	331,601	477,495	57,588	62,079	119,667	597,162	354,994
Professional services	18,944	183,665	141,453	344,062	63,731	171,944	235,675	579,737	428,552
Interest	163,545	443	-	163,988	4,764	-	4,764	168,752	186,107
NMTC annual fees	-	-	-	-	157,252	-	157,252	157,252	159,247
Promotions and supplies	657	59,909	-	60,566	1,844	65,996	67,840	128,406	47,887
Tithe	130,099	-	-	130,099	-	-	-	130,099	126,559
Discount on pledges receivable	-	-	-	-	119,601	-	119,601	119,601	-
Office expenses	5,864	17,319	30,935	54,118	59,223	3,404	62,627	116,745	69,583
Communications	26,291	37,782	3,920	67,993	21,379	24,132	45,511	113,504	106,437
Travel and training	13,286	42,481	15,996	71,763	11,637	17,282	28,919	100,682	86,769
Neighborhood revitalization project expense	-	98,115	-	98,115	-	-	-	98,115	94,773
Postage and printing	1,725	6,653	787	9,165	1,268	75,418	76,686	85,851	79,920
Bank fees	631	-	22,493	23,124	7,206	27,526	34,732	57,856	47,110
Computer software/hardware	4,556	26,887	15,427	46,870	6,677	11,496	18,173	65,043	30,412
Equipment rental and maintenance	6,933	12,080	26,026	45,039	5,079	1,857	6,936	51,975	70,302
Miscellaneous construction	37,755	-	-	37,755	-	-	-	37,755	20,590
Marketing	-	-	27,355	27,355	-	-	-	27,355	21,657
Insurance	8,436	8,119	8,698	25,253	12,745	2,015	14,760	40,013	64,127
Total expenses before non-cash expenses	1,499,138	1,608,953	1,259,949	4,368,040	1,019,805	1,162,906	2,182,711	6,550,751	9,533,690
Discount on mortgage issued	197,850	-	-	197,850	-	-	-	197,850	1,088,230
Donated legal, office and construction	13,713	6,736	500	20,949	12,685	-	12,685	33,634	137,181
Amortization	-	-	-	-	72,599	-	72,599	72,599	72,598
Depreciation	-	-	-	-	80,789	-	80,789	80,789	43,924
Total functional expenses	\$ 1,710,701	\$ 1,615,689	\$ 1,260,449	\$ 4,586,839	\$ 1,185,878	\$ 1,162,906	\$ 2,348,784	\$ 6,935,623	\$ 10,875,623
Percentage of total	25%	23%	18%	66%	17%	17%	34%	100%	

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

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
Statement of Cash Flows
Year ended June 30, 2015
(With Comparative Totals for the Year Ended June 30, 2014)

	2015	2014
Cash flows from operating activities		
Change in net assets	\$ 3,712,406	\$ 1,960,660
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	79,092	101,522
Loss on disposal of fixed assets	2,478	-
Amortization of mortgage notes receivable discount	(695,559)	(567,899)
Discount on mortgages issued	197,850	1,088,230
Gain on sale of mortgages receivable	(341,134)	(915,094)
Gain on repurchase mortgages	-	(46,556)
Write off fixed asset donations	-	15,000
Amortization of notes payable discount	20,493	40,635
Change in operating assets and liabilities		
Investments	-	11,074
Accounts receivable	683,806	(684,078)
Impounds receivable	37,588	(12,822)
Grants receivable	27,500	867,847
Pledges receivable	(1,453,536)	330,222
Inventory of homes	463,158	4,178,294
Construction in progress	(5,396,540)	(3,787,487)
Prepaid expenses	(36,403)	(7,700)
Deposits	(63,953)	-
Restricted cash - NMTC Investment Housing Funds	(33,780)	331,559
Restricted cash - Homeowner impound funds	39,910	64,081
Restricted cash - construction deposits	534,435	(1,817,079)
Accounts payable, operating	(29,093)	90,961
Accounts payable, construction	(229,505)	203,742
Accounts payable, restore	(6,363)	2,374
Accrued liabilities	(8,110)	25,517
Unearned revenue	35,000	-
Impound liability	(39,909)	(64,081)
Deferred lease obligation	56,783	(10,036)
Net cash provided by (used in) operating activities	(2,443,386)	1,398,886
Cash flows from investing activities		
Purchase of property and equipment	(411,605)	(15,835)
Property and equipment write off	71,817	-
Payments received on mortgage notes receivable	1,137,460	1,348,701
Proceeds from mortgage notes receivable sold	1,134,548	1,736,816
Issuance of home mortgages notes	(479,500)	(2,558,810)
Investment in new markets tax credit venture	(256,693)	(256,693)
Net cash provided by investing activities	1,196,027	254,179
Cash flows from financing activities		
Proceeds from line of credit	700,000	-
Proceeds from refundable advances	500,000	-
Refundable advances converted to home sale revenue	-	(2,075,290)
Payments on notes payable	(70,232)	(65,061)
Proceeds from notes payable	27,900	-
Net cash provided (used) by financing activities	1,157,668	(2,140,351)
Net decrease in cash and cash equivalents	(89,691)	(487,286)
Cash and cash equivalents, beginning of year	2,362,803	2,850,089
Cash and cash equivalents, end of year	\$ 2,273,112	\$ 2,362,803
<u>Supplemental disclosure of cash flows information</u>		
Cash paid for interest	\$ 168,752	\$ 186,107

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

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
Notes to Financial Statements
June 30, 2015

1. General Information

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.

Income tax status

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.

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.

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
Notes to Financial Statements
June 30, 2015

1. General Information (continued)

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.

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, 23).

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, 23).

2. Summary of Significant Accounting Policies

Basis of accounting

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.

Basis of presentation

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.

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
Notes to Financial Statements
June 30, 2015

2. Summary of Significant Accounting Policies (continued)

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.

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 - New Market Tax Credit Investment Housing Funds

New Market Tax Credit restricted cash are funds set aside to cover transaction and management fees.

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.

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.

Restricted cash - ReStore

Included in restricted cash are amounts restricted for ReStore operations.

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 receivable

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

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
Notes to Financial Statements
June 30, 2015

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 7).

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, 2015 and 2014, 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, 2015 and 2014 there were no permanently restricted contributions.

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 "Professional services" in the accompanying statement of functional expenses) for the years ended June 30, 2015 and 2014 were \$32,224 and \$26,278, respectively.

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
Notes to Financial Statements
June 30, 2015

2. Summary of Significant Accounting Policies (continued)

Comparative financial information

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, 2014, 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.

Uncertainty in income taxes

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.

Subsequent events

Management of the Organization has evaluated events and transactions subsequent to June 30, 2015 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, 2015. Subsequent events have been evaluated through the date the financial statements became available to be issued, November 16, 2015.

3. Mortgage Notes Receivable

As of June 30, 2015, the Organization holds 126 mortgage notes receivable, totaling \$15,031,573 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.

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
Notes to Financial Statements
June 30, 2015

3 Mortgage notes receivable (Continued):

Principal payments due on mortgage notes receivable are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>
2016	\$ 1,051,482
2017	1,040,171
2018	1,020,041
2019	971,024
2020	915,626
Thereafter	<u>10,033,229</u>
Notes receivable at face value	15,031,573
Less: unamortized discount	<u>(6,663,133)</u>
Net present value of mortgages	8,368,440
Less: current portion	<u>(1,051,482)</u>
Long-term portion	<u>\$ 7,316,958</u>

In the year ended June 30, 2015 the Organization sold eight mortgage notes. The total principal balance of the mortgages sold was \$1,316,857 and the gain from the sale was \$341,134.

4. Grants Receivable

Grants receivable as of June 30, consists of the following:

	<u>2015</u>	<u>2014</u>
Current		
Department of Housing and Community Development (CalHome Grant) - Daly City, Mission St. Project	\$ -	\$ 27,500
Total current portion	<u>\$ -</u>	<u>\$ 27,500</u>
Long-term		
Department of Housing and Community Development (CalHome Grant) - various projects	\$ 1,610,000	\$ 1,500,000
Affordable Housing Program - Habitat Terrace Project (Capital Avenue)	<u>209,000</u>	<u>209,000</u>
Total long-term portion	<u>1,819,000</u>	<u>1,709,000</u>
Total grants receivable	<u>\$ 1,819,000</u>	<u>\$ 1,736,500</u>

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
Notes to Financial Statements
June 30, 2015

5. Pledges Receivable

Pledges receivable represent unconditional promises given by donors. Amounts scheduled to be received beyond one year period are recorded at net realizable value. The pledges receivable beyond one year are discounted in the range of 2.1% to 3.1% for the year ended June 30, 2015. The pledges receivable as of June 30, 2015 and 2014 were \$2,104,320 and \$650,784, respectively.

Pledges receivable as of June 30, consisted of the following:

	<u>2015</u>	<u>2014</u>
Receivable in less than one year	\$ 808,384	\$ 650,784
Receivable in one to five years	<u>1,415,537</u>	<u>-</u>
Total pledges receivable	2,223,921	650,784
Less discounts to net present value	<u>(119,601)</u>	<u>-</u>
Total net present value of pledges receivable	2,104,320	650,784
Current portion of pledges receivable	<u>(808,384)</u>	<u>650,784</u>
Long-term portion of pledges receivable	<u>\$ 1,295,936</u>	<u>\$ -</u>

6. Inventory of Homes

Inventory of homes as of June 30, consists of the following:

	<u>2015</u>	<u>2014</u>
Habitat resale homes (see Note 1)	\$ 240,851	\$ 704,009
Materials	<u>14,334</u>	<u>14,334</u>
Total	<u>\$ 255,185</u>	<u>\$ 718,343</u>

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
Notes to Financial Statements
June 30, 2015

7. Construction in Progress

Construction in progress as of June 30, consists of the following:

	2015	2014
New construction		
San Francisco: Capital Ave. (28 homes estimated)	\$ 8,224,101	\$ 5,989,688
Novato: Mt. Burdell Place (10 homes estimated)	2,886,350	1,572,440
Redwood City: Jefferson Ave.	1,824,342	-
Total new construction	\$ 12,934,793	\$ 7,562,128
Pre-development		
San Francisco: Whitney Young II (17 homes estimated)	\$ 171,303	\$ 171,303
Redwood City: Jefferson Ave.	-	69,548
San Francisco: Hunter's View (10 homes estimated)	147,134	53,711
Total pre-development	318,437	294,562
Total construction in progress	\$ 13,253,230	\$ 7,856,690

8. 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 at June 30, is as follows:

	2015	2014
Beginning balance	\$ 6,757,208	\$ 6,638,197
Share of income	182,736	182,826
Distributions received	(63,815)	(63,815)
Ending balance	\$ 6,876,129	\$ 6,757,208

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
Notes to Financial Statements
June 30, 2015

9. 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 as of June 30, is as follows:

	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 8,161,711	\$ 8,024,028
Share of income	216,204	216,114
Distributions received	<u>(78,431)</u>	<u>(78,431)</u>
Ending balance	<u>\$ 8,299,484</u>	<u>\$ 8,161,711</u>

10. 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. The balance of intangible assets and accumulated amortization as of June 30, are as follows:

	<u>2015</u>	<u>2014</u>
Qualified active low income community business (QALICB) guarantor fees	\$ 398,744	\$ 398,744
NMTC loan closing costs	<u>234,528</u>	<u>234,528</u>
Total intangible assets	633,272	633,272
Accumulated amortization	<u>(287,809)</u>	<u>(215,211)</u>
Intangible assets, net of accumulated amortization	<u>\$ 345,463</u>	<u>\$ 418,061</u>

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
Notes to Financial Statements
June 30, 2015

10. Intangible Assets (continued)

<u>Estimated annual NMTC amortization expense at June 30.</u>	<u>Amount</u>
2016	\$ 72,598
2017	72,598
2018	55,249
2019	34,654
2020	15,635
Thereafter	<u>94,729</u>
Total	<u>\$ 345,463</u>

Amortization expense for the year ended June 30, 2015 and 2014 was \$72,599 and \$72,598, respectively.

11. Notes Payable

Notes payable as of June 30, consist of the following:

	2015	2014
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.	\$ 30,235	\$ 31,630
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.	70,440	74,663
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.	148,348	162,870
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.	<u>110,422</u>	<u>151,271</u>
Total due to the County of San Mateo	<u>359,445</u>	<u>420,434</u>

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
Notes to Financial Statements
June 30, 2015

11. Notes Payable (continued)

	2015	2014
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	\$ -
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	6,580
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.	11,375	16,250
Total notes payable at face value	400,932	443,264
Less: discount on notes payable	(125,788)	(146,281)
Net present value of notes payable	275,144	296,983
Less: current portion	(31,704)	(22,631)
Notes payable, net of current portion	\$ 243,440	\$ 274,352

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.

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

Year ending June 30,	Amount
2016	\$ 31,704
2017	30,945
2018	40,318
2019	43,679
2020	30,389
Thereafter	98,109
Total	\$ 275,144

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
Notes to Financial Statements
June 30, 2015

12. 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 23). The balance of the loan for each of the years ending June 30, 2015 and 2014 is \$8,328,107.

13. 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, 2015 and 2014 was \$10,330,844.

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
Notes to Financial Statements
June 30, 2015

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.

Refundable advances as of June 30, consist of the following:

	<u>2015</u>	<u>2014</u>
Department of Housing and Community Development (CalHome Program) - various projects	\$ 1,610,000	\$ 1,500,000
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	-
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	<u>209,000</u>	<u>209,000</u>
Total refundable advances	<u>\$ 2,319,000</u>	<u>\$ 1,709,000</u>

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
Notes to Financial Statements
June 30, 2015

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 term of the line is for twelve months from effective date and will automatically renew unless the Organization gives prior notice. The Organization drew \$700,000 on the line of credit balance in April 2015. Interest accrues monthly at 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, 2015, the balance due on the line of credit was \$700,000. The Organization plans to repay this line of credit by June 30, 2016.

16. Temporarily Restricted Net Assets

The Organization's temporarily restricted net assets at June 30, consist of the following:

	<u>2015</u>	<u>2014</u>
Growth campaign	\$ 1,927,520	\$ -
Low-income housing acquisition and construction	182,707	16,130
Construction internship	15,000	-
Homeowner readiness program	-	46,610
San Mateo County	<u>-</u>	<u>250,000</u>
Total temporarily restricted net assets	<u>\$ 2,125,227</u>	<u>\$ 312,740</u>

17. Temporarily Restricted Net Assets Released

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose specified by donors as follows:

	<u>2015</u>	<u>2014</u>
Low-income housing acquisition and construction	\$ 1,127,886	\$ 857,539
Homeowner readiness program	157,446	88,513
Neighborhood revitalization	-	416,084
Americorp staffing stipend	<u>-</u>	<u>7,500</u>
Total temporarily restricted net assets released	<u>\$ 1,285,332</u>	<u>\$ 1,369,636</u>

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
Notes to Financial Statements
June 30, 2015

18. Sale of Homes

During the fiscal year ending June 30, 2015 the Organization sold two resale Habitat homes. The loss from the sale of these homes is as follows:

Resale habitat homes

Revenue from sale of resale homes	\$ 479,500
Less: cost of resale homes sold	<u>(480,900)</u>
Loss on sale of resale homes	<u>\$ (1,400)</u>

19. Inclusionary Agreement

The Organization entered into an agreement with RCS Brotherhood Way LLC 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.

In 2015 the Organization collected \$1,129,465 inclusionary revenue after five units were completed. According to the agreement, the letter of credit was reduced by \$534,435 after completion of those five units. As of June 30, 2015 the balance of the letter of credit was \$1,282,644.

20. 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, 2015 and 2014, revenue from special events was \$377,828 and \$352,631 and related expense was \$72,419 and \$82,737, respectively.

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
Notes to Financial Statements
June 30, 2015

21. Donated Materials and Services

Donated materials

The value of donated office supplies and construction materials for the years ended June 30, 2015 and 2014 was \$153,009 and \$32,507, 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. For the years ended June 30, 2015 and 2014, donated services of a specialized or professional nature are as follows:

	<u>2015</u>	<u>2014</u>
Legal services	\$ 119,679	\$ 176,723
Financial services	4,872	11,220
Miscellaneous office	<u>56,478</u>	<u>14,430</u>
Total donated professional services	<u>\$ 181,029</u>	<u>\$ 202,373</u>

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, 2015 and 2014 volunteers donated approximately 129,817 and 75,174 hours, respectively, whose value management has estimated at \$3,205,712 and \$1,339,631, respectively.

22. 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, 2015 and 2014, were \$85,322 and \$52,346, respectively.

23. 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, 2015 and 2014 the amount contributed was \$130,099 and \$126,559, respectively. The current year amount is included in housing development expense under program services in the Statement of Activities.

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
Notes to Financial Statements
June 30, 2015

23. Related Party Transactions (continued)

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, 2015 and 2014 the insurance expense was \$40,013 and \$64,127, 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, 2015 and 2014 was \$30,112 and \$6,580, 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 12) 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 Leverage VI, 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.

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.

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
Notes to Financial Statements
June 30, 2015

23. Related Party Transactions (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.

24. Commitments

Right of first refusal

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 refusal 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.

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. As of June 30, 2015, the future minimum lease payments under the lease obligations are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2016	\$ 715,731
2017	733,888
2018	752,177
2019	770,609
2020	444,761
Thereafter	<u>510,272</u>
Total future minimum lease payments	<u>\$ 3,927,438</u>

The rent expense for the years ended June 30, 2015 and 2014 was \$597,162 and \$354,994, respectively.

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

Government Grantor Pass-through Grantor Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Award Amount	Total Expenditures
<u>FEDERAL AWARDS</u>				
<u>U.S. Department of Housing and Urban Development</u>				
Community Development Block Grant				
Passed through:				
County of San Mateo - Community Development Block Grant				
County of San Mateo - Community Development Block Grant	14.218		\$ 178,650	\$ 110,422
County of San Mateo - Community Development Block Grant	14.218		<u>114,895</u>	<u>114,895</u>
Total Community Development Block Grant			<u>293,545</u>	<u>225,317</u>
Home Investment Partnerships Program				
Passed through:				
City of South San Francisco - HOME Funds	14.239	68185	250,000	148,348
City of Brisbane - HOME Funds	14.239	68133	<u>140,000</u>	<u>100,675</u>
Total Home Investment Partnerships Program			<u>390,000</u>	<u>249,023</u>
Self -Help Homeownership Opportunity Program 2007	14.247	141059	17,500	2,212
Self -Help Homeownership Opportunity Program 2013- Loan (25% of the award amount)	14.247	201039	27,900	27,900
Self -Help Homeownership Opportunity Program 2013 - Grant (75% of the award amount)	14.247	201039	83,700	83,700
Total Self -Help Homeownership Opportunity Program			<u>129,100</u>	<u>113,812</u>
Total U.S. Department of Housing and Urban Development			<u>812,645</u>	<u>588,152</u>
Total Federal Awards			<u>\$ 812,645</u>	<u>\$ 588,152</u>

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
Notes to Schedule of Expenditures of Federal Awards
June 30, 2015

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Habitat for Humanity Greater San Francisco, Inc. under programs of the federal government for the year ended June 30, 2015. 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*. Because the Schedule presents only a selected portion of the operations of Habitat for Humanity Greater San Francisco, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Habitat for Humanity Greater San Francisco, Inc.

2. Summary of Significant Accounting Policies

Expenditures

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through Entity Identifying Number

Pass-through entity identifying numbers are presented where available.

3. Prior Years' Expenditures

The accompanying schedule of expenditures of federal awards includes \$361,657 of expenditures from prior years for which continuing compliance is required.

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*

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

We have audited, 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, the financial statements of Habitat for Humanity Greater San Francisco, Inc. (a California nonprofit public benefit corporation) which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 16, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Habitat for Humanity Greater San Francisco, Inc.'s 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of Habitat for Humanity Greater San Francisco, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Habitat for Humanity Greater San Francisco, Inc.'s 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 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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Habitat for Humanity Greater San Francisco, Inc.'s 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 the Habitat for Humanity Greater San Francisco, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Habitat for Humanity Greater San Francisco, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Armanino LLP
Armanino^{LLP}
San Jose, California

November 16, 2015

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

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

Report on Compliance for Each Major Federal Program

We have audited Habitat for Humanity Greater San Francisco, Inc.'s (a California nonprofit public benefit corporation) 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 Greater San Francisco, Inc.'s major federal programs for the year ended June 30, 2015. Habitat for Humanity Greater San Francisco, Inc.'s 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 Greater San Francisco, Inc.'s 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 Non-Profit 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 Greater San Francisco, Inc.'s 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 Greater San Francisco, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Habitat for Humanity Greater San Francisco, Inc. 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 Greater San Francisco, Inc. 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 Greater San Francisco, Inc.'s 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 an 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 Greater San Francisco, Inc.'s 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 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.

This 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.

Armanino LLP

Armanino^{LLP}
San Jose, California

November 16, 2015

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on the financial statements of Habitat for Humanity Greater San Francisco, Inc.
2. No significant deficiencies relating to the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of Habitat for Humanity Greater San Francisco, Inc., which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance for each Major Program and on Internal Control over Compliance Required by OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Habitat for Humanity Greater San Francisco, Inc. expresses an unmodified opinion on all major federal programs.
6. No audit findings which would be required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The program tested as a major program was:
CFDA 14.239 - Home Investment Partnership Program
CFDA 14.247 - Self - Help Homeownership Opportunity Program
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Habitat for Humanity Greater San Francisco, Inc. was determined to be not a low-risk auditee.

Financial Statements Audit Findings

None.

Findings and Questioned Costs - Major Federal Award Programs Audit

None.

Prior Year Audit Findings

None.