

HABITAT FOR HUMANITY
GREATER SAN FRANCISCO, INC.
(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

Year Ended June 30, 2014 with Comparative Totals
for the Year Ended June 30, 2013

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
(A California Nonprofit Public Benefit Corporation)

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FOUNDERS

Alexander W. Berger (1916-2005)
Griffith R. Lewis (1930-2012)

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Habitat for Humanity Greater San Francisco, Inc.
(A California Nonprofit Public Benefit Corporation)
San Francisco, California

Report on the Financial Statements

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, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2014, 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

We have previously audited Habitat for Humanity Greater San Francisco, Inc.'s June 30, 2013 financial statements, and our report dated November 8, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Berger Lewis Accountancy Corporation

BERGER LEWIS ACCOUNTANCY CORPORATION
San Jose, California
November 12, 2014

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION

June 30, 2014 with Comparative Totals as of June 30, 2013

ASSETS

	2014	2013
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 2,362,779	\$ 2,850,089
Investments	24	11,074
Accounts Receivable	691,566	7,489
Impound Receivable	69,541	56,720
Current Portion of Mortgage Notes Receivable, Net	1,124,995	1,087,481
Current Portion of Grants Receivable	27,500	1,764,791
Pledges Receivable	650,784	320,562
Inventory of Homes	718,343	4,896,637
Prepaid Expenses	10,593	2,891
Total Current Assets	5,656,125	10,997,734
PROPERTY AND EQUIPMENT:		
Furniture and Equipment	210,365	194,529
Vehicles	81,719	96,719
Leasehold Improvements	66,527	66,527
	358,611	357,775
Accumulated Depreciation	(235,109)	(206,185)
Total Property and Equipment, Net	123,502	151,590
OTHER ASSETS:		
Mortgage Notes Receivable, Net of Unamortized Discount	8,197,111	8,320,011
Grants Receivable, Net of Current Portion	1,709,000	1,500,000
Construction in Progress	7,856,690	4,071,203
Deposits	38,230	38,230
Intangible Assets, Net of Accumulated Amortization	418,061	490,660
NMTC Investment - 1, HFHI-SA Leverage VI, LLC	6,757,208	6,638,197
NMTC Investment - 2, HFHGSF Leverage Lender, LLC	8,161,711	8,024,028
Total Other Assets, Net	33,138,011	29,082,329
RESTRICTED DEPOSITS:		
Cash - NMTC Investment Housing Funds	849,415	1,180,973
Cash - Homeowner Impound Funds	66,375	130,455
Cash - Construction in Progress Performance Deposits	1,844,970	27,891
Total Restricted Deposits	2,760,760	1,339,319
TOTAL ASSETS	\$ 41,678,398	\$ 41,570,972

The Accompanying Notes are an Integral Part of these Financial Statements.

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION
(Continued)

June 30, 2014 with Comparative Totals as of June 30, 2013

LIABILITIES AND NET ASSETS

	<u>2014</u>	<u>2013</u>
CURRENT LIABILITIES:		
Accounts Payable, Operating	\$ 96,100	\$ 5,139
Accounts Payable, Construction	495,551	293,805
Accounts Payable, ReStore	21,993	19,619
Accrued Liabilities	180,830	155,312
Accrued Interest	18,347	18,347
Current Portion of Notes Payable	22,631	30,154
Current Portion of Refundable Advances	-	2,284,290
Impound Liability	66,375	130,455
Current Portion of Deferred Lease Obligation	<u>10,036</u>	<u>10,036</u>
Total Current Liabilities	<u>911,863</u>	<u>2,947,157</u>
LONG-TERM LIABILITIES, NET OF CURRENT PORTION:		
Notes Payable, Net of Current Portion	274,352	291,255
Refundable Advances, Net of Current Portion	1,709,000	1,500,000
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	<u>41,818</u>	<u>51,855</u>
Total Long-Term Liabilities, Net of Current Portion	<u>20,684,121</u>	<u>20,502,061</u>
Total Liabilities	<u>21,595,984</u>	<u>23,449,218</u>
NET ASSETS:		
Unrestricted Net Assets	19,769,674	17,756,841
Temporarily Restricted Net Assets	<u>312,740</u>	<u>364,913</u>
Total Net Assets	<u>20,082,414</u>	<u>18,121,754</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 41,678,398</u>	<u>\$ 41,570,972</u>

The Accompanying Notes are an Integral Part of these Financial Statements.

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES

Year Ended June 30, 2014 with Comparative Totals for the Year Ended June 30, 2013

	2014			2013
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	TOTAL
SUPPORT AND REVENUE:				
Support:				
Contributions	\$ 2,394,477	\$ 1,226,951	\$ 3,621,428	\$ 3,181,229
Grants	22,747	-	22,747	206,880
Special Events, Net	269,894	-	269,894	126,353
Donated Services	144,368	58,005	202,373	85,536
Donated Materials	-	32,507	32,507	74,132
Total Support	2,831,486	1,317,463	4,148,949	3,674,130
Revenue:				
Sales of Homes	4,828,100	-	4,828,100	10,684,100
Inclusionary BMR Revenue	682,992	-	682,992	-
Gain on Sale and Repurchase of Note Receivables	961,651	-	961,651	872,388
Mortgage Discount Amortization	567,899	-	567,899	644,856
ReStore Revenue	1,240,508	-	1,240,508	607,747
NMTC Investment Income	398,939	-	398,939	387,828
Other Income	6,939	-	6,939	9,786
Interest and Dividend Income	306	-	306	7,341
Total Revenue	8,687,334	-	8,687,334	13,214,046
Total Support and Revenue	11,518,820	1,317,463	12,836,283	16,888,176
Net Assets Released from Restrictions	1,369,636	(1,369,636)	-	-
Total Support, Revenue and Net Assets Released from Restrictions	12,888,456	(52,173)	12,836,283	16,888,176
EXPENSES:				
Program Services:				
Housing Development	7,246,836	-	7,246,836	14,624,438
Families, Volunteers and NR Restore	773,141	-	773,141	996,543
	895,577	-	895,577	522,787
Total Program Services	8,915,554	-	8,915,554	16,143,768
Supporting Services:				
General and Administrative	1,069,903	-	1,069,903	954,927
Fundraising	890,166	-	890,166	954,440
Total Supporting Services	1,960,069	-	1,960,069	1,909,367
Total Expenses	10,875,623	-	10,875,623	18,053,135
CHANGE IN NET ASSETS BEFORE GRANT RECEIVABLE WRITE OFF	2,012,833	(52,173)	1,960,660	(1,164,959)
Grants Receivable Write Off	-	-	-	(450,000)
CHANGE IN NET ASSETS	2,012,833	(52,173)	1,960,660	(1,614,959)
NET ASSETS, Beginning of Year	17,756,841	364,913	18,121,754	19,736,713
NET ASSETS, End of Year	\$ 19,769,674	\$ 312,740	\$ 20,082,414	\$ 18,121,754

The Accompanying Notes are an Integral Part of these Financial Statements.

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2014 with Comparative Totals for the Year Ended June 30, 2013

	PROGRAM SERVICES				SUPPORTING SERVICES			TOTALS	
	Housing Development	Families, Volunteers, NR,NRP	ReStore	Total	General and Administrative	Fundraising	Total	2014	2013
EXPENSES:									
Cost of Sales - Homes	\$ 4,837,347	\$ -	\$ -	\$ 4,837,347	\$ -	\$ -	\$ -	\$ 4,837,347	\$ 10,717,172
Total Direct Housing Expenses	4,837,347	-	-	4,837,347	-	-	-	4,837,347	10,717,172
Salaries and Wages	529,956	395,263	354,920	1,280,139	395,963	486,143	882,106	2,162,245	1,675,171
Employee Benefits	55,337	49,502	33,408	138,247	41,568	68,733	110,301	248,548	255,795
Payroll Taxes	43,500	33,855	35,968	113,323	29,167	37,069	66,236	179,559	150,418
Stipend - Vista/AmeriCorp	51,522	18,834	3,250	73,606	-	-	-	73,606	77,740
Workers' Compensation Insurance	8,751	5,815	19,249	33,815	1,266	2,278	3,544	37,359	41,688
Total Salaries and Benefits	689,066	503,269	446,795	1,639,130	467,964	594,223	1,062,187	2,701,317	2,200,812
Professional Services	91,057	71,955	115,417	278,429	54,923	95,200	150,123	428,552	308,834
Rent	82,258	34,042	183,399	299,699	25,516	29,779	55,295	354,994	368,043
Interest	183,687	2,420	-	186,107	-	-	-	186,107	171,403
NMTC Annual Fees	-	-	-	-	159,247	-	159,247	159,247	156,865
Tithe	126,559	-	-	126,559	-	-	-	126,559	120,000
Marketing	-	-	21,657	21,657	-	-	-	21,657	-
Communications	32,125	25,950	4,191	62,266	17,501	26,670	44,171	106,437	134,520
Neighborhood Revitalization									
Project Expense	-	94,773	-	94,773	-	-	-	94,773	320,562
Travel and Training	33,451	13,413	21,204	68,068	8,848	9,853	18,701	86,769	109,934
Postage and Printing	3,849	5,191	3,110	12,150	1,676	66,094	67,770	79,920	84,634
Office Expenses	4,569	3,572	33,198	41,339	24,849	3,395	28,244	69,583	38,719
Equipment Rental and Maintenance	20,175	1,307	32,649	54,131	14,782	1,389	16,171	70,302	54,657
Professional Fundraising	-	-	-	-	-	47,887	47,887	47,887	87,176
Insurance	28,790	8,554	11,108	48,452	12,546	3,129	15,675	64,127	77,138
Bank Fees	-	-	16,784	16,784	30,326	-	30,326	47,110	25,650
Computer Software/Hardware	4,603	3,645	6,065	14,313	5,405	10,694	16,099	30,412	64,638
Miscellaneous Construction	20,590	-	-	20,590	-	-	-	20,590	53,543
Total Expenses Before Non- Cash Expenses	6,158,126	768,091	895,577	7,821,794	823,583	888,313	1,711,896	9,533,690	15,094,300
Discount on Mortgages Issued	1,088,230	-	-	1,088,230	-	-	-	1,088,230	2,759,980
Donated Legal, Office and Construction	480	5,050	-	5,530	129,798	1,853	131,651	137,181	85,563
Amortization	-	-	-	-	72,598	-	72,598	72,598	72,598
Depreciation	-	-	-	-	43,924	-	43,924	43,924	40,694
Total Functional Expenses	\$ 7,246,836	\$ 773,141	\$ 895,577	\$ 8,915,554	\$ 1,069,903	\$ 890,166	\$ 1,960,069	\$ 10,875,623	\$ 18,053,135
Percentage of Total	66.6 %	7.2 %	8.2 %	82.0 %	9.8 %	8.2 %	18.0 %	100.0 %	

The Accompanying Notes are an Integral Part of these Financial Statements.

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS
Years Ended June 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 1,960,660	\$ (1,614,959)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	101,522	113,293
Amortization of Mortgage Notes Receivable Discount	(567,899)	(644,855)
Discount on Mortgages Issued	1,088,230	2,759,980
Gain on Sale of Mortgages Receivable	(915,094)	(872,388)
Gain on Repurchase Mortgages	(46,556)	-
Write off Fixed Asset Donations	15,000	-
Amortization of Notes Payable Discount	40,635	25,498
(Increase) Decrease in Assets:		
Investments	11,050	-
Accounts Receivable	(684,078)	2,981
Impounds Receivable	(12,822)	(17,120)
Grants and Pledges Receivable	1,198,069	(250,480)
Inventory of Homes	4,178,294	(2,674,660)
Construction in Progress	(3,787,487)	8,307,125
Prepaid Expenses	(7,700)	13,556
Deposits	-	25
Restricted Cash - NMTC Investment Housing Funds	331,559	992,456
Restricted Cash - Homeowner Impound Funds	64,081	44,462
Restricted Cash - Construction Deposits	(1,817,079)	-
Increase (Decrease) in Liabilities:		
Accounts Payable, Operating	90,961	(39,909)
Accounts Payable, Construction	203,742	222,207
Accounts Payable, Restore	2,374	19,619
Accrued Liabilities	25,517	27,572
Impound Liability	(64,081)	(44,462)
Deferred Lease Obligation	(10,036)	61,891
Net Cash Provided by Operating Activities	1,398,862	6,431,832
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase and Sale of Investments	-	(9,513)
Purchase of Fixed Assets	(15,835)	(49,016)
Payments Received on Mortgage Notes Receivable	1,348,701	1,263,257
Proceeds from Mortgage Notes Receivable Sold	1,736,816	2,947,826
Issuance of Home Mortgages Notes	(2,558,810)	(6,411,124)
Investment in New Markets Tax Credit Venture	(256,693)	(245,582)
Net Cash Provided (Used) by Investing Activities	254,179	(2,504,152)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Refundable Advances	-	1,500,000
Refundable Advances Converted to Home Sale Revenue	(2,075,290)	(4,197,975)
Refundable Advances not Used	-	(245,000)
Payments on Notes Payable	(65,061)	(52,182)
Net Cash Used by Financing Activities	(2,140,351)	(2,995,157)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(487,310)	932,523
CASH AND CASH EQUIVALENTS, Beginning of Year	2,850,089	1,917,566
CASH AND CASH EQUIVALENTS, End of Year	\$ 2,362,779	\$ 2,850,089
Supplemental Disclosure of Cash Flows Information:		
Cash Paid for Interest	\$ 186,107	\$ 171,403

The Accompanying Notes are an Integral Part of these Financial Statements.

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

NOTE 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.

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

Housing Development:

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

Programs:

- Homeowner Development: Selects, qualifies, and mentors candidate families, and provides them financial and home ownership education; manages long-term homeowner relationships.
- Volunteer Services: Recruits, trains, schedules, and supports volunteers for work at the construction sites, NR projects, in the office, and on committees.
- Neighborhood Revitalization (NR): Partners with residents in local communities to improve the quality of life in their neighborhoods through improvements to the built environment and home buyer readiness (and financial literacy) training.
- 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.

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 1 - GENERAL INFORMATION (Continued):

Neighborhood Revitalization Program - The Organization implemented a unique new affordable home ownership program during fiscal year 2009 in response to the nation's housing crisis that began a year earlier, entitled Neighborhood Revitalization Program (NRP). The Organization locates and purchases vacant real-estate owned (foreclosed) properties from banks and rehabilitates them as needed using the same volunteer labor and candidate family sweat equity as in its traditional new construction program. The program has successfully turned the crisis into opportunity. As of June 30, 2014, twenty two families are now new first-time homeowners living in houses rehabilitated under the program.

Neighborhood Revitalization - The Organization launched a program entitled Neighborhood Revitalization (NR) in fiscal year 2011, a collaborative partnership with a local nonprofit - Rebuilding Together San Francisco and Rebuilding Together Peninsula. The NR goal is to rehabilitate and renovate 50 community facilities and 200 homes in San Francisco and the Peninsula by 2020. Services are provided in partnership with community residents after consultation and may include: parks beautification, critical home repair, community facility improvements, streetscape beautification and financial literacy training.

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, 11, 13, 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 10, 11, 14, 23).

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.

NOTE 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 two classes of net assets: unrestricted net assets and temporarily 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.

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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.

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 - 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.

Investments - The Organization reports its investments in marketable securities at their readily determinable fair values and all investments in debt securities at their fair values in the accompanying statement of financial position. Unrealized gains and losses are included in the accompanying statement of activities.

Fair Value Measurements - Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

A hierarchy system is used which prioritizes the inputs of valuation techniques used to measure fair value. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). Observable inputs are those that market participants would use in pricing the asset based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Mortgage Notes Receivable - The Organization records home sales 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 (see Note 4).

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.

Inventory of Homes - The Organization classifies as inventory the following: completed new construction homes; homes purchased under the Neighborhood Revitalization Program (NRP) in which rehabilitation is substantially complete; and Habitat built homes that are bought back from the homeowner (resale homes). Completed new construction homes and NRP 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, NRP homes undergoing rehabilitation, and pre-development costs of future projects (see Note 8).

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets. 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, 2014 and 2013, 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, 2014 and 2013 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 Fundraising" in the accompanying statement of functional expenses) for the years ended June 30, 2014 and 2013 were \$26,278 and \$47,790 respectively.

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, 2013, 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.

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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, 2013, 2012 and 2011 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, 2013, 2012, 2011 and 2010 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, 2014 for potential recognition or disclosure in the financial statements. The Organization had subsequent events that required disclosure in the financial statements for the fiscal year ended June 30, 2014 (see Note 24). Subsequent events have been evaluated through the date the financial statements became available to be issued, November 12, 2014.

NOTE 3 - INVESTMENTS:

Investments are classified as Level 1 investments (see Note 2). Investments consist of certificates of deposits to be held more than three months. The fair value of investments as of June 30, is as follows:

<u>Valuation Inputs</u>	<u>2014</u>	<u>2013</u>
Level 1 - Quoted Prices	\$ 24	\$ 11,074
Level 2 - Other Significant Observable Inputs	-	-
Level 3 - Significant Unobservable Inputs	<u>-</u>	<u>-</u>
Total	<u>\$ 24</u>	<u>\$ 11,074</u>

NOTE 4 - MORTGAGE NOTES RECEIVABLE:

As of June 30, 2014, the Organization holds 133 mortgage notes receivable, totaling \$17,006,390 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 9% using the effective interest method over the lives of the mortgages. Mortgages are reported net of amortized cost.

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 - MORTGAGE NOTES RECEIVABLE (Continued):

Principal payments due on mortgage notes receivable are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>
2015	\$ 1,124,995
2016	1,120,445
2017	1,105,525
2018	1,086,257
2019	1,041,477
Thereafter	<u>11,527,691</u>
Notes Receivable at Face Value	17,006,390
Less: Unamortized Discount	<u>(7,684,284)</u>
Net Present Value of Mortgages	9,322,106
Less: Current Portion	<u>(1,124,995)</u>
Long-term Portion	<u>\$ 8,197,111</u>

In the year ended June 30, 2014 the Organization sold eleven mortgage notes. The total principal balance of the mortgages sold was \$2,231,426 and the gain from the sale was \$915,094. The Organization had repurchased a home and the related loan which was previously sold. The total gain on this transaction was \$46,556.

NOTE 5 - GRANTS RECEIVABLE:

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

	<u>2014</u>	<u>2013</u>
Current:		
Department of Housing and Community Development (CalHome Grant) - Daly City, Mission St. Project	\$ 27,500	\$ 880,000
Department of Housing and Community Development - Grant for Daly City, Mission St. Project	-	713,257
Affordable Housing Program - Daly City, Mission St. Project	-	105,000
County of San Mateo Department of Housing - Project WeHOPE Shelter Rehabilitation	-	61,403
Daly City HOME Funds - Construction Subsidy for Daly City, Mission St. Project	<u>-</u>	<u>5,131</u>
Total Current Portion	<u>\$ 27,500</u>	<u>\$ 1,764,791</u>

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 5 - GRANTS RECEIVABLE (Continued):

	<u>2014</u>	<u>2013</u>
Long-Term:		
Department of Housing and Community Development (CalHome Grant) - Habitat Terrace Project (Capital avenue)	\$ 1,500,000	\$ 1,500,000
Affordable Housing Program - Habitat Terrace Project (Capital avenue)	<u>209,000</u>	<u>-</u>
Total Long-Term Portion	<u>1,709,000</u>	<u>1,500,000</u>
Total Grants Receivable	<u>\$ 1,736,500</u>	<u>\$ 3,264,791</u>

NOTE 6 - 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 as of June 30, 2014 and 2013 were \$650,784 and \$320,562, respectively.

NOTE 7 - INVENTORY OF HOMES:

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

	<u>2014</u>	<u>2013</u>
Mission Street Homes	\$ -	\$ 4,494,261
Habitat Resale Homes (see Note 1)	704,009	388,042
Materials	<u>14,334</u>	<u>14,334</u>
Total	<u>\$ 718,343</u>	<u>\$ 4,896,637</u>

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 8 - CONSTRUCTION IN PROGRESS:

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

	2014	2013
New Construction:		
San Francisco: Capital Ave. (28 homes estimated)	\$ 5,989,688	\$ 2,927,883
Mt. Burdell - Land (10 homes estimated)	1,572,440	853,229
Total New Construction	\$ 7,562,128	\$ 3,781,112
Pre-Development:		
San Francisco: Whitney Young II (17 homes estimated)	\$ 171,303	\$ 171,305
Jefferson, RWC	69,548	-
San Francisco: Hunter's View (10 homes estimated)	53,711	53,711
Brisbane: Lau Lots (20 homes estimated)	-	8,938
Marin County: Eagle Rock (4 homes estimated)	-	56,137
Total Pre-Development	294,562	290,091
Total Construction in Progress	7,856,690	4,071,203
Less: Current Portion	-	-
Construction in Progress, Net of Current Portion	\$ 7,856,690	\$ 4,071,203

NOTE 9 - NMTC INVESTMENT - 1, HFHI-SA LEVERAGE VI, LLC:

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

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

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 9 - NMTC INVESTMENT - 1, HFHI-SA LEVERAGE VI, LLC (Continued):

The balance of the investment in HFHI-SA Leverage VI, LLC at June 30, is as follows:

	<u>2014</u>	<u>2013</u>
Beginning Balance	\$ 6,638,197	\$ 6,519,366
Share of Income	182,826	182,736
Distributions Received	<u>(63,815)</u>	<u>(63,905)</u>
Ending Balance	<u>\$ 6,757,208</u>	<u>\$ 6,638,197</u>

NOTE 10 - NMTC INVESTMENT - 2, HFHGSF LEVERAGE LENDER, LLC:

In December 2011, the Organization entered into its second NMTC financing venture, investing in a sole venture (HFHGSF Leverage Lender, LLC). The Organization contributed a combination of cash, construction in progress, and NRP 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>2014</u>	<u>2013</u>
Beginning Balance	\$ 8,024,028	\$ 7,897,277
Share of Income	216,114	205,092
Distributions Received	<u>(78,431)</u>	<u>(78,341)</u>
Ending Balance	<u>\$ 8,161,711</u>	<u>\$ 8,024,028</u>

NOTE 11 - INTANGIBLE ASSETS:

The Organization incurred costs for qualified active low-income business guarantor fees related to its NMTC financing to be amortized over 7 years, the period to which the guarantees apply. The Organization also incurred closing costs related to its two NMTC loans, to be amortized over each of the 15-year note terms. The balance of intangible assets and accumulated amortization as of June 30, are as follows:

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 11- INTANGIBLE ASSETS (Continued):

	2014	2013
Qualified Active Low Income Community Business (QALICB) Guarantor Fees	\$ 398,744	\$ 398,744
NMTC Loan Closing Costs	234,528	234,528
Total Intangible Assets	633,272	633,272
Accumulated Amortization	(215,211)	(142,612)
Intangible Assets, Net of Accumulated Amortization	\$ 418,061	\$ 490,660

Estimated Annual NMTC Amortization Expense at June 30,	Amount
2015	\$ 72,598
2016	72,598
2017	72,598
2018	55,249
2019	55,249
Thereafter	89,769
Total	\$ 418,061

Amortization expense for the year ended June 30, 2014 and 2013 was \$72,598 and \$72,598, respectively.

NOTE 12 - NOTES PAYABLE:

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

	2014	2013
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.	\$ 31,630	\$ 33,722
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.	74,663	80,997

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 12 - NOTES PAYABLE (Continued):

	<u>2014</u>	<u>2013</u>
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.	\$ 162,870	\$ 184,652
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>151,271</u>	<u>178,506</u>
Total Due to the County of San Mateo	<u>420,434</u>	<u>477,877</u>
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 September 2015.	6,580	10,948
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.	<u>16,250</u>	<u>19,500</u>
Total Notes Payable at Face Value	443,264	508,325
Less: Discount on Notes Payable	<u>(146,281)</u>	<u>(186,916)</u>
Net Present Value of Notes Payable	296,983	321,409
Less: Current Portion	<u>(22,631)</u>	<u>(30,154)</u>
Notes Payable, Net of Current Portion	<u>\$ 274,352</u>	<u>\$ 291,255</u>

The discount rates on the notes payable range from 7% to 8% based on an annual simple average using rates published by Habitat for Humanity International, Inc.

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 12 - NOTES PAYABLE (Continued):

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 22,631
2016	31,704
2017	32,063
2018	34,765
2019	37,695
Thereafter	<u>138,125</u>
Total	<u>\$ 296,983</u>

NOTE 13 - 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, 2014 and 2013 is \$8,328,107.

NOTE 14 - 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, 2014 and 2013 was \$10,330,844.

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 15 - 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:

	2014	2013
Department of Housing and Community Development (CalHome Program) - Habitat Terrace	\$ 1,500,000	\$ 1,500,000
Agency Funds - City of Daly City: used to pay for construction cost. A liability of \$84,282 will be transferred to each homeowner upon purchase and forgiven at a rate of 2.22% annually over 45 years.	-	1,095,661
HOME Funds - City of Daly City: used to pay for site development costs. A liability of \$35,120 will be transferred to each homeowner upon purchase and forgiven at a rate of 2.22% annually over 45 years.	-	456,563
Agency Funds - City of Daly City: used to pay for construction cost. A liability of \$24,966 will be transferred to each homeowner upon purchase and forgiven at a rate of 2.22% annually over 45 years.	-	324,566
Department of Housing and Community Development (CalHome Program) - City of Daly City: used for the reduction of principal balance on 17 first-time buyer homeowner mortgages. A liability of \$58,235 will be transferred to each homeowner upon purchase and forgiven according to CalHome Program terms.	-	302,500
AHP Federal Home Loan Bank of San Francisco: used for the reduction of principal balance on 11 homeowner mortgages. A liability of \$19,000 will be transferred to each homeowner upon purchase	209,000	-
AHP Federal Home Loan Bank of San Francisco: used for the reduction of principal balance on 36 homeowner mortgages. A liability of \$15,000 will be transferred to each homeowner upon purchase and forgiven at a rate of 20% annually over 5 years.	-	105,000
	-	105,000

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 15 - REFUNDABLE ADVANCES (Continued):

	<u>2014</u>	<u>2013</u>
Total Refundable Advances	\$ 1,709,000	3,784,290
Less: Current Portion	<u>-</u>	<u>(2,284,290)</u>
Refundable Advances, Net of Current Portion	<u>\$ 1,709,000</u>	<u>\$ 1,500,000</u>

NOTE 16 - TEMPORARILY RESTRICTED NET ASSETS:

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

	<u>2014</u>	<u>2013</u>
Neighborhood Revitalization	\$ -	\$ 231,159
Feasibility Grant, Marin County	-	117,624
Whitney Young II Project, San Francisco	16,130	16,130
San Mateo County	250,000	-
Homeowner Readiness Program	<u>46,610</u>	<u>-</u>
Total Temporarily Restricted Net Assets	<u>\$ 312,740</u>	<u>\$ 364,913</u>

NOTE 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>2014</u>	<u>2013</u>
Low-Income Housing Acquisition and Construction	\$ 857,539	\$ 1,205,920
Neighborhood Revitalization	416,084	490,682
Homeowner Readiness Program	88,513	94,876
Americorp Staffing Stipend	<u>7,500</u>	<u>15,000</u>
Total Temporarily Restricted Net Assets Released	<u>\$ 1,369,636</u>	<u>\$ 1,806,478</u>

NOTE 18 - SALE OF HOMES:

During the fiscal year ending June 30, 2014 the Organization sold one resale Habitat homes and thirteen new construction homes. The loss from the sale of these homes is as follows:

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 18 - SALE OF HOMES (Continued):

Resale Habitat Homes:

Revenue from Sale of Resale Homes	\$ 195,000
Less: Cost of Resale Homes Sold	<u>(185,648)</u>
Gain on Sale of Resale Homes	<u>9,352</u>

New Construction Homes - Mission Street

Revenue from New Construction Homes	4,633,100
Less: Cost of New Construction Homes Sold	<u>(4,651,699)</u>
Loss on Sale of Resale Homes	<u>(18,599)</u>

Total:

Total Revenue from Sale of Homes	4,828,100
Less: Total Cost of Homes Sold	<u>(4,837,347)</u>
Total Net Loss on Sale of Homes	<u>\$ (9,247)</u>

NOTE 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.

NOTE 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, 2014 and 2013, revenue from special events was \$352,631 and \$153,148 and related expense was \$82,737 and \$26,795, respectively.

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 21 - DONATED MATERIALS AND SERVICES:

Donated Materials - The value of donated office supplies and construction materials for the years ended June 30, 2014 and 2013 was \$32,507 and \$74,132 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, 2014 and 2013, donated services of a specialized or professional nature are as follows:

	<u>2014</u>	<u>2013</u>
Legal Services	\$ 176,723	\$ 80,300
Financial Services	11,220	5,236
Miscellaneous Office	<u>14,430</u>	<u>-</u>
Total Donated Professional Services	<u>\$ 202,373</u>	<u>\$ 85,536</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, 2014 and 2013 volunteers donated approximately 75,174 and 85,495 hours, respectively, whose value management has estimated at \$1,339,631 and \$1,560,495, respectively. The value of the unskilled donated services is not recorded in the financial statements.

NOTE 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 full-time 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, 2014 and 2013, were \$52,346 and \$46,991 respectively.

NOTE 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, 2014 and 2013 the amount contributed was \$126,559 and \$120,000 respectively. The current year amount is included in housing development expense under program services in the Statement of Activities.

Insurance Policy - The Organization has a blanket policy for auto, general and builder's risk insurance through Habitat for Humanity International, Inc. For the years ended June 30, 2014 and 2013 the insurance expense was \$64,127 and \$77,138 respectively.

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 23 - RELATED PARTY TRANSACTIONS (Continued):

SHOP Loan - 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, 2014 and 2013 was \$6,580 and \$10,948, respectively.

New Markets Tax Credit Investment - 1 - As a component of the NMTC financing transaction, the Organization recorded debt of \$8,328,107 (see Note 13) payable to Clearinghouse NMTC (Sub 21), LLC, a community development entity (CDE) and an affiliate of the joint venture. Simultaneous with these transactions, the LLC entered into an option agreement with U.S. Bancorp Community Development Corporation (USBCDC), the federal tax credit investor, who is the sole-member of Habitat California Investment Fund, LLC (the Fund), an affiliate of the joint venture, and the upstream effective owner of Clearinghouse NMTC (Sub 21), LLC. Under the terms of the option agreement, USBCDC is expected to place its ownership interest into the Fund during the six month put-option period beginning July 31, 2017. Exercise of this option will effectively extinguish the Organization's outstanding debt owed to the Fund. The Organization will recognize income on the forgiveness of debt in an amount approximating the difference in the book value of the investment and the debt. The investment and debt will then have a balance of zero. All entities related to the joint venture including HFHI-SA LeverageVI, LLC will then be dissolved, ending the NMTC structured financing deal.

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

A requirement in NMTC financing transactions as generally set forth in IRC Section 45D, states that the Organization maintain a separate business such that the separate business will qualify as a qualified active low-income community business as defined in IRC Section 45D. The Organization has set up separate accounting books and records to comply with this requirement. Only the separate business assets of the Organization were pledged as security to the CDE.

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
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NOTES TO FINANCIAL STATEMENTS
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NOTE 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.

Mortgage Notes Sold - The Organization occasionally sells its non-interest bearing mortgage notes receivable. In the year ended June 30, 2013 the Organization sold fifteen mortgage notes. The total principal balance of the mortgages sold was \$3,704,285. From the total sales four have a provision which requires the Organization to repurchase or substitute the notes in the event of default. The four notes sold with recourse had a total face value of \$1,026,000 and had a principal balance of \$956,328. In the event the notes are repurchased, the Organization has the right to foreclose and resell the associated property. In the year ended June 30, 2014 the Organization sold eleven mortgage notes. The total principal balance of the mortgages sold was \$ 2,231,426. The mortgages were sold without recourse.

Office Lease - The Organization leases office space in the city of San Francisco under a non-cancelable lease expiring in October 2014 and leases retail space under a non-cancelable lease for its ReStore in the city of San Carlos as of June 1, 2012 with payments to begin October 1, 2012, expiring in September 2019. As of June 30, 2014, the future minimum lease payments under the lease obligations are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 270,027
2016	265,920
2017	271,680
2018	277,440
2019	283,200
Thereafter	<u>48,000</u>
Total Future Minimum Lease Payments	<u>\$ 1,416,267</u>

The rent expense for the years ended June 30, 2014 and 2013 was \$354,994 and \$ 368,043 respectively.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 25 - SUBSEQUENT EVENTS:

Office Lease - The Organization entered into a new office lease agreement in August, 2014. The lease will start on November 1st, 2014 and will end on December 31, 2021. The future minimum lease payments under the lease obligations are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 146,906
2016	299,061
2017	306,935
2018	314,809
2019	322,683
Thereafter	<u>840,829</u>
Total Future Minimum Lease Payments	<u>\$ 2,231,223</u>