

**Habitat For Humanity Greater
San Francisco, Inc.**

Financial Statements

June 30, 2017

(With Comparative Totals for 2016)



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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Habitat For Humanity Greater San Francisco, Inc. (a California nonprofit corporation) (the "Organization"), which comprise the statement of financial position as of June 30, 2017, 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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Habitat For Humanity Greater San Francisco, Inc.'s 2016 financial statements, and our report dated November 8, 2016 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, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Armanino LLP

Armanino^{LLP}
San Jose, California

November 8, 2017

Habitat For Humanity Greater San Francisco, Inc.
Statement of Financial Position
June 30, 2017
(With Comparative Totals for 2016)

| | 2017 | 2016 |
|--------------------------------------------------------|-------------------|-------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 6,915,468 | \$ 3,565,204 |
| Accounts receivable | 453,827 | 11,093 |
| Impound receivable | 12,702 | 12,224 |
| Current portion of mortgage notes receivables, net | 1,075,542 | 999,969 |
| Current portion of pledges receivable | 708,573 | 955,816 |
| Inventory of homes | 1,631,611 | 633,820 |
| Prepaid expenses | 51,689 | 38,218 |
| Total current assets | 10,849,412 | 6,216,344 |
| Property and equipment, net | 348,195 | 419,614 |
| Noncurrent assets | | |
| Restricted cash | 1,058,483 | 936,476 |
| Mortgage notes receivable, net of unamortized discount | 7,683,403 | 6,987,070 |
| Grants receivable | 1,009,000 | 1,952,370 |
| Pledges receivable, net of current portion | 922,829 | 999,608 |
| Construction in progress | 9,401,599 | 16,713,801 |
| Deposits | 95,619 | 102,833 |
| Intangibles, net | 58,632 | 115,596 |
| NMTC Investment - 1, HFHI-SA Leverage VI, LLC | 7,113,970 | 6,995,049 |
| NMTC Investment - 2, HFHGSF Leverage Lender, LLC | 8,575,030 | 8,437,257 |
| Total noncurrent assets | 35,918,565 | 43,240,060 |
| Total assets | \$ 47,116,172 | \$ 49,876,018 |

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

Habitat For Humanity Greater San Francisco, Inc.
Statement of Financial Position
June 30, 2017
(With Comparative Totals for 2016)

| | 2017 | 2016 |
|---------------------------------------------------|-------------------|-------------------|
| LIABILITIES AND NET ASSETS | | |
| Current liabilities | | |
| Accounts payable, operating | \$ 232,792 | \$ 272,243 |
| Accounts payable, construction | 15,143 | 194,345 |
| Accounts payable, ReStore | 661 | 8,511 |
| Accrued liabilities | 194,189 | 237,865 |
| Accrued interest | 18,347 | 18,347 |
| Unearned revenue | 16,000 | 43,173 |
| Current portion of notes payable | 40,318 | 30,944 |
| Impound liability | 1,871 | 13,529 |
| Total current liabilities | 519,321 | 818,957 |
| Long-term liabilities | | |
| Notes payable, net of current portion | 668,632 | 211,333 |
| Refundable advances | 2,561,438 | 3,341,438 |
| Loan payable, NMTC financing - 1 | 8,288,725 | 8,283,853 |
| Loan payable, NMTC financing - 2 | 10,228,593 | 10,217,830 |
| Deferred lease obligation, net of current portion | 126,454 | 126,624 |
| Total long-term liabilities | 21,873,842 | 22,181,078 |
| Total liabilities | 22,393,163 | 23,000,035 |
| Net assets | | |
| Unrestricted | 22,067,892 | 24,207,471 |
| Temporarily restricted | 2,655,117 | 2,668,512 |
| Total net assets | 24,723,009 | 26,875,983 |
| Total liabilities and net assets | \$ 47,116,172 | \$ 49,876,018 |

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

Habitat For Humanity Greater San Francisco, Inc.
Statement of Activities
For the Year Ended June 30, 2017
(With Comparative Totals for 2016)

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>2017 Total</u> | <u>2016 Total</u> |
|----------------------------------------------------|----------------------|-----------------------------------|-----------------------|-----------------------|
| Support and revenue | | | | |
| Support | | | | |
| Contributions | \$ 1,861,080 | \$ 1,347,242 | \$ 3,208,322 | \$ 3,677,571 |
| Special events, net | 379,666 | - | 379,666 | 323,828 |
| Grants | 217,276 | - | 217,276 | 396,065 |
| Donated services | 241,742 | - | 241,742 | 258,673 |
| Donated materials | - | 119,739 | 119,739 | 133,878 |
| Total support | <u>2,699,764</u> | <u>1,466,981</u> | <u>4,166,745</u> | <u>4,790,015</u> |
| Revenue | | | | |
| ReStore revenue | 1,546,189 | - | 1,546,189 | 1,471,777 |
| Inclusionary BMR revenue | - | - | - | 2,710,716 |
| Mortgage discount amortization | 916,125 | - | 916,125 | 553,613 |
| Sale of homes | 10,890,288 | - | 10,890,288 | - |
| NMTC investment income | 398,939 | - | 398,939 | 398,939 |
| Gain on sale and repurchase of note receivables | - | - | - | 33,539 |
| Other income | 18,000 | - | 18,000 | 19,066 |
| Net assets released from restriction | <u>1,480,376</u> | <u>(1,480,376)</u> | <u>-</u> | <u>-</u> |
| Total revenue | <u>15,249,917</u> | <u>(1,480,376)</u> | <u>13,769,541</u> | <u>5,187,650</u> |
| | <u>17,949,681</u> | <u>(13,395)</u> | <u>17,936,286</u> | <u>9,977,665</u> |
| Functional expenses | | | | |
| Program services | | | | |
| Housing Development | 13,710,419 | - | 13,710,419 | 815,133 |
| Homeowner Dev., Volunteers, NR | 1,943,062 | - | 1,943,062 | 1,947,040 |
| ReStore | <u>1,439,546</u> | <u>-</u> | <u>1,439,546</u> | <u>1,569,666</u> |
| Total program services | <u>17,093,027</u> | <u>-</u> | <u>17,093,027</u> | <u>4,331,839</u> |
| Support services | | | | |
| General and Administrative | 1,618,707 | - | 1,618,707 | 1,258,777 |
| Fundraising | <u>1,377,526</u> | <u>-</u> | <u>1,377,526</u> | <u>1,305,886</u> |
| Total support services | <u>2,996,233</u> | <u>-</u> | <u>2,996,233</u> | <u>2,564,663</u> |
| Total functional expenses | <u>20,089,260</u> | <u>-</u> | <u>20,089,260</u> | <u>6,896,502</u> |
| Change in net assets | (2,139,579) | (13,395) | (2,152,974) | 3,081,163 |
| Net assets, beginning of year | <u>24,207,471</u> | <u>2,668,512</u> | <u>26,875,983</u> | <u>23,794,820</u> |
| Net assets, end of year | <u>\$ 22,067,892</u> | <u>\$ 2,655,117</u> | <u>\$ 24,723,009</u> | <u>\$ 26,875,983</u> |

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

Habitat For Humanity Greater San Francisco, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2017
(With Comparative Totals for 2016)

| | Housing Development | Homeowner Dev., Volunteers, NR | ReStore | Total Program Services | General and Administrative | Fundraising | Total Support Services | 2017 Total | 2016 Total |
|---------------------------------------------|------------------------|-----------------------------------|---------------------|---------------------------|-------------------------------|---------------------|---------------------------|----------------------|---------------------|
| Expenses | | | | | | | | | |
| Direct housing expenses | | | | | | | | | |
| Cost of sales - homes | \$ 10,782,000 | \$ - | \$ - | \$ 10,782,000 | \$ - | \$ - | \$ - | \$ 10,782,000 | \$ - |
| (Gain) loss on construction in progress | - | - | - | - | - | - | - | - | (34,682) |
| Total direct housing expenses | <u>10,782,000</u> | <u>-</u> | <u>-</u> | <u>10,782,000</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>10,782,000</u> | <u>(34,682)</u> |
| Salaries and benefits | | | | | | | | | |
| Salaries and wages | 369,953 | 1,073,541 | 685,336 | 2,128,830 | 523,023 | 881,600 | 1,404,623 | 3,533,453 | 3,077,391 |
| Employee benefits | 14,896 | 133,595 | 72,145 | 220,636 | 30,243 | 66,552 | 96,795 | 317,431 | 326,588 |
| Payroll taxes | 36,781 | 82,844 | 64,539 | 184,164 | 42,569 | 60,726 | 103,295 | 287,459 | 247,979 |
| Stipend - Vista/AmeriCorp | 138 | 43,697 | 3,609 | 47,444 | 11,267 | 24,559 | 35,826 | 83,270 | 152,184 |
| Workers' compensation insurance | 6,392 | 15,218 | 23,700 | 45,310 | 2,500 | 4,148 | 6,648 | 51,958 | 105,852 |
| Total salaries and benefits | <u>428,160</u> | <u>1,348,895</u> | <u>849,329</u> | <u>2,626,384</u> | <u>609,602</u> | <u>1,037,585</u> | <u>1,647,187</u> | <u>4,273,571</u> | <u>3,909,994</u> |
| Total expenses | 11,210,160 | 1,348,895 | 849,329 | 13,408,384 | 609,602 | 1,037,585 | 1,647,187 | 15,055,571 | 3,875,312 |
| Professional services | 60,231 | 94,782 | 32,689 | 187,702 | 270,612 | 84,562 | 355,174 | 542,876 | 443,368 |
| Rent | 87,798 | 89,013 | 423,004 | 599,815 | 71,229 | 71,229 | 142,458 | 742,273 | 748,666 |
| Donated services and goods | - | - | 1,440 | 1,440 | 70,662 | - | 70,662 | 72,102 | 236,948 |
| Promotions and supplies | 1,037 | 88,926 | - | 89,963 | 9,138 | 17,301 | 26,439 | 116,402 | 115,499 |
| Interest | 135,038 | 143 | - | 135,181 | 63,727 | - | 63,727 | 198,908 | 191,035 |
| NMTC annual fees | - | - | - | - | 172,629 | - | 172,629 | 172,629 | 156,837 |
| Tithe | 159,000 | - | - | 159,000 | - | - | - | 159,000 | 128,000 |
| Communications | 17,796 | 50,999 | 4,305 | 73,100 | 19,945 | 33,614 | 53,559 | 126,659 | 125,530 |
| Office expenses | 8,870 | 7,253 | 42,709 | 58,832 | 46,674 | 3,987 | 50,661 | 109,493 | 169,018 |
| Postage and printing | 4,130 | 11,172 | 1,358 | 16,660 | 12,137 | 80,478 | 92,615 | 109,275 | 115,367 |
| Depreciation | - | - | - | - | 116,173 | - | 116,173 | 116,173 | 73,298 |
| Amortization | - | - | - | - | 56,964 | - | 56,964 | 56,964 | 56,964 |
| Bad Debt | - | - | - | - | 2,500 | - | 2,500 | 2,500 | - |
| Taxes and Licenses | - | - | - | - | 360 | - | 360 | 360 | - |
| Travel and training | 6,881 | 43,972 | 6,288 | 57,141 | 22,585 | 10,785 | 33,370 | 90,511 | 84,824 |
| Neighborhood revitalization project expense | - | 170,910 | - | 170,910 | - | - | - | 170,910 | 126,443 |
| Computer software/hardware | 4,385 | 16,762 | 27,711 | 48,858 | 17,645 | 9,580 | 27,225 | 76,083 | 66,556 |
| Bank fees | 513 | 263 | 26,643 | 27,419 | 6,801 | 21,592 | 28,393 | 55,812 | 52,366 |
| Insurance | 11,374 | 14,160 | 9,020 | 34,554 | 34,474 | 5,025 | 39,499 | 74,053 | 35,553 |
| Employee engagement | 2,000 | 1,798 | - | 3,798 | 9,315 | 1,043 | 10,358 | 14,156 | 22,015 |
| Equipment rental and maintenance | 4,576 | 4,014 | 643 | 9,233 | 5,535 | 745 | 6,280 | 15,513 | 37,975 |
| Miscellaneous construction | 198,353 | - | - | 198,353 | - | - | - | 198,353 | 4,709 |
| Discount on mortgage issued | 1,798,277 | - | - | 1,798,277 | - | - | - | 1,798,277 | - |
| Marketing | - | - | 14,407 | 14,407 | - | - | - | 14,407 | 30,219 |
| | <u>\$ 13,710,419</u> | <u>\$ 1,943,062</u> | <u>\$ 1,439,546</u> | <u>\$ 17,093,027</u> | <u>\$ 1,618,707</u> | <u>\$ 1,377,526</u> | <u>\$ 2,996,233</u> | <u>\$ 20,089,260</u> | <u>\$ 6,896,502</u> |

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

Habitat For Humanity Greater San Francisco, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2017
(With Comparative Totals for 2016)

| | 2017 | 2016 |
|---------------------------------------------------------------------------------------------|----------------|--------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ (2,152,974) | \$ 3,081,163 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities | | |
| Depreciation and amortization | 173,137 | 130,262 |
| Loss on disposal of fixed assets | - | 488 |
| Sales of homes recognized through issuance of mortgage notes | (3,096,000) | - |
| Amortization of mortgage notes receivable discount | (916,125) | (553,163) |
| Discount on mortgages issued | 1,798,277 | - |
| Gain on sale and repurchase of mortgages receivable | - | (33,539) |
| Amortization of notes payable discount | 8,014 | 19,810 |
| Amortization of debt issuance costs | 15,635 | 15,635 |
| Changes in operating assets and liabilities | | |
| Accounts and impound receivable | (442,734) | 16,396 |
| Grants and pledges receivable | 1,267,392 | 15,526 |
| Impounds receivable | (478) | - |
| Inventory of homes | (583,946) | (378,635) |
| Construction in progress | 7,312,202 | (3,460,571) |
| Prepaid expenses and deposits | (13,471) | 8,129 |
| Deposits | 7,214 | - |
| Restricted cash | (122,007) | 1,283,719 |
| Accounts payable | (226,503) | 126,415 |
| Accrued expenses and other liabilities | (82,677) | 78,368 |
| Net cash provided by operating activities | 2,944,956 | 350,003 |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (44,754) | (39,082) |
| Payments received on mortgage notes receivable | 1,028,097 | 1,117,722 |
| Repurchase of mortgage notes receivable | - | (149,619) |
| Investment in new markets tax credit venture | (256,694) | (256,693) |
| Net cash provided by investing activities | 726,649 | 672,328 |
| Cash flows from financing activities | | |
| Proceeds on line of credit | 1,510,290 | - |
| Payments on line of credit | (1,510,290) | (700,000) |
| Refundable advances converted to home sale revenue | (780,000) | 1,022,438 |
| Payments on notes payable | (41,341) | (52,677) |
| Proceeds from notes payable | 500,000 | - |
| Net cash provided by (used in) financing activities | (321,341) | 269,761 |
| Net increase in cash and cash equivalents | 3,350,264 | 1,292,092 |
| Cash and cash equivalents, beginning of year | 3,565,204 | 2,273,112 |
| Cash and cash equivalents, end of year | \$ 6,915,468 | \$ 3,565,204 |
| Supplemental disclosure of cash flow information | | |
| Cash paid during the year for interest | \$ 183,273 | \$ 175,400 |
| Supplemental schedule of noncash investing and financing activities | | |
| Inventory of homes acquired through cancellation of mortgage notes | \$ 413,845 | \$ - |

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

Habitat For Humanity Greater San Francisco, Inc.
Notes to Financial Statements
June 30, 2017
(With Comparative Totals for 2016)

1. ORGANIZATION

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

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

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

Housing development

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

Programs

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

Habitat For Humanity Greater San Francisco, Inc.
Notes to Financial Statements
June 30, 2017
(With Comparative Totals for 2016)

1. ORGANIZATION (continued)

Programs (continued)

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

New Markets Tax Credit Financing

In July 2010, the Organization invested in a New Markets Tax Credit (NMTC) financing joint venture, HFHI-SA Leverage VI, LLC, along with three other Habitat affiliates, to take advantage of tax credit equity financing (see Notes 9, 13, 20, 22).

In December 2011, the Organization invested in its second New Markets Tax Credit (NMTC) financing venture, HFHGSF Leverage Lender, LLC, as the sole Habitat affiliate, to take advantage of tax credit equity financing (see Notes 10, 13, 20).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

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

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

- *Unrestricted net assets* - include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization.
- *Temporarily restricted net assets* - include those assets which are subject to donor restriction and for which the applicable restriction was not met as of the year end of the current reporting period.
- *Permanently restricted net assets* - include those assets which are subject to a non-expiring donor restriction, such as endowments. The Organization does not have any permanently restricted net assets.

Habitat For Humanity Greater San Francisco, Inc.
Notes to Financial Statements
June 30, 2017
(With Comparative Totals for 2016)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle

For the year ended June 30, 2017, the Organization adopted the provisions of Accounting Standards Update 2015-03, Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). Under this new accounting policy, the Organization has retrospectively presented all debt issuance costs as a direct deduction from the carrying amount of the related obligation in the statement of financial position. Amortization of the debt issuance costs is calculated using the straight line method, which approximates the effective interest method and is included as a component of interest expense. The effects of the retrospective application of the accounting change on the year ended June 30, 2016 is a decrease of both total assets and total liabilities by \$157,268 in the statement of financial position.

Cash and cash equivalents

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

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

Restricted cash

Restricted cash is comprised of the following:

- *Restricted cash - New Market Tax Credit Investment Housing Funds* - New Market Tax Credit restricted cash are funds set aside to cover transaction and management fees. The balance of the New Market Tax Credit Investment Housing Funds totaled \$1,028,566 and \$895,059 as of June 30, 2017 and 2016, respectively.
- *Restricted cash - homeowners impound funds* - The Organization services the mortgages on the homes it sells. Included in restricted cash are amounts received for insurance and property taxes on such homes. The Organization records a related liability as an offset to these impound amounts. The balance of the homeowners impound funds totaled \$1,869 and \$13,526 as of June 30, 2017 and 2016, respectively.
- *Restricted cash - construction in progress performance deposit* - In lieu of posting a performance bond on active construction projects, the Organization pledges a certificate of deposit. The money is released once the project is completed. The balance of the construction in progress performance deposit totaled \$28,048 and \$27,891 as of June 30, 2017 and 2016, respectively.

Habitat For Humanity Greater San Francisco, Inc.
Notes to Financial Statements
June 30, 2017
(With Comparative Totals for 2016)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 a right of first refusal.

Grants, donations and pledges receivables

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

Inventory of homes

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

Construction in progress

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

Property and equipment

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

Habitat For Humanity Greater San Francisco, Inc.
Notes to Financial Statements
June 30, 2017
(With Comparative Totals for 2016)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2017 and 2016, 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, 2017 and 2016, 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 "Marketing" and "Promotions, Supplies" in the accompanying statement of functional expenses) for the years ended June 30, 2017 and 2016, were \$14,960 and \$37,551, respectively.

Use of estimates

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

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

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

The Organization's federal returns for the fiscal years ended June 30, 2016, 2015 and 2014 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, 2016, 2015, 2014 and 2013 could be subject to examination by state taxing authorities, generally for four years after they are filed.

Comparative financial statements

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional expense categories. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2016, 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.

3. MORTGAGE NOTES RECEIVABLE

As of June 30, 2017, the Organization holds 127 mortgage notes receivable, totaling \$15,746,215 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.

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3. MORTGAGE NOTES RECEIVABLE (continued)

Principal payments due on mortgage notes receivable are as follows:

| <u>Year Ending June 30,</u> | | |
|--------------------------------|-----------|--------------------|
| 2018 | \$ | 1,075,542 |
| 2019 | | 1,047,093 |
| 2020 | | 987,408 |
| 2021 | | 956,019 |
| 2022 | | 921,753 |
| Thereafter | | <u>10,758,400</u> |
| | | 15,746,215 |
| Less unamortized discount | | <u>(6,987,270)</u> |
| | | 8,758,945 |
| Net present value of mortgages | | (1,075,542) |
| Less current portion | | <u>(1,075,542)</u> |
| | <u>\$</u> | <u>7,683,403</u> |

In the year ended June 30, 2017, the Organization reacquired three homes partially in exchange for the cancellation of the outstanding balance on the related mortgage notes receivable.

4. GRANTS RECEIVABLE

Grants receivable consist of the following:

| | 2017 | 2016 |
|----------------------------------------------------------------------------------------|---------------------|---------------------|
| Department of Housing and Community Development (CalHome Grant) - various projects | \$ 960,000 | \$ 1,610,000 |
| Affordable Housing Program - Habitat Terrace Project (Capital Avenue) | 19,000 | 209,000 |
| Community Development Block Grant Program - City of Redwood City (Jefferson Avenue) | - | 28,370 |
| Other Non-Government Grants - various projects | <u>30,000</u> | <u>105,000</u> |
| | <u>\$ 1,009,000</u> | <u>\$ 1,952,370</u> |

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5. PLEDGES RECEIVABLE

Pledges receivable consist of the following:

| | 2017 | 2016 |
|-------------------------------------|-------------------|-------------------|
| Receivable in less than one year | \$ 708,573 | \$ 955,816 |
| Receivable in one to five years | <u>990,635</u> | <u>1,058,137</u> |
| | 1,699,208 | 2,013,953 |
| Less discounts to net present value | <u>(67,806)</u> | <u>(58,529)</u> |
| | 1,631,402 | 1,955,424 |
| Less current portion | <u>(708,573)</u> | <u>(955,816)</u> |
| | <u>\$ 922,829</u> | <u>\$ 999,608</u> |

6. INVENTORY OF HOMES

Inventory of homes consist of the following:

| | 2017 | 2016 |
|----------------------|---------------------|-------------------|
| Habitat resale homes | \$ 1,631,611 | \$ 619,486 |
| Materials | <u>-</u> | <u>14,334</u> |
| | <u>\$ 1,631,611</u> | <u>\$ 633,820</u> |

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

| | 2017 | 2016 |
|--------------------------|-------------------|-------------------|
| Furniture and equipment | \$ 234,505 | \$ 237,171 |
| Vehicles | 152,441 | 114,521 |
| Leasehold improvements | <u>380,353</u> | <u>380,353</u> |
| | 767,299 | 732,045 |
| Accumulated depreciation | <u>(419,104)</u> | <u>(312,431)</u> |
| | <u>\$ 348,195</u> | <u>\$ 419,614</u> |

Depreciation expense for the year ended June 30, 2017 and 2016, was \$116,173 and \$73,298, respectively.

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8. CONSTRUCTION IN PROGRESS

Construction in progress consist of the following:

| | 2017 | 2016 |
|-------------------------------------------------------|--------------|---------------|
| New construction | | |
| San Francisco: Capital Ave. (2 homes) | \$ 864,189 | \$ 10,066,656 |
| Novato: Mt. Burdell Place (10 homes) | 5,823,286 | 4,192,839 |
| Redwood City: Jefferson Ave. (20 homes) | 2,332,295 | 2,006,648 |
| | 9,019,770 | 16,266,143 |
| Pre-development | | |
| San Francisco: Whitney Young II (written off in 2017) | - | 171,303 |
| San Francisco: Hunter's View (30 homes estimated) | 357,055 | 276,355 |
| San Francisco: Amber Dr. (6 homes estimated) | 110 | - |
| Daly City: Geneva (6 homes estimated) | 24,664 | - |
| | 381,829 | 447,658 |
| | \$ 9,401,599 | \$ 16,713,801 |

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

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

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

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

| | 2017 | 2016 |
|----------------------------|--------------|--------------|
| Balance, beginning of year | \$ 6,995,049 | \$ 6,876,129 |
| Share of income | 182,735 | 182,735 |
| Distributions received | (63,814) | (63,815) |
| Balance, end of year | \$ 7,113,970 | \$ 6,995,049 |

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

In August 2017, HFHI-SA Leverage VI, LLC purchased the ownership interest of the investment (see Note 22).

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

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

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

| | 2017 | 2016 |
|----------------------------|--------------|--------------|
| Balance, beginning of year | \$ 8,437,257 | \$ 8,299,484 |
| Share of income | 216,204 | 216,204 |
| Distributions received | (78,431) | (78,431) |
| Balance, end of year | \$ 8,575,030 | \$ 8,437,257 |

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.

Intangible assets consist of the following:

| | 2017 | 2016 |
|------------------------------------------------------------------------|------------|------------|
| Qualified active low income community business (QALICB) guarantor fees | \$ 398,744 | \$ 398,744 |
| Accumulated amortization | (340,112) | (283,148) |
| | \$ 58,632 | \$ 115,596 |

Amortization expense for the year ended June 30, 2017 and 2016 was \$56,964. Future amortization expense is expected to be \$39,614 and \$19,018 for the years ending June 30, 2018 and 2019, respectively.

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12. NOTES PAYABLE

Notes payable are detailed as follows:

| | 2017 | 2016 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|
| Payable to the County of San Mateo - Home Program federal funds used for site construction costs of two housing units, secured by individual deeds of trust on property located in Brisbane, CA, due in semi-annual non-interest bearing payments of \$698 through June 2037. | \$ 28,142 | \$ 28,840 |
| 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. | 64,105 | 66,217 |
| 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. | 126,565 | 133,826 |
| 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. | 69,572 | 83,189 |
| Payable to Habitat for Humanity International, Inc. - 0% interest, federal funds used for housing construction costs, payable in 47 monthly installments of \$581. | 27,900 | 27,900 |
| Payable to the Housing Authority of the County of San Mateo, 0% interest, used for the purpose of acquiring the property located at Jefferson Avenue in Redwood City, secured by individual deeds of trust on the property. Should all requirements of the agreement be met, loan is to be forgiven in five equal, \$100,000, installments over the last 5 years of the term of the loan, from July 2042 to June 2047. | 500,000 | - |

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12. NOTES PAYABLE (continued)

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

| | | |
|--------------------------------|------------|------------|
| | 6,500 | 8,125 |
| | 822,784 | 348,097 |
| Less discount on notes payable | (113,834) | (105,820) |
| | 708,950 | 242,277 |
| Current portion | (40,318) | (30,944) |
| | \$ 668,632 | \$ 211,333 |

The discount rates on the notes payable range from 7.5% to 8.4% based on an annual simple average using rates published by Habitat for Humanity International, Inc. Interest expense on the notes for the years ended June 30, 2017 and 2016 was \$19,968 and \$20,493, respectively.

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

| <u>Year Ending June 30,</u> | | |
|-----------------------------|----|------------|
| 2018 | \$ | 40,318 |
| 2019 | | 43,680 |
| 2020 | | 30,389 |
| 2021 | | 15,176 |
| 2022 | | 12,709 |
| Thereafter | | 566,678 |
| | | \$ 708,950 |

13. LOANS PAYABLE

Loan Payable, NMTC Financing - 1

The Organization recorded a loan payable to Clearinghouse NMTC Sub 21, LLC (a NMTC community development entity) dated July 28, 2010 as part of the NMTC financing transaction. It is a 15-year loan bearing interest at 0.766% interest with semi-annual interest-only payments for 7 years from December 5, 2010 until December 5, 2017. Principal payments are scheduled to begin on December 5, 2017, due semi-annually to fully amortize the principal balance over the following 8 years. The loan is secured by substantially all the assets acquired by the Organization from the project loan proceeds. The loan has a put option feature, defined in an option agreement between the joint venture's related parties that was exercised in August 2017 that effectively removed the liability from the Organization (see Note 20 and 22). The balance of the loan for each of the years ending June 30, 2017 and 2016, is \$8,328,107.

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13. LOANS PAYABLE (continued)

The Organization incurred debt issuance costs totaling \$73,079 related to the closing of the loan, which is being amortized over the 15-year note term. Unamortized debt issuance costs of \$39,382 and \$44,254 are reported as a direct reduction of the loan for the years ending June 30, 2017 and 2016, respectively.

Interest expense on the loan for the years ended June 30, 2017 and 2016 was \$68,693 and \$68,772, respectively. Interest expense includes \$4,872 of amortization of the debt issuance costs the years ended June 30, 2017 and 2016.

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 20). The balance of the loan for each of the years ending June 30, 2017 and 2016, was \$10,330,844.

The Organization incurred debt issuance costs totaling \$161,449 related to the closing of the loan, which is being amortized over the 15-year note term. Unamortized debt issuance costs of \$102,251 and \$113,014 are reported as a direct reduction of the loan for the years ending June 30, 2017 and 2016, respectively.

Interest expense on the loan for the years ended June 30, 2017 and 2016 was \$89,994. Interest expense includes \$10,763 of amortization of the debt issuance costs the years ended June 30, 2017 and 2016.

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.

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14. REFUNDABLE ADVANCES (continued)

Refundable advances are detailed as follows:

| | 2017 | 2016 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| Department of Housing and Community Development (CalHome Program) - various projects | \$ 1,020,000 | \$ 1,610,000 |
| Housing Endowment and Regional Trust of San Mateo County (HEART): used for the acquisition of real property at 612 Jefferson Avenue, Redwood City, CA. | 500,000 | 500,000 |
| AHP Federal Home Loan Bank of San Francisco: used for the reduction of principal balance on 11 homeowner mortgages. A liability of \$19,000 will be transferred to each homeowner upon purchase | 19,000 | 209,000 |
| Marin Workforce Housing Trust: used for the development of 10 three-bedroom homes located in the City of Novato, CA (Mt. Burdell Place) | 595,000 | 595,000 |
| City of Novato: used for the development of 10 single family homes located in Novato, CA (Mt. Burdell Place), restricted for sale to first time low-income homebuyers | 427,438 | 427,438 |
| | \$ 2,561,438 | \$ 3,341,438 |

15. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

| | 2017 | 2016 |
|-------------------------------------------------|--------------|--------------|
| Growth campaign - time restriction | \$ 1,676,035 | \$ 1,764,312 |
| Low-income housing acquisition and construction | 979,082 | 875,820 |
| Construction internship | - | 28,380 |
| | \$ 2,655,117 | \$ 2,668,512 |

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15. TEMPORARILY RESTRICTED NET ASSETS (continued)

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

| | 2017 | 2016 |
|-------------------------------------------------------|--------------|--------------|
| Time restriction | \$ 517,902 | \$ 163,208 |
| Low-income housing acquisition and construction | 827,744 | 993,995 |
| Homeowner development and neighborhood revitalization | 134,730 | 145,673 |
| | \$ 1,480,376 | \$ 1,302,876 |

16. SALE OF HOMES

During the fiscal year ending June 30, 2017 the Organization sold 26 new construction homes, comprised of 10 Habitat homes and 16 below market rate homes. The gain from the sale of these homes totaled \$108,288 and is comprised of revenue from sale of homes of \$10,890,288 less cost of homes sold of \$10,782,000. During the fiscal year ending June 30, 2016 there were no sales of homes.

17. 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, 2017 and 2016, revenue from special events was \$524,132 and \$562,052 and related expense was \$144,466 and \$238,224, respectively.

18. DONATED MATERIALS AND SERVICES

Donated materials

The value of donated office supplies and construction materials for the years ended June 30, 2017 and 2016, was \$119,739 and \$133,878, 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.

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18. DONATED MATERIALS AND SERVICES (continued)

Donated services (continued)

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

| | 2017 | 2016 |
|----------------------|------------|------------|
| Legal services | \$ 241,742 | \$ 87,748 |
| Financial services | - | 137,185 |
| Miscellaneous office | - | 33,740 |
| | \$ 241,742 | \$ 258,673 |

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, 2017 and 2016, volunteers donated approximately 127,853 and 85,135 hours, respectively, whose value management has estimated at \$3,409,793 and \$2,180,714, respectively.

19. 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, 2017 and 2016, were \$97,618 and \$54,748, respectively.

20. 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, 2017 and 2016, the amount contributed was \$159,000 and \$128,000, 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, 2017 and 2016, the insurance expense was \$74,053 and \$35,553, respectively.

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20. RELATED PARTY TRANSACTIONS (continued)

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, 2017 and 2016, was \$27,900.

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 (see Note 22).

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.

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20. RELATED PARTY TRANSACTIONS (continued)

New Markets Tax Credit Investment - 2

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

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

21. COMMITMENTS

Right of first purchase

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

Office lease

The Organization leases commercial office space 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 expiring in September 2019.

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21. COMMITMENTS (continued)

Office lease (continued)

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

| <u>Year Ending June 30,</u> | | |
|-----------------------------|----|-------------------------|
| 2018 | \$ | 752,177 |
| 2019 | | 770,609 |
| 2020 | | 444,761 |
| 2021 | | 338,431 |
| 2022 | | <u>171,840</u> |
| | \$ | <u><u>2,477,818</u></u> |

The rent expense for the years ended June 30, 2017 and 2016, was \$742,273 and \$748,666, respectively.

22. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through November 8, 2017, the date the financial statements were available to be issued. No subsequent events have occurred, other than as described below, that would have a material impact on the presentation of the Organization's financial statements.

As noted in Note 9 and Note 13, in 2010, the Organization made an investment in HFHI-SA Leverage VI, LLC with a combination of cash and construction in progress totaling \$6,381,480. The Organization was a 33.9% member of HFHI-SA Leverage VI, LLC and in return for its investment, received a loan from Clearinghouse NMTC (Sub 21), LLC, a community development entity, in the amount of \$8,328,107.

In August 2017, US Bancorp Community Development Corporation (USB CDC), as the federal tax credit investor and upstream effective owner of Clearinghouse NMTC (Sub 21), LLC, exercised its put option. Under the terms of the put option agreement, HFHI-SA Leverage VI, LLC purchased the ownership interest of the investment. Exercise of the option effectively extinguished the Organization's outstanding debt owed to the Fund and resulted in \$1,646,171 in debt forgiveness income during FY18.

The Organization's investment in HFHI-SA Leverage VI, LLC was \$0 as of August 4, 2017, and all related entities have been dissolved.