

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

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

Year Ended June 30, 2011 with Comparative Totals
for the Year Ended June 30, 2010

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

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SECTION I
FINANCIAL SECTION

EMERITUS

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

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

We have audited the accompanying statements of financial position of Habitat for Humanity Greater San Francisco, Inc. (a California nonprofit public benefit corporation) as of June 30, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year summarized comparative information has been derived from Habitat for Humanity Greater San Francisco, Inc.'s financial statements for the year ended June 30, 2010 and, in our report dated October 7, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2011, on our consideration of Habitat for Humanity Greater San Francisco, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the financial statements of Habitat for Humanity Greater San Francisco, Inc. as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Berger Lewis Accountancy Corporation

BERGER LEWIS ACCOUNTANCY CORPORATION
San Jose, California
November 10, 2011

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

STATEMENTS OF FINANCIAL POSITION

June 30, 2011 with Comparative Totals as of June 30, 2010

ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 3,319,623	\$ 2,132,826
Restricted Cash - Impounds	160,701	84,484
Investments	16,893	694,547
Accounts Receivable	6,020	-
Current Portion of Mortgage Notes Receivable, Net	939,975	871,499
Current Portion of Grants Receivable	3,738,163	5,508,373
Current Portion of Pledges Receivable, Net	210,937	277,127
Inventory of Homes	2,251,552	4,894,771
Current Portion of Construction in Progress	-	240,976
Prepaid Expenses	<u>13,319</u>	<u>16,564</u>
Total Current Assets	<u>10,657,183</u>	<u>14,721,167</u>
PROPERTY AND EQUIPMENT:		
Furniture and Equipment	143,548	205,921
Vehicles	55,995	55,995
Leasehold Improvements	<u>-</u>	<u>106,754</u>
	199,543	368,670
Accumulated Depreciation	<u>(146,328)</u>	<u>(300,678)</u>
Total Property and Equipment, Net	<u>53,215</u>	<u>67,992</u>
OTHER ASSETS:		
Mortgage Notes Receivable, Net of Unamortized Discount	7,093,139	6,743,929
Construction in Progress	9,273,452	2,091,044
Pledges Receivable, Net	189,216	383,750
Grants Receivable	450,000	450,000
New Markets Tax Credit (NMTC) Intangible Assets, Net of Accumulated Amortization	659,579	-
New Markets Tax Credit Joint Venture Investment	6,400,628	-
Deposits	<u>18,230</u>	<u>32,248</u>
Total Other Assets, Net	<u>24,084,244</u>	<u>9,700,971</u>
RESTRICTED DEPOSITS:		
New Markets Tax Credit Joint Venture - Cash	762,112	-
Cash - Construction in Progress Performance Deposits	<u>27,852</u>	<u>161,587</u>
Total Restricted Deposits	<u>789,964</u>	<u>161,587</u>
TOTAL ASSETS	<u>\$ 35,584,606</u>	<u>\$ 24,651,717</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)

STATEMENTS OF FINANCIAL POSITION
(Continued)

June 30, 2011 with Comparative Totals as of June 30, 2010

LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT LIABILITIES:		
Accounts Payable, Operating	\$ 149,394	\$ 21,932
Accounts Payable, Construction	25,312	49,534
Other Accrued Liabilities	98,877	100,810
Accrued Interest	5,142	-
Current Portion of Notes Payable	23,235	13,548
Current Portion of Refundable Advances	-	1,335,000
Funds Held in Impound Accounts	<u>160,701</u>	<u>84,482</u>
Total Current Liabilities	<u>462,661</u>	<u>1,605,306</u>
LONG-TERM LIABILITIES, NET OF CURRENT PORTION:		
Notes Payable, Net of Current Portion	342,819	375,157
New Markets Tax Credit Joint Venture Note Payable	8,328,107	-
Refundable Advances, Net of Current Portion	6,727,265	3,932,937
New Markets Tax Credit Deferred Revenue	<u>514,071</u>	<u>-</u>
Total Long-Term Liabilities, Net of Current Portion	<u>15,912,262</u>	<u>4,308,094</u>
Total Liabilities	<u>16,374,923</u>	<u>5,913,400</u>
NET ASSETS:		
Unrestricted Net Assets	17,354,943	16,477,755
Temporarily Restricted Net Assets	<u>1,854,740</u>	<u>2,260,562</u>
Total Net Assets	<u>19,209,683</u>	<u>18,738,317</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 35,584,606</u>	<u>\$ 24,651,717</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)

STATEMENTS OF ACTIVITIES

Year Ended June 30, 2011 with Comparative Totals for the Year Ended June 30, 2010

	2011			2010
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	TOTAL
SUPPORT AND REVENUE:				
Support:				
Contributions	\$ 1,681,340	\$ 1,439,532	\$ 3,120,872	\$ 2,590,045
Grants	71,070	125,000	196,070	1,913,387
Donated Services	288,794	-	288,794	151,388
Donated Materials	35,866	13,588	49,454	80,810
Special Events, Net	89,623	-	89,623	141,907
Total Support	<u>2,166,693</u>	<u>1,578,120</u>	<u>3,744,813</u>	<u>4,877,537</u>
Revenue:				
Sales of Homes	5,036,000	-	5,036,000	5,298,294
Mortgage Discount Amortization	840,441	-	840,441	586,891
Other Income	127,072	-	127,072	11,369
NMTC Investment Income	72,675	-	72,675	-
NMTC Guarantee Fee Revenue	33,460	-	33,460	-
Interest and Dividend Income	24,552	-	24,552	44,020
Realized Investment Gain	-	-	-	2,780
Total Revenue	<u>6,134,200</u>	<u>-</u>	<u>6,134,200</u>	<u>5,943,354</u>
Total Support and Revenue	8,300,893	1,578,120	9,879,013	10,820,891
Net Assets Released from Restrictions				
	<u>1,983,942</u>	<u>(1,983,942)</u>	<u>-</u>	<u>-</u>
Total Support, Revenue and Net Assets Released from Restrictions	<u>10,284,835</u>	<u>(405,822)</u>	<u>9,879,013</u>	<u>10,820,891</u>
EXPENSES:				
Program Services:				
Housing Development	7,286,992	-	7,286,992	8,571,600
Families and Volunteers	648,153	-	648,153	668,013
Total Program Services	<u>7,935,145</u>	<u>-</u>	<u>7,935,145</u>	<u>9,239,613</u>
Supporting Services:				
General and Administrative	759,667	-	759,667	486,839
Fundraising	712,835	-	712,835	574,464
Total Supporting Services	<u>1,472,502</u>	<u>-</u>	<u>1,472,502</u>	<u>1,061,303</u>
Total Expenses	<u>9,407,647</u>	<u>-</u>	<u>9,407,647</u>	<u>10,300,916</u>
CHANGE IN NET ASSETS	877,188	(405,822)	471,366	519,975
NET ASSETS, Beginning of Year	<u>16,477,755</u>	<u>2,260,562</u>	<u>18,738,317</u>	<u>18,218,342</u>
NET ASSETS, End of Year	<u>\$ 17,354,943</u>	<u>\$ 1,854,740</u>	<u>\$ 19,209,683</u>	<u>\$ 18,738,317</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)

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended June 30, 2011 with Comparative Totals for the Year Ended June 30, 2010

	PROGRAM SERVICES			SUPPORTING SERVICES			TOTALS	
	Housing Development	Families and Volunteers	Total	General and Administrative Expenses	Fundraising Expenses	Total	2011	2010
EXPENSES:								
Cost of Sales - Homes	\$ 5,044,385	\$ -	\$ 5,044,385	\$ -	\$ -	\$ -	\$ 5,044,385	\$ 5,323,909
Estimated Loss on Future Sale of Homes	-	-	-	-	-	-	-	8,277
Carrying Costs- NRP and Resale Homes	21,756	-	21,756	-	-	-	21,756	28,866
Write-off of Obsolete Home Costs	-	-	-	-	-	-	-	14,734
Total Direct Housing Expenses	5,066,141	-	5,066,141	-	-	-	5,066,141	5,375,786
Salaries and Wages	207,303	280,452	487,755	265,830	267,619	533,449	1,021,204	1,078,829
Payroll Taxes	16,769	23,853	40,622	21,744	21,973	43,717	84,339	94,281
Employee Benefits	17,672	33,673	51,345	32,304	28,022	60,326	111,671	112,418
Pension Plan Contribution	2,052	8,660	10,712	6,226	4,377	10,603	21,315	44,261
Workers' Compensation	13,139	3,029	16,168	2,596	2,803	5,399	21,567	20,500
Stipend - Vista/Americorp	2,483	32,349	34,832	-	28,650	28,650	63,482	52,381
Total Salaries and Benefits	259,418	382,016	641,434	328,700	353,444	682,144	1,323,578	1,402,670
Bank Fees	-	-	-	3,154	8,779	11,933	11,933	13,858
Communications	15,843	19,473	35,316	11,671	18,126	29,797	65,113	64,450
Computer Software/Hardware	-	-	-	8,602	10,730	19,332	19,332	8,866
Donated Legal and Office	78,024	78,024	156,048	68,609	58,643	127,252	283,300	151,389
Equipment Rental and Maintenance	9,835	3,050	12,885	4,122	3,668	7,790	20,675	26,314
Insurance	35,408	(162)	35,246	19,986	1,252	21,238	56,484	33,678
Interest	14,356	2,433	16,789	58,674	-	58,674	75,463	3,001
Miscellaneous Expenses	17,608	13,968	31,576	-	-	-	31,576	23,287
Office Expenses	2,398	4,416	6,814	6,718	5,488	12,206	19,020	15,343
Postage and Printing	1,848	8,605	10,453	1,146	100,017	101,163	111,616	87,725
Professional Fundraising	-	-	-	-	56,398	56,398	56,398	31,436
Professional Services	226,614	61,013	287,627	53,738	47,354	101,092	388,719	86,960
Rent	82,600	65,065	147,665	38,743	36,158	74,901	222,566	266,805
Travel and Training	16,296	9,904	26,200	17,991	12,585	30,576	56,776	46,184
Tithes	88,320	-	88,320	-	-	-	88,320	106,600
Utilities	271	348	619	550	193	743	1,362	7,653
Total Expenses Before Non-Cash Expenses	5,914,980	648,153	6,563,133	622,404	712,835	1,335,239	7,898,372	7,752,006
Depreciation	-	-	-	36,708	-	36,708	36,708	65,972
NMTC Amortization	-	-	-	93,516	-	93,516	93,516	-
Loss on Sale of Fixed Assets	-	-	-	7,039	-	7,039	7,039	-
Discount on Mortgages Issued	1,372,012	-	1,372,012	-	-	-	1,372,012	2,482,938
Total Functional Expenses	\$ 7,286,992	\$ 648,153	\$ 7,935,145	\$ 759,667	\$ 712,835	\$ 1,472,502	\$ 9,407,647	\$ 10,300,916
Percentage of Total	77.4 %	6.9 %	84.3 %	8.1 %	7.6 %	15.7 %	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)

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 471,366	\$ 519,975
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	130,224	65,972
Loss on Disposal of Fixed Assets	7,039	-
Amortization of Mortgage Notes Receivable Discount	(840,441)	(586,891)
Amortization of Notes Payable Discount	14,356	1,736
Discount on Mortgages Issued	1,372,012	2,482,938
Sale/Purchase of Mortgage Notes, Net	257,677	(95,404)
(Increase) Decrease in Assets:		
New Markets Tax Credit Joint Venture - Restricted Cash	(762,112)	-
Restricted Cash - Impounds	(76,217)	(49,656)
Restricted Cash - Construction in Progress Performance Deposits	133,735	16,501
Grants and Pledges Receivable	2,030,934	(4,533,394)
Inventory	2,643,219	(396,931)
Construction in Progress	(6,941,432)	183,304
Accounts Receivable	(6,020)	-
Prepaid Expenses and Deposits	17,263	(27,920)
Increase (Decrease) in Liabilities:		
Accounts Payable, Operating	127,460	3,386
Accounts Payable, Construction	(24,222)	(21,335)
Other Accrued Liabilities	(1,933)	(10,814)
Accrued Interest	5,142	-
Funds Held in Impound Accounts	76,221	49,654
New Markets Tax Credit Deferred Revenue	514,071	-
Net Cash Used by Operating Activities	(851,658)	(2,398,879)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sale and Maturity of Investments	677,654	1,591,041
Purchase of Office Furniture and Equipment	(28,970)	(22,319)
Payments Received on Mortgage Notes Receivable	994,881	1,035,372
Proceeds from Mortgage Notes Receivable Sold	1,422,103	-
Issuance of Mortgages	(3,623,918)	(4,321,220)
New Markets Tax Credit Joint Venture Investment	(6,400,628)	-
Acquisition of New Markets Tax Credit Intangible Assets	(753,095)	-
Net Cash Used by Investing Activities	(7,711,973)	(1,717,126)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Refundable Advances	2,954,328	5,135,437
Refundable Advances converted to Home Sale Revenue	(1,495,000)	(549,783)
Payments on Notes Payable	(37,007)	(89,560)
Proceeds from Notes Payable	-	17,500
Proceeds from New Markets Tax Credit Notes Payable	8,328,107	-
Net Cash Provided by Financing Activities	9,750,428	4,513,594
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,186,797	397,589
CASH AND CASH EQUIVALENTS, Beginning of Year	2,132,826	1,735,237
CASH AND CASH EQUIVALENTS, End of Year	\$ 3,319,623	\$ 2,132,826
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash Paid for Interest	\$ 53,532	\$ 1,265

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 on December 15, 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 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 future homeowners. 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 to the homeowners.

Daly City, Mission Street Development - The 7555 Mission Street development, located in Daly City, California is the Organization's largest and most ambitious affordable housing development to date: a four-story, 36-unit, \$15 million affordable housing condominium development. The Organization received funding for this development from the City of Daly City and from the State of California Department of Housing and Community Development (see Notes 5, 8, 13, 15).

Neighborhood Revitalization Program - The Organization implemented an affordable homeownership program in fiscal year 2009, the Neighborhood Revitalization Program (NRP), in response to the nation's housing crisis that began in 2008. The Organization purchases vacant real-estate owned (foreclosed) properties from banks that have not sold at auction and rehabilitates them using the same volunteer labor and candidate family sweat equity as in new home construction. The program is expected to turn this crisis into an opportunity for more working families, creating a positive immediate impact on the local community and future Habitat homeowners. As of June 30, 2011, the Organization has purchased thirteen NRP homes, rehabilitated and sold seven.

Neighborhood Revitalization Initiative - The Organization has recently launched the Neighborhood Revitalization Initiative (NRI), a collaborative partnership with the local nonprofit, Rebuilding Together San Francisco and its Peninsula affiliate. The NRI goal is to rehabilitate and renovate 50 community facilities and 200 homes in San Francisco and the Peninsula by 2020. Habitat's NRI program is focused on improving the quality of life for residents of local neighborhoods. Services will be provided in consultation and partnership with community residents and may include: parks beautification, critical home repair, community facility improvements, streetscape revitalization, retail corridor beautification and financial literacy training to prepare community members to succeed as homeowners (see Notes 5, 21).

New Markets Tax Credit Joint Venture Investment - In July 2010, the Organization invested, along with three other Habitat affiliates, in a joint venture, HFHI-SA LeverageVI, LLC, (LLC) to take advantage of New Markets Tax Credit (NMTC) financing (see Notes 9, 10, 12, 14, 21).

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 1 - GENERAL INFORMATION (Continued):

Responsibilities - 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 its municipalities', locates and acquires land for home construction, and obtains funding from multiple affordable housing sources.
- Construction: On-site building of homes, training and all supervision of construction site volunteers.
- Tithe: Contributes a portion of undesignated funds annually to Habitat for Humanity International, Inc. for the construction of homes outside the United States.

Families & Volunteers:

- Homeowner Relations: Qualifies, selects, and trains families and, after home ownership, manages long-term relationships with those families.
- Volunteer Services: Recruits, trains and schedules volunteers for work at the construction site, in the office and on committees.

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.

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.

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):

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 - Impounds - 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.

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. Donor restricted investment income and gains are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

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.

The hierarchy prioritizes the inputs to 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.

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):

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

Inventory of Homes - The Organization classifies as inventory: completed new construction homes; homes purchased under the Neighborhood Revitalization Program (NRP) in which rehabilitation is substantially complete; and Habitat built homes that are sold back to the Organization from the homeowner. 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 Notes 1 and 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 \$1,000 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 thirty nine years.

HABITAT FOR HUMANITY GREATER SAN FRANCISCO, INC.
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NOTES TO FINANCIAL STATEMENTS
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NOTE 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, 2011 and 2010, there were no events or changes in circumstances indicating that the carrying amount of the property and equipment may not be recoverable.

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.

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, 2011 and 2010 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 in communications expense) for the years ended June 30, 2011 and 2010 were \$19,926 and \$10,568, 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, 2010, 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.

Accounting for 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 their federal and state exempt organization tax returns are more likely than not to be sustained upon examination.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The Organization's federal returns for the prior years ended June 30, 2010, 2009 and 2008 could be subject to examination by federal taxing authorities, generally for three years after they are filed. The Organization's state returns for the prior years ended June 30, 2010, 2009, 2008 and 2007 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, 2011 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, 2011 (see Note 23). Subsequent events have been evaluated through the date the financial statements became available to be issued, November 10, 2011.

NOTE 3 - INVESTMENTS:

Investments are classified as Level 1 investments (see Note 2). Investments at June 30, 2011 and 2010 consisted 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>2011</u>	<u>2010</u>
Level 1 - Quoted Prices	\$ 16,893	\$ 694,547
Level 2 - Other Significant Observable Inputs	-	-
Level 3 - Significant Unobservable Inputs	-	-
Total	<u>\$ 16,893</u>	<u>\$ 694,547</u>

NOTE 4 - MORTGAGE NOTES RECEIVABLE:

As of June 30, 2011, the Organization holds 118 mortgage notes receivable, totaling \$15,803,323 at gross value with maturities of 2 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>
2012	\$ 939,975
2013	939,975
2014	928,757
2015	906,986
2016	894,700
Thereafter	<u>11,192,930</u>
Notes Receivable at Face Value	15,803,323
Less: Unamortized Discount	<u>(7,770,209)</u>
Net Present Value of Mortgages	8,033,114
Less: Current Portion	<u>(939,975)</u>
Long-term Portion	<u>\$ 7,093,139</u>

NOTE 5 - GRANTS RECEIVABLE:

Grants receivable as of June 30 consists of the following:

	<u>2011</u>	<u>2010</u>
Current:		
Daly City Redevelopment Agency - Land subsidy for Daly City, Mission St. project	\$ -	\$ 3,034,137
Daly City HOME Funds - Construction subsidy for Daly City, Mission St. project	897,184	-
Department of Housing and Community Development - Grant for Daly City, Mission St. project	795,979	1,756,800
Department of Housing and Community Development (CalHome Grant) - Daly City, Mission St. project	990,000	-
Affordable Housing Program - Daly City, Mission St. project	540,000	-
Habitat for Humanity International (Sponsor - Wells Fargo Bank) - Neighborhood Revitalization Initiative Program	475,000	-
JPMorgan Chase Foundation - Whitney Young Circle - Phase II predevelopment	40,000	-

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 5 - GRANTS RECEIVABLE (Continued):

	2011	2010
Daly City Redevelopment Agency - Construction Subsidy for Daly City, Mission St. project	\$ -	\$ 562,436
Redevelopment Agency of the City and County of San Francisco - Construction subsidy for San Francisco, Whitney Young project	-	140,000
Affordable Housing Program - Neighborhood Revitalization Program for Peninsula project	-	15,000
Total Current Portion	3,738,163	5,508,373
Long-Term:		
Marin Community Foundation - Grant for Marin County, Eagle Rock project	450,000	450,000
Total Grants Receivable	\$ 4,188,163	\$ 5,958,373

NOTE 6 - PLEDGES RECEIVABLE:

Pledges receivable represent unconditional promises given by donors and are recorded at net realizable value. Of the pledges receivable at June 30, 2011 and 2010, 96% and 86% is due from one donor, respectively. The unamortized discount as of June 30, 2011 and 2010 is \$16,250 and \$32,205, respectively.

NOTE 7 - INVENTORY OF HOMES:

Inventory of homes as of June 30, 2011, consists of the following:

NRP Rehabilitated - 6 homes (see Note 1)	\$ 1,715,059
Habitat Resale - 2 homes (see Note 1)	522,157
Materials	14,336
Total	\$ 2,251,552

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 8 - CONSTRUCTION IN PROGRESS:

Construction in Progress as of June 30, 2011, consists of the following:

New Construction:

Daly City: Mission St. - 36 homes \$ 8,136,878

Pre-Development:

Menlo Park: Terminal Ave. - 22 homes estimated 875,634

San Francisco: Whitney Young II - 17 homes estimated 142,450

Marin: Eagle Rock - 4 homes estimated 56,137

San Francisco: Hunter's View - 10 homes estimated 53,711

Brisbane: Lau Lots - 20 homes estimated 8,642

Total Pre-Development 1,136,574

Total Construction in Progress \$ 9,273,452

NOTE 9 - NEW MARKETS TAX CREDIT JOINT VENTURE INVESTMENT:

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, enabling it to secure a 15-year loan in the amount of \$8,328,107 payable to Clearinghouse NMTC (Sub21), LLC (a community development entity). The loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low income residents.

The investment in joint venture 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. The balance of the NMTC joint venture investment at June 30, 2011 is as follows:

Beginning Balance	\$ -
Capital Contributed	6,381,480
Share of 2010 Income	72,675
Distributions Received	<u>(53,527)</u>
Ending Balance	<u>\$ 6,400,628</u>

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 10 - NEW MARKETS TAX CREDIT INTANGIBLE ASSETS:

The Organization incurred \$680,016 in guarantor and guarantee fees related to its New Markets Tax Credit (NMTC) financing in July 2010, to be amortized over 7 years, the period to which the guarantees apply. The Organization also incurred \$73,079 in closing costs related to its NMTC note payable in July 2010, to be amortized over the 15-year loan term. As of June 30, 2011, the balances of NMTC intangible assets and accumulated amortization are as follows:

Affiliate Guarantee Fee		\$	547,531
Qualified Active Low Income Community Business (QALICB) Guarantor Fee			132,485
NMTC Closing Costs			<u>73,079</u>
Total NMTC Intangible Assets			753,095
Accumulated NMTC Amortization			<u>(93,516)</u>
NMTC Intangible Assets - Net		\$	<u>659,579</u>

<u>Estimated Annual NMTC Amortization Expense at June 30,</u>	<u>Amount</u>
2012	\$ 102,017
2013	102,017
2014	102,017
2015	102,017
2016	102,017
Thereafter	<u>149,494</u>
Total	<u>\$ 659,579</u>

NOTE 11 - NOTES PAYABLE:

Notes payable as of June 30 consists of the following:

	<u>2011</u>		<u>2010</u>
Loan 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 semiannual non-interest bearing payments of \$698 through June 2037.	\$ 35,815	\$	37,210

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 11 - NOTES PAYABLE (Continued):

	<u>2011</u>	<u>2010</u>
Loan 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 semiannual non-interest bearing payments of \$2,111 through June 2032.	\$ 87,331	\$ 91,554
Loan 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 semiannual non-interest bearing payments of \$7,261 through December 2025.	206,435	220,957
Loan 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 semiannual non-interest bearing payments of \$13,617 through November 2033.	<u>232,973</u>	<u>246,590</u>
Total due to the County of San Mateo	<u>562,554</u>	<u>596,311</u>
Loan payable to Habitat for Humanity International, Inc. - 0% interest, federal funds used for housing construction costs, monthly installments of \$364 to begin in October 2011 and last through September 2015.	17,500	17,500
Total Loans Outstanding Involving Federal Funds	<u>580,054</u>	<u>613,811</u>
Loan 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 semiannual installments of \$1,625 through December 2018.	<u>26,000</u>	<u>29,250</u>
Total Notes Payable at Face Value	606,054	643,061
Less: Discount on Notes Payable	<u>(240,000)</u>	<u>(254,356)</u>
Net Present Value of Notes Payable	366,054	388,705
Less: Current Portion	<u>(23,235)</u>	<u>(13,548)</u>
Notes Payable, Net of Current Portion	<u>\$ 342,819</u>	<u>\$ 375,157</u>

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

NOTE 11 - NOTES PAYABLE (Continued):

The discount rates on the notes payable range from 7.81% to 8.38% based on annual simple average using rates published by Habitat for Humanity International, Inc.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2012	\$ 23,235
2013	27,702
2014	29,663
2015	28,374
2016	30,110
Thereafter	<u>226,970</u>
Total	<u>\$ 366,054</u>

NOTE 12 - NEW MARKETS TAX CREDIT JOINT VENTURE - NOTE PAYABLE:

The Organization has a loan payable to Clearinghouse NMTC Sub 21, LLC (a NMTC community development entity) dated July 28, 2010 as part of the NMTC transaction. It is a 15-year loan bearing interest at 0.766% interest with semi-annual interest-only payments for 7 years commencing on December 5, 2010 until December 5, 2017. Principal and interest payments are to commence on December 5, 2017 due semi-annually to then fully amortize the principal balance over an 8-year period. The loan is secured by substantially all the assets acquired by the Organization from the project loan proceeds. The debt is associated with a put option feature under an option agreement between the joint venture's related parties that is expected to be exercised in 2017 that will effectively extinguish the liability to the Organization (See Note 21). The balance of the note payable for the years ending June 30, 2011 and 2010 is \$8,328,107 and zero, respectively.

NOTE 13 - 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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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 13 - REFUNDABLE ADVANCES (Continued):

Refundable advances as of June 30 consist of the following:

	2011	2010
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.	\$ 3,034,137	\$ 3,034,137
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.	1,264,328	-
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.	898,800	898,800
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.	990,000	-
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.	540,000	-
SFRA Subsidy - San Francisco: used to pay for land cost. A liability of \$120,000 will be transferred to each homeowner upon purchase.	-	840,000
Agency Funds - City of Daly City: used to pay for land cost. A liability of \$95,000 will be transferred to each homeowner upon purchase and forgiven at a rate of 2.22% annually over 45 years.	-	190,000
AHP - San Francisco: used for the reduction of principal balance on each homeowner's mortgage. A liability of \$20,000 will be transferred to each homeowner upon purchase and forgiven at a rate of 20% annually over 5 years.	-	140,000

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 13 - REFUNDABLE ADVANCES (Continued):

	2011	2010
Agency Funds - City of Daly City: used to pay for construction cost. A liability of \$75,000 will be transferred to each homeowner upon purchase and forgiven at a rate of 2.22% annually over 45 years.	\$ -	\$ 150,000
AHP - Neighborhood Revitalization Program, Peninsula: used for the reduction of principal balance on each homeowner's mortgage. A liability of \$15,000 will be transferred to each homeowner upon purchase and forgiven at a rate of 20% annually over 5 years.	-	15,000
Total Refundable Advances	6,727,265	5,267,937
Less: Current Portion	-	(1,335,000)
Refundable Advances, Net of Current Portion	\$ 6,727,265	\$ 3,932,937

NOTE 14 - NEW MARKETS TAX CREDIT DEFERRED REVENUE:

The Organization, under terms spelled out in its NMTC joint venture investment agreement, is to recognize an affiliate guarantee fee as revenue over 15 years. The balance and expected future revenue recognized at June 30, 2011 is as follows:

Affiliate Guarantee Fee - Deferred Revenue	\$ 547,531
Fee Revenue Recognized in Fiscal Year 2011	(33,460)
Ending Balance - Deferred Revenue	\$ 514,071
<u>Deferred Revenue Recognized Annually at June 30.</u>	<u>Amount</u>
2012	\$ 36,502
2013	36,502
2014	36,502
2015	36,502
2016	36,502
Thereafter	331,561
Total	\$ 514,071

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 15 - TEMPORARILY RESTRICTED NET ASSETS:

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

	<u>2011</u>	<u>2010</u>
Low-Income Housing Acquisition and Construction:		
Daly City, Mission Street Project	\$ 795,978	\$ 1,756,800
NRI Program, Peninsula	475,000	-
Marin, Eagle Rock	450,000	450,000
Americorp and Homeowner Readiness Program	93,762	43,762
Whitney Young II, Predevelopment	40,000	-
San Francisco, Future Project	<u>-</u>	<u>10,000</u>
Total Temporarily Restricted Net Assets	<u>\$ 1,854,740</u>	<u>\$ 2,260,562</u>

NOTE 16 - 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>2011</u>	<u>2010</u>
Low-Income Housing Acquisition and Construction	<u>\$ 1,983,942</u>	<u>\$ 1,500,340</u>

NOTE 17 - SALE OF HOMES:

During the fiscal year ending June 30, 2011 the Organization sold ten new construction homes that were completed as of the prior fiscal year-end; sold four NRP rehabilitated homes; and sold one resale Habitat home. The gain or loss from the sale of these homes is as follows:

New Construction Homes:

Revenue from Sale of New Homes	\$ 3,570,000
Less: Cost of New Homes Sold	<u>(3,638,635)</u>
Loss on Sale of New Homes	<u>(68,635)</u>

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 17 - SALE OF HOMES (Continued):

NRP Rehabilitated Homes:

Revenue from Sale of NRP Homes	\$ 1,271,000
Less: Cost of NRP Homes Sold	<u>(1,266,538)</u>
Loss on Sale of NRP Homes	<u>4,462</u>

Resale Habitat Homes:

Revenue from Sale of Resale Homes	195,000
Less: Cost of Resale Homes Sold	<u>(139,212)</u>
Gain on Sale of Resale Homes	<u>55,788</u>

Total:

Total Revenue from Sale of Homes	5,036,000
Less: Total Cost of Homes Sold	<u>(5,044,385)</u>
Total Net Loss on Sale of Homes	<u>\$ (8,385)</u>

During the coming year the Organization expects to sell six NRP rehabilitated homes and two resale Habitat homes. The Organization does not expect to complete and sell any new construction homes in the coming year. A loss is recorded when the Organization can reasonably estimate the amount of loss that might occur upon home sales in the future. As of June 30, 2011 the Organization doesn't anticipate a loss on any home sales in the future.

NOTE 18 - 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, 2011 and 2010, revenue from special events was \$134,004 and \$239,651, and related expense was \$44,381 and \$97,744, respectively.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 19 - DONATED MATERIALS AND SERVICES:

Donated Materials - The value of donated office supplies and construction materials for the years ending June 30, 2011 and 2010 was \$49,454 and \$80,810, 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, 2011 and 2010, donated services of a specialized or professional nature are as follows:

	<u>2011</u>	<u>2010</u>
Legal Services	\$ 217,510	\$ 145,352
Ad Campaign and Miscellaneous	61,063	-
Financial Services	5,782	6,036
Subcontractor Construction Services	<u>4,439</u>	<u>-</u>
Total Donated Professional Services	<u>\$ 288,794</u>	<u>\$ 151,388</u>

The Organization also receives significant donated services of an unskilled nature, primarily volunteers who assist in the construction of homes, as well as office volunteers. During the year ended June 30, 2011 and 2010 volunteers donated approximately 40,379 and 45,870 hours, respectively, whose value management has estimated at \$550,110 and \$634,644, respectively. The value of the unskilled donated services is not recorded in the financials.

NOTE 20 - 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, 2011 and 2010, was \$31,754 and \$56,812, respectively.

NOTE 21 - RELATED PARTY TRANSACTIONS:

HFHI Tithe - The Organization annually donates to Habitat for Humanity International, Inc. 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, 2011 and 2010 the amount contributed was \$88,320 and \$106,600, respectively. Such amounts are included in program services expense under housing development 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, 2011 and 2010 the insurance expense was \$56,484 and \$33,678, respectively.

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 21 - RELATED PARTY TRANSACTIONS (Continued):

SHOP Loans - The Organization has received SHOP (Self-Help Ownership Program) loans from Habitat for Humanity International, Inc. The balance of the loans for each of the years ended June 30, 2011 and 2010 was \$17,500.

Neighborhood Revitalization Initiative - In June 2011, the Organization was awarded a grant from Habitat for Humanity International with Wells Fargo Bank as the sponsor to provide funding of \$475,000 for the program.

New Markets Tax Credit Joint Venture Investment - As a component of the NMTC transaction, the Organization received a loan in the amount of \$8,328,107 (see Note 12) payable to Clearinghouse NMTC (Sub21), LLC, a community development entity (CDE) and an affiliate of the joint venture. Simultaneous with these transactions, the LLC entered into an option agreement (the 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 (Sub21), LLC. Under the terms of the option agreement, USBCDC is expected to place its ownership interest into the Fund for \$1,000, during the six month put 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 come off the Organization's books. All entities related to the joint venture including HFHI-SA LeverageVI, LLC will then be dissolved effectively ending the structured financing deal.

Pursuant to the Agreement, the Organization is required to comply with the NMTC requirements as generally set forth in the Internal Revenue Code ("IRC") Section 45D, including 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. Only the separate business assets of the Organization were pledged as security under the Agreement to the CDE.

NOTE 22 - 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 - 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 would then qualify a new family and resell the home at an updated, but below market value price, at which time the affordability term would start again, assuring the property stays in the affordable housing pool.

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NOTE 22 - COMMITMENTS (Continued):

Office and Warehouse Lease - Early in fiscal year 2010, the Organization moved their office and warehouse operations to San Francisco. The Organization leases office space under a non-cancelable lease expiring in October 2014. Warehouse space leased at their old location in Redwood City expired in December 2010 and was not renewed. As of June 30, 2011, the future minimum lease payments under the lease obligation is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2012	\$ 140,000
2013	140,000
2014	140,000
2015	<u>23,333</u>
Total Future Minimum Lease Payments	<u>\$ 443,333</u>

The rent expense for the office and warehouse leases for the years ended June 30, 2011 and 2010 was \$222,566 and \$266,805, respectively.

NOTE 23 - SUBSEQUENT EVENTS:

NRP Home Purchases – In July and August, 2011 the Organization closed escrow on the purchases of two NRP homes in East Palo Alto and Menlo Park, respectively.

SECTION II
SUPPLEMENTARY INFORMATION

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2011

Government Grantor Pass-through Grantor <u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>FEDERAL ASSISTANCE</u>		
U.S. Department of Housing and Urban Development Passed Through:		
County of San Mateo - Community Development Block Grants/Entitlement Grants	14.218	\$ 232,973
City of Daly City - HOME Funds	14.239	367,144
City of South San Francisco - HOME Funds	14.239	206,435
City of Brisbane - HOME Funds	14.239	123,146
Habitat for Humanity International, Inc. S.H.O.P. 2007	14.247	<u>17,500</u>
TOTAL FEDERAL ASSISTANCE		<u>\$ 947,198</u>

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

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards includes the federal and other governmental grant activity of Habitat for Humanity Greater San Francisco, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SECTION III
REPORTS

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

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

We have audited the financial statements of Habitat for Humanity Greater San Francisco, Inc. (a California nonprofit public benefit corporation) as of and for the year ended June 30, 2011, and have issued our report thereon dated November 10, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Habitat for Humanity Greater San Francisco, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Berger Lewis Accountancy Corporation". The signature is written in a cursive, flowing style.

BERGER LEWIS ACCOUNTANCY CORPORATION
San Jose, California
November 10, 2011

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited Habitat for Humanity Greater San Francisco, Inc.'s (a California nonprofit public benefit corporation) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of Habitat for Humanity Greater San Francisco, Inc.'s major federal programs for the year ended June 30, 2011. Habitat for Humanity Greater San Francisco, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Habitat for Humanity Greater San Francisco, Inc.'s management. Our responsibility is to express an opinion on Habitat for Humanity Greater San Francisco, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Habitat for Humanity Greater San Francisco, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Habitat for Humanity Greater San Francisco, Inc.'s compliance with those requirements.

In our opinion, Habitat for Humanity Greater San Francisco, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of Habitat for Humanity Greater San Francisco, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Habitat for Humanity Greater San Francisco, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Habitat for Humanity Greater San Francisco, Inc.'s internal control over compliance.

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

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

This report is intended solely for the information and use of the audit committee, management, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



BERGER LEWIS ACCOUNTANCY CORPORATION
San Jose, California
November 10, 2011

SECTION IV
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2011

SUMMARY OF AUDITOR'S RESULTS:

1. The auditor's report expresses an unqualified opinion on the financial statements of Habitat for Humanity Greater San Francisco, Inc.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Habitat for Humanity Greater San Francisco, Inc., which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Habitat for Humanity Greater San Francisco, Inc. expresses an unqualified opinion on all major federal programs.
6. There are no audit findings relating to major programs that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The program tested as a major program was:
14.239 U.S. Department of Housing & Urban Development HOME Funds
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Habitat for Humanity Greater San Francisco, Inc. was determined to be a low-risk auditee.

FINDINGS - FINANCIAL STATEMENTS AUDIT:

NONE

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT:

NONE

PRIOR YEAR AUDIT FINDINGS:

NONE