HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

COMBINED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED JUNE 30, 2016 AND 2015

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

COMBINED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying combined financial statements of Habitat for Humanity East Bay/Silicon Valley, a California nonprofit public benefit corporation, and Subsidiaries, which comprise the combined statements of financial position as of June 30, 2016 and 2015, and the related combined statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The accompanying schedule of expenditures of federal awards on page 36 is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the combined financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued a report dated November 22, 2016 on our consideration of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' internal control over financial reporting and compliance.

Lindquist, von Husen and Joyce LLP

November 22, 2016

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

COMBINED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,187,398	$ 5,941,002
Investments (Note 3)	306,333	-
Restricted cash – current (Note 4)	322,142	484,708
Receivables, net:		
Grants and contributions – current (Note 5)	647,746	214,606
Mortgages and notes – current (Note 6)	615,399	614,168
Other	178,700	191,963
Inventory:		
Property held for sale (Note 7)	3,455,796	1,919,619
Cost of homes in progress – current (Note 7)	1,787,773	-
ReStore inventory	569,097	313,298
Prepaid expenses and deposits – current	502,808	176,028
Total current assets	13,573,192	9,855,392
Restricted cash – net of current portion (Note 4)	393,418	672,139
Receivables, net:		
Grants and contributions – net of current portion (Note 5)	43,810	80,775
Mortgages and notes – net of current portion (Note 6)	15,325,447	15,716,056
Cost of homes in progress – net of current portion (Note 7)	5,036,295	6,496,313
Prepaid expenses and deposits – net of current portion	201,085	162,463
Property and equipment, net (Note 8)	245,397	250,942
Total assets	$ 34,818,644	$ 33,234,080

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

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

COMBINED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

	2016	2015
LIABILITIES AND NET ASSETS		
Current liabilities:		
Line of credit (Note 10)	$ 767,760	$ 163,566
Accounts payable and accrued expenses	620,399	924,431
Cash held for others (Note 4)	-	156,614
Interest payable (Note 12)	42,262	40,756
Notes payable – current portion (Note 11)	2,476,803	851,072
Reconveyable notes payable – current portion (Note 12)	900,497	213,938
Deferred revenue – current portion (Note 13)	764,582	810,959
Total current liabilities	5,572,303	3,161,336
Notes payable – net of current portion (Note 11)	2,557,607	3,653,407
Reconveyable notes payable – net of current portion (Note 12)	1,179,523	1,277,376
Other subordinate debt (Note 14)	350,000	-
Deferred revenue – net of current portion (Note 13)	1,478,637	2,243,219
Total liabilities	11,138,070	10,335,338
Net assets:		
Unrestricted:		
Board designated (Note 15)	31,126	33,099
Undesignated	21,533,971	21,455,831
Total unrestricted	21,565,097	21,488,930
Temporarily restricted (Note 15)	2,115,477	1,409,812
Total net assets	23,680,574	22,898,742
Total liabilities and net assets	$ 34,818,644	$ 33,234,080

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

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

COMBINED STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2016 AND 2015

	2016		
	Unrestricted	*Temporarily Restricted*	*Total*
Support and revenue:			
Sales of homes	$ 1,970,585	$ -	$ 1,970,585
Forgiveness of debt	588,825	-	588,825
Grants and contributions	4,361,579	2,005,038	6,366,617
In-kind contributions (Note 16)	3,071,600	-	3,071,600
Fundraising event contributions	67,878	-	67,878
Less: fundraising event costs	(20,452)	-	(20,452)
Other income	201,956	-	201,956
Net assets released from restrictions (Note 15)	1,299,373	(1,299,373)	-
Total support and revenue	11,541,344	705,665	12,247,009
Expenses:			
Program services:			
Housing	7,568,895	-	7,568,895
ReStore	2,245,635	-	2,245,635
Supporting services:			
Management and general	1,664,027	-	1,664,027
Fundraising	1,067,348	-	1,067,348
Total expenses	12,545,905	-	12,545,905
Change in net assets before other revenue and expenses:	(1,004,561)	705,665	(298,896)
Other revenue and expenses:			
Mortgage discount amortization	421,912	-	421,912
Mortgage discount expenses	(151,419)	-	(151,419)
Investment income – NMTC (Note 13)	245,058	-	245,058
Interest expense – NMTC (Note 13)	(245,782)	-	(245,782)
Amortization of deferred revenue – NMTC (Note 13)	810,959	-	810,959
Total other revenue and expenses	1,080,728	-	1,080,728
Change in net assets	76,167	705,665	781,832
Net assets, beginning of year	21,488,930	1,409,812	22,898,742
Net assets, end of year	$ 21,565,097	$ 2,115,477	$ 23,680,574

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

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

COMBINED STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2016 AND 2015

	2015		
	Unrestricted	*Temporarily Restricted*	*Total*
Support and revenue:			
Sales of homes	$ 7,381,095	$ -	$ 7,381,095
Forgiveness of debt	3,525,142	-	3,525,142
Grants and contributions	3,854,300	1,915,830	5,770,130
In-kind contributions (Note 16)	2,069,355	-	2,069,355
Fundraising event contributions	13,356	-	13,356
Less: fundraising event costs	(13,733)	-	(13,733)
Other income	213,068	-	213,068
Net assets released from restrictions (Note 15)	1,502,858	(1,502,858)	-
Total support and revenue	18,545,441	412,972	18,958,413
Expenses:			
Program services:			
Housing	15,864,448	-	15,864,448
ReStore	1,602,047	-	1,602,047
Supporting services:			
Management and general	1,650,593	-	1,650,593
Fundraising	980,075	-	980,075
Total expenses	20,097,163	-	20,097,163
Change in net assets before other revenue and expenses:	(1,551,722)	412,972	(1,138,750)
Other revenue and expenses:			
Mortgage discount amortization	412,660	-	412,660
Mortgage discount expenses	(1,587,756)	-	(1,587,756)
Investment income – NMTC (Note 13)	245,007	-	245,007
Interest expense – NMTC (Note 13)	(245,782)	-	(245,782)
Amortization of deferred revenue – NMTC (Note 13)	810,959	-	810,959
Total other revenue and expenses	(364,912)	-	(364,912)
Change in net assets	(1,916,634)	412,972	(1,503,662)
Net assets, beginning of year	23,405,564	996,840	24,402,404
Net assets, end of year	$ 21,488,930	$ 1,409,812	$ 22,898,742

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

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

COMBINED STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2016 AND 2015

	2016					
	Program Services			*Supporting Services* (1)		
	Housing	*ReStore*	*Program Services Total*	*Management and General*	*Fundraising*	*Total*
Cost of homes sold and reserve for homes in progress	$ 4,785,241	$ -	$ 4,785,241	$ -	$ -	$ 4,785,241
Personnel	2,959,525	1,154,395	4,113,920	1,197,069	741,398	6,052,387
Homeowner relations	12,374	-	12,374	20	-	12,394
Office	109,300	95,210	204,510	16,789	14,555	235,854
Professional services	330,510	97,276	427,786	211,559	39,485	678,830
Travel	43,175	10,077	53,252	22,894	3,852	79,998
Tithe to international projects (Note 9)	96,093	-	96,093	-	-	96,093
Property management	7,042	-	7,042	-	-	7,042
Public relations	300,854	119,298	420,152	-	1,783	421,935
Rent (Note 17)	191,513	520,815	712,328	25,161	26,270	763,759
Warehouse lease (Note 17)	24,530	8,802	33,332	-	-	33,332
Equipment	55,856	19,198	75,054	9,551	7,155	91,760
Education	9,823	5,783	15,606	9,980	1,402	26,988
Insurance	9,304	7,976	17,280	37,529	-	54,809
Depreciation	-	25,091	25,091	41,048	-	66,139
Interest	-	-	-	9,951	-	9,951
Asset management, compliance and facilitation fees – NMTC (Note 12)	278,364	-	278,364	-	-	278,364
ReStore cost of sales	180,016	25,383	205,399	-	-	205,399
Miscellaneous	153,338	156,331	309,669	82,476	231,448	623,593
Allocation to cost of homes in progress	(1,977,963)		(1,977,963)	-	-	(1,977,963)
Total expenses as shown in the consolidated statements of activities	7,568,895	2,245,635	9,814,530	1,664,027	1,067,348	12,545,905
Interest expense – NMTC (Note 12)	245,782	-	245,782	-	-	245,782
Mortgage discount expenses	151,419	-	151,419	-	-	151,419
Fundraising event costs	-	-	-	-	20,452	20,452
Total expenses	$ 7,966,096	$ 2,245,635	$ 10,211,731	$ 1,664,027	$ 1,087,800	$ 12,963,558

(1) For the last three fiscal periods ended 2014 through 2016, supporting services expenses have averaged 17.0% of total expenses. The supporting services expense percentage fluctuates by year depending on the number of homes sold.

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

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

COMBINED STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2016 AND 2015

	2015					
	Program Services			*Supporting Services* (2)		
	Housing	*ReStore*	*Program Services Total*	*Management and General*	*Fundraising*	*Total*
Cost of homes sold and reserve for homes in progress	$ 13,300,371	$ -	$ 13,300,371	$ -	$ -	$ 13,300,371
Personnel	2,479,275	900,621	3,379,896	1,163,149	684,804	5,227,849
Homeowner relations	16,173	-	16,173	39	-	16,212
Office	102,979	38,207	141,186	24,371	17,693	183,250
Professional services	274,200	35,843	310,043	158,362	43,911	512,316
Travel	30,690	6,527	37,217	24,944	3,131	65,292
Tithe to international projects (Note 9)	91,925	-	91,925	-	-	91,925
Property management	3,517	-	3,517	-	-	3,517
Public relations	182,253	47,913	230,166	-	2,595	232,761
Rent (Note 17)	105,228	180,422	285,650	99,301	19,109	404,060
Warehouse lease (Note 17)	22,953	12,137	35,090	-	-	35,090
Equipment	37,953	9,267	47,220	6,420	5,387	59,027
Education	3,537	5,039	8,576	6,688	1,336	16,600
Insurance	21,235	16,165	37,400	(4,493)	-	32,907
Depreciation	-	21,407	21,407	47,637	-	69,044
Interest	-	-	-	14,173	-	14,173
Asset management, compliance and facilitation fees – NMTC (Note 12)	284,077	-	284,077	-	-	284,077
ReStore cost of sales	(30,866)	206,178	175,312	-	-	175,312
Miscellaneous	361,413	122,321	483,734	110,002	202,109	795,845
Allocation to cost of homes in progress	(1,422,465)	-	(1,422,465)	-	-	(1,422,465)
Total expenses as shown in the consolidated statements of activities	15,864,448	1,602,047	17,466,495	1,650,593	980,075	20,097,163
Interest expense – NMTC (Note 12)	245,782	-	245,782	-	-	245,782
Mortgage discount expenses	1,587,756	-	1,587,756	-	-	1,587,756
Fundraising event costs	-	-	-	-	13,733	13,733
Total expenses	$ 17,697,986	$ 1,602,047	$ 19,300,033	$ 1,650,593	$ 993,808	$ 21,944,434

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

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

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

COMBINED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	$ 781,832	$ (1,503,662)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Forgiveness of debt	(588,825)	(3,525,142)
Amortization of deferred revenue – NMTC	(810,959)	(810,959)
Mortgage discount amortization	(421,912)	(412,660)
Mortgage discount expenses	151,419	1,587,756
Depreciation	66,139	69,044
Notes payable discount amortization	-	9,725
Unrealized gain on investments	(14,219)	-
(Increase) decrease in assets:		
Grants and contributions receivable	(396,175)	1,164,993
Other receivables	13,263	130,077
Property held for sale	(1,536,177)	8,717,874
Cost of homes in progress	(327,755)	(388,657)
ReStore inventory	(255,799)	(135,710)
Prepaid expenses and deposits	(365,402)	(38,727)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(304,032)	270,093
Interest payable	2,424	89,456
Net cash provided by (used in) operating activities	(4,006,178)	5,223,501
Cash flows from investing activities:		
Net decrease in restricted cash	284,673	277,785
Issuance of mortgages receivable	(484,187)	(3,454,489)
Collection of mortgages receivable	1,144,058	1,126,959
Purchase of property and equipment	(60,594)	(162,405)
Purchase of investments	(292,114)	-
Net cash provided by (used in) investing activities	591,836	(2,212,150)
Cash flows from financing activities:		
Proceeds from line of credit	681,018	733,367
Payment of line of credit	(76,824)	(1,182,178)
Proceeds from other subordinate debt	350,000	-
Proceeds from notes payable	3,218,013	933,261
Payment of notes payable	(1,511,469)	(2,315,568)
Net cash provided by (used in) financing activities	2,660,738	(1,831,118)
Increase (decrease) in cash and cash equivalents	(753,604)	1,180,233
Cash and cash equivalents, beginning of year	5,941,002	4,760,769
Cash and cash equivalents, end of year	$ 5,187,398	$ 5,941,002
Supplementary information:		
Cash paid for interest – net of capitalized portion	$ 254,227	$ 279,450

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

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

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

The following programs are included in the accompanying financial statements:

Building Affordable Homes

Finished affordable homes are sold to qualified families who have been approved by the board of directors based upon the recommendation of the Family Selection Committee. The families are selected based upon income, current housing need, and a willingness to partner with HEBSV. HEBSV's policy is that each family is generally required to complete a minimum of 500 hours of "sweat equity" (voluntary labor). The mortgages for all homes are generally interest-free, have terms of no more than 30 years, and generally have monthly payments no greater than 30% of the family's monthly income. In recent years, HEBSV has been selling homes at a rate of approximately 5-35 homes per year. Due to the unpredictable nature of final home sales and the timing relative to the accounting fiscal year, revenue from home sales can fluctuate significantly from year to year.

Home Repair Program

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

ReStores

HEBSV operates several retail stores (ReStores) for excess building materials.

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

HEBSV is affiliated with and has majority board control of EBSV Community Development, Inc. (EBSV), a California nonprofit public benefit corporation, which was formed on May 25, 2016 as an instrument to further HEBSV's organizational objectives. EBSV's purposes are the attraction of long-term capital in order to finance a portion of the community development activities of HEBSV, and to provide development services to participants in the programs of that entity. EBSV will seek Community Development Financial Institution certification of the CDFI Fund of the U.S. Department of Treasury.

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Combination

The combined financial statements include the accounts of subsidiaries HEBFC and HEBFCII. The combined financial statements also include the accounts of EBSV, a nonprofit organization majority controlled by HEBSV's officers or board of directors. All significant intercompany transactions and balances have been eliminated in the combination.

Prior to July 1, 2015 HEBSV accounted for the activities relating to HFHCA as fiscal agent transactions, which are not reflected in the combined statements of activities. The cash balance of HFHCA was presented as restricted cash and as cash held for others liability on the combined statements of financial position.

Accounting Methods

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

Estimates

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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

Basis of Presentation

HEBSV reports information regarding its financial position and activities according to three classes of net assets, as applicable: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. There were no permanently restricted net assets as of June 30, 2016 and 2015, respectively.

Revenue Recognition

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

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

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

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

Cash and Cash Equivalents

Cash is defined as cash in demand deposit accounts as well as cash on hand. Not included as cash are funds restricted as to their use, regardless of liquidity, such as the New Markets Tax Credit reserve and California Advocacy Fund. HEBSV occasionally maintains cash on deposit at a bank in excess of the Federal Deposit Insurance limit or Security Investor Protection Corporation Coverage. The uninsured cash balance, including restricted accounts, was approximately $4,768,000 as of June 30, 2016. HEBSV has not experienced any losses in such accounts.

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

Mortgages and Notes Receivable

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

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

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

Investments

Investments are presented in the combined financial statements at fair value based on quoted prices in active markets. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Corporation. Unobservable inputs, if any, reflects the Corporation'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 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 – Valuations based on significant inputs that are observable, either directly or indirectly or quoted prices in markets that are not active, that is, markets in which there are few transactions, the prices are not current or price quotations vary substantially either over time or among market makers.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors, including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed, and the differences could be material.

Inventory

Inventory is stated at the lesser of cost or net realizable value. Donated inventory is recorded at fair market value at the date of receipt, determined based on retail prices at ReStore. Inventory of ReStore is held for sale at HEBSV's retail outlets. ReStore sales are included in in-kind donations, since the majority of ReStore sales are from donated inventory.

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

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

Costs to build playhouses are recorded as inventory until donated.

Capitalized Interest

HEBSV capitalizes interest incurred during construction as a component of costs of homes. During the years ended 2016 and 2015, HEBSV capitalized interest of $79,030 and $139,233, respectively.

Property and Equipment

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

The useful lives of the assets are estimated as follows:

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

Notes Payable

GAAP requires that notes payable bearing no interest are discounted to reflect imputed interest using the effective interest method over the lives of the loan, if the financial statement impact is material. Notes payable to governmental entities are exempt from the requirement to impute interest.

In-Kind Contributions

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

Allocation to Cost of Homes in Progress

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

Income Taxes

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

EBSV intends to apply for federal tax exempt 501(c)(3) status.

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

HEBSV believes that it has appropriate support for any tax positions taken, and as such, do not have any uncertain tax positions that are material to the combined financial statements. HEBSV’s federal and state information returns for the years 2012 through 2015 are subject to examination by regulatory agencies, generally for three years and four years after they were filed federal and state, respectively.

Functional Expenses Allocation

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

Subsequent Events

Management has evaluated subsequent events through November 22, 2016, the date on which the financial statements were available to be issued.

Reclassification

Certain amounts previously reported in the 2015 financial statements were reclassified to conform to the 2016 presentation for comparative purposes.

NOTE 3 – INVESTMENTS

HEBSV's investments can be liquidated at any time. The following table presents information about HEBSV's investments measured at fair value on a recurring basis as of June 30, 2016, and indicates the fair value hierarchy of the valuation techniques utilized by the Corporation to determine the fair values:

	Cost as of June 30, 2016	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*	*Fair Value as of June 30, 2016*
Common stock	$ 292,204	$ 306,333	$ -	$ -	$ 306,333
Total	$ 292,204	$ 306,333	$ -	$ -	$ 306,333

Unrealized gain on investments was $14,219 and $-0- for the years ended June 30, 2016 and 2015, respectively.

NOTE 4 – RESTRICTED CASH

Restricted cash consists of the following:

	2016	2015
New Markets Tax Credits reserve	$ 687,535	$ 965,900
Habitat for Humanity California agency fund	-	162,922
Stormwater Reserve	28,025	28,025
	715,560	1,156,847
Less: current portion	(322,142)	(484,708)
Long-term portion	$ 393,418	$ 672,139

New Markets Tax Credits Reserve

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

Habitat for Humanity California

HEBSV was a fiduciary agent for other Habitat for Humanity affiliates in the state of California that have banded together to educate policymakers and others about affordable housing issues, Habitat for Humanity's mission, and the potential impact of relevant policies. The fund, which was maintained in a separate bank account, consisted of HEBSV funds and contributions from these affiliates to fund consulting expenses to help achieve those aims. The fund was transferred to HFHCA during the year ended June 30, 2016.

Stormwater Reserve

HEBSV is required to maintain a replacement fund for certain planters located in a housing project built by HEBSV. The requirement expires in 2027, which is 15 years after the homes were sold.

NOTE 5 – GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable consist of the following:

	2016	2015
Private contributions	$ 536,793	$ 156,870
Multi-year pledges	173,204	279,063
Grants	69,182	-
	779,179	435,933
Less: allowance for uncollectible pledges	(87,623)	(140,552)
Grants and contributions receivable, net	$ 691,556	$ 295,381
Amounts due in:		
Less than one year	$ 647,746	$ 214,606
One to five years	$ 43,810	$ 80,775

HEBSV receives multi-year pledges from donors ranging from one to five years. Discounts to net present value for the multi-year pledges are not recorded since the amount of such discounts is not significant.

NOTE 6 – MORTGAGES AND NOTES RECEIVABLE

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

Mortgages and notes receivable is summarized as follows:

	2016	2015
Mortgages and notes receivable, gross	$ 25,614,112	$ 26,273,983
Less: unamortized discount	(9,673,266)	(9,943,759)
	15,940,846	16,330,224
Less: current portion	(615,399)	(614,168)
Long-term portion	$ 15,325,447	$ 15,716,056

HEBSV considers the homeowners' payment of the mortgage receivable due more than 30 days as delinquent. For the years ended June 30, 2016 and 2015, the aged mortgages receivable is summarized as follows:

	30-59 Days Past Due	*60-89 Days Past Due*	*Greater Than 90 Days*	*Total Past Due*	*Current*	*Total Mortgage Receivable*
2016	$ 17,654	$ 14,492	$ 181,399	$ 213,545	$ 25,400,567	$ 25,614,112
2015	$ 29,236	$ 24,152	$ 125,023	$ 178,411	$ 26,095,572	$ 26,273,983

In August 2013, HEBSV entered into a loan origination agreement with Patelco Credit Union, whereby Patelco Credit Union committed to originate thirty (30) first lien mortgage loans at a fixed interest rate of 2.85%. HEBSV considers these mortgages as Zero Interest Equivalent Mortgage (ZEM), where the payments are the same as the traditional non-interest bearing mortgage. Both interest and principal are amortized similar to a conventional mortgage. HEBSV agreed to either purchase any defective mortgage loans or provide Substitute Mortgage Loans for such defective mortgage loans. Patelco Credit Union's obligation to originate mortgage loans expires on December 31, 2016. As of June 30, 2016, Patelco Credit Union originated 21 first lien mortgage loans under the agreement.

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

HEBSV evaluates notes receivable based on the following credit quality indicators: collateral and lien position. These credit quality indicators are updated at least annually. Details about the non-interest bearing mortgages and notes receivable, as of June 30, 2016 and 2015 as follows:

	2016			2015		
	Non-interest bearing	*Discount*	*Total*	*Non-interest bearing*	*Discount*	*Total*
1st liens	$ 19,117,185	$ (5,834,091)	$ 13,283,094	$ 19,911,707	$ (6,069,121)	$ 13,842,586
2nd and 3rd liens	6,492,185	(3,839,175)	2,653,010	6,355,535	(3,874,638)	2,480,897
Other notes	4,742	-	4,742	6,741	-	6,741
Total	$ 25,614,112	$ (9,673,266)	$ 15,940,846	$ 26,273,983	$ (9,943,759)	$ 16,330,224

NOTE 7 – COSTS OF HOMES IN PROGRESS AND PROPERTY HELD FOR SALE

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

	2016									
	Fremont-4369 Central	*Brookfield Court/9507 Edes*	*Pleasant Creek*	*Muir Ridge, Pacheco Blvd, CCC*	*Rehab Programs*	*Sequoia Grove*	*589 Pacifica Baypoint*	*Delmas*	*Other Projects*	*Total*
Costs since inception of project:										
Land	$ 542,000	$ 421,500	$ 521,562	$ 1,525,885	$ 2,752,081	$ 5,580	$ 176,000	$ -	$ 6,853,275	$ 12,797,883
Materials and subcontractors	1,108,090	3,974,780	3,931,023	4,799,311	905,443	281,663	195,481	384,048	9,855,564	25,435,403
Administration (including project manager and labor)	313,225	795,374	740,107	768,239	562,521	181,472	123,629	158,139	3,374,038	7,016,744
Costs of homes	1,963,315	5,191,654	5,192,692	7,093,435	4,220,045	468,715	495,110	542,187	20,082,877	45,250,030
Costs of finished homes not yet sold	-	-	-	(3,455,796)	-	-	-	-	-	(3,455,796)
Loss reserve on cost of homes	-	-	-	(1,155,065)	-	-	-	-	-	(1,155,065)
Costs of homes sold	-	(5,191,654)	(5,192,692)	(560,065)	(4,194,662)	-	-	-	(18,676,028)	(33,815,101)
Costs of homes in progress at June 30, 2016	$ 1,963,315	$ -	$ -	$ 1,922,509	$ 25,383	$ 468,715	$ 495,110	$ 542,187	$ 1,406,849	$ 6,824,068
Number of finished houses	-	-	-	9	-	-	-	-	-	9
Unfinished homes planned or in progress	30	-	-	10	5	10	10	1	112	178
Number of homes sold in prior fiscal years	-	11	10	-	5	-	-	-	52	78
Number of homes sold in 2016	-	1	-	1	2	-	-	-	3	7
Total no. of homes	30	12	10	20	12	10	10	1	167	272

	2015									
	Fremont-4369 Central	*Brookfield Court/9507 Edes*	*Pleasant Creek*	*Muir Ridge, Pacheco Blvd, CCC*	*Rehab Programs*	*Sequoia Grove*	*589 Pacifica Baypoint*	*Delmas*	*Other Projects*	*Total*
Costs since inception of project:										
Land	$ 542,000	$ 421,500	$ 520,000	$ 1,475,000	$ 2,750,847	$ -	$ 176,000	$ -	$ 6,331,301	$ 12,216,648
Materials and subcontractors	487,830	3,961,700	3,946,712	1,656,718	877,795	116,406	169,387	203,670	9,569,683	20,989,901
Administration (including project manager and labor)	164,536	794,464	740,074	353,633	550,570	89,899	76,763	48,400	2,635,630	5,453,969
Costs of homes	1,194,366	5,177,664	5,206,786	3,485,351	4,179,212	206,305	422,150	252,070	18,536,614	38,660,518
Costs of finished homes not yet sold	-	(522,466)	-	-	(1,005,581)	-	-	-	(391,572)	(1,919,619)
Costs of homes sold	-	(4,655,198)	(5,206,786)	-	(3,160,633)	-	-	-	(17,221,969)	(30,244,586)
Costs of homes in progress at June 30, 2015	$ 1,194,366	$ -	$ -	$ 3,485,351	$ 12,998	$ 206,305	$ 422,150	$ 252,070	$ 923,073	$ 6,496,313
Number of finished houses	-	1	-	-	2	-	-	-	2	5
Unfinished homes planned or in progress	30	-	-	20	11	10	23	1	12	107
Number of homes sold in prior fiscal years	-	-	-	-	2	-	-	-	50	52
Number of homes sold in 2015	-	11	10	-	3	-	-	-	2	26
Total no. of homes	30	12	10	20	18	10	23	1	66	190

NOTE 8 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	2016	2015
Office equipment	$ 279,291	$ 292,787
Site equipment	121,786	111,068
ReStore leasehold improvements	235,965	213,471
ReStore equipment	166,743	150,642
	803,785	767,968
Less: accumulated depreciation	(558,388)	(517,026)
Total property and equipment	$ 245,397	$ 250,942

NOTE 9 – RELATED-PARTY TRANSACTIONS

Tithe to HFHI

HEBSV contributes a portion of its annual unrestricted cash contribution income and net event income to the international work of HFHI. The costs of tithes to HFHI were $96,093 and $91,925 for the years ended June 30, 2016 and 2015, respectively.

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

Effective November 2013, to create a sustainable revenue stream to help finance a portion of the operational costs incurred by HFHI to support the work of U.S. affiliates, HEBSV is required to pay an annual US-SOSI fee. The amount of the annual fee is determined by the population within the approved geographic service area with a minimum payment of $1,500. The US-SOSI fees were $25,000 and $16,700 for the years ended June 30, 2016 and 2015, respectively.

NOTE 10 – LINE OF CREDIT

HEBSV has a revolving line of credit of $2,750,000 with First Republic Bank, of which $767,760 and $163,566 was outstanding at June 30, 2016 and 2015, respectively. The line requires monthly interest-only payments equal to the prime rate, subject to a floor. The effective interest rate at June 30, 2016 and 2015 was 3.50% and 3.25%, respectively. The bank advances on the credit line are payable in full by December 31, 2016. Certain financial covenants are required to be maintained, including a current ratio of 1.5 to 1.0, a debt/worth ratio not greater than 1.0 to 1.0, and a minimum tangible net worth of not less than $18,000,000, as defined in the agreement. The line is also secured by property as described in the Commercial Security Agreement. Interest expense was $9,814 and $16,705 for the years ended June 30, 2016 and 2015, respectively.

NOTE 11 – NOTES PAYABLE

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

	2016		2015	
	Interest Payable	*Principal*	*Interest Payable*	*Principal*
HEBSV:				
<u>*Heritage Bank of Commerce*</u>				
Maximum amount of $292,815, bears variable interest at the lender's prime rate plus .5% (3.75% as of June 30, 2016), payable in full in February 2015. The maturity date was extended to February 2016. (538 Ruth Way, Livermore)	$ -	$ -	$ -	$ 230,580
Maximum amount of $364,000, bears variable interest at the lender's prime rate plus .5% (3.75% as of June 30, 2016), payable in full in September 2015. (1081 Palm Street, San Jose).	-	-	-	278,807
Maximum amount of $143,500, bears variable interest at the lender's prime rate plus .5% (3.75% as of June 30, 2016), payable in full in January 2015. The maturity date was extended to July 2015. (1784 Habitat Way, Concord)	-	-	-	138,440
Original maximum amount of $775,000, bears variable interest at the lender's prime rate plus 1% (4.5% as of June 30, 2016). The note was refinanced in the amount of $3,000,000, payable in full in October 2015, with the option to extend for two 6-month extensions. (4762 Pacheco, Martinez)	-	2,285,691	-	802,589
<u>*First Republic Bank*</u>				
Repurchase of mortgage receivable from a homeowner, assumed amount of $138,591, bears no interest, payable in monthly installments of $499 until the house was re-sold to a new homeowner in 2016. (10950 Edes Ave)	-	-	-	137,095
<u>*Governmental Agencies*</u>				
County of Santa Clara, CDBG loan, in the maximum amount of $400,000, bears no interest, monthly payments of $555, due in full June 2032. (Victor Avenue, Campbell)	-	110,557	-	117,222

	2016		2015	
	Interest Payable	*Principal*	*Interest Payable*	*Principal*
City of Richmond, in the maximum amount of $250,000, bears no interest, payable in 300 monthly payments upon the sale of final home. (Spencer Court, Richmond)	-	244,302	-	244,302
<u>*Habitat for Humanity International*</u>				
Self-Help Homeownership Opportunity Program (SHOP) loans, in original amounts aggregating $187,500, bears no interest, payable in monthly installments aggregating $4,216, maturing on various dates through July 2019.	-	122,568	-	154,416
Other notes payable	-	764	-	3,720
HFHEB Funding Co.:				
Presidio Bank, in the original amount of $868,606, bears no interest, with monthly installments of $2,570, payable in full in January 2019. (1)	-	668,154	-	698,993
HFHEB Funding Co. II:				
Umpqua Bank, in the original amount of $2,181,455, bears no interest, with monthly installments of $7,995, payable in full in November 2035. (1)	-	1,701,750	-	1,797,691
Total	-	5,133,786	-	4,603,855
Less discount on notes payable (1)	-	(99,376)	-	(99,376)
Net present value of notes payable	-	5,034,410	-	4,504,479
Less portion due in one year	-	(2,476,803)	-	(851,072)
Long-term portion	$ -	$ 2,557,607	$ -	$ 3,653,407

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

2017	$ 2,476,803
2018	181,148
2019	161,963
2020	161,987
2021	143,219
Thereafter	2,008,666
Total	$ 5,133,786

NOTE 12 – RECONVEYABLE NOTES PAYABLE

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

	2016		2015	
	Interest Payable	*Principal*	*Interest Payable*	*Principal*
Brookfield Court, Oakland				
City of Oakland, in the maximum amount of $1,867,000, bears no interest, reconveyable to eligible purchasers with any remaining balance payable in full the earlier of the final unit sale or August 2016. The note was partially reconveyed to eligible purchasers in 2015, with the remaining balance reconveyed to an eligible purchaser upon the final home sale in 2016.	$ -	$ -	$ -	$ 131,580
State of California Department of Housing and Community Development (HCD), CalHome loan, in the original amount of $1,200,000 (together with the funding for Pleasant Creek Homes project), bears interest at 6%, which may be forgiven, reconveyable to eligible purchasers with any remaining balance payable in full the earlier of the final home sale or October 2015. The note was partially reconveyed to eligible purchasers in 2015, with the remaining balance reconveyed to an eligible purchaser upon the final home sale in 2016.	-	-	898	60,000
Bryon Avenue, Oakland				
City of Oakland, in the original amount of $386,550, bears no interest, payable in full by the earlier of the date the property is sold or refinanced or March 2020.	-	386,550	-	386,550
City of Oakland, in the maximum amount of $29,200, bears interest at 6%, payable in full with accrued interest upon receiving construction or permanent financing sufficient to repay the loan.	2,360	4,938	2,063	4,938

	2016		2015	
	Interest Payable	*Principal*	*Interest Payable*	*Principal*
Fremont-Central				
City of Fremont, CDBG loan, in the original amount of $530,000, bears no interest, reconveyable to eligible purchasers with any remaining balance payable in full the earlier of the final unit sale or August 2020. (4369 Central Avenue)	-	530,000	-	530,000
Muir Ridge, Martinez				
Contra Costa County, HOME loan, in the maximum amount of $ 1,500,000 ($750,000 apportioned to phase I and $750,000 apportioned to phase II), bears no interest, reconveyable to eligible purchasers with any remaining balance payable in full the earlier of the final home sale or June 2016 (phase I) and August 2017 (phase II).	-	996,532	-	229,246
Redwood Hill, Oakland				
City of Oakland, bears interest at 6%, matured in February 2014. Forgivness was requested in February 2014.	13,205	35,000	11,098	35,000
Rehab-Livermore				
City of Livermore, in the original amount of $127,000, bears no interest, reconveyable to an eligible purchaser with any remaining balance payable in full the earlier of the sale of property or February 2015 (457 Andrews).	-	127,000	-	-
City of Livermore, in the original amount of $114,000, bears no interest, reconveyable to an eligible purchaser with any remaining balance payable in full the earlier of the sale of property or February 2015 (538 Ruth Way).	-	-	-	114,000
Total	15,565	2,080,020	14,059	1,491,314
Less portion due in one year	(15,565)	(900,497)	(14,059)	(443,184)
Long-term portion	$ -	$ 1,179,523	$ -	$ 1,048,130

Interest payable also includes interest related to NMTC loans of $26,697 as of June 30, 2016 and 2015 (see Note 13).

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

2017	$ 900,497
2018	262,971
2019	-
2020	386,550
2021	530,000
Thereafter	-
Total	$ 2,080,018

NOTE 13 – DEFERRED REVENUE

Deferred revenue is summarized as follows:

	2016	2015
New Markets Tax credits:		
Investments in leverage lenders	$ (24,575,253)	$ (24,575,253)
Notes payable from CDEs	31,475,958	31,475,958
Transaction costs	(1,223,990)	(1,223,990)
Net amortizable benefit	5,676,715	5,676,715
Less accumulated amortization	(4,508,913)	(3,697,954)
New Markets Tax credits, net	1,167,802	1,978,761
Offsite Affordable Housing Agreement	1,075,000	1,075,000
Other	417	417
	2,243,219	3,054,178
Less: current portion	(764,582)	(810,959)
Long-term portion	$ 1,478,637	$ 2,243,219

New Markets Tax Credits

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

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

The following is a summary of the NMTC Transactions:

New Markets Tax Credit Transaction – Stonehenge

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

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

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

Loan payable – Stonehenge Community Development XVIII, LLC:

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

New Markets Tax Credit Transaction – Clearinghouse

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

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

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

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

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

New Markets Tax Credit Transaction – LCD

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

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

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

Loan payable – LCD New Markets Fund XI, LLC:

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

Financial Statement Presentation of New Markets Tax Credit Transactions:

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

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

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

HEBSV is amortizing the net deferred revenue from the NMTC transaction over seven years. Amortization of the net deferred revenue totaled $810,959 for the years ended June 30, 2016 and 2015. Interest expense on the notes payable to the CDE's totaled $245,782 for the years ended June 30, 2016 and 2015. The interest expense on the notes payable is effectively returned to HEBSV through distributions received from the investments in the LLC's totaling $245,058 and $245,007 for the years ended June 30, 2016 and 2015, respectively. HEBSV also paid and expensed $278,364 and $284,077 of annual new markets tax credit fees related to the asset management, compliance and facilitation fees for the years ended June 30, 2016 and 2015, respectively. These annual expenses are paid from the new markets tax credit restricted cash reserves (see Note 3).

Offsite Affordable Housing Agreement

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

NOTE 14 – OTHER SUBORDINATE DEBT

In June 2016, EBSV entered into a subordinated equity note agreement with Heritage Bank of Commerce. The agreement provides for Heritage Bank of Commerce to purchase from EBSV a subordinated equity note at a purchase price of $350,000 which is structured as a subordinated unsecured equity equivalent investment (EQ). The EQ requires quarterly interest-only payments at a rate of 2.50% per annum. The maturity date of the EQ is April 1, 2021, which may be extended annually through April 2041. The EQ was made subordinate to all other obligations of HEBSV.

NOTE 15 – BOARD DESIGNATED AND TEMPORARILY RESTRICTED NET ASSETS

Board Designated Funds

HEBSV established a charitable fund with the Lutheran Community Foundation to encourage and procure legacy gifts. It intends to use income from the fund as an operating source for future housing and other Habitat projects. Included in unrestricted net assets are designated net assets of $31,126 and $33,099 as of June 30, 2016 and 2015, respectively, relating to the cause.

Temporarily Restricted Net Assets

Temporarily restricted net assets are summarized as follows:

	2016			
	June 30, 2015	*Contributions*	*Released from Restrictions*	*June 30, 2016*
Contributions restricted for specific programs:				
Sequoia Grove	$ 123,192	$ 316,071	$ (262,410)	$ 176,853
EIC Restore	22,708	-	(22,708)	-
Rehab Program – City of Oakland	750,502	-	(12,385)	738,117
Delmas, San Jose	183,074	242,641	(290,118)	135,597
Repairs – City of Santa Clara	3,236	310	(3,546)	-
Repairs – Manufactured, Hayward	-	95,775	(48,020)	47,755
Repairs – Manufactured, South Bay	-	444,873	(51,008)	393,865
Repairs – Painting	-	149,437	(125,942)	23,495
Rehab Program – City of Livermore	27,544	-	(27,544)	-
Rehab Program – City of San Jose	299,556	2,970	(302,526)	-
Global Village	-	29,193	(21,169)	8,024
NRI	-	6,868	(2,163)	4,705
Playhouse	-	716,900	(129,834)	587,066
	$ 1,409,812	$ 2,005,038	$ (1,299,373)	$ 2,115,477

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

NOTE 16 – IN-KIND CONTRIBUTIONS

In-kind contributions are summarized as follows:

	2016	2015
Donated use of facilities	$ 79,571	$ 79,682
Donated equipment and building materials	2,994,194	1,983,993
Donated professional services	47,835	5,680
Total in-kind donations	$ 3,071,600	$ 2,069,355

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

NOTE 17 – EMPLOYEE BENEFIT PLAN

HEBSV maintains a 403(b) retirement plan of which the employer contribution is 100% of the employee's contribution, up to 4% of gross salary. Eligible employees include full-time and part-time employees who have completed one year of service and who have worked at least 1,000 hours. Employee contributions are vested 100% after three years of service. HEBSV contributed $86,956 and $104,827 to the plan in 2016 and 2015, respectively.

NOTE 18 – OPERATING LEASES

HEBSV leases its Oakland ReStore site and a warehouse under operating lease agreements that expired in August 2015 and February 2015, respectively. The lease for the Oakland ReStore site has an option to extend for a period of three years, which HEBSV exercised. The lease for the Oakland ReStore warehouse is currently under a month-to-month arrangement. HEBSV leases its San Jose ReStore site under an operating lease agreement that expires in June 2019. The lease expiring June 2019 includes an option to extend for a period of five years. HEBSV opened two ReStores during the year ended June 30, 2016 in Santa Clara and Concord, under lease agreements expiring in August 2019 and March 2020, respectively.

HEBSV also has an operating lease for the use of office facilities in Oakland that expires in February 2018, with an option to extend for an additional five years. HEBSV also operates an office facility in Milpitas consisting of donated office space valued at $79,571 and $79,682 for the years ended June 30, 2016 and 2015, respectively. HEBSV is required to reimburse the lessors for common area maintenance and related charges for the use of both facilities.

In addition, HEBSV has several other operating leases for the use of office equipment and vehicles that expire through June 2017. Rental expenses, including common area maintenance charges and reimbursements for taxes, maintenance and utilities totaled $797,091 and $439,150 for the years ended June 30, 2016 and 2015, respectively.

The following represents the future minimum lease payments:

Year Ending June 30,	
2017	$ 730,722
2018	713,038
2019	634,732
2020	463,405
2021	303,002
Thereafter	450,494
	$ 3,295,393

NOTE 19 – COMMITMENT AND CONTINGENCIES

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

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

NOTE 20 – SUBSEQUENT EVENT

In November 2016, EBSV entered into a subordinated equity note agreement with City National Bank. The agreement provides for City National Bank to purchase from EBSV a subordinated equity note at a purchase price of $2,000,000 which is structured as a subordinated unsecured equity equivalent investment (EQ). The EQ requires quarterly interest-only payments at a rate of 2.50% per annum. The maturity date of the EQ is January 1, 2022, which may be extended annually through January 2042. The EQ was made subordinate to all other obligations of HEBSV.

LINDQUIST
VON HUSEN
& JOYCE LLP

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries, which comprise the combined statement of financial position as of June 30, 2016, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated November 22, 2016.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of This Report

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

Lindquist, von Husen and Joyce LLP

November 22, 2016

LINDQUIST
VON HUSEN
& JOYCE LLP

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Report on Compliance for Each Major Federal Program

We have audited Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' major federal programs for the year ended June 30, 2016. Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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Opinion on Each Major Federal Program

In our opinion, Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 the Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' internal control over compliance.

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

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

Purpose of This Report

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

Lindquist, von Husen and Joyce LLP

November 22, 2016

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	*Federal CFDA Number*	*Agency or Pass-Through Number*	*Federal Expenditures*	*Expenditures to Subrecipients*
U.S. Department of Housing and Urban Development				
Community Development Block Grants Program:				
Pass-through grant from the City of Hayward	14.218	N/A	$ 30,775	$ -
Pass-through loan from the City of Fremont in prior years for which continuing compliance is required	14.218	N/A	530,000	-
Pass-through loan from the County of Santa Clara in prior years for which continuing compliance is required	14.218	N/A	117,222	-
			677,997	-
Home Investment Partnership Program:				
Pass-through loan from Contra Costa County, including $229,246 in prior years for which continuing compliance is required	14.239	N/A	996,530	-
			996,530	-
Self-Help Ownership Opportunity Program:				
Pass-through loans from Habitat for Humanity International in prior years for which continuing compliance is required	14.247	N/A	154,416	-
			154,416	-
TOTAL FEDERAL AWARDS			$ 1,828,943	$ -

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant and loan activity of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The purpose of the Schedule is to present a summary of those activities of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries for the year ended June 30, 2016, which have been financed by the U.S. Government. For purposes of the Schedule, federal awards include all federal assistance entered into directly and indirectly between Habitat for Humanity East Bay/Silicon Valley and Subsidiaries and the federal government. Habitat for Humanity East Bay/Silicon Valley and Subsidiaries did not elect to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 2 – PRIOR YEARS' EXPENDITURES

The accompanying schedule of expenditures of federal awards includes $1,030,884 in expenditures from prior years for which continuing compliance is required.

NOTE 3 – YEAR-END LOAN BALANCES

The loan balances outstanding at year-end are summarized as follows:

Community Development Block Grant Program	$ 640,557
Home Investment Partnerships Program	996,530
Self-Help Ownership Opportunity Program	122,568
Total	$ 1,759,655

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	____ Yes	X No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	____ Yes	X None reported
Noncompliance material to financial statements noted?	____ Yes	X No

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	____ Yes	X No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	____ Yes	X None reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Section 200.516 of the Uniform Guidance?	____ Yes	X No
Identification of major programs:	*Name of Federal Program or Cluster*	
CFDA #14.239	U.S. Department of Housing and Urban Development – HOME Investment Partnerships Program	
Dollar threshold used to distinguish between Type A and Type B programs:	$750,000	
Auditee qualified as low-risk auditee?	X Yes	____ No

Section II – Financial Statement Findings

None noted.

Section III – Federal Award Findings and Questioned Costs

None noted.