

HABITAT FOR HUMANITY EAST BAY
AND SUBSIDIARY

(A California Nonprofit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND JUNE 30, 2009

**HABITAT FOR HUMANITY EAST BAY
AND SUBSIDIARY**

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Independent Auditor's Report

The Board of Directors
Habitat for Humanity East Bay

We have audited the accompanying consolidated statements of financial position of Habitat for Humanity East Bay (a California nonprofit corporation) and subsidiary as of June 30, 2010 and June 30, 2009, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Habitat for Humanity East Bay's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of Habitat for Humanity East Bay and subsidiary's internal control over financial reporting. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Habitat for Humanity East Bay and subsidiary as of June 30, 2010 and June 30, 2009, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying supplemental consolidated statement of functional expenses by project is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. The information has been subjected to the audit procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

RINA accountancy Corporation

Certified Public Accountants

San Francisco, California
January 11, 2011

HABITAT FOR HUMANITY EAST BAY AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<u>ASSETS</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,729,158	\$ 3,843,575
Investments	0	15,499
Receivables:		
Contributions - current portion	281,503	128,633
Mortgages and notes - current portion	597,033	621,482
Other	472,470	336,747
Property held for sale	8,729,512	1,120,353
Cost of homes in progress - current portion	1,353,173	0
Inventory of ReStore	142,318	123,978
Prepaid expenses and deposits - current portion	76,403	55,871
TOTAL CURRENT ASSETS	15,381,570	6,246,138
OTHER ASSETS:		
Restricted cash	952,847	0
Contributions receivable - net of current portion	94,322	90,002
Mortgages and notes receivable - net of current portion	13,686,349	14,455,322
Deposits and other assets - net of current portion	229,197	108,149
Inventory of building materials	12,873	14,872
Cost of homes in progress	9,096,791	8,156,808
Property and equipment - net	88,567	93,320
TOTAL ASSETS	\$ 39,542,516	\$ 29,164,611
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Line of credit	\$ 500,000	\$ 0
Accounts payable and accrued expenses	1,096,036	396,788
Related-party payable	22,312	85,010
Notes payable - current portion	1,676,561	1,152,492
TOTAL CURRENT LIABILITIES	3,294,909	1,634,290
Interest payable	102,268	98,175
Deferred revenue	2,550,748	0
Notes payable - net of current portion	8,301,565	3,892,436
TOTAL LIABILITIES	14,249,490	5,624,901
NET ASSETS:		
Unrestricted net assets	22,622,495	20,617,236
Temporarily restricted net assets	2,670,531	2,922,474
TOTAL NET ASSETS	25,293,026	23,539,710
TOTAL LIABILITIES AND NET ASSETS	\$ 39,542,516	\$ 29,164,611

See notes to financial statements.

HABITAT FOR HUMANITY EAST BAY AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2010

	Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT:			
Contributions	\$ 216,073	\$ 2,864,781	\$ 3,080,854
In-kind contributions	1,792,936	0	1,792,936
Forgiveness of debt	345,465	0	345,465
Fundraising event contributions	54,938	116,240	171,178
Fundraising event costs	(34,109)	0	(34,109)
TOTAL PUBLIC SUPPORT	2,375,303	2,981,021	5,356,324
REVENUE:			
Sales of homes	650,189	0	650,189
ReStore sales	852,482	0	852,482
Cost of goods sold - ReStore	(787,356)	0	(787,356)
Investment interest	5,869	0	5,869
New markets tax credits - amortized revenue	46,377	0	46,377
Other income	25,534	0	25,534
Net assets released from restrictions	3,232,964	(3,232,964)	0
TOTAL PUBLIC SUPPORT AND REVENUE	6,401,362	(251,943)	6,149,419
EXPENSES:			
Program services:			
Housing	4,076,804	0	4,076,804
ReStore	554,000	0	554,000
Supporting services:			
General and administrative	697,025	0	697,025
Fundraising	481,207	0	481,207
TOTAL EXPENSES	5,809,036	0	5,809,036
Allocation to cost of homes	(1,600,006)	0	(1,600,006)
LOSS FROM SUBSIDIARY	187,073	0	187,073
NET EXPENSES	4,396,103	0	4,396,103
INCREASE (DECREASE) IN NET ASSETS	2,005,259	(251,943)	1,753,316
NET ASSETS, beginning of year	20,617,236	2,922,474	23,539,710
NET ASSETS, end of year	\$ 22,622,495	\$ 2,670,531	\$ 25,293,026

See notes to financial statements.

HABITAT FOR HUMANITY EAST BAY AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2009

	Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT:			
Contributions	\$ 2,245,584	\$ 1,106,235	\$ 3,351,819
In-kind contributions	1,104,775	0	1,104,775
Forgiveness of debt	1,422,637	0	1,422,637
Fundraising event contributions	213,411	2,270	215,681
Fundraising event costs	(62,796)	0	(62,796)
TOTAL PUBLIC SUPPORT	4,923,611	1,108,505	6,032,116
REVENUE:			
Sales of homes	2,795,710	0	2,795,710
ReStore sales	818,783	0	818,783
Cost of goods sold - ReStore	(863,580)	0	(863,580)
Investment interest	19,125	0	19,125
Other income	32,056	0	32,056
Net assets released from restrictions	750,616	(750,616)	0
TOTAL PUBLIC SUPPORT AND REVENUE	8,476,321	357,889	8,834,210
EXPENSES:			
Program services:			
Housing	7,034,825	0	7,034,825
ReStore	527,365	0	527,365
Supporting services:			
General and administrative	676,541	0	676,541
Fundraising	548,556	0	548,556
TOTAL EXPENSES	8,787,287	0	8,787,287
Loss on sale of mortgage receivable	1,521,468	0	1,521,468
Allocation to cost of homes	(1,497,480)	0	(1,497,480)
NET EXPENSES	8,811,275	0	8,811,275
INCREASE (DECREASE) IN NET ASSETS	(334,954)	357,889	22,935
NET ASSETS, beginning of year	20,952,190	2,564,585	23,516,775
NET ASSETS, end of year	\$ 20,617,236	\$ 2,922,474	\$ 23,539,710

See notes to financial statements.

HABITAT FOR HUMANITY EAST BAY AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2010

	Program Services			Supporting Services (1)		Total
	Housing	ReStore	Subtotal	General and Administrative	Fundraising	
Expenses:						
Cost on homes sold	\$ 852,565	\$ 0	\$ 852,565	\$ 0	\$ 0	\$ 852,565
Personnel	2,044,481	329,323	2,373,804	496,090	150,054	3,019,948
Homeowner relations	36,222	0	36,222	0	0	36,222
Office	54,196	20,368	74,564	12,129	11,309	98,002
Professional services	117,210	10,552	127,762	43,480	20,345	191,587
Travel	25,958	1,319	27,277	2,465	3,285	33,027
Tithe to international projects	75,745	0	75,745	0	0	75,745
Property management	90,015	0	90,015	0	0	90,015
Public relations	0	25,280	25,280	0	128,206	153,486
Rent	58,180	96,170	154,350	12,032	10,667	177,049
Warehouse lease	21,832	20,286	42,118	0	0	42,118
Equipment	45,287	3,401	48,688	6,475	4,912	60,075
Education	2,273	339	2,612	3,996	13	6,621
Insurance	18,773	9,687	28,460	21,249	0	49,709
Bad debt	0	0	0	0	18,893	18,893
Interest	184,000	0	184,000	37,772	0	221,772
New market tax credit fees	317,883	0	317,883	0	0	317,883
Depreciation	0	0	0	34,497	0	34,497
Miscellaneous	132,184	37,275	169,459	26,840	133,523	329,822
Total expenses reported by function on the statement of activities	4,076,804	554,000	4,630,804	697,025	481,207	5,809,036
Allocation to cost of homes	(1,600,006)	0	(1,600,006)	0	0	(1,600,006)
Expenses after allocation	2,476,798	554,000	3,030,798	697,025	481,207	4,209,030
Loss on sale of mortgage receivable	0	0	0	0	0	0
Expenses deducted directly from support and revenue on the statement of activities:						
Fundraising costs	0	0	0	0	34,109	34,109
Cost of goods sold - ReStore	0	787,356	787,356	0	0	787,356
Total expenses	\$2,476,798	\$1,341,356	\$3,818,154	\$ 697,025	\$ 515,316	\$5,030,495

(1) For the last three fiscal periods, supporting services expenses have averaged 14.50% of total expenses. The supporting services expense percentage fluctuates by year depending primarily on the number of homes sold.

See notes to financial statements.

HABITAT FOR HUMANITY EAST BAY AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2009

	Program Services			Supporting Services (1)		Total
	Housing	ReStore	Subtotal	General and Administrative	Fundraising	
Expenses:						
Cost on homes sold	\$4,251,346	\$ 0	\$4,251,346	\$ 0	\$ 0	\$ 4,251,346
Personnel	1,988,393	310,236	2,298,629	461,324	167,769	2,927,722
Homeowner relations	104,625	0	104,625	0	0	104,625
Office	47,367	18,015	65,382	17,600	12,050	95,032
Professional services	158,296	13,540	171,836	75,445	18,147	265,428
Travel	28,028	4,843	32,871	804	6,116	39,791
Tithe to international projects	85,010	0	85,010	0	0	85,010
Property management	81,713	0	81,713	0	0	81,713
Public relations	0	30,243	30,243	0	98,096	128,339
Rent	50,418	96,570	146,988	10,586	6,718	164,292
Warehouse lease	37,378	10,044	47,422	0	0	47,422
Equipment	59,093	3,704	62,797	13,264	5,863	81,924
Education	8,904	790	9,694	2,486	1,807	13,987
Insurance	15,486	4,338	19,824	23,222	0	43,046
Bad debt	0	0	0	0	130,356	130,356
Interest	0	0	0	14,523	0	14,523
Depreciation	0	0	0	38,183	0	38,183
Miscellaneous	118,768	35,042	153,810	19,104	101,634	274,548
	<u>7,034,825</u>	<u>527,365</u>	<u>7,562,190</u>	<u>676,541</u>	<u>548,556</u>	<u>8,787,287</u>
Total expenses reported by function on the statement of activities						
Allocation to cost of homes	(1,497,480)	0	(1,497,480)	0	0	(1,497,480)
Expenses after allocation	5,537,345	527,365	6,064,710	676,541	548,556	7,289,807
Loss on sale of mortgage receivable	1,521,468	0	1,521,468	0	0	1,521,468
Expenses deducted directly from support and revenue on the statement of activities:						
Fundraising costs	0	0	0	0	62,796	62,796
Cost of goods sold - ReStore	0	863,580	863,580	0	0	863,580
Total expenses	<u>\$7,058,813</u>	<u>\$1,390,945</u>	<u>\$8,449,758</u>	<u>\$ 676,541</u>	<u>\$ 611,352</u>	<u>\$ 9,737,651</u>

(1) For the last three fiscal periods, supporting services expenses have averaged 11.38% of total expenses. The supporting services expense percentage fluctuates by year depending primarily on the number of homes sold.

See notes to financial statements.

HABITAT FOR HUMANITY EAST BAY AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	June 30, 2010	June 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 1,753,316	\$ 22,935
Adjustments to reconcile increase in net assets to net cash used by operating activities:		
Depreciation	34,497	38,183
Loss on disposal of property and equipment	1,552	2,100
Forgiveness of debt	(345,465)	(1,422,637)
Loss on sale of mortgage receivable	0	1,521,468
(Increase) decrease in assets:		
Restricted cash	(952,847)	0
Receivables	(292,913)	898,584
Inventory of ReStore	(18,340)	(14,157)
Prepaid expenses and deposits	(141,580)	35,228
Inventory of building materials	1,999	124,067
Cost of homes in progress	(2,293,156)	(2,553,674)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	699,248	(267,372)
Related-party payable	(62,698)	39,565
Interest payable	4,093	(41,752)
Deferred revenue	2,550,748	0
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	938,454	(1,617,462)
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) decrease in investments	15,499	(15,499)
Issuance of mortgages receivable	(419,380)	(2,795,710)
Collection of mortgages receivable	1,212,802	2,501,957
Purchases of property and equipment	(31,296)	(12,597)
(Increase) decrease in property held for sale	(7,609,159)	920,815
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(6,831,534)	598,966
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	5,342,399	2,536,777
Payments on notes payable	(63,736)	(373,046)
Proceeds (payments) on line of credit	500,000	(450,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	5,778,663	1,713,731
INCREASE (DECREASE) IN CASH	(114,417)	695,235
CASH and cash equivalents, beginning of year	3,843,575	3,148,340
CASH and cash equivalents, end of year	\$ 3,729,158	\$ 3,843,575
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash paid for interest - net of capitalized portion	\$ 37,772	\$ 14,523
Non-cash investing and financing activities:		
Assets transferred in exchange for mortgages receivable	\$ 630,945	\$ 4,251,346
Less loss on sale of homes	211,565	1,455,636
Mortgages issued	\$ 419,380	\$ 2,795,710

See notes to financial statements.

HABITAT FOR HUMANITY EAST BAY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – JUNE 30, 2010 AND JUNE 30, 2009

Note 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of activities:

Habitat for Humanity East Bay (HHEB) is a California nonprofit corporation that was incorporated in 1987. In May 2007 HHEB combined with Mt. Diablo Habitat for Humanity to become one affiliate that would serve the entire East Bay. As an expression of God's love, the mission of HHEB is to create homeownership opportunities for families with limited incomes by building sustainable housing and revitalizing neighborhoods. HHEB pursues its mission of building affordable housing by utilizing volunteer labor and donated materials and funds.

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 HHEB. HHEB'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 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. HHEB has built and sold 220 homes since its inception.

HHEB operates a retail store (ReStore) for excess building materials.

In December 2009, HHEB created Habitat for Humanity East Bay Funding Company, LLC, a California single member LLC. The LLC was created for the sole purpose of acquiring and holding mortgage loans originated by HHEB.

HHEB 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 in other ways, HHEB is directly responsible for its own operations.

HHEB 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 HHEB are contingent upon successful achievement of its long-term revenue-raising goals.

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

Principles of consolidation:

The consolidated financial statements include the financial statements of HHEB and the 100% owned single member LLC. All significant intercompany balances and transactions have been eliminated in consolidation.

Accounting methods:

HHEB uses the accrual method of accounting, which recognizes income in the period earned and expenses when incurred, regardless of the timing of payments. Income on sales of property acquired for improvements 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.

HABITAT FOR HUMANITY EAST BAY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – JUNE 30, 2010 AND JUNE 30, 2009

Note 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Basis of presentation:

HHEB 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.

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 statement 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 values, if they are ordinarily purchased and are of a specialized nature.

Cash and cash equivalents:

Cash and cash equivalents are considered to be short-term, highly liquid investments with original maturities of three months or less as well as cash on hand. Not included as cash are funds restricted as to their use, regardless of liquidity.

Restricted cash:

As a result of the New Market Tax Credit transaction HHEB is required to maintain funds in a separate account.

Allowance for uncollectable pledges:

HHEB establishes the allowance for uncollectable pledges based on historical experience and a review of specific accounts.

Investments:

Investments are stated at their fair value (which approximates their cost basis). Donated stock is usually sold within a month after receipt.

Inventory of building materials:

The inventory includes donated and surplus building materials such as doors, windows, bathtubs, lumber, and hardware. Purchased inventory is recorded at cost. Donated inventory is recorded at fair market value at the date of receipt and such items are expensed or capitalized when used. Some of the inventory is held for sale at HHEB's retail outlet.

HABITAT FOR HUMANITY EAST BAY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – JUNE 30, 2010 AND JUNE 30, 2009

Note 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Mortgages and notes receivable:

Mortgages receivable generally bear no interest and are not discounted to reflect imputed interest since corresponding notes payable also generally bear no interest. Notes payable to governmental entities are exempt from imputed interest treatment.

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

Management intends to sell a portion of the first-lien mortgages originated by HHEB in batches. 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.

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. Costs of homes in progress are not depreciated.

Costs of homes in progress are stated at the lesser of cost, or net realizable value. Any known amounts which are estimated to be non-recoverable from the ultimate sales prices of the homes will be recorded, when known, in HHEB's financial statements.

The useful lives of the assets are estimated as follows:

Leasehold and improvements	3 to 5 years
Equipment	5 years
Vehicle	5 years

Capitalized interest:

HHEB capitalizes interest incurred during construction as a component of costs of homes. During the years ended June 30, 2010 and June 30, 2009 HHEB capitalized interest of \$62,333 and \$49,087, respectively.

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 is valued at the prevailing rate for the pro-bono services received, however labor consisting of sweat equity (i.e. family homebuyer voluntary labor) and/or volunteer labor is not considered to be contribution revenue to HHEB.

Allocation to costs of homes:

Allocation to costs of homes consist of various program service expenses that are capitalized and recorded as costs of homes in progress for the various projects, based on time incurred as estimated by management. When the home is substantially complete and ready for use the capitalized amount is charged to cost of homes. When a home is sold, the related costs of the home that were capitalized is relieved and cost of homes sold is charged.

HABITAT FOR HUMANITY EAST BAY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – JUNE 30, 2010 AND JUNE 30, 2009

Note 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Income taxes:

HHEB is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and the related California code sections.

HHEB recognizes the financial statement benefit of an uncertain tax position only after considering the probability that a tax authority would sustain the position in an examination. For tax positions meeting a “more-likely-than-not” threshold, the amount recognized in the financial statements is the benefit expected to be realized upon settlement with the tax authority. For tax positions not meeting the threshold, no financial statement benefit is recognized. HHEB is relying on its tax-exempt status and its adherence to all applicable laws and regulations to preserve that status. HHEB recognizes interest and penalties, if any, related to uncertain tax positions as income tax expense. Income tax returns for the years prior to 2005 are no longer subject to examination by tax authorities.

Functional expenses allocation:

The costs of providing program services and supporting services are summarized on a functional basis in the statement of activities and statement 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.

Net assets and changes therein are classified as follows:

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they may be maintained permanently by HHEB. HHEB had no permanently restricted net assets at June 30, 2010 and June 30, 2009.

Temporarily restricted net assets - Net assets restricted by donor-imposed stipulations that either expire with the passage of time or the satisfaction of the stipulations by HHEB.

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Note 2. NATURE 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 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 changes relate to the determination of the reserves for costs in excess of projected sales prices, value of the donated material and facilities, and expenses allocated to cost of homes.

Note 3. CONCENTRATIONS OF CREDIT RISK:

Financial instruments that potentially subject HHEB to concentrations of credit risk consist principally of cash, contribution receivables and mortgages receivable. Cash and cash equivalents are held in financial institutions in the United States of America. At times, the account balances may exceed the institution's federally insured limits. HHEB has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk.

HABITAT FOR HUMANITY EAST BAY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – JUNE 30, 2010 AND JUNE 30, 2009

Note 4. RECEIVABLES:

Receivables consist of the following:

	2010	2009
Much to Celebrate Pledges	\$ 272,661	\$ 252,351
PG&E Solar Initiative	56,160	113,580
CA HCD TA Grant	78,921	148,579
Contra Costa County – RDA loan	248,925	0
Cisco Foundation	92,850	0
Other	230,754	163,156
	980,271	677,666
Less allowance for uncollectible pledges	(131,976)	(122,284)
	848,295	555,382
Less current portion	(753,973)	(465,380)
	\$ 94,322	\$ 90,002
Due in:		
One year	\$ 800,335	\$ 505,446
Two to five years	177,621	171,195
More than five years	2,315	1,025
	\$ 980,271	\$ 677,666
Total		

Pledges receivable that are due beyond one accounting cycle are reflected at the present value of estimated future cash flows using a discount rate of 2.25% - 2.72%. The present value discount for the years ended June 30, 2010 and June 30, 2009 is \$8,708 and \$7,785, respectively.

HABITAT FOR HUMANITY EAST BAY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – JUNE 30, 2010 AND JUNE 30, 2009

Note 5. COST OF HOMES IN PROGRESS:

	Edes Avenue B Oakland	Tassafronga Village Oakland	Byron Ave Oakland	Redwood Hill Oakland	El Rincon Bay Point	NSP Contra Costa Cnty	NSP Hayward	Pleasant Crk Walnut Crk	Other Projects	Total
Costs since inception of project:										
Land	\$ 880,000	\$ 700,001	\$ 386,550	\$ 0	\$ 435,066	\$ 441,079	\$ 744,035	\$ 270,000	\$ 105,284	\$ 3,962,015
Materials and subcontractors	6,993,430	2,341,016	24,837	42,544	1,021,239	295,868	115,230	48,929	268,358	11,151,450
Administration (including project manager and labor)	1,279,104	478,223	57,847	141,878	470,384	141,045	109,383	27,670	58,675	2,764,209
Costs of homes since inception	9,152,534	3,519,240	469,234	184,422	1,926,689	877,992	968,648	346,599	432,317	17,877,674
Costs of finished homes not yet sold	(6,796,765)	0	0	0	0	(419,480)	0	0	0	(7,216,245)
Cost of homes sold since inception	0	0	0	0	0	(211,465)	0	0	0	(211,465)
Costs of homes in progress at June 30, 2010	\$ 2,355,769	\$ 3,519,240	\$ 469,234	\$ 184,422	\$ 1,926,689	\$ 247,047	\$ 968,648	\$ 346,599	\$ 432,317	\$ 10,449,964
No. of finished homes	20	0	0	0	0	2	0	0	0	22
Unfinished homes planned or in progress	8	22	8	16	9	6	8	10	38	125
	28	22	8	16	9	8	8	10	38	147
Number of homes sold in 2010	0	0	0	0	0	1	0	0	0	1

HABITAT FOR HUMANITY EAST BAY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – JUNE 30, 2010 AND JUNE 30, 2009

Note 5. COST OF HOMES IN PROGRESS (Continued):

	Buena Vista II Alameda	Edes Avenue A Oakland	Vernon-Castro Richmond	Edes Avenue B Oakland	Tassafronga Village Oakland	Byron Ave Oakland	Redwood Hill Oakland	Bay Point	El Sobrante	Total
Costs since inception of project:										
Land	\$ 0	\$ 296,437	\$ 0	\$ 880,000	\$ 0	\$ 386,550	\$ 0	\$ 406,000	\$ 39,000	\$ 2,007,987
Materials and subcontractors	228,743	6,202,856	(67,621)	4,141,789	135,136	82,338	29,333	379,616	14,161	11,146,351
Administration (including project manager and labor)	638,915	1,342,401	67,621	908,501	185,161	49,447	95,873	355,141	68,762	3,711,822
Costs of homes since inception	867,658	7,841,694	0	5,930,290	320,297	518,335	125,206	1,140,757	121,923	16,866,160
Cost of homes finished but not yet sold	0	0	0	0	0	0	0	0	0	0
Cost of homes sold since inception	(867,658)	(7,841,694)	0	0	0	0	0	0	0	(8,709,352)
Costs of homes in progress at June 30, 2009	\$ 0	\$ 0	\$ 0	\$ 5,930,290	\$ 320,297	\$ 518,335	\$ 125,206	\$ 1,140,757	\$ 121,923	\$ 8,156,808
No. of finished homes	0	0	0	0	0	0	0	0	0	0
Unfinished homes planned or in progress	0	0	0	28	22	8	16	9	10	93
	0	0	0	28	22	8	16	9	10	93
Number of homes sold in 2009	4	9	0	0	0	0	0	0	0	13

HABITAT FOR HUMANITY EAST BAY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – JUNE 30, 2010 AND JUNE 30, 2009

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:

	2010	2009
Mortgages receivable	\$ 11,641,359	\$ 13,273,714
Notes receivable	2,642,023	1,803,090
Less current portion	(597,033)	(621,482)
Long-term portion	\$ 13,686,349	\$ 14,455,322

In July 2008, the California Housing Finance Agency (CalHFA) purchased \$1,037,725 of discounted first-lien mortgages originated by HHEB. HHEB received cash proceeds of \$614,094 resulting in a recognized net loss of \$423,631.

In December 2008, First Republic Bank purchased \$2,202,853 of discounted first-lien mortgages originated by HHEB. HHEB received \$1,105,016 in cash proceeds resulting in a recognized net loss of \$1,097,837.

Note 7. PROPERTY AND EQUIPMENT:

Property and equipment is summarized as follows:

	2010	2009
Office equipment	\$ 59,965	\$ 67,123
Site equipment	53,933	53,933
Office and ReStore leasehold improvements	53,950	26,541
ReStore equipment	113,174	113,174
	281,022	260,771
Less accumulated depreciation	(192,455)	(167,451)
Total property and equipment	\$ 88,567	\$ 93,320

Note 8. RELATED-PARTY TRANSACTIONS:

HHEB contributes 10% of its annual unrestricted cash contribution income and net event income to the international work of HFHI. The cost of tithes to HFHI was \$75,745 and \$85,010, respectively for the years ended June 30, 2010 and June 30, 2009. Payable to HFHI was \$22,312 and \$85,010, respectively as of June 30, 2010 and June 30, 2009.

Note 9. LINE OF CREDIT:

HHEB has a \$2,500,000 revolving line of credit, of which \$500,000 and \$0 was outstanding at June 30, 2010 and June 30, 2009. The bank advances on the credit line are payable in full by March 31, 2011 (maturity date) and carry an interest rate of prime subject to a floor of 5 % (effective interest rate at June 30, 2010 and June 30, 2009 was 5.00%). Certain financial covenants are required to be maintained.

HABITAT FOR HUMANITY EAST BAY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – JUNE 30, 2010 AND JUNE 30, 2009

Note 10. LONG-TERM DEBT:

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

	2010 Principal	2009 Principal
<u>Spencer Court, Richmond</u>		
City of Richmond, non-interest bearing, payable upon the sale of final home of Spencer Court Richmond in 300 monthly payments.	\$ 244,302	\$ 244,302
 <u>Edes Avenue, Oakland</u>		
City of Oakland, in the maximum amount of \$3,601,000, non-interest bearing, with principal due at the earlier of December 2011 or upon sale of the final home at the Edes Avenue B project. At the discretion of the city, the principal due may be converted to a grant upon sale of each unit in the project.	3,205,763	3,205,763
State of California, Department of Housing and Community Development, in the maximum amount of \$1,320,000, bears simple interest at 6%, with the balance and accrued interest due August 25, 2011. At the discretion of the state, the principal and interest due may be converted to a grant upon the sale of each unit in the 28 unit Edes B project. Accrued interest at June 30, 2010 and June 30, 2009 was \$41,526 and \$0, respectively.	1,310,557	0
 <u>Tassafaronga Village Homeownership Project</u>		
Redevelopment Agency of the City of Oakland, in the maximum principal amount of \$1,868,000 (or such lesser amount as may be advanced) non-interest bearing, maturing in August 2013. At the discretion of the Agency, the principal due may be converted to a grant upon sale of each unit in the project.	1,093,536	0
 <u>Redwood Hill Project</u>		
City of Oakland, in the principal amount of \$35,000, with simple interest accruing at 6%, principal and accrued interest due August 10, 2010. If construction financing for the project is not obtained, the loan shall be forgiven and become a grant. Accrued interest at June 30, 2010 and June 30, 2009 was \$1,461 and \$0, respectively.	35,000	0

HABITAT FOR HUMANITY EAST BAY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – JUNE 30, 2010 AND JUNE 30, 2009

Note 10. LONG-TERM DEBT (Continued):

	2010 Principal	2009 Principal
<u>Byron Avenue, Oakland</u>		
Redevelopment Agency of the City of Oakland, originally amounting \$386,550, bears simple interest at 5.89% with principal and interest due on December 3, 2007. Formally amended to extend the loan to March 2020, forgive all accrued interest and make it non-interest bearing. Accrued interest at June 30, 2010 and June 30, 2009 was \$0 and \$58,448, respectively.	386,550	386,550
Redevelopment Agency of the City of Oakland, originally amounting \$29,200, bears interest at 6%, payable in full with accrued interest on April 1, 2010. Accrued interest at June 30, 2010 and June 30, 2009 was \$581 and \$285, respectively.	4,938	4,938
<u>Bay Point</u>		
Contra Costa County RDA/Bay Pt, originally amounting \$300,000, non-interest bearing, due at the earlier of the close of the last home or March 2012. The loan was amended in 2008 to increase the principal amount by \$25,000 and in 2009 to increase the principal amount by \$711,000.	573,925	325,000
CalHome/Bay Point, originally amounting \$318,182, 6% bearing note, payable upon the sale of nine single-family housing units. At the discretion of the city, the principal and interest due may be converted to a grant upon sale of each unit in the project. The principal balance that hasn't been converted to a grant, along with all unpaid interest, is due by February 9, 2011. Accrued interest at June 30, 2010 and June 30, 2009 was \$58,491 and \$39,442, respectively.	318,182	315,144
<u>Livermore</u>		
Note Payable to First Republic Bank non-interest bearing, due on September 16, 2036. With monthly principal payments of \$838.	266,295	276,392
Note Payable to Bank of West non-interest bearing, due at option of Bank of the West upon sale or transfer.	45,000	15,000
Various Notes to the City of Livermore currently in abeyance pending resale of property.	381,551	127,536

HABITAT FOR HUMANITY EAST BAY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – JUNE 30, 2010 AND JUNE 30, 2009

Note 10. LONG-TERM DEBT (Continued):

	2010 Principal	2009 Principal
<u>Contra Costa County</u>		
Contra Costa County, in the principal amount of \$197,000 non-interest bearing, due December 2010 (32 Bayview Ave.)	55,434	0
Contra Costa County, in the principal amount of \$265,000 non-interest bearing, due December 2010 (138 Loftus Road)	79,409	0
Contra Costa County, in the principal amount of \$232,000 non-interest bearing, due January 2011 (453 Pamela Drive)	129,564	0
Contra Costa County, in the principal amount of \$215,000 non-interest bearing, due February 2011 (49 Surf View)	96,715	0
<u>City of Hayward</u>		
City of Hayward, in the principal amount of \$404,794, non-interest bearing, payable April 2011 (695 Blaine Way).	282,298	0
City of Hayward, in the principal amount of \$380,209, non-interest bearing, payable April 2011 (24778 Mulberry).	276,981	0
City of Hayward, in the principal amount of \$311,901, non-interest bearing, payable May 2011 (27689 Pompano).	170,007	0
<u>City of Antioch</u>		
City of Antioch, in the principal amount of \$227,078, non-interest bearing, payable June 2011 (1920 Evergreen).	116,148	0
<u>Presidio Bank</u>		
Presidio Bank, in the principal amount of \$868,606, without interest, payable in monthly installments. All unpaid principal is due and payable on January 1, 2019. There is a put/call option associated with the note that allows 20% of the balance of the note to be repurchased from time to time.	853,187	0

HABITAT FOR HUMANITY EAST BAY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – JUNE 30, 2010 AND JUNE 30, 2009

Note 10. LONG-TERM DEBT (Continued):

	2010 Principal	2009 Principal
<u>Related-party notes payable</u>		
HFHI, in the original amount \$21,250, non-interest bearing, payable in monthly installments of \$442 starting July 1, 2006, due June 1, 2010.	0	5,854
HFHI, in the original amount \$16,250, non-interest bearing, payable in monthly installments of \$338 starting January 1, 2007, due January 1, 2011.	2,056	5,595
HFHI, originally amounting to \$97,100, bearing simple interest at 5%, payable in quarterly installments of \$3,976, due January 2010.	0	7,832
HFHI, originally amounting to \$78,600, bearing simple interest at 5%, payable in quarterly installments of \$3,150, due April 2011.(1)	6,224	18,374
<u>Other notes payable</u>		
Other various notes due	44,504	106,648
Total	\$ 9,978,126	\$ 5,044,928

(1) The note payable is secured by three mortgage receivables whose balance was \$337,073 at June 30, 2010.

Scheduled principal payments on the notes payable are estimated as follows:

2011	\$ 1,676,561
2012	5,149,132
2013	59,182
2014	1,153,032
2015	57,950
Thereafter	1,882,269
Total	\$ 9,978,126

Note 11. NEW MARKET TAX CREDIT TRANSACTION

In April 2010, HHEB entered into a New Markets Tax Credit (“NMTC”) transaction involving U.S. Bancorp Community Development Corporation (“USBCDC”), its related entities and agents. The following is a summary of the NMTC Transaction.

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 a capital contribution of \$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”). 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.

HABITAT FOR HUMANITY EAST BAY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – JUNE 30, 2010 AND JUNE 30, 2009

Note 11. NEW MARKET TAX CREDIT TRANSACTION (Continued):

HFHI-SA Leverage II, L.L.C. (Continued):

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. The LLC is solely managed by a third party. Simultaneous with these transactions, the LLC entered into an Option Agreement with USBCDC and the sole member of MBS-UI Investment Fund VIII, LLC (the “Fund”) 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.

Financial statement presentation:

HHEB has imputed a fair value rate of interest of approximately 3.4% on the Note Payable to CDE, resulting in a discount of approximately \$3,152,000 of the Note Payable at April 15, 2010. This discount, net of the NMTC transaction costs of \$1,917,000, results in a net amortizable discount approximately equal to the cash flow received by HHEB. As a result, HHEB has recorded net deferred revenue of \$2,597,125 at April 15, 2010 to reflect the net revenue HHEB will effectively receive from the NMTC transaction over its term. HHEB is amortizing the net deferred revenue from the NMTC transaction over 7 years. As of June 30, 2010, HHEB had amortized and reported as revenue, \$46,377 of the net deferred revenue. After fees and expenses, HHEB received \$1,369,627 in net cash proceeds to invest in its low-income housing projects. The NMTC transaction, as set forth above, provides HHEB, from an economic perspective, a right of offset of the Loan 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 transaction, and in part, as a result of the Option Agreement effectively providing a legal right of offset. Accordingly, HHEB’s financial statements report only the net asset value of the NMTC transaction, after offsetting the discounted note payable CDE, transaction costs and investment in LLC.

HABITAT FOR HUMANITY EAST BAY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – JUNE 30, 2010 AND JUNE 30, 2009

Note 12. TEMPORARY RESTRICTED NET ASSETS:

Temporary restricted net assets are summarized as follows:

	June 30, 2008	Contributions	Released from Restrictions	June 30, 2009
Contributions restricted for specific programs:				
Oakland project - Edes Ave. A	\$ 503,546	\$ 0	\$ (503,546)	\$ 0
Alameda site	50,000	0	(50,000)	0
Family scholarship	135,327	609	(120,921)	15,015
Tri-Valley project	9,466	24,686	0	34,152
Future development in Oakland	981,147	0	0	981,147
Bay Point project	810,193	148,962	0	959,155
Vernon Castro, Richmond	0	16,708	0	16,708
Oakland project - Edes Ave. B	0	719,015	0	719,015
NSP Contra Costa County	0	9,113	0	9,113
NSP Hayward	0	49,710	0	49,710
Others	8,391	0	0	8,391
Contributions restricted for future periods	66,515	139,702	(76,149)	130,068
	\$ 2,564,585	\$ 1,108,505	\$ (750,616)	\$ 2,922,474
	June 30, 2009	Contributions	Released from Restrictions	June 30, 2010
Contributions restricted for specific programs:				
Family scholarship	\$ 15,015	\$ 0	\$ (15,015)	\$ 0
Tri-Valley project	34,152	10,638	(9,225)	35,565
Future development in Oakland	981,147	0	0	981,147
Bay Point project	959,155	53,355	(3,355)	1,009,155
Vernon Castro, Richmond	16,708	0	(16,708)	0
Oakland project - Edes Ave. B	719,015	955,727	(1,674,742)	0
NSP Contra Costa County	9,113	455,525	(355,405)	109,233
NSP Hayward	49,710	128,153	(118,153)	59,710
Oakland Project – Kinsell Commons	0	996,613	(803,281)	193,332
NSP Antioch	0	228,449	(131,456)	96,993
NRI Bay Point	0	23,800	0	23,800
Future project – Bay Point	0	12,521	0	12,521
Others	8,391	0	0	8,391
Contributions restricted for future periods	130,068	116,240	(105,624)	140,684
	\$ 2,922,474	\$ 2,981,021	\$ (3,232,964)	\$ 2,670,531

HABITAT FOR HUMANITY EAST BAY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – JUNE 30, 2010 AND JUNE 30, 2009

Note 13. IN-KIND CONTRIBUTIONS:

In-kind contributions for the year ended June 30, 2010 and June 30, 2009 are summarized as follows:

	2010	2009
Donated land	\$ 970,000	\$ 155,000
Donated equipment and building materials	800,984	796,466
Donated services	21,952	153,309
Total in-kind contributions	\$ 1,792,936	\$ 1,104,775

Note 14. HABITAT FOR HUMANITY EAST BAY FUNDING COMPANY LLC:

HHEB Funding Co., LLC had the following activity for the fiscal year ended June 30, 2010:

	2010	2009
Loss on sale of note payable	\$ 184,023	\$ 0
Amortization – professional fees	3,050	0
Total loss from subsidiary	\$ 187,073	\$ 0

Note 15. EMPLOYEE BENEFIT PLAN:

HHEB has 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. HHEB contributed \$55,279 and \$54,858, respectively to the plan during the years ended June 30, 2010 and June 30, 2009.

Note 16. OPERATING LEASES:

HHEB leases its ReStore site under an operating lease agreement that expires in August 2015. HHEB also has an operating lease on its office facilities that expires in February 2013. HHEB leases a copier under a lease that expires in June 2014. The following represents the future minimum lease payments:

Year Ending June 30,	
2011	\$ 187,681
2012	204,153
2013	126,335
2014	110,772
2015	98,832
Thereafter	16,472
	\$ 744,245

Rent expense for the years ended June 30, 2010 and June 30, 2009 was \$219,167 and \$211,714, respectively.

HABITAT FOR HUMANITY EAST BAY AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – JUNE 30, 2010 AND JUNE 30, 2009

Note 17. SUBSEQUENT EVENTS:

New Market Tax Credit Transaction:

On July 28, 2010 HHEB, along with three other Habitat for Humanity affiliates, invested in a joint venture for the purposed of taking advantage of the New Markets Tax Credit (NMTC) program. The NMTC program provides tax credit incentives to investors who invest in low-income communities and is administered by the U.S. Treasury Department. HHEB's investment in the joint venture totaled \$5,268,759 and represents a 28.07% ownership stake. The investment was comprised of cash in the amount of \$100,000 and Construction in Progress of \$5,168,759. As part of the arrangement, HHEB secured a 15 year loan from a community development entity which is an affiliate of the joint venture. The loan is in the amount of \$6,875,958. The loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low income residents. The loan will bear interest at a rate of .766% per year. Semi-annual payments of interest only are due in years 1 through 7 with fully amortizing semi-annual payments of principal and interest due in years 8 through 15.

In connection with this arrangement, the Joint Venture has the option to buy back HHEB's ownership interest. Exercise of this option will effectively allow HHEB to extinguish its debt owed to the community development entity.

Management has evaluated subsequent events through January 11, 2011, the date which the financial statements were available for issue.

SUPPLEMENTAL INFORMATION

HABITAT FOR HUMANITY EAST BAY AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES BY PROJECT – JUNE 30, 2010

	Edes Ave. B	Bay Point	Tassafronga Village	NSP Contra Costa Cnty	El Sobrante	Future Projects	Habitat Operations	Other	Housing Total	ReStore
Expenses :										
Cost on homes sold	\$ 0	\$ 0	\$ 0	\$ 211,465	\$ 0	\$ 0	\$ 641,100	\$ 0	\$ 852,565	\$ 0
Personnel	649,362	96,165	356,159	119,428	0	204,127	377,353	241,887	2,044,481	329,323
Homeowner relations	4,799	67	3,573	287	0	0	14,106	13,390	36,222	0
Office	7,195	3,959	7,562	3,799	0	2,497	19,875	9,309	54,196	20,368
Professional services	28,539	5,607	15,325	7,521	329	7,537	39,204	13,148	117,210	10,552
Travel	3,454	2,907	2,490	3,503	684	0	10,619	2,301	25,958	1,319
Tithe to international projects	0	0	0	0	0	0	75,745	0	75,745	0
Property management	(24,170)	317	0	345	0	2,006	31,743	79,774	90,015	0
Public relations	0	0	0	0	0	0	0	0	0	25,280
Rent	6,699	3,150	5,998	4,166	0	3,434	24,999	9,734	58,180	96,170
Warehouse lease	8,547	0	2,117	0	0	0	11,168	0	21,832	20,286
Equipment	12,501	2,131	5,825	2,255	0	1,204	15,837	5,534	45,287	3,401
Education	0	0	111	0	0	0	2,162	0	2,273	339
Insurance	0	0	0	0	0	0	17,716	1,057	18,773	9,687
Interest	0	0	0	0	0	0	184,000	0	184,000	0
New market tax credit fees	0	0	0	0	0	0	317,883	0	317,883	0
Miscellaneous	1,441	60	2,012	75	121,923	580	5,839	254	132,184	37,275
Total expenses reported by function on the statement of activities	698,367	114,363	401,172	352,844	122,936	221,385	1,789,349	376,388	4,076,804	554,000
Allocation to cost of homes	(698,367)	(114,363)	(401,172)	(141,379)	0	0	0	(244,725)	(1,600,006)	0
Expenses after allocation	0	0	0	211,465	122,936	221,385	1,789,349	131,663	2,476,798	554,000
Expenses deducted directly from support and revenue on the statement of activities:										
Cost of goods sold - ReStore	0	0	0	0	0	0	0	0	0	787,356
Total expenses	\$ 0	\$ 0	\$ 0	\$ 211,465	\$ 122,936	\$ 221,385	\$ 1,789,349	\$ 131,663	\$ 2,476,798	\$ 1,341,356

HABITAT FOR HUMANITY EAST BAY AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES BY PROJECT – JUNE 30, 2009

	Edes Ave. A	Edes Ave. B	626 Buena Vista	Bay Point	Future Projects	Habitat Operations	Family Scholarshi p Program	Other	Housing Total	ReStore
Expenses :										
Cost on homes sold	\$ 3,383,688	\$ 0	\$ 867,658	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 4,251,346	\$ 0
Personnel	209,403	670,360	147,541	185,826	189,516	331,094	0	223,148	1,988,393	310,236
Homeowner relations	4,637	1,753	155	0	0	8,789	31,505	229	104,626	0
Office	3,968	6,457	1,922	2,255	5,308	23,215	89,063	4,378	47,503	18,015
Professional services	7,082	10,388	7,241	6,737	22,727	93,577	0	10,544	158,296	13,540
Travel	846	4,395	252	1,848	0	17,873	352	2,461	28,027	4,843
Tithe to international projects	0	0	0	0	0	85,010	0	0	85,010	0
Property management	2,722	0	10,461	0	1,140	(2,732)	0	70,123	81,714	0
Public relations	0	0	0	0	0	0	0	0	0	30,243
Rent	3,943	8,210	2,375	3,189	5,775	21,171	0	5,753	50,416	96,570
Warehouse lease	0	5,022	0	0	0	32,220	0	0	37,242	10,044
Equipment	10,100	4,870	7,850	1,470	4,993	26,436	0	3,375	59,094	3,704
Education	0	450	0	0	0	8,454	0	0	8,904	790
Insurance	(104)	274	0	600	0	14,716	0	0	15,486	4,338
Miscellaneous	364	1,368	532	31	1,003	11,737	0	103,733	118,768	35,042
Total expenses reported by function on the statement of activities	3,626,649	713,547	1,045,987	201,956	230,462	671,560	120,920	423,744	7,034,825	527,365
Allocation to cost of homes	(223,237)	(713,547)	(146,805)	(201,956)	0	0	0	(211,935)	(1,497,480)	0
Expenses after allocation	3,403,412	0	899,182	0	230,462	671,560	120,920	211,809	5,537,345	527,365
Expenses deducted directly from support and revenue on the statement of activities:										
Cost of goods sold - ReStore	0	0	0	0	0	0	0	0	0	863,580
Total expenses	\$ 3,403,412	\$ 0	\$ 899,182	\$ 0	\$ 230,462	\$ 671,560	\$ 120,920	\$ 211,809	\$ 5,537,345	\$ 1,390,945