CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
JUNE 30, 2013 AND 2012

CONTENTS

RDF

ROSSI DOSKOCIL & FINKELSTEIN

LLP

Certified Public Accountants & Consultants

REPORT OF INDEPENDENT AUDITOR

To The Board of Directors
San Diego Habitat for Humanity, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of San Diego Habitat for Humanity, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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REPORT OF INDEPENDENT AUDITOR
(*Continued*)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of San Diego Habitat for Humanity, Inc. as of June 30, 2013 and 2012, 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.

Rossi Doskocil & Finkelstein LLP

Rossi Doskocil & Finkelstein LLP

Long Beach, California
October 22, 2013

SAN DIEGO HABITAT FOR HUMANITY, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of June 30,	**2013**	**2012**
ASSETS		
Cash and cash equivalents	$ 2,286,099	$ 1,866,894
Accounts receivable, net of allowance for doubtful accounts of $54,649 and $55,000, respectively	537,627	254,871
Unconditional promises to give	5,000	123,048
Mortgage notes receivable, net of unamortized discount	5,843,278	5,532,765
Inventory - ReStore and other	139,236	151,687
Prepaid expenses and deferred charges	144,789	71,434
Construction-in-process	1,541,105	1,504,753
Finished homes held for sale	371,934	766,582
Property and equipment, net of accumulated depreciation	2,280,610	2,298,529
Beneficial interest in assets held by community foundation	326,256	309,688
Deposits and other assets	87,419	81,511
Total assets	$ 13,563,353	$ 12,961,762
LIABILITIES AND NET ASSETS		
Accounts payable, accrued expenses, and other liabilities	$ 549,082	$ 333,893
Homeowner impounds	71,617	74,972
Deferred revenue	228,350	334,850
Notes payable - governmental agencies, net of unamortized discount	1,672,314	1,442,833
Notes payable - J.P. Morgan Chase Bank	1,981,532	2,093,441
Notes payable - HFHI	1,021,141	1,139,897
Total liabilities	5,524,036	5,419,886
Commitments		
Net assets:		
Unrestricted	6,350,666	6,461,900
Temporarily restricted	1,362,395	770,288
Permanently restricted	326,256	309,688
Total net assets	8,039,317	7,541,876
Total liabilities and net assets	$ 13,563,353	$ 12,961,762

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

SAN DIEGO HABITAT FOR HUMANITY, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended June 30, 2013	**Unrestricted**	**Temporarily restricted**	**Permanently restricted**	**Total**
Public support and revenue:				
Public support:				
Contributions	$ 422,932	$ 1,188,772	$ -	$ 1,611,704
In-kind contributions	296,721	250,277	-	546,998
Retail store, net of purchases	860,379	-	-	860,379
Net assets released from restrictions:				
Satisfaction of program/donor restrictions	859,031	(846,942)	(12,089)	-
Total public support	2,439,063	592,107	(12,089)	3,019,081
Revenue:				
Sales of homes	3,358,500	-	-	3,358,500
Mortgage loan discount amortization	426,016	-	-	426,016
Investment income	1,469	-	28,657	30,126
Other income	107,805	-	-	107,805
Total revenue	3,893,790	-	28,657	3,922,447
Total public support and revenue	6,332,853	592,107	16,568	6,941,528
Expenses:				
Cost of homes transferred and program support	5,518,282	-	-	5,518,282
Management and general	510,272	-	-	510,272
Fundraising	415,533	-	-	415,533
Total expenses	6,444,087	-	-	6,444,087
Change in net assets	(111,234)	592,107	16,568	497,441
Net assets, beginning of year	6,461,900	770,288	309,688	7,541,876
Net assets, end of year	$ 6,350,666	$ 1,362,395	$ 326,256	$ 8,039,317

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

SAN DIEGO HABITAT FOR HUMANITY, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended June 30, 2012	Unrestricted	Temporarily restricted	Permanently restricted	Total
Public support and revenue:				
Public support:				
Contributions	$ 392,419	$ 838,740	$ 14,103	$ 1,245,262
In-kind contributions	11,762	108,207	-	119,969
Retail store, net of purchases	913,219	-	-	913,219
Net assets released from restrictions:				
Satisfaction of program/donor restrictions	757,706	(748,959)	(8,747)	-
Total public support	2,075,106	197,988	5,356	2,278,450
Revenue:				
Sales of homes	3,850,521	-	-	3,850,521
Mortgage loan discount amortization	417,162	-	-	417,162
Investment income	2,071	-	4,694	6,765
Gain on sale of property and equipment	(3,010)	128,329	-	125,319
Other income	148,219	-	-	148,219
Total revenue	4,414,963	128,329	4,694	4,547,986
Total public support and revenue	6,490,069	326,317	10,050	6,826,436
Expenses and losses:				
Cost of homes transferred and program support	5,060,232	-	-	5,060,232
Management and general	563,894	-	-	563,894
Fundraising	312,831	-	-	312,831
Total expenses and losses	5,936,957	-	-	5,936,957
Change in net assets	553,112	326,317	10,050	889,479
Net assets, beginning of year	5,908,788	443,971	299,638	6,652,397
Net assets, end of year	$ 6,461,900	$ 770,288	$ 309,688	$ 7,541,876

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

SAN DIEGO HABITAT FOR HUMANITY, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2013	**Cost of homes transferred & program support**	**Management & general**	**Fundraising**	**Total**
Cost of homes sold - construction costs	$ 3,032,314	$ -	$ -	$ 3,032,314
Cost of homes sold - mortgage discount subsidy	1,147,926	-	-	1,147,926
Salaries	533,070	254,164	208,020	995,254
Payroll taxes	51,102	19,348	18,111	88,561
Employee benefits	41,032	33,860	10,419	85,311
Advertising and public relations	39,569	91	44,884	84,544
Bank charges and fees	11,745	952	2,700	15,397
Conferences, conventions, and meetings	2,729	5,291	1,796	9,816
Depreciation	42,329	7,925	11,362	61,616
Homeowner and homeowner association support	3,591	-	-	3,591
Insurance	47,749	14,801	2,152	64,702
Interest and amortization of loan fees	210,025	22,828	8,383	241,236
Meals and entertainment	2,248	1,138	7,894	11,280
Non-capitalized construction materials and services	137,538	-	-	137,538
Occupancy and utilities	28,146	5,773	3,783	37,702
Office and other expense	57,691	14,330	49,181	121,202
Outside services, consulting, and volunteer expenses	4,532	3,917	251	8,700
Postage and shipping	690	1,476	484	2,650
Professional services	21,519	118,823	39,810	180,152
Real estate development costs	9,278	-	-	9,278
Taxes and licenses	2,730	310	-	3,040
Telephone	17,032	3,065	1,038	21,135
Tithes to Habitat International	35,000	-	-	35,000
Transportation and travel	38,697	2,180	5,265	46,142
	$ 5,518,282	$ 510,272	$ 415,533	$ 6,444,087

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

SAN DIEGO HABITAT FOR HUMANITY, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2012	**Cost of homes transferred & program support**	**Management & general**	**Fundraising**	**Total**
Cost of homes sold - construction costs	$ 2,489,975	$ -	$ -	$ 2,489,975
Cost of homes sold - mortgage discount subsidy	1,041,557	-	-	1,041,557
Salaries	397,573	182,670	155,922	736,165
Payroll taxes	33,931	14,868	13,510	62,309
Employee benefits	37,363	28,031	17,048	82,442
Advertising and public relations	15,531	-	11,616	27,147
Bank charges and fees	14,197	2,485	2,219	18,901
Conferences, conventions, and meetings	226	-	42	268
Depreciation	41,617	16,156	10,141	67,914
Donation of Firestorm funds to American Red Cross - see Note 17	302,439	-	-	302,439
Homeowner and homeowner association support	36,402	-	-	36,402
Insurance	75,107	2,990	2,335	80,432
Interest and amortization of loan fees	210,542	41,253	6,503	258,298
Investment property expenses	-	556	-	556
Meals and entertainment	1,142	1,358	2,748	5,248
Non-capitalized construction materials and services	85,216	-	-	85,216
Occupancy and utilities	36,233	28,336	4,453	69,022
Office and other expense	85,047	14,967	36,094	136,108
Outside services, consulting, and volunteer expenses	4,198	9,192	2,000	15,390
Postage and shipping	15,891	2,163	9,196	27,250
Professional services	7,004	213,344	30,596	250,944
Real estate development costs	71,112	-	-	71,112
Taxes and licenses	825	351	-	1,176
Telephone	18,083	4,043	2,647	24,773
Tithes to Habitat International	12,000	-	-	12,000
Transportation and travel	27,021	1,131	5,761	33,913
	$ 5,060,232	$ 563,894	$ 312,831	$ 5,936,957

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

SAN DIEGO HABITAT FOR HUMANITY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30,	2013	2012
Operating activities:		
Change in net assets	$ 497,441	$ 889,479
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Origination of non-interest bearing mortgages	(1,701,500)	(1,682,500)
Discount on origination of non-interest bearing mortgages	1,147,926	1,041,557
Forgiveness / transfer of notes payable to homeowners	(139,000)	(1,560,000)
In-kind contributions of property, equipment, and construction costs	(467,622)	(119,969)
Contributions designated for permanent endowment	-	(14,103)
Change in value - beneficial interest in assets held by community foundation	(16,568)	(10,050)
Gain on disposal of long-term assets	-	(125,319)
Depreciation	61,616	67,914
Mortgage discount amortization	(426,016)	(417,162)
Amortization of loan fees and discount on notes payable	44,043	43,969
(Increase) decrease in assets:		
Accounts receivable	(282,756)	(195,894)
Unconditional promises to give	118,048	(109,504)
Inventory - ReStore and other	12,451	(30,101)
Construction in process, net of in-kind donations	427,220	705,496
Finished homes held for sale, net of non-cash reacquisition of properties	394,648	273,537
Prepaid expenses and deposits	(83,277)	55,168
Increase (decrease) in liabilities:		
Accounts payable, accrued expenses, and other liabilities, net of accrued capitalized interest and forgiven interest	215,189	(133,916)
Homeowner impounds	(3,355)	11,605
Deferred revenue	(106,500)	46,350
Net cash and cash equivalents provided by (used in) operating activities	(308,012)	(1,263,443)
Investing activities:		
Mortgage payments received	669,077	630,709
Proceeds from sale of property and equipment	-	191,061
Acquisition of property and equipment	(39,647)	(5,839)
Net cash provided by (used in) investing activities	629,430	815,931
Financing activities:		
Contributions designated for permanent endowment	-	14,103
Principal payments on bank line of credit	-	(249,357)
Proceeds from issuance of long-term debt	559,497	1,353,185
Principal payments on long-term debt	(461,710)	(328,791)
Net cash provided by (used in) financing activities	97,787	789,140
Net change in cash and cash equivalents	419,205	341,628
Cash and cash equivalents, beginning of year	1,866,894	1,525,266
Cash and cash equivalents, end of year	$ 2,286,099	$ 1,866,894
Supplemental disclosure of cash flow information:		
Non-cash items:		
Recognition of in-kind contributions and related assets and expenses	$ 546,998	$ 119,969
Interest paid	$ 184,563	$ 208,553

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

NOTE 1

ORGANIZATION AND PURPOSE

San Diego Habitat for Humanity, Inc. (a nonprofit corporation) ("SDHFH" or "Organization") is the local affiliate of Habitat for Humanity International, Inc. ("HFHI"), a nonprofit, ecumenical Christian housing ministry. By building homes in partnership with families in need, SDHFH seeks to eliminate poverty housing and substandard living conditions in San Diego County, and to make decent shelter a matter of conscience and action. SDHFH invites people of all backgrounds, faiths, or no faith, races and religions to build houses together in partnership with families in need. Although HFHI assists with information resources, training, publications, and prayer support, SDHFH is an independently governed entity.

An equal housing lender and provider, SDHFH addresses the issues of substandard housing through home ownership. The purpose is to offer families a "hand up" instead of a "hand out", fostering self-sufficiency and independence. To be considered for home ownership, SDHFH families must demonstrate a need for better housing, an ability to make mortgage payments, and a willingness to work in partnership with SDHFH. This partnership consists, in part, of each family completing 250-500 hours of "sweat equity" and meeting monthly mortgage payments. SDHFH acquires the land, finds and qualifies the families, raises the funding, finds and supervises construction volunteers, builds the houses, and provides the mortgages.

NOTE 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting principles:

SDHFH's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Financial Accounting Standards Board ("FASB") has established the FASB Accounting Standards Codification ("ASC") as the sole source of authoritative accounting to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. GAAP.

In preparing these financial statements, SDHFH evaluated the period from June 30, 2013 through October 22, 2013 the date that the financial statements were available to be issued, for subsequent events requiring recognition or disclosure in the accompanying financial statements.

Use of estimates:

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, and revenues and expenses recognized during the reporting period. Actual results could differ from these estimates.

Principles of consolidation:

The accompanying consolidated financial statements include the accounts of San Diego HFH Community Housing Corporation, a non-profit corporation formed to support SDHFH. San Diego HFH Community Housing Corporation is a certified Community Housing Development Organization ("CHDO"). All material intra-organization transactions have been eliminated.

Net assets:

In accordance with ASC 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*, SDHFH's net assets, revenues, gains, expenses, and losses are classified as unrestricted, temporarily restricted, and permanently restricted based on the existence or absence of donor-imposed restrictions. These classifications are defined as follows:

- *Unrestricted net assets* – Net assets that do not contain donor restrictions or the donor-imposed restrictions have expired due to the Organization's fulfillment of the restrictions and/or by the passage of time.

- *Temporarily restricted net assets* – Net assets that contain donor-imposed restrictions that permit the Organization to use or expend the donated net assets as specified and are satisfied either by the passage of time and/or by the actions of SDHFH.

- *Permanently restricted net assets* – Net assets that contain donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

Contributions:

Unconditional promises to give are recognized as public support when the underlying promises are received by SDHFH and are recorded at fair value, based on management's initial estimate of the present value of future cash flows expected to be received. Subsequent changes in estimates are recorded as an allowance for uncollectible promises to give.

Gifts of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that specify the use of the donated assets. When a donor 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. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

At June 30, 2013 and 2012, SDHFH had $5,000 and $123,048 respectively, in unconditional promises to give from various donors. Management believes that all unconditional promises to give are fully collectible and therefore has not recorded an allowance for uncollectible promises to give.

Donated services:

Donated services are recognized as contributions in accordance with ASC 958-605 and subsections, *Not-for-profit Entities – Revenue Recognition*, if the services (a) create or enhance nonfinancial assets or (b) require licensed skills, are performed by people with those skills, and would otherwise be purchased by SDHFH. A substantial number of volunteers have contributed their time during the years ended June 30, 2013 and 2012 to SDHFH's construction program and supporting services. The value of this contributed time is not reflected in the financial statements since it does not require a licensed skill.

Donated construction materials, property and equipment and other donated goods:

Donations of construction materials, property and equipment, and other goods are recorded as in–kind contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset for a specific purpose.

Various companies and individuals have provided licensed labor and materials for current projects. During the years ended June 30, 2013 and 2012, the Organization recognized $93,615 and $119,969, respectively, of in-kind materials and licensed labor as contribution revenue. The estimated value of these materials and services was capitalized into construction in process and allocated accordingly to the projects receiving benefit. The Organization also recognized $385,000 of donated land and buildings from private and public sources during the fiscal year ended June 30, 2013.

In addition to the construction-related in-kind contributions, SDHFH recognized $53,471 for donated goods and services supporting various programs and fundraising activities during the fiscal year ended June 30, 2013. The Organization also recognized $4,050 of donated property and equipment and donated stock valued at $10,862, which were used towards operations. Accordingly, the Organization recognized total in-kind contributions of $546,998 and $119,969 during the fiscal years ended June 30, 2013 and 2012, respectively.

Government funding:

SDHFH receives funds from various government agencies ("Agencies") for land development and construction costs pursuant to "loan agreements". These Agencies provide the funds to SDHFH, generally interest-free, with specified covenants and provisions that the land and improvements be used for low-income housing for a period of time, usually between 40 and 50 years. If the provisions of the agreement are followed, the note is forgiven by the Agency. When the property is sold to a qualified home buyer, the covenants and provisions of the note agreement transfer from SDHFH to the qualified home buyer. In particular, the first and subsequent home buyers are required to comply with provisions that keep the cost of the home at an affordable amount. Subsequent to the property's sale, if a covenant or provision is violated and is not cured by the homeowner within a specified period of time as set forth by the note, the note is due and payable for the face amount of the note by the home buyer.

Fair value of financial instruments:

The Organization's financial instruments consist of cash and cash equivalents, accounts receivable, unconditional promises to give, mortgage notes receivable, accounts payable, and certain notes payable, which are stated at cost or settlement value which approximates fair value.

Concentrations of credit risk:

Financial instruments that potentially subject the Organization to concentration of credit risk consist primarily of cash and cash equivalents and mortgage notes receivable. While the concentration of credit risk of mortgage notes receivable is diversified through numerous different borrowers, the borrowers are concentrated in San Diego County.

The Organization maintains its cash balances with various financial institutions. During the year, the Organization has maintained deposits at financial institutions in excess of the Federal Deposit Insurance Corporation ("FDIC") maximum insured deposit limit of $250,000 for all accounts combined at any one financial institution. However, SDHFH has not experienced any loss in such accounts to date and does not anticipate nonperformance by any of the financial institutions.

***Cash and cash equivalents*:**

SDHFH considers all highly liquid investments with an original maturity of three months or less, when purchased, to be cash equivalents.

Accounts receivable:

Accounts receivable generally consist of amounts due from homeowners for property taxes and insurance premiums, pursuant to the homeowners' impound agreements. The Organization has evaluated these accounts and has recorded an allowance for doubtful accounts based on the estimated eventual collection of these impound account deficits. Bad debt expense is included as part of "Homeowner and homeowner association support" as a program expense in the statements of functional expenses.

It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. However, the Organization can elect to enter into a revised mortgage agreement and payment schedule with a homeowner that will cure a default and avoid a charge off of amounts due without losing any of its rights under the original agreement.

Inventories:

Inventories consist primarily of donated building materials, which are used in the construction of homes, or are sold in the ReStore. Inventories are stated at lower of cost or market with cost determined by the first-in, first-out (FIFO) method. ReStore inventories are reported at estimated selling price, since the fair value is not reasonably determinable until the items are sold.

Mortgage notes receivable:

Mortgage notes receivable consist of non-interest bearing residential home loans made to qualified borrowers that are secured by a deed of trust, payable in monthly installments over the term of the note, generally ranging from 10 to 35 years. These non-interest bearing mortgages have been discounted based upon prevailing market rates for low income housing at the inception of each mortgage. SDHFH's portfolio of mortgage notes receivable includes first trust deeds for direct loans made by SDHFH and second trust deeds funded by Cal Home Program First-Time Homebuyer loans. The Cal Home Program loans are no interest loans with a balloon payment due in 30 years.

Additionally, homes may be encumbered with a second, third, and/or fourth trust deed in favor of either SDHFH or a local government agency to ensure compliance with the terms of Habitat's homeownership programs. These mortgage notes receivable are referred to as "silent". The primary purpose of these silent mortgages is to allow SDHFH or the agency to capture a portion of any equity appreciation over and above a specified amount if the home is sold or transferred to a nonqualified homeowner before a certain number of years have elapsed since the original sale to the qualified homeowner, usually 25 to 55; and to protect the homeowner by preventing predatory lenders from paying off the first mortgage and saddling the homeowner with an onerous new mortgage. These silent mortgage notes receivable typically bear no interest and are forgiven if the homeowner lives in the home for the required period of time and complies with all other covenants and restrictions per the deed of trust. Accordingly, since these silent mortgage notes receivable have no value unless or until a homeowner fails to comply with the covenants and restrictions of the terms of the home sale, SDHFH does not record a value for these silent mortgage notes receivable.

Allowance for mortgage notes receivable losses:

SDHFH uses established underwriting criteria to ensure that only families who meet the Organization's financial and credit criteria are approved to be partner families and receive a noninterest bearing mortgage loan from SDHFH. This includes, but is not limited to, a thorough review of each prospective homeowner's credit report, sources of income, and financial history.

SDHFH regularly reviews its portfolio of mortgage notes receivable and monitors the accounts for delinquencies. Homeowners whose mortgages are 16 days past due are considered to be in an early stage of default. During the period of delinquency of 16 to 60 days past due, the Organization contacts the borrower using collection efforts and establishes a payment plan with the homeowner, if necessary. Thereafter, if forgoing collection efforts are not successful, the Organization attempts to enter into a mutually agreed-upon deed-in-lieu of foreclosure with the homeowner. Homeowners whose mortgages are more than 60 days past due, who have not made satisfactory payment arrangements or reached a deed-in-lieu of foreclosure agreement with SDHFH, are subject to foreclosure proceedings. As of the date of these financial statements, there are no mortgages subject to foreclosure proceedings.

Mortgage notes receivable are recorded at a discounted value at the time of sale that generally is less than 50% of the home's fair market value. Therefore, SDHFH believes that losses resulting from non-payment of mortgage notes receivable, given its collateral value, are not likely.

Accordingly, SDHFH has not recorded an allowance for mortgage notes receivable losses.

Pre-acquisition costs:

The Organization capitalizes costs, generally including costs of surveying, zoning studies, design, engineering and legal, related to a property that are incurred for the express purpose of, but prior to, obtaining the property. These costs are reported as prepaid expenses and deferred charges.

Construction-in-process and finished homes held for sale:

Construction-in-process represents costs incurred to build or rehabilitate single-family homes and condominiums for eventual sale to SDHFH partner families. In the event a development is no longer deemed to be probable, the costs previously capitalized are expensed. The Organization's projects consist of new single-family home and condominium developments and major rehabilitations of existing homes acquired by SDHFH. Since the purpose and mission of SDHFH is to build affordable housing for low-income families, the Organization does not generally write down the value of construction-in-process to estimated sales value, because any excess cost over sales value is a component of program services. Projects are classified as construction-in-process until the build/rehabilitation project is substantially completed, at which time it is reclassified as "finished homes held for sale."

Finished homes held for sale may include homes acquired as part of a "Deed in Lieu of Foreclosure" or as part of a foreclosure. These homes usually require repairs or rehabilitation and then are resold to a qualifying family.

Home sales and cost of homes transferred:

Revenue is recognized on the sale of homes when title passes to eligible purchasers. The amount of home sale revenue SDHFH records is the total of the cash down payment, the face value of the non-interest bearing mortgage receivable, and the value of any government funding, such as notes payable forgiven and/or transferred to the homeowner at the time of sale (see *Government funding* above).

Cost of homes sold consists of capitalized home construction costs and certain other related costs associated with the sale of a home. Cost of homes sold is considered a program expense in the statement of functional expenses.

Deferred revenue:

Deferred revenue consists of amounts advanced to SDHFH pursuant to a down payment assistance grant ("Grant") from the State of California Department of Housing and Community Development ("Cal Home"). The Grant allows SDHFH to receive a maximum of $1,500,000 in funds to provide down payment assistance to eligible low and moderate income homeowners. Actual assistance to each homeowner is limited based on a calculated gap between the price of the home and the financial resources available to the homeowner, but cannot exceed $60,000 per eligible family. During each of the years ended June 30, 2013 and 2012, the Organization received 25% of the Grant amount, or $375,000. During the years ended June 30, 2013 and 2012, the Organization recognized Grant revenue of $481,500 and $328,500, respectively, as sales of homes revenue. At June 30, 2013 and 2012, Habitat reported deferred revenue of $228,350 and $334,850, respectively, representing Grant draws in excess of down payment assistance and expenses incurred.

Property, equipment and depreciation:

Property and equipment are recorded at acquisition cost, including costs necessary to ready the asset for its intended use, or at fair market value, if donated. Expenses which materially increase property lives are capitalized. The cost of maintenance and repair is charged to expenses as incurred. Depreciation expense is provided on a straight-line basis over the estimated useful lives of the respective assets, currently ranging from 3 to 7 years for equipment and vehicles and from 27.5 to 39 years for buildings and building improvements. When depreciable property is retired or otherwise disposed of the related cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in the statement of activities and changes in net assets.

Homeowner impounds:

SDHFH collects monthly payments from homeowners for property taxes and insurance, referred to as impounds. SDHFH remits any property taxes and insurance due on the home directly to the County Assessor and insurance providers from the funds impounded from its mortgages.

Retirement plan:

SDHFH participated in a multi-employer 401(k) Plan (the "Plan") for the benefit of all qualified employees through June 30, 2012, which covered all employees over the age of 21 who had completed three consecutive months of service. SDHFH did not make any contributions to the Plan during the year ended June 30, 2012. During the fiscal year ended June 30, 2013, SDHFH terminated its participation in the 401(k) Plan and adopted a 403(b) Plan. SDHFH does not contribute to the Plan. All employees are eligible to participate in the Plan commencing upon their date of hire.

Income taxes:

SDHFH is a not-for-profit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is exempt from State of California franchise taxes under Section 23701(d) of the California Revenue and Taxation Code, whereby only unrelated business income, as defined by Section 509(a)(1) of the Internal Revenue Code, is subject to federal income tax. The Organization does not believe that during the fiscal years ended June 30, 2013 and 2012 that it had unrelated business income and accordingly, no provision for income taxes has been recorded in the accompanying financial statements. A number of the Organization's tax returns remain subject to examination by taxing authorities. These include U.S. federal returns for 2010 and later years and State of California tax returns for 2009 and later years.

The Organization follows the provisions of FASB ASC 740 - *Income Taxes.* Accordingly, SDHFH accounts for uncertain tax positions by recording a liability for unrecognized tax benefits resulting from uncertain tax positions taken, or expected to be taken, in its tax returns. The Organization recognizes the effect of income tax positions only if those positions are more likely than not of being sustained by the appropriate taxing authorities. The Organization does not believe that its financial statements include any uncertain tax positions and accordingly, has not recognized any liability for unrecognized tax benefits in the accompanying financial statements.

Functional expenses:

Expenses related to more than one functional expense category are allocated based on reasonable estimates by the Organization. Salaries, benefits and other related expenses are allocated based on job function. Directly identifiable expenses are charged to construction and program support, management and general, or fundraising as applicable.

NOTE 3

MORTGAGE NOTES RECEIVABLE

Mortgage notes receivable consist of non-interest bearing residential home loans made to qualified borrowers that are secured by a deed of trust and payable in monthly installments over the term of the note, generally ranging from 10 to 35 years. These non-interest bearing mortgages have been discounted based upon prevailing market rates for low income housing at the inception of each mortgage. The discount on each mortgage is amortized using the effective interest rate method, with the amortization of discount recognized as interest income in the statements of activities and changes in net assets. During the years ended June 30, 2013 and 2012, mortgages originated were discounted at an interest rate of 7.39% and 7.50% per annum, respectively. Accordingly, mortgage loan discount amortization for the years ended June 30, 2013 and 2012 of $426,016 and $417,162 respectively, was included as revenue in the statements of activities and changes in net assets.

Mortgage notes receivable and the related discount at June 30, 2013 and 2012, are summarized as follows:

As of June 30,	**2013**	**2012**
Mortgage notes receivable	$ 12,311,971	$ 11,280,853
Discount to present value	(6,468,693)	(5,748,088)
Present value of mortgage notes receivable	$ 5,843,278	$ 5,532,765

SDHFH is party to an arrangement with Northern Trust Bank (the "Bank") in which it previously sold, with recourse, six non-interest bearing mortgage notes receivable. These mortgage notes receivable have a carrying value of $137,687 and $160,715, at June 30, 2013 and 2012, respectively. In accordance with ASC 860, *Transfers and Servicing*, the Organization treats the sale of mortgage notes receivable in which the Organization retains an interest as a secured obligation. Accordingly, the amount of receivables subject to recourse was recorded in mortgages receivable with a corresponding amount recorded in accrued expenses and other liabilities in the statement of financial position. See Note 8.

The Organization services these mortgages by collecting the monthly payments, and remitting the principal portion of these payments to Northern Trust Bank. If a mortgage were to default, SDHFH may be required to re-purchase the mortgage at its discounted value and would in turn re-acquire all of the rights and obligations as the note holder.

SDHFH has pledged various mortgage notes receivable as collateral to secure notes payable and obligations to its creditors. These arrangements may restrict SDHFH's ability to sell, transfer or re-pledge these mortgages.

Scheduled mortgage notes receivable collections are summarized as follows:

Years ending June 30,	**Amounts**
2014	$ 686,513
2015	680,308
2016	666,463
2017	652,436
2018	626,411
Thereafter	8,999,840
Total	$12,311,971

As of and for the years ended June 30, 2013 and 2012

NOTE 4

CONSTRUCTION-IN-PROCESS

Construction-in-process and real estate development costs are summarized by project as follows:

As of June 30,	2013	2012
El Cajon - Foundation Ln II	$ 337,592	$ -
El Cajon - Greenfield Dr	-	256,949
El Cajon - Roselle Ave	-	220,015
Escondido - Citracado Pkwy	53,587	-
Imperial Beach - Florida St		725,965
Lakeside - Lakeshore Dr	301,449	170,455
National City - 10th St	219,478	-
National City - 3rd St	197,668	-
San Diego - Enero Ct	251,800	-
San Diego - Rock St	-	131,369
Spring Valley - Paden Dr	179,531	-
	$ 1,541,105	$ 1,504,753

The following is a summary of home building activity:

As of and for the year ended June 30, 2013	Number of homes	Cost
Home construction in process, beginning of year	11	$ 1,504,753
Costs incurred on homes during fiscal 2013 - new and existing projects	13	2,606,012
Costs transferred to finished homes	(9)	(2,569,660)
	15	$ 1,541,105

As of and for the year ended June 30, 2012	Number of homes	Cost
Home construction in process, beginning of year	16	$ 2,090,280
Costs incurred on homes during fiscal 2012 - new and existing projects	5	1,590,376
Costs transferred to finished homes	(10)	(2,175,903)
	11	$ 1,504,753

NOTE 5

FINISHED HOMES HELD FOR SALE

Finished homes held for sale consisted of the following developments:

As of June 30,	2013	2012
Oceanside - Libby Lake	$ 279,842	$ 519,967
Escondido - Hickory	92,092	246,615
	$ 371,934	$ 766,582

Following is a summary of finished homes activity:

As of and for the year ended June 30, 2013	Number of homes	Cost
Finished homes, beginning of year	5	$ 766,582
Costs transferred to Finished Homes from construction in process	9	2,569,660
Additional costs incurred	-	15,191
Homes transferred to new owners	(12)	(2,979,499)
	2	$ 371,934

As of and for the year ended June 30, 2012	Number of homes	Cost
Finished homes, beginning of year	8	$ 1,040,119
Costs transferred to Finished Homes from construction in process	10	2,175,903
Additional costs incurred	-	16,436
Homes transferred to new owners	(13)	(2,465,876)
	5	$ 766,582

NOTE 6

PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following:

As of June 30,	**2013**	**2012**
Land	$ 1,146,349	$ 1,146,349
Buildings & improvements	1,271,501	1,271,501
Vehicles	163,690	117,447
Equipment	153,870	185,013
Total	2,735,410	2,720,310
Less: accumulated depreciation	(454,800)	(421,781)
Property & equipment, net	$ 2,280,610	$ 2,298,529

Land, buildings, and building improvements consist of SDHFH's corporate headquarters and ReStore located in San Diego, California.

Depreciation expense for the years ended June 30, 2013 and 2012, was $61,616 and $67,914, respectively.

NOTE 7

HOME IMPROVEMENT STORE

SDHFH operates a Home Improvement Store ("ReStore") in San Diego, California. The ReStore sells new and used home furnishings and building and home improvement materials to the general public. Donations to the ReStore are made by businesses, contractors, individuals, and other organizations that have surplus or discontinued merchandise.

The purpose of the ReStore is to raise funds to support SDHFH programs. Accordingly, expenses of operating the Home Store are reported as program expenses in the statement of functional expenses. The amount of revenue reported from the ReStore is its cash receipts plus the fair market value of donated goods. As most revenue earned by the ReStore is from the sale of donated goods, ReStore revenue is classified as public support in the statement of activities.

Net ReStore revenue is summarized as follows:

For the years ended June 30,	**2013**	**2012**
Donations to retail store	$ 906,710	$ 976,528
Sales of donated and purchased items	920,020	946,427
Delivery surcharges	17,954	15,364
Fair market value of donated items sold	(920,020)	(946,427)
Purchased inventory	(64,285)	(78,673)
Net revenue from retail store	$ 860,379	$ 913,219

NOTE 8

ACCOUNTS PAYABLE, ACCRUED EXPENSES, AND OTHER LIABILITIES

Accounts payable, accrued expenses, and other liabilities consist of the following:

As of June 30,	**2013**	**2012**
Accounts payable and other accrued expenses	$ 268,908	$ 99,043
Accrued compensation	101,361	36,060
Secured obligations from the sale of mortgage notes receivable	120,319	140,296
Contingent liability - project	58,494	58,494
	$ 549,082	$ 333,893

Secured obligations from the sale of mortgage notes receivable relates to mortgage notes receivable sold to Northern Trust Bank with recourse (see Note 3). The contingent liability - project relates to estimated costs for a completed construction project in El Cajon, California (see Note 14).

NOTE 9

BANK LINE OF CREDIT

On November 23, 2009, the Organization entered into a revolving line-of-credit agreement (the "Credit Agreement") with JP Morgan Chase Bank, NA ("Chase") for borrowings not to exceed $500,000 in the aggregate. The Credit Agreement was extended through February 25, 2012, at which time all principal and accrued interest owing under this Credit Agreement were paid and the Credit Agreement was not renewed. Under the Credit Agreement, interest was payable at the London InterBank Offered Rate ("LIBOR Rate") plus 3.76%. Interest expense incurred under the Credit Agreement was $10,473 for the year ended June 30, 2012.

NOTE 10

NOTES PAYABLE - J.P. MORGAN CHASE BANK

Notes payable J.P. Morgan Chase Bank consists of:

Years ending June 30,	2013	2012
The Commercial Note in the amount of $353,000, bears interest at 5.30% per annum, and is payable in installments of $5,051 per month for 84 months, maturing in January 2017. The Commercial Note is secured by a beneficial interest in a portfolio of mortgage notes receivable held by the Organization with a net present value of $278,401 at June 30, 2013.	$ 196,928	$ 245,594
The Mortgage Note originally in the amount of $1,987,000, bears interest at 5.60% per annum, and is payable in 83 monthly installments of $13,871, with a final balloon payment of approximately $1,542,000 due in January 2017. The Mortgage Note is secured by a deed of trust on the Organization's corporate headquarters and retail store in San Diego, California.	1,784,604	1,847,847
	$ 1,981,532	$ 2,093,441

The Mortgage Note and Commercial Note have prepayment penalties during the first five (5) years that the notes are outstanding. Furthermore, the note agreements between SDHFH and Chase require SDHFH to comply with certain covenants, including the following financial covenants:

- Current Ratio (as defined in the agreement) of not less than 1.25 to 1.00;
- Debt Service Coverage Ratio (as defined in the agreement) of not less than 1.25 to 1.00

At June 30, 2013, the Organization was in compliance with the financial covenants contained in the note agreements.

The following table summarizes the principal payments due for Notes Payable - J.P. Morgan Chase Bank:

Year ending June 30,	
2014	$ 118,127
2015	124,846
2016	131,689
2017	1,606,870
	$ 1,981,532

Note 11

Notes Payable - Governmental Agencies

Notes payable - governmental agencies consist of the following:

Years ending June 30,	2013	2012
San Diego Housing Commission, requires payments of $248 per month through 2021, with interest imputed at 9.75% to 11.50%.	$ 16,003	$ 17,220
Note payable, City of Oceanside, secured by the development at Libby Lake, with no interest or payments, forgivable and transferrable to the purchaser of each home.	135,000	270,000
Note payable, City of Oceanside, secured by certain mortgage receivables. The note bears no interest, requires monthly payments of $5,000 and matures in August 2029. The note has been discounted using a 6.0% imputed interest rate.	616,190	638,487
Note payable, City of Escondido, secured by the development at Elm Street, with no interest or payments, forgiveable and transferrable to the purchaser of each home.	49,987	24,907
Notes payable, City of El Cajon and City of National City, pursuant to HOME Investment Partnership Program Funds from HUD, secured by deeds of trust on each property acquired for rehabilitation. The net sales proceeds from the Property shall become Community Housing Development Organization ("CHDO") proceeds to be used to acquire, rehabilitiate or develop additional real properties located in the respective city for resale to low-income households. All proceeds from use of CHDO funds shall become unrestricted. The promissory notes bear no interest unless SDHFH defaults under the terms of the note.		
• Note payable, City of El Cajon, due August 31, 2013.	453,497	492,219
• Note payable, City of National City, due June 30, 2014.	401,637	-
	$ 1,672,314	$ 1,442,833

SDHFH is awarded grants by various governmental agencies, generally in the form of a loan to finance, in part, the acquisition and/or development of specific housing projects. These loans are secured by deeds of trust on the related project property. The loans generally are non-interest bearing and have a maturity date of the earlier of one to two years or the sale/transfer of the property. Upon project completion, if SDHFH sells/transfers the property to a qualified buyer, the proportionate debt owed by SDHFH on the property is forgiven and transfers to the buyer as a mortgage on the property.

The grant/loan agreements usually require a written disposition and development agreement ("DDA") between SDHFH and the city. These agreements require SDHFH to comply with a number of requirements, including a promise to complete the project within a reasonable period of time and an agreement to sell the home or homes to moderate to low-income families as defined in the DDA. If SDHFH were to fail to comply with the terms of the DDA, it could be required to repay principal and interest as specified in the DDA. As of June 30, 2013 and 2012, management believes that it is in material compliance with all DDA's and related grant/loan agreements.

As set forth herein, the terms and conditions of all but two of these loans do not require SDHFH to utilize cash to repay the obligation. Moreover, there are no scheduled maturities of the related debt, since SDHFH is relieved of an obligation to repay the loan upon transfer of the property to a qualified buyer. Accordingly, SDHFH does not believe a table setting forth scheduled maturities of this debt would be meaningful.

Notes payable to the San Diego Housing Commission and City of Oceanside Land Note require monthly payments. The following table summarizes the scheduled maturities of these two notes:

Years ending June 30,	
2014	$ 25,042
2015	26,653
2016	28,368
2017	30,198
2018	32,151
Thereafter	489,781
	$ 632,193

NOTE 12

NOTES PAYABLE - HFHI

Notes payable, HFHI consists of:

Years ending June 30,	**2013**	**2012**
On May 20, 2010, SDHFH entered into a Loan and Security Agreement ("FlexCap I Note") with HFHI under which SDHFH borrowed $942,700 with a maturity date of June 30, 2020. The FlexCap I Note is payable in quarterly installments of $32,235 including interest at 6.50% per annum. SDHFH was required to establish a reserve fund of $32,235, reported herein as "other assets". SDHFH granted a security interest in 18 mortgage notes receivable pledged as collateral which have a net present value of approximately $1,291,068.	$ 720,540	$ 799,416
During the year ended June 30, 2011, SDHFH entered into a Loan and Security Agreement ("FlexCap II Note") with HFHI under which SDHFH borrowed $370,600 with a maturity date of December 31, 2020. The Note is payable in quarterly installments of $12,107 including interest at 5.50% per annum. SDHFH was required to establish a reserve fund of $12,107, reported herein as "other assets". SDHFH granted a security interest in 6 mortgage notes receivable pledged as collateral which have a net present value of approximately $506,427.	295,984	327,058
SDHFH entered into a note payable ("SHOP Note") with Habitat for Humanity International, unsecured, bearing interest at 0% per annum, requiring payments of principal of $781 per month, maturing in December 2013. SDHFH has imputed an interest rate of 6% on the SHOP Note.	4,617	13,423
	$ 1,021,141	$ 1,139,897

SDHFH is required to comply with the following covenants which apply to both the FlexCap I and FlexCap II Notes:

- At all times maintain minimum net assets of $250,000; have at least ten (10) mortgage loans in its performing mortgage pool;
- Own free and clear of all liens and encumbrances at least 40% of the total of mortgage loans in the performing mortgage pool.
- The mortgage receivables pledged by SDHFH must have aggregate mortgage payments equal to or greater than 105% of the quarterly payment; and have aggregate values equal to or greater than 125% of the outstanding note balance.

As of June 30, 2013 and 2012, management believes it was in compliance with the terms and conditions of the FlexCap I and FlexCap II Notes.

The following table summarizes the scheduled maturities of Notes Payable - HFHI:

Years ending June 30,	
2014	$ 121,566
2015	124,395
2016	132,317
2017	140,746
2018	149,716
Thereafter	352,401
Total	$ 1,021,141

NOTE 13

RELATED PARTY TRANSACTIONS

SDHFH remits a discretionary portion of its unrestricted contributions (excluding in-kind contributions) to HFHI on an annual basis. These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2013 and 2012, SDHFH remitted $35,000 and $12,000, respectively, in tithes to HFHI.

As described in Note 12, SDHFH is party to loan agreements with HFHI – the FlexCap I Note, the FlexCap II Note, and the SHOP Note. Total amounts due under these notes payable as of June 30, 2013 and 2012 were $1,021,141 and $1,139,897, respectively, net of present value discount.

NOTE 14

COMMITMENTS AND CONTINGENCIES

SDHFH manages the affairs of two homeowner associations ("HOA") that are connected with projects that the Organization previously sold to partner families. SDHFH manages the affairs of these HOA's with the oversight and approval of each HOA's governing board. SDHFH was also responsible for keeping a separate set of books and records and a separate checking account for each HOA. Accordingly, the assets, liabilities, and net assets of these HOA's were not consolidated with these financial statements, as each HOA is a separate legal entity. Management is not aware of any material contingencies related to SDHFH's management of and relationship with these HOA's.

At June 30, 2013 and 2012, the Organization had certain contingent liabilities related to its completed Foundation Lane project in the City of El Cajon. Pursuant to an agreement ("Agreement") with the City of El Cajon ("El Cajon"), SDHFH was permitted to finalize and sell the four-unit development on Foundation Lane prior to the completion of two required infrastructure improvements – the construction of a masonry fence ("Fence Improvement") and the construction of street access to an adjacent arterial street ("Street Improvement"). SDHFH accrued $58,494 to record the estimated cost of the fence improvement at June 30, 2011 and expensed it as a component of cost of homes sold. During the year ended June 30, 2013, SDHFH acquired property adjacent to the Foundation Lane site. SDHFH believes that it may not be required to complete the improvements. However, until a formal release is received from the City of El Cajon's City Council, SDHFH will maintain its existing reserve.

Certain suits and claims have been and are filed against the Organization in the normal course of its operations. The Organization had been named as a defendant in two wrongful termination cases which asserted various claims and demands for damages. During the year ended June 30, 2013, the Organization was granted Summary Judgment with prejudice in one of the matters. Subsequent to June 30, 2013, a settlement was reached in the second matter. This settlement will result in no damages paid by the Organization. Accordingly, at June 30, 2013, the Organization has not recorded an accrual for damages. An accrual of $18,000 has been established for estimated legal fees in excess of amounts covered by insurance.

SDHFH leases various systems and equipment under noncancellable leases running through October 2016. Equipment rental expense for the year ended

June 30, 2013 and 2012 was $15,656 and $20,911, respectively.

Future minimum rental payments under these leases are as follows:

For the years ended June 30,		
2014	$	13,901
2015		11,790
2016		1,232
2017		411
	$	27,334

NOTE 15

TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of amounts restricted by donor-imposed stipulations as follows:

As of June 30,	2013	2012
Escondido - Elm Street	$ 547,817	$ -
Imperial Beach - 10th & Donax	500	-
Lakeside - Lakeshore Dr	494,078	581,547
Ramona Build / Firestorm 2007	-	9,750
Repair Corps	320,000	-
San Diego - Rock Street	-	169,531
Community education and outreach	-	9,460
	$ 1,362,395	$ 770,288

NOTE 16

PERMANENTLY RESTRICTED NET ASSETS AND FAIR VALUE MEASUREMENTS

Permanently restricted net assets at June 30, 2013 consist of a beneficial interest in assets held by The San Diego Foundation (the "Foundation") which is holding them as an endowed component fund ("Fund") for the benefit of the Organization. The Organization has granted the Foundation variance power which gives the Foundation's Board of Trustees the power to use the Fund for other purposes in certain circumstances. The Fund is subject to the Foundation's investment and spending policies which currently result in a distribution to the Organization of five percent, annually, of the 36-month average principal market value of the Fund. Distributions are generally made semi-annually. The Organization reports the fair value of the Fund as a Beneficial interest in assets held at a community foundation in the statements of financial position and reports distributions received as a reduction to the Fund balance. Changes in the value of the Fund are reported as permanently restricted investment income in the statements of activities.

During the year ended June 30, 2011, the Organization sold a home donated to the Organization in 1995 and used the proceeds to establish its permanent endowment fund. The donor's will stipulated that the property or its proceeds be kept by the Organization in perpetuity, while allowing that any income generated by the property could be used to fund operational expenses.

The following is a summary of changes in permanently restricted net assets for the years ended June 30, 2012 and June 30, 2013:

Fund balance at July 1, 2011	$	299,638
Amounts invested in fund		14,103
Fund appreciation		6,203
Investment expenses		(1,509)
Distributions received		(8,747)
Fund balance at June 30, 2012		309,688
Fund appreciation		30,269
Investment expenses		(1,612)
Distributions received		(12,089)
Fund balance at June 30, 2013	$	326,256

SDHFH follows FASB ASC 820, *Fair Value Measurements and Disclosures*. ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This standard provides a consistent definition of fair value which focuses on an exit price between market participants in an orderly transaction as prescribed by ASC 820. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability as of the measurement date.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level I – Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments in Level I include listed equities, bond instruments, and mutual funds held in the name of the Organization, and exclude listed equities and other securities held indirectly through commingled funds.

Level II – Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level III – Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include privately held investments and partnership interests.

The inputs and methodology used for valuing the Organization's financial assets and liabilities are not indicators of the risks associated with those instruments.

The Organization's investments consist entirely of the beneficial interest in assets held at the Foundation and are classified as a Level III investment as described above. Accordingly, the changes in the value of Level III financial instruments is set forth in the Table above.

The beneficial interest in assets held at the Foundation has been valued, as a practical expedient, at the fair value of the Organization's share of the Foundation's investment pool as of June 30, 2013 and 2012. The Foundation values securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the Foundation, which includes private placements and other securities for which prices are not readily available, are determined by the management of the Foundation and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The Foundation's target asset allocation for the Fund is: 22% domestic (U.S.) equities, 22% international equities, 6% global equities, 19% fixed income instruments (domestic and international), 20% alternative investments, and 11% real estate. The beneficial interest in assets held at the Foundation is not redeemable by the Organization.

NOTE 17

RETURN OF CONTRIBUTIONS TO DONORS

During the year ended June 30, 2011, the Organization evaluated its ability to meet donor requirements for funds solicited under the Ramona Build / 2007 Firestorm temporarily restricted net asset (the "Fire Fund"). After a careful review of the Organization's resources and commitments, SDHFH determined that other organizations would be better able to fulfill the stipulations of Fire Fund donors in a more timely and efficient manner. Accordingly, with the consent of the California State Attorney General, SDHFH remitted $302,439 in Fire Fund donations to the San Diego/Imperial Counties chapter of the American Red Cross which is reported herein as a program expense donation for the year ended June 30, 2012.