

**RUBICON PROGRAMS INCORPORATED
AND AFFILIATES**

**CONSOLIDATED FINANCIAL STATEMENTS
and
SUPPLEMENTAL INFORMATION****JUNE 30, 2013**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Rubicon Programs Incorporated and Affiliates

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Rubicon Programs Incorporated and Affiliates (nonprofit organizations), which comprise the Consolidated Statement of Financial Position as of June 30, 2013, and the related Consolidated Statements of Activities, Functional Expenses, and Cash Flows for the year 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of Rubicon Homes, Inc. for the year ended June 30, 2013, the equity (deficit) in which, as discussed in Note 2 to the consolidated financial statements, is accounted for by the equity method of accounting. At June 30, 2013, the equity in Rubicon Homes, Inc. was a deficit of (\$205,822) and the change in net assets was \$37,890 for the year then ended. We also did not audit the financial statements of Rubicon Villages, Inc. for the year ended June 30, 2013, a wholly controlled not-for-profit entity, whose statements reflect total assets of \$2,517,913 as of June 30, 2013, and total revenues of \$953,979 for the year then ended. The financial statements of Rubicon Homes, Inc. and Rubicon Villages, Inc. were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Rubicon Homes, Inc. and Rubicon Villages, Inc. is based solely on the report of the other auditors. In addition, we did audit the financial statements of Rubicon Enterprises Incorporated as of and for the year ended June 30, 2013; and in our report dated November 25, 2013 we expressed an unqualified opinion on those financial statements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors' consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

INDEPENDENT AUDITORS' REPORT

continued

Opinion

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rubicon Programs Incorporated and Affiliates as of June 30, 2013, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Residual Receipts and Distribution of Residual Receipts – Rubicon Villages, Inc. is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Summarized Comparative Information

We have previously audited Rubicon Programs Incorporated and Affiliates' 2012 consolidated financial statements, and our report dated November 19, 2012 expressed an unmodified opinion on those consolidated financial statements. In our opinion the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Harrington Group

San Francisco, California
December 9, 2013

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2013

With comparative totals at June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2013</u>	<u>2012</u>
Assets				
Cash and cash equivalents (Note 2)	\$ 1,270,376	\$ 516,689	\$ 1,787,065	\$ 1,651,460
Accounts receivable - net of allowance of \$47,334 (see Note 3)	1,672,921		1,672,921	2,149,513
Pledges receivable (Note 4)	80,000	163,000	243,000	140,831
Notes and interest receivable (Note 5)	306,294		306,294	318,002
Receivable from other related parties (Note 6)	488,273		488,273	455,578
Prepaid expenses	176,828		176,828	213,622
Deposits and other assets (Note 7)	1,027,286		1,027,286	887,437
Property and equipment (Note 9)	4,974,014		4,974,014	4,370,462
Total assets	<u>\$ 9,995,992</u>	<u>\$ 679,689</u>	<u>\$ 10,675,681</u>	<u>\$ 10,186,905</u>
Liabilities and net assets				
Liabilities				
Accounts payable	\$ 383,707	\$ -	\$ 383,707	\$ 288,187
Accrued liabilities (Note 10)	1,314,498		1,314,498	1,216,371
Line of credit (Note 11)	303,000		303,000	718,000
Funds held in trust (Note 12)	207,398		207,398	326,256
Deficit in partnerships and HUD project (Note 13)	6,163		6,163	44,053
Notes payable (Note 14)	3,404,272		3,404,272	3,124,497
Total liabilities	<u>5,619,038</u>	<u>-</u>	<u>5,619,038</u>	<u>5,717,364</u>
Net assets				
Unrestricted	4,122,495		4,122,495	4,062,991
Board designated	254,459		254,459	-
Temporarily restricted (Note 16)		679,689	679,689	406,550
Total net assets	<u>4,376,954</u>	<u>679,689</u>	<u>5,056,643</u>	<u>4,469,541</u>
Total liabilities and net assets	<u>\$ 9,995,992</u>	<u>\$ 679,689</u>	<u>\$ 10,675,681</u>	<u>\$ 10,186,905</u>

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

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended June 30, 2013

With comparative totals for the year ended June 30, 2012

	Unrestricted	Temporarily Restricted	2013	2012
Revenue and support				
Program service contracts	\$ 7,663,981	\$ -	\$ 7,663,981	\$ 7,073,829
Landscape services	3,985,001		3,985,001	3,921,802
Contributions and grants	853,640	1,239,256	2,092,896	1,596,120
Rental income	1,076,014		1,076,014	1,081,005
Legal Services Center	915,259		915,259	976,041
Other income	409,602		409,602	430,032
In-kind contributions (Note 2)	313,574		313,574	56,252
Income from HUD Project	70,585		70,585	88,323
Net assets released from program restrictions	966,117	(966,117)	-	-
	16,253,773	273,139	16,526,912	15,223,404
Expenses				
Program services:				
Supporting services and training programs	9,282,247		9,282,247	8,816,546
Housing programs	1,223,385		1,223,385	1,166,853
Social enterprises	3,606,620		3,606,620	3,543,389
Supportive services:				
Management and general	1,361,191		1,361,191	1,079,155
Fundraising	466,367		466,367	426,286
	15,939,810	-	15,939,810	15,032,229
Change in net assets	313,963	273,139	587,102	191,175
Net assets, beginning of year	4,062,991	406,550	4,469,541	4,278,366
Net assets, end of year	\$ 4,376,954	\$ 679,689	\$ 5,056,643	\$ 4,469,541

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

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2013

With comparative totals for the year ended June 30, 2012

	Mental Health & Wellness	Economic Empowerment	Legal Services Center	Housing Management	Landscape Services	General and Administration	Fundraising	Total Expenses	
								2013	2012
Personnel Costs:									
Salaries	\$ 1,550,337	\$ 2,638,899	\$ 611,873	\$ 140,235	\$ 1,933,978	\$ 1,387,503	\$ 232,780	\$ 8,495,605	\$ 8,580,553
Employee benefits and payroll taxes	412,148	655,716	119,719	40,460	767,497	378,253	39,068	2,412,861	2,088,148
Total personnel costs	<u>1,962,485</u>	<u>3,294,615</u>	<u>731,592</u>	<u>180,695</u>	<u>2,701,475</u>	<u>1,765,756</u>	<u>271,848</u>	10,908,466	10,668,701
Operating Expenses:									
Occupancy	200,802	390,286	58,306	323,948	129,710	164,859	12,651	1,280,562	1,295,390
Office expenses	266,318	199,730	58,666	66,979	61,613	333,795	85,736	1,072,837	990,441
Consultants and subcontractors	120,387	458,402	3,968	55,523	41,438	139,289	22,645	841,652	576,420
Participant support	72,971	77,469	30	238,925			197	389,592	385,355
Product costs		8,515			335,568			344,083	330,664
Finance				217,033	92			217,125	205,939
Transportation and mileage	78,444	53,542	5,358	7,684	161,841	20,097	297	327,263	272,919
In-kind expense						299,921	13,653	313,574	56,252
Depreciation	29,150	10,307	6,357	132,598	9,695	55,143	1,406	244,656	250,148
Total operating expenses	<u>768,072</u>	<u>1,198,251</u>	<u>132,685</u>	<u>1,042,690</u>	<u>739,957</u>	<u>1,013,104</u>	<u>136,585</u>	5,031,344	4,363,528
Indirect expenses	<u>387,712</u>	<u>653,562</u>	<u>153,273</u>	<u>-</u>	<u>165,188</u>	<u>(1,417,669)</u>	<u>57,934</u>	<u>-</u>	<u>-</u>
Total 2013 functional expenses	<u>\$ 3,118,269</u>	<u>\$ 5,146,428</u>	<u>\$ 1,017,550</u>	<u>\$ 1,223,385</u>	<u>\$ 3,606,620</u>	<u>\$ 1,361,191</u>	<u>\$ 466,367</u>	<u>\$ 15,939,810</u>	
Total 2012 functional expenses	<u>\$ 3,221,016</u>	<u>\$ 4,507,330</u>	<u>\$ 1,088,200</u>	<u>\$ 1,166,853</u>	<u>\$ 3,543,389</u>	<u>\$ 1,079,155</u>	<u>\$ 426,286</u>		<u>\$ 15,032,229</u>

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

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended June 30, 2013

With comparative totals for the year ended June 30, 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	\$ 587,102	\$ 191,175
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	244,656	250,148
(Gain) from investment in partnerships and HUD project	(37,890)	(56,748)
Change in allowance for doubtful accounts	(9,793)	(28,228)
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	486,385	(273,157)
(Increase) decrease in pledges receivable	(102,169)	109,126
(Increase) decrease in receivable from other related parties	(32,695)	285
Decrease (increase) in prepaid expenses	36,794	(47,758)
(Increase) in deposits and other assets	(139,849)	(190,799)
Increase in accounts payable	95,520	7,753
Increase in accrued liabilities	98,127	80,108
(Decrease) increase in funds held in trust	(118,858)	44,991
	1,107,330	86,896
Net cash provided by investing activities		
Cash flows from investing activities:		
New proceeds from notes receivable	(11,500)	(4,000)
Payments on notes receivables	23,208	-
Purchase of property and equipment	(848,208)	(128,096)
	(836,500)	(132,096)
Net cash (used) by investing activities		
Cash flows from financing activities:		
Proceeds from line of credit	-	126,300
Payments on line of credit	(415,000)	-
Proceeds from notes payable	544,907	15,000
Payments on notes payable	(265,132)	(244,469)
	(135,225)	(103,169)
Net cash (used) by financing activities		
Net increase (decrease) in cash and cash equivalents	135,605	(148,369)
Cash and cash equivalents, beginning of year	1,651,460	1,799,829
Cash and cash equivalents, end of year	\$ 1,787,065	\$ 1,651,460
Supplemental disclosure:		
Cash paid for interest	\$ 155,496	\$ 173,920

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

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Organization**

A nationally recognized nonprofit, Rubicon Programs Inc. (“Rubicon”) was founded in 1973. The organization’s mission is to prepare very low-income people to achieve financial independence and to partner with people with mental illness on their journey of recovery. Each year, Rubicon serves more than 3,000 people across Alameda County and Contra Costa County.

People in the East Bay’s hardest hit communities need intensive support and follow-up services to access the jobs and opportunities that will enable them to move and stay out of poverty. Rubicon finds support that’s right for each individual and their family – a personalized, comprehensive set of services that includes job placement, housing, counseling, healthcare, legal services, and financial literacy.

Additionally, Rubicon also offers extensive vocational rehabilitation, job training, and placement opportunities through Rubicon Landscape Services operated by their affiliate, Rubicon Enterprises Incorporated (“REI”).

2. **Summary of Significant Accounting Policies**

A summary of the significant accounting policies applied in the preparation of the accompanying consolidated financial statements is as follows:

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

Principles of Consolidation

The consolidated financial statements include the accounts of Rubicon and its commonly controlled not-for-profit entities (collectively referred to as “the Organization”). A summary of these entities follows:

REI established in 1995, is a supporting organization of Rubicon and provides employment opportunities, rehabilitation and training to homeless, disabled, and other disadvantaged residents of the San Francisco Bay Area and Contra Costa County. REI currently operates one enterprise Rubicon Landscape Services.

Rubicon Villages, Inc. (“RVI”), established in 2001, is a supporting organization of Rubicon that provides affordable housing through a property subleased from Treasure Island Development Authority and rehabilitated in 2002. The property consists of forty-four residential housing units located at the former Naval Station Treasure Island, San Francisco, California, and was placed in service in March 2003.

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Rubicon Homes, Inc. (“RHI”) is a commonly controlled nonprofit organization which owns and operates a ten-unit apartment building located in Richmond, California (“the Project”). The Project operates under Section 202 of the National Housing Act and is thus subject to compliance with the U.S. Department of Housing and Urban Development (“HUD”) regulations regarding their rental rates, tenant eligibility, financial operating requirements, and management of the Project’s operations.

Idaho Apartments Housing Corporation (“IAHC”) is a general partner with a .01% interest in Idaho Apartments Associates, a limited partnership formed in 1996 to own and operate a twenty-nine-unit multifamily rental project located in El Cerrito, California.

Church Lane Housing Corporation (“CLHC”) is a general partner with a 1% interest in Church Lane–Rubicon Partners, a limited partnership formed in 1995 to own and operate a twenty-two-unit residential apartment complex in San Pablo, California.

All material intercompany balances and transactions have been eliminated from the consolidated financial statements.

The partnerships and the HUD project with RHI, IAHC, and CLHC, over which the Organization exercises significant influence, are included in the consolidated financial statements using the equity method of accounting (see Note 19).

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of the organization are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

Unrestricted. These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Temporarily Restricted. The organization reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statement of Activities as net assets released from program or capital restrictions. The Organization had \$679,689 of temporarily restricted net assets at June 30, 2013.

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit the Organization to expend all of the income (or other economic benefits) derived from the donated assets. The Organization had no permanently restricted net assets at June 30, 2013.

Cash and Cash Equivalents

The Organization has defined cash and cash equivalents as cash in banks and money market fund accounts.

Accounts Receivable

The Organization uses the allowance method in order to reserve for potential uncollectible accounts receivable.

Contributions and Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded as net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs - quoted prices in active markets for identical assets

Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs - estimates using the best information available when there is little or no market

The Organization is required to measure pledges receivable and in-kind contributions at fair value. The specific techniques used to measure fair value for each element is described in the notes below that relate to each element.

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Property and Equipment and Deferred Costs

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred.

Property and equipment are capitalized if the cost of an asset is greater than or equal to five hundred dollars and the useful life is greater than one year.

Deferred costs are incurred in order to obtain long-term financing for rental property. The costs are stated at cost and amortized on a straight-line basis.

Concentration of Credit Risks

The Organization places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. The Organization has not incurred losses related to these investments.

At June 30, 2013, revenues from two landscape customers were approximately 36% of total landscape and maintenance contracts. At June 30, 2013, revenues from these two clients totaled \$1,446,680.

Donated Materials

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received.

For the year ended June 30, 2013, the Organization recorded in-kind donations in the amount of \$313,574. This amount represents in-kind services and materials in the amount of \$291,500 and \$22,074 respectively (see Note 8).

Income Taxes

The Organization is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Organization in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. Rubicon's returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

continued

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Functional Allocation of Expenses

Costs of providing the Organization's programs and other activities have been presented in the Consolidated Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. The Organization uses actual salary dollars to allocate indirect costs.

Equity (Deficit) in Partnerships and HUD Project

Investments in partnerships consist of a .01% and 1% general interest on Idaho Apartments Associates and Church Lane–Rubicon Partners, respectively, which is accounted for using the equity method. Under this method, the Organization's proportionate share of the net equity (deficit) in each limited partnership is shown as an asset (liability) herein (see Note 13). Similarly, the Organization's proportionate share of the partnerships' income or loss is shown as income or loss herein.

Although there are usually no other general partners in these partnerships, the general partner is not deemed to have a controlling interest. Significant control rests with third-party lenders, the California Tax Credit Allocation Committee, and the limited partners who generally hold a majority interest. For this reason, these consolidated financial statements do not combine 100% of the activities in the partnerships.

The Organization's Board of Directors also appoints or has Board representation at a not-for-profit organization that owns and operates an affordable housing rental project under the control of HUD. The equity method of accounting is used to account for the equity (deficit) of the HUD project because significant control rests with HUD (see Note 19) for summarized financial information of the entities accounted for using the equity method herein.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

Comparative Totals

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2012 from which the summarized information was derived.

continued

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Reclassifications

Certain amounts from the June 30, 2012 financial statements have been reclassified for comparative purposes to conform to June 30, 2013 presentation.

Subsequent Events

Management has evaluated subsequent events through December 9, 2013, the date which the consolidated financial statements were available.

3. Accounts Receivable

Accounts receivable at June 30, 2013 consist of the following:

Reimbursement for contract services	\$1,398,045
Landscape services	256,682
Other	61,529
Hawkins	<u>3,999</u>
	1,720,255
Less: allowance for doubtful accounts	<u>(47,334)</u>
	<u>\$1,672,921</u>

4. Pledges Receivable

Pledges receivable are recorded as support when pledged unless designated otherwise. All pledges are valued at estimated fair value at June 30, 2013. Pledges receivable at June 30, 2013 of \$243,000 are expected to be collected within one year (see Note 8).

5. Notes and Interest Receivable

The Organization provided a loan to Church Lane-Rubicon Partners, a related party (see Note 18), to assist in the development of the Michael E. Farber-Church Lane Apartments. The loan principal amount of \$100,000, is secured by the property, bears annual simple interest of 4%, and is due and payable in June 2050. Interest is deferred over the life of the loan. Total deferred interest at June 30, 2013 is \$72,002. Therefore the total note receivable at June 30, 2013 is \$172,002.

Rubicon has a note receivable with a corporation in the amount of \$150,000, bearing annual simple interest of 5% beginning the third year of the loan. The total outstanding amount of the note at June 30, 2013 is \$134,292. Total notes and interest receivable at June 30, 2013 is \$306,294.

continued

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Receivable from Other Related Parties

The Organization has entered into transactions with related parties (see Note 18) that include, but are not limited to, project development cost advances, landscape services, operating cost, working capital advances, and equity contributions. Amounts receivable from other related parties is summarized as follows:

Church Lane–Housing Corporation	\$264,674
Idaho Apartments Housing Corporation	170,841
Church Lane–Rubicon Partners	<u>52,758</u>
	<u>\$488,273</u>

7. Deposits and Other Assets

Deposits and other assets at June 30, 2013 consist of the following:

Replacement Reserve - RVI is required to maintain a reserve for replacement and repair of property and equipment in accordance with the City and County of San Francisco loan agreement. The reserve is required to be funded in monthly deposits equal to 2% of the previous month's income.

Operating Reserve - RVI is required to maintain an operating reserve in accordance with the City and County of San Francisco loan agreement. The reserve is required to be funded in an annual amount of 25% of approved budget for operating expenses.

Tenant Security Deposits - RVI is required to hold security deposits in a separate bank account in the name of the HUD project.

In accordance with provisions of the agreements, restricted cash is held in separate bank accounts as follows:

Special surplus reserve	\$ 595,198
Replacement reserve	226,426
Operating reserve	177,643
Tenant deposits	14,953
Deposits	<u>13,066</u>
	<u>\$1,027,286</u>

continued

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Fair Value Measurements

The table below presents transactions measured at fair value on a non-recurring basis during the year ended June 30, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pledges – current year	\$ -	\$ -	\$243,000	\$243,000
Donated services		291,500		291,500
Donated materials		<u>22,074</u>		<u>22,074</u>
	<u>\$ -</u>	<u>\$313,574</u>	<u>\$243,000</u>	<u>\$556,574</u>

The fair value of donated materials has been measured on a non-recurring basis using quoted prices for similar assets in inactive markets (Level 2 inputs).

The fair value of pledges - current year are measured on a non-recurring basis using the face of the pledge receivable agreement (Level 3 inputs).

9. Property and Equipment

Property and equipment at June 30, 2013 consist of the following:

Land	\$ 633,490
Leasehold improvements	3,907,614
Buildings	1,541,169
Furniture and equipment	1,146,320
Vehicles	508,580
Work in progress	<u>790,369</u>
	8,527,542
Less: accumulated depreciation	<u>(3,553,528)</u>
	<u>\$ 4,974,014</u>

10. Accrued Liabilities

Accrued liabilities at June 30, 2013 consist of the following:

Accrued vacation	\$ 483,538
Accrued interest	264,040
Other accrued liabilities	238,680
Accrued salaries	234,841
Accrued payroll taxes	<u>93,399</u>
	<u>\$1,314,498</u>

continued

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Line of Credit

The Organization has a revolving, line of credit with a bank in the amount of \$1,000,000, with interest at 0.75% over the index, maturing April 30, 2014. Secured by the Organization's assets, at June 30, 2013, the outstanding balance on the line of credit was \$303,000.

12. Funds Held in Trust

The money management trust account was established to provide representative payee services to disabled program participants who need assistance in managing their funds. The Organization facilitates payment of rent and utilities and will set aside money for food and other agreed-upon items. The balance of these funds held in trust at June 30, 2013 was \$199,518.

For the Legal Services Center Trust Account, all attorney fees and other payments related to clients are initially deposited to the Legal Services Center Attorney Trust Account. Once fees have been approved by the Social Security Administration, fees are transferred to the operating account. Until fees are approved, the Legal Services Center is required by law to hold the money in the attorney trust account. In addition, all money collected on behalf of, held for, or owing to a client, must be kept on deposit in the trust account until payment is made to the client. The balance of these funds at June 30, 2013 was \$7,880.

Total funds held in trust were \$207,398 at June 30, 2013.

13. Equity (Deficit) in Partnerships and HUD Project

The Organization's financial interests and equity (deficit) in entities are as follows:

	<u>Percentage of Interest</u>	<u>Equity (Deficit)</u>
Idaho Apartments Associates	.01%	\$ 107,300
Church Lane–Rubicon Partners	1%	92,359
Rubicon Homes, Inc. (a HUD project)	-	<u>(205,822)</u>
		<u>\$ (6,163)</u>

The financial interests in these entities are accounted for under the equity method.

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Notes Payable

Notes payable at June 30, 2013 consist of the following:

Promissory note issued to the Contra Costa County, secured by a deed of trust, non-interest bearing, due March 2028, forgiven upon maturity.	\$ 564,332
Note payable to Non-profit Finance Fund, secured by a deed of trust with monthly payments of \$12,158, including interest at 6.00%, due April 2020.	544,907
Note payable to First Republic Bank, secured by real property, monthly payments of \$5,190, including interest at 6.30%, due February 2018.	445,479
Note payable to Bank of America, secured by real property, monthly payments of \$5,497, including interest at 8.62%, due June 2020.	349,487
Promissory note issued to the City of Richmond, secured by real property, non-interest bearing, due March 2023.	255,000
Promissory note issued to the City of Richmond, secured by real property, non-interest bearing, due May 2012. Management is currently in process of renegotiating the terms of the agreement. No payments have been made as of June 30, 2013 as part of the renegotiation process.	209,528
Note payable to the State of California, secured by real property, bearing a 3.00% simple interest, principal and interest due in full in October 2011. Management is currently in process of renegotiating the terms of the agreement. No payments have been made as of June 30, 2013 as part of the renegotiation process.	185,107
Note payable to First Republic Bank, secured by real property, monthly payments of \$3,522, including interest at 6.00%, due March 2018.	173,336
Note payable to Wells Fargo Bank, secured by real property, monthly payments of \$2,330, including interest at 6.95%, due August 2020.	157,294
Note payable to Catholic Healthcare, secured by real property, monthly payments of \$4,640, including interest at 6.00%, due July 2015.	100,572

continued

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Notes Payable, continued

Promissory note issued to Contra Costa County, secured by a deed of trust, bearing a 4.00% simple interest, due June 2050.	100,000
Promissory note issued to Contra Costa County, secured by real property, bearing a 3.00% simple interest, due May 2044. Forgiven at the expiration of the extended term.	80,000
Promissory note issued to the City of Richmond, no loan terms specified in the loan agreement.	67,574
Note payable to the City and County of San Francisco, with a maximum loan amount of \$1,621,032, with interest accruing at a rate of 7.50% per annum, compounded quarterly. The note matures August 2014, or at termination of the applicable sublease agreement, unless renewed, but not to exceed a maximum of 50 years after loan is disbursed. On May 2013 a second amendment to this loan confirms the outstanding loan balance of \$66,007 with no interest balance as of the effective date of this amendment. The note is secured by a deed of trust and the sublease agreement with Treasure Island Development Authority. Annual payments of principal and interest are to be made from "residual receipts", if any, otherwise repayment is due at maturity.	66,007
Promissory note issued to the City of Richmond, secured by real property, bearing a 3.00% simple interest, due February 2031, forgiven upon maturity.	42,200
Promissory note issued to the City of Richmond, secured by real property, bearing a 3.00% simple interest, due February 2031, forgiven upon maturity.	42,000
Note payable to Richmond Community Redevelopment Agency, non-interest bearing, due June 2035, forgiven upon maturity.	14,931

continued

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Notes Payable, continued

Note payable to NISH, quarterly payments of \$903, including interest at 1.625%, due April 2014. 3,468

Note payable to Calvert Foundation, secured by real property, at interest rate of 4.50%, interest payments due quarterly, with monthly principal payments of \$3,170 due July 2015. 3,050
\$3,404,272

Maturities for notes payable are as follows:

<u>Year ended June 30,</u>	
2014	\$ 302,308
2015	393,561
2016	287,619
2017	283,580
2018	395,803
Thereafter	<u>1,741,401</u>
	<u>\$3,404,272</u>

15. Commitments and Contingencies

Commitments

The Organization is the sponsor and developer of two properties that qualify for low-income housing tax credits under Section 42 of the Internal Revenue Code. These properties are owned by the California Limited Partnerships, the general partners of which are affiliated with the Organization. In its capacity as sponsor and developer, the Organization has entered into certain agreements to indemnify low-income housing tax credits and other tax benefits to limited partners in an aggregate amount of approximately \$1,400,000.

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Commitments and Contingencies, continued

Obligations Under Operating Leases

The Organization leases various facilities and equipment under operating leases with various terms. Future minimum payments, by year and in the aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

<u>Year ended June 30,</u>	
2014	\$286,456
2015	182,821
2016	46,689
2017	36,516
2018	21,961
Thereafter	<u>3,034</u>
	<u>\$577,477</u>

Rent expense under operating leases for the year ended June 30, 2013 was \$299,138.

Contracts

The Organization's grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously-funded program costs. The ultimate liability, if any, which may result from these governmental audits, cannot be reasonably estimated and, accordingly, the Organization has no provisions for the possible disallowance of program costs on its consolidated financial statements.

16. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2013 consist of the following:

Time restriction	\$163,000
Work Incentives for Residents and Employers	151,573
Legal	82,770
Economic Empowerment Program	82,605
Healthcare Integration Alternative	73,494
Other	66,247
Housing	40,000
Alameda County Programs	<u>20,000</u>
	<u>\$679,689</u>

continued

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. Employee Benefit Plan

The Organization has a profit-sharing plan, available to all employees who have completed one year and 1,000 hours of service. Employees are fully vested in five years, and are not required to contribute to the plan. Contributions to the plan are determined on an annual basis by the Board of Directors. For the year ended June 30, 2013, the Organization did not contribute to the plan.

18. Related Party Transactions

The Organization has a note and interest receivable from Church Lane-Rubicon Partners (see Note 5) in the amount of \$172,002, (\$100,000 representing the principal and \$72,002 of accumulated interest.)

The Organization has accounts receivable from CLHC, Church Lane-Rubicon Partners and IAHC in the amounts of \$264,674, \$52,758, and \$170,841, respectively (see Note 6).

RVI project employees are reported to taxing authorities under the managing agent's EIN. For the year ended June 30, 2013, RVI reimbursed the agent for allocated payroll taxes and workers compensation insurance premiums totaling \$23,335. The agent was also paid by the project for management fees totaling \$32,736.

REI provided RVI with monthly landscaping services. For the year ended June 30, 2013, REI was paid a total of \$18,076.

19. Summary of Financial Information of Investee

Organizations (Limited Partnerships and HUD Project)

The following is a summary of the financial information of the partnerships as of June 30, 2013:

Total assets	<u>\$5,015,944</u>
Total liabilities	<u>\$3,709,686</u>
Partners' equity:	
General partner	<u>\$ 190,004</u>
Limited partner	<u>\$1,116,254</u>
Results of operations	<u>\$ (233,903)</u>

The following is a summary of the financial information of the HUD project as of June 30, 2013:

Total assets	<u>\$ 646,957</u>
Total liabilities	<u>\$ 935,077</u>
Net assets (deficit)	<u>\$(288,120)</u>
Change in net assets	<u>\$ 37,890</u>

SUPPLEMENTAL INFORMATION

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

RESIDUAL RECEIPTS AND DISTRIBUTION OF RESIDUAL RECEIPTS

RUBICON VILLAGES, INC.

For the year ended June 30, 2013

Residual receipts

Cash and cash equivalents:

Operations	\$ 401,056
Tenant security deposits	14,953

416,009

Current obligations:

Accounts payable	32,086
Accrued expenses	49,746
Prepaid rents	837
Tenant security deposits	14,953

97,622

Total residual receipts

\$ 318,387

See independent auditors' report.