

**RUBICON PROGRAMS INCORPORATED
AND AFFILIATES**

**CONSOLIDATED FINANCIAL STATEMENTS
and
SUPPLEMENTAL INFORMATION**

JUNE 30, 2014

CONTENTS

Independent Auditors' Report	1-2
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7-22
Supplemental Information:	
Residual Receipts and Distribution of Residual Receipts – Rubicon Villages, Inc.	23



Certified Public Accountants, LLP

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, 2014, 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, 2014, 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, 2014, the equity in Rubicon Homes, Inc. was a deficit of (\$177,175) and the change in net assets was \$28,647 for the year then ended. We also did not audit the financial statements of Rubicon Villages, Inc. for the year ended June 30, 2014, a wholly controlled not-for-profit entity, whose statements reflect total assets of \$2,506,429 as of June 30, 2014, and total revenues of \$952,704 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, 2014; and in our report dated December 8, 2014 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.

PASADENA
234 E Colorado Blvd
Suite M150
Pasadena, CA 91101
Tel: 626.403.6801
Fax: 626.403.6866

A Trusted Nonprofit Partner
Experience. Service. Respect.
www.npocpas.com

SAN FRANCISCO
50 Francisco St
Suite 160
San Francisco, CA 94133
Tel: 415.391.3131
Fax: 415.391.3233

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, 2014, 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' 2013 consolidated financial statements, and our report dated December 9, 2013 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, 2013, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Harrington Group

San Francisco, California
December 18, 2014

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2014

With comparative totals at June 30, 2013

	Unrestricted	Temporarily Restricted	2014	2013
Assets				
Cash and cash equivalents (Note 2)	\$ 1,682,733	\$ 127,238	\$ 1,809,971	\$ 1,787,065
Accounts receivable - net of allowance of \$59,466 (Note 3)	2,262,023		2,262,023	1,672,921
Pledges receivable (Note 4)	2,500	307,000	309,500	243,000
Notes and interest receivable (Note 5)	117,798		117,798	306,294
Receivable from other related parties			-	488,273
Prepaid expenses	249,824		249,824	176,828
Deposits and other assets (Note 6)	1,077,380		1,077,380	1,027,286
Property and equipment (Note 8)	9,549,587		9,549,587	4,974,014
	\$ 14,941,845	\$ 434,238	\$ 15,376,083	\$ 10,675,681
Liabilities and net assets				
Liabilities				
Accounts payable	\$ 564,222	\$ -	\$ 564,222	\$ 383,707
Accrued liabilities (Note 9)	2,183,390		2,183,390	1,314,498
Line of credit (Note 10)	215,841		215,841	303,000
Funds held in trust (Note 11)	246,312		246,312	207,398
Capital lease obligation (Note 12)	139,852		139,852	-
Deficit in partnerships and HUD project (Note 13)	177,175		177,175	6,163
Notes payable (Note 14)	5,786,240		5,786,240	3,404,272
	9,313,032	-	9,313,032	5,619,038
Net assets				
Unrestricted	5,374,354		5,374,354	4,122,495
Board designated	254,459		254,459	254,459
Temporarily restricted (Note 17)		434,238	434,238	679,689
	5,628,813	434,238	6,063,051	5,056,643
	\$ 14,941,845	\$ 434,238	\$ 15,376,083	\$ 10,675,681

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, 2014
 With comparative totals for the year ended June 30, 2013

	Unrestricted	Temporarily Restricted	2014	2013
Revenue and support				
Program service contracts	\$ 9,345,709	\$ -	\$ 9,345,709	\$ 7,663,981
Landscape services	4,805,403		4,805,403	3,985,001
Contributions and grants	990,006	745,844	1,735,850	2,092,896
Rental income	1,231,479		1,231,479	1,076,014
Legal Services Center	953,566		953,566	915,259
Other income	397,414		397,414	409,602
In-kind contributions (Note 2)	9,320		9,320	313,574
Income from HUD Project	63,800		63,800	70,585
Net assets released from program restrictions	991,295	(991,295)	-	-
	18,787,992	(245,451)	18,542,541	16,526,912
Expenses				
Program services:				
Supporting services and training programs	11,114,849		11,114,849	9,282,247
Housing programs	1,516,122		1,516,122	1,223,385
Social enterprises	4,500,618		4,500,618	3,606,620
Supportive services:				
Management and general	708,571		708,571	1,361,191
Fundraising	542,248		542,248	466,367
	18,382,408	-	18,382,408	15,939,810
Change in net assets	405,584	(245,451)	160,133	587,102
Net assets, beginning of year	4,376,954	679,689	5,056,643	4,469,541
Transfer of net assets from affiliates (Note 20)	846,275		846,275	-
Net assets, end of year	\$ 5,628,813	\$ 434,238	\$ 6,063,051	\$ 5,056,643

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, 2014

With comparative totals for the year ended June 30, 2013

	Mental Health & Wellness	Economic Empowerment	Legal Services Center	Housing Management	Landscape Services	General and Administration	Fundraising	Total Expenses	
								2014	2013
Personnel Costs:									
Salaries	\$ 1,709,968	\$ 3,179,740	\$ 709,741	\$ 127,051	\$ 2,053,332	\$ 1,446,946	\$ 261,354	\$ 9,488,132	\$ 8,495,605
Employee benefits and payroll taxes	492,999	800,996	143,851	37,372	840,352	378,982	60,055	2,754,607	2,412,861
Total personnel costs	<u>2,202,967</u>	<u>3,980,736</u>	<u>853,592</u>	<u>164,423</u>	<u>2,893,684</u>	<u>1,825,928</u>	<u>321,409</u>	12,242,739	10,908,466
Operating Expenses:									
Occupancy	208,494	449,411	48,889	554,771	162,647	159,507	11,287	1,595,006	1,280,562
Office expenses	179,257	260,557	76,168	90,892	78,025	350,691	100,262	1,135,852	1,072,837
Consultants and subcontractors	11,026	907,925		79,872	36,010	243,186	30,904	1,308,923	841,652
Participant support	61,418	227,494	1,547	262,592			744	553,795	389,592
Product costs					604,629			604,629	344,083
Finance				223,854				223,854	217,125
Transportation and mileage	78,428	70,992	8,299	7,143	194,888	25,222	1,378	386,350	327,263
In-kind expense							9,320	9,320	313,574
Depreciation	<u>33,694</u>	<u>48,432</u>	<u>16,779</u>	<u>132,575</u>	<u>23,495</u>	<u>65,427</u>	<u>1,538</u>	321,940	244,656
Total operating expenses	<u>572,317</u>	<u>1,964,811</u>	<u>151,682</u>	<u>1,351,699</u>	<u>1,099,694</u>	<u>844,033</u>	<u>155,433</u>	6,139,669	5,031,344
Indirect expenses	<u>426,402</u>	<u>785,745</u>	<u>176,597</u>	<u>-</u>	<u>507,240</u>	<u>(1,961,390)</u>	<u>65,406</u>	<u>-</u>	<u>-</u>
Total 2014 functional expenses	<u>\$ 3,201,686</u>	<u>\$ 6,731,292</u>	<u>\$ 1,181,871</u>	<u>\$ 1,516,122</u>	<u>\$ 4,500,618</u>	<u>\$ 708,571</u>	<u>\$ 542,248</u>	<u>\$ 18,382,408</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>

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, 2014

With comparative totals for the year ended June 30, 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 160,133	\$ 587,102
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Cash impact of transfer of assets	(956,755)	-
Depreciation and amortization	321,940	244,656
Loss (gain) from investment in partnerships and HUD project	171,012	(37,890)
Change in allowance for doubtful accounts	(12,122)	(9,793)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(576,980)	486,385
(Increase) in pledges receivable	(66,500)	(102,169)
Decrease (increase) in receivable from other related parties	488,273	(32,695)
(Increase) decrease in prepaid expenses	(72,996)	36,794
(Increase) in deposits and other assets	(50,094)	(139,849)
Increase in accounts payable	180,515	95,520
Increase in accrued liabilities	868,892	98,127
Increase (decrease) in funds held in trust	38,914	(118,858)
	494,232	1,107,330
Net cash provided by investing activities		
	494,232	1,107,330
Cash flows from investing activities:		
New proceeds from notes receivable	(4,000)	(11,500)
Payments on notes receivables	15,160	23,208
Purchase of property and equipment	(374,632)	(848,208)
	(363,472)	(836,500)
Net cash (used) by investing activities		
	(363,472)	(836,500)
Cash flows from financing activities:		
Payments on line of credit	(87,158)	(415,000)
Payments on capital lease obligations	(10,214)	-
Proceeds from borrowings on notes payable	255,093	544,907
Payments on notes payable	(265,575)	(265,132)
	(107,854)	(135,225)
Net cash (used) by financing activities		
	(107,854)	(135,225)
Net increase in cash and cash equivalents	22,906	135,605
Cash and cash equivalents, beginning of year	1,787,065	1,651,460
Cash and cash equivalents, end of year	\$ 1,809,971	\$ 1,787,065
Supplemental disclosure:		
Cash paid for interest	\$ 155,588	\$ 155,496
Non-cash investing and financing activities:		
Acquisition of vehicles with capital lease	\$ 150,066	\$ 155,496

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.

On February 1, 2014 Rubicon was admitted as the limited partner of Idaho Apartments Associates obtaining the 99.99% interest of the partnership. For this reason, these consolidated financial statements combine 100% of the activities in the partnership as of that date (see Note 20).

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.

On February 1, 2014 Rubicon was admitted as the limited partner of Church Lane–Rubicon Partners obtaining the 99% interest of the partnership. For this reason, these consolidated financial statements combine 100% of the activities in the partnership as of that date (see Note 20).

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

The partnerships and the HUD project with RHI, 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.

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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, 2014.

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, 2014.

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.

continued

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.

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, 2014, the Organization recorded in-kind material in the amount of \$9,320 (see Note 7).

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.

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.

continued

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Equity (Deficit) in Partnerships and HUD Project

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, 2013 from which the summarized information was derived.

Reclassifications

Certain immaterial amounts from the June 30, 2013 financial statements have been reclassified for comparative purposes to conform to June 30, 2014 presentation.

3. Accounts Receivable

Accounts receivable at June 30, 2014 consist of the following:

Reimbursement for contract services	\$1,636,074
Landscape services	409,969
Other	262,335
Hawkins	<u>13,111</u>
	2,321,489
Less: allowance for doubtful accounts	<u>(59,466)</u>
	<u>\$2,262,023</u>

continued

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Pledges Receivable

Pledges receivable are recorded as support when pledged unless designated otherwise and deemed fully collectible. All pledges are valued at estimated fair value at June 30, 2014. Pledges receivable at June 30, 2014 of \$309,500 are expected to be collected as follows:

<u>Year ended June 30,</u>	
2016	\$109,500
2017	150,000
2018	<u>50,000</u>
	<u>\$309,500</u>

The discount on pledges receivable at June 30, 2014 was deemed immaterial to the financial statements. Therefore, none was recorded.

5. Note and Interest Receivable

As a result of an equipment purchase agreement, 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, 2014 is \$117,798.

6. Deposits and Other Assets

Deposits and other assets at June 30, 2014 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:

Replacement reserve	\$ 390,948
Special surplus reserve	333,582
Operating reserve	183,533
Other	111,234
Tenant deposits	44,299
Deposits	<u>13,784</u>
	<u>\$1,077,380</u>

continued

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Fair Value Measurements

The table below presents transactions measured at fair value on a non-recurring basis during the year ended June 30, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pledges – current year	\$ -	\$ -	\$309,500	\$309,500
Donated materials		<u>9,320</u>		<u>9,320</u>
	<u>\$ -</u>	<u>\$9,320</u>	<u>\$309,500</u>	<u>\$318,820</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).

8. Property and Equipment

Property and equipment at June 30, 2014 consist of the following:

Land	\$ 1,373,247
Leasehold improvements	7,402,612
Buildings	5,177,268
Furniture and equipment	1,428,323
Vehicles	<u>539,392</u>
	15,920,842
Less: accumulated depreciation	<u>(6,371,255)</u>
	<u>\$ 9,549,587</u>

9. Accrued Liabilities

Accrued liabilities at June 30, 2014 consist of the following:

Accrued interest (see Note 14)	\$ 865,933
Accrued vacation	520,288
Other accrued liabilities	382,205
Accrued salaries	305,582
Accrued payroll taxes	<u>109,382</u>
	<u>\$2,183,390</u>

continued

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Line of Credit

The Organization has a revolving, line of credit with a bank in the amount of \$1,200,000, with interest at 0.75% over the index, maturing April 30, 2014. Secured by the Organization's assets, at June 30, 2014, the outstanding balance on the line of credit was \$215,841.

11. 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, 2014 was \$238,179.

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, 2014 was \$8,133.

12. Capital Lease Obligations

The Organization leases vehicles under capital 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>	
2015	\$ 44,608
2016	44,608
2017	44,608
2018	<u>32,520</u>
Total minimum lease payments	166,344
Less: portion representing interest	<u>(26,492)</u>
	<u>\$139,852</u>

The cost of vehicles under capital leases at June 30, 2014 consists of the following:

Vehicles	\$150,066
Less: accumulated depreciation	<u>(10,214)</u>
	<u>\$139,852</u>

continued

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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>
Rubicon Homes, Inc. (a HUD project)	-	<u>\$177,175</u>

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

14. Notes Payable

Notes payable at June 30, 2014 consist of the following:

Note payable to Nonprofit Finance Fund for a 7 year loan to renovate and replace roof at the 101 Broadway Street and 2500 Bissell Avenue, secured by a deed of trust against 2500 Bissell Avenue, monthly payments of \$12,158, including interest at 6.00%, due April 2020.	\$ 716,174
Note payable to County of Contra Costa (CDBG) in the amount of \$470,000, secured by a deed of Trust against 10203 San Pablo Ave., El Cerrito, bears interest at 3.00% simple per annum, and is due and payable in July 2054. Commencing December 2009, and annually thereafter, the loan will be repaid to the extent that the project generates residual receipts, as defined in the loan agreement, determined on an annual basis.	470,000
Note payable to First Republic Bank for a 10 year business loan, secured by a deed of trust on 171 – 22 nd Street, monthly payments of \$5,190, including interest at 6.30%, with a final payment of \$290,000 due on February 2018.	410,646
Note payable to El Cerrito Redevelopment Agency in the amount of \$350,000, secured by a deed of Trust against 10203 San Pablo Ave., El Cerrito, bears interest at 3.00% simple interest per annum, due July 2054.	350,000
Note payable to Citibank for a property loan in the amount of \$487,500, secured by a deed of Trust against 10203 San Pablo Ave., bears interest of 8.25%, monthly payments of principal and interest of \$3,662 commencing on August 1997, due on June 2027.	344,922

continued

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Notes Payable, continued

Note payable to Bank of America for a 23 year property loan, secured by a deed of Trust on 2500 Bissell Avenue, monthly payments of \$5,497, including interest at 8.62%, due June 2020. 310,307

Note payable to the County of Contra Costa (HOPWA) in the amount of \$255,000. The loan is secured by a deed of Trust against 10203 San Pablo Ave., El Cerrito, bears interest at 3.00% simple per annum, and is due and payable in July 2054. Commencing December 2009, and annually thereafter, the loan will be repaid to the extent that the project generates residual receipts, as defined in the loan agreement, determined on an annual basis. 255,000

Note payable to Bank of America Community Development Bank, Affordable Housing Program, through the Federal Home Loan Bank of San Francisco for a property loan in the amount of \$230,608, secured by a deed of Trust against 10203 San Pablo Ave., El Cerrito, is non-interest bearing and is due and payable in June 2014. 230,528

Note payable to the State of California for a 30 year housing loan, secured by a deed of trust on 909 Virginia Street, bearing a 3.00% simple interest, principal and interest due in full in October 2011, extendable. Management is currently in process of renegotiating the terms of the agreement. No principal payment has been made as of June 30, 2014 as part of the renegotiation process. 185,107

Note payable to Contra Costa County for rehabilitation in the amount of \$145,000, secured by a deed of Trust against 2555 Church Lane, San Pablo, bears 4.00% simple interest per annum, and is due and payable in December 2051. 145,000

Note payable to First Republic Bank for a 7 year loan to purchase the finance system, secured by all property assets, monthly payments of \$3,522, including interest at 6.00%, due March 2018. 140,725

continued

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Notes Payable, continued

Note payable to Wells Fargo Bank for a 15 year loan to purchase the property at 101 Broadway, secured by real property, monthly payments of \$2,330, including interest at 6.95%, due August 2020. 139,719

Promissory note for an 18 year loan issued to the City of Richmond, for the rehabilitation of the building at 171 – 22nd Street, non-interest bearing, due May 2012, extendable. Management is currently in process of renegotiating the terms of agreement. No principal payment has been made as of June 30, 2014 as part of the renegotiation process. 129,528

Note payable in the amount of \$105,000 to Contra Costa County without interest, secured by a deed of Trust against 2555 Church Lane, San Pablo, due and payable in December 2051. 105,000

Note payable to Contra Costa County (HOPWA) in the amount of \$102,000, secured by a deed of Trust against 10203 San Pablo Ave., El Cerrito, non-interest bearing, and is due and payable in July 2054. Should an event of default occur, as defined in the loan agreement, interest will accrue at 10.00% compounded annually from the date of the default. 102,000

Promissory note issued to Contra Costa County for a 51 year loan, secured by a deed of trust on the 2555 Church Lane building, bearing a 4.00% simple interest, due June 2050. 100,000

Promissory note issued to the City of Richmond for 20 years to acquire 534 Ohio Avenue, secured by a deed of trust on property, non-interest bearing, due May 2012, extendable. Management is currently in process of renegotiating the terms of agreement. No principal payment has been made as of June 30, 2014 as part of the renegotiation process. 80,000

Promissory note issued to the City of Richmond, no loan terms specified in the loan agreement. Management is currently in process of renegotiating the terms of the agreement. No principal payment has been made as of June 30, 2014 as part of the renegotiation process. 67,574

continued

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Notes Payable, continued

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 against the housing units on Treasure Island 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

Note payable to Contra Costa County in the amount of \$50,000, secured by deed of Trust against 10203 San Pablo Ave., El Cerrito, bears 4.00% simple interest per annum, and is due June 2052.

50,000

Note payable to Catholic Healthcare for a 5 year loan, secured by deed of trust on the Bissell Avenue property, monthly payments of \$4,640, including interest at 6.00%, due July 2015.

49,540

Forgivable loans:

Promissory note issued to Contra Costa County for 20 years, to renovate Virginia housing units, secured by a deed of trust against 909 Virginia Street, non-interest bearing, due March 2028, forgiven upon maturity.

564,332

Note payable to Contra Costa County for a rehabilitation loan in the amount of \$340,000, secured by a deed of Trust against 2555 Church Lane, San Pablo, bears 4.00% simple interest per annum, and is due and payable in December 2051. The interest may be forgiven if the property is acquired by Rubicon at a time and in the amount stipulated by the County.

340,000

Promissory note issued to the City of Richmond for a 25 year loan to purchase and rehabilitate the building at 101 Broadway, non-interest bearing, due March 2023, forgivable upon maturity.

255,000

continued

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Notes Payable, continued

Promissory note issued to Contra Costa County for 30 years, development loan for the Ohio Avenue building, secured by a deed of trust on the property, bearing a 3.00% simple interest, due May 2044. The maturity date extended to an additional twenty years, forgiven at the expiration of the extended term. 80,000

Promissory note issued to the City of Richmond for 25 years for improvements to 534 Ohio Avenue and 22nd Street properties, secured by a deed of trust on the Ohio and 22nd Street properties, bearing a 3.00% simple interest, principal and interest due February 2031, forgiven upon maturity. 42,200

Promissory note issued to the City of Richmond for a 25 year loan for capital improvements to the Bissell and Broadway properties, secured by the Broadway property, bearing a 3.00% simple interest, due February 2031, forgiven upon maturity. 42,000

Note payable to City of Richmond for 25 year loan for improvements on the Bissell property, secured by a deed of trust on the Bissell property, non-interest bearing, due June 2035, forgiven upon maturity. 14,931
\$5,786,240

As of June 30, 2014, total accrued interest related to some of the above notes payable was \$865,933 (see Note 9).

Maturities for notes payable are as follows:

<u>Year ended June 30,</u>	
2015	\$ 632,068
2016	304,486
2017	316,100
2018	562,074
2019	236,258
Thereafter	<u>3,735,254</u>
	<u>\$5,786,240</u>

continued

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

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>	
2015	\$165,230
2016	64,146
2017	58,332
2018	33,010
2019	<u>3,034</u>
	<u>\$323,752</u>

Rent expense under operating leases for the year ended June 30, 2014 was \$309,440.

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. 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, 2014, revenues from two landscape customers were approximately 31% of total landscape and maintenance contracts. At June 30, 2014, revenues from these two clients totaled \$1,462,512.

continued

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2014 consist of the following:

Economic empowerment program	\$244,904
Self-sufficiency initiative	99,624
Legal	45,274
Landscape	27,333
Development	<u>17,103</u>
	<u>\$434,238</u>

For the year ended June 30, 2014, the Organization received restricted contributions in the amount of \$745,844, and released net assets of \$991,295 of which \$828,295 from purpose restrictions and \$163,000 from time restriction.

18. Related Party Transactions

RVI project employees are reported to taxing authorities under the managing agent's EIN. For the year ended June 30, 2014, 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, 2014, REI was paid a total of \$18,076.

19. Summary of Financial Information of Investee

Organizations (HUD Project)

The following is a summary of the financial information of the HUD project as of June 30, 2014:

Total assets	<u>\$ 590,518</u>
Total liabilities	<u>\$ 891,988</u>
Net assets (deficit)	<u>\$(301,470)</u>
Change in net assets	<u>\$ 28,647</u>

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. Transfer of Net Assets from Affiliates

On February 1, 2014 Rubicon was admitted as the limited partner of Idaho Apartments Associates (“IAA”) obtaining the 99.99% interest of the partnership. For this reason, Rubicon is required to record the assets and assume the liabilities of the partnership as of that date. No consideration was given as part of this admission.

The following net assets, at February 1, 2014, were transferred to Rubicon:

Cash and cash equivalents	\$ 71,105
Accounts receivable	18,054
Deposits and other assets	220,264
Property and equipment	2,552,035
Account payable	(16,576)
Accrued liabilities	(457,673)
Payable to affiliate	(253,190)
Notes payable	<u>(1,407,528)</u>
Net assets transferred from IAA	<u>\$ 726,491</u>

On February 1, 2014 Rubicon was admitted as the limited partner of Church Lane–Rubicon Partners (“CLRP”) obtaining the 99% interest of the partnership. For this reason, Rubicon is required to record the assets and assume the liabilities of the partnership as of that date. No consideration was given as part of this admission.

The following net assets, at February 1, 2014, were transferred to Rubicon:

Cash and cash equivalents	\$ 8,932
Accounts receivable	7,920
Deposits and other assets	71,295
Property and equipment	1,820,780
Account payable	(51,565)
Accrued liabilities	(244,117)
Payable to affiliate	(408,539)
Notes payable	<u>(1,084,922)</u>
Net assets transferred from CLRP	<u>\$ 119,784</u>

21. Subsequent Events

As of July 1, 2014, all interests in the property known as RVI were transferred to the Community Housing Partnership of San Francisco.

Effective November 1, 2014, Rubicon transferred all its interests in the partnerships known as CLRP and IAA to the Resources for Community Development of Berkeley.

No adjustments related to the above transactions were recorded in the consolidated financial statements as of June 30, 2014.

SUPPLEMENTAL INFORMATION

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

RESIDUAL RECEIPTS AND DISTRIBUTION OF RESIDUAL RECEIPTS

RUBICON VILLAGES, INC.

For the year ended June 30, 2014

Residual receipts

Cash and cash equivalents:

Operations	\$ 634,138
Tenant security deposits	<u>14,160</u>
	<u>648,298</u>

Current obligations:

Accounts payable	28,823
Accrued expenses	48,635
Prepaid rents	544
Tenant security deposits	<u>14,160</u>
	<u>92,162</u>

Total residual receipts	<u><u>\$ 556,136</u></u>
--------------------------------	---------------------------------

See independent auditors' report.