Harrington Group
Certified Public Accountants, LLP

RUBICON PROGRAMS INCORPORATED
AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

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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, 2016, 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, 2016, 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, 2016, the equity in Rubicon Homes, Inc. was a deficit of ($112,522) and the change in net assets was $12,679 for the year then ended. The financial statements of Rubicon Homes, Inc. were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Rubicon Homes, 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, 2016; and in our report dated October 19, 2016 we expressed an unmodified 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.

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, 2016, 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 Matter

Summarized Comparative Information

We have previously audited Rubicon Programs Incorporated and Affiliates' 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated September 22, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Harrington Group

San Francisco, California
November 16, 2016

RUBICON PROGRAMS INCORPORATED AND AFFILIATES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2016
With comparative totals at June 30, 2015

	Unrestricted	Temporarily Restricted	**2016**	2015
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Note 2)	$ 780,110	$ 477,708	**$ 1,257,818**	$ 1,015,282
Accounts receivable - net of allowance of $7,387 (Note 3)	3,272,708		**3,272,708**	2,921,612
Pledges receivable (Note 4)		322,000	**322,000**	253,400
Note and interest receivable (Note 5)	76,405		**76,405**	275,925
Receivable from other related parties	138,443		**138,443**	335,735
Prepaid expenses	247,455		**247,455**	166,534
Deposits and other assets	10,792		**10,792**	10,792
TOTAL CURRENT ASSETS	4,525,913	799,708	**5,325,621**	4,979,280
NON-CURRENT ASSETS				
Property and equipment (Note 7)	4,023,881		**4,023,881**	4,172,665
TOTAL NON-CURRENT ASSETS	4,023,881	-	**4,023,881**	4,172,665
TOTAL ASSETS	$ 8,549,794	$ 799,708	**$ 9,349,502**	$ 9,151,945
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	$ 733,975	$ -	**$ 733,975**	$ 718,179
Accrued liabilities (Note 8)	1,336,552		**1,336,552**	1,388,003
Line of credit (Note 9)			**-**	257,000
Funds held in trust (Note 10)	17,642		**17,642**	222,543
Capital lease obligation - current portion (Note 11)	130,189		**130,189**	59,309
Notes payable - current portion (Note 13)	310,224		**310,224**	280,881
Deficit in partnerships and HUD project (Note 12)	112,522		**112,522**	125,201
TOTAL CURRENT LIABILITIES	2,641,104	-	**2,641,104**	3,051,116
NON-CURRENT LIABILITIES				
Capital lease obligation (Note 11)	183,875		**183,875**	80,676
Notes payable (Note 13)	2,227,456		**2,227,456**	2,901,022
TOTAL NON-CURRENT LIABILITIES	2,411,331	-	**2,411,331**	2,981,698
TOTAL LIABILITIES	5,052,435	-	**5,052,435**	6,032,814
NET ASSETS				
Unrestricted	2,037,321		**2,037,321**	2,500,035
Unrestricted-Board designated (Note 2)	1,460,038		**1,460,038**	254,459
Temporarily restricted (Note 16)		799,708	**799,708**	364,637
TOTAL NET ASSETS	3,497,359	799,708	**4,297,067**	3,119,131
TOTAL LIABILITIES AND NET ASSETS	$ 8,549,794	$ 799,708	**$ 9,349,502**	$ 9,151,945

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, 2016
With comparative totals for the year ended June 30, 2015

	Unrestricted	Temporarily Restricted	2016	2015
REVENUE AND SUPPORT				
Program service contracts and grants	$ 9,839,162	$ -	**$ 9,839,162**	$ 10,401,286
Landscape services	6,164,527		**6,164,527**	5,005,686
Contributions and grants	1,478,018	964,856	**2,442,874**	1,993,906
Other income	492,734		**492,734**	611,925
Legal Services Center	318,844		**318,844**	674,141
Housing other income	258,010		**258,010**	324,455
Income from HUD Project	12,679		**12,679**	51,974
In-kind contributions (Note 2)			**-**	12,600
Net assets released from restrictions (Note 16)	529,785	(529,785)	**-**	-
TOTAL REVENUE AND SUPPORT	19,093,759	435,071	**19,528,830**	19,075,973
EXPENSES				
Program services:				
Supporting services and training programs	10,585,844		**10,585,844**	11,557,663
Housing programs	302,135		**302,135**	636,341
Social enterprises	6,102,739		**6,102,739**	4,606,161
Supportive services:				
Management and general	791,030		**791,030**	942,256
Fundraising	569,146		**569,146**	578,358
TOTAL EXPENSES	18,350,894	-	**18,350,894**	18,320,779
CHANGE IN NET ASSETS	742,865	435,071	**1,177,936**	755,194
NET ASSETS, BEGINNING OF YEAR	2,754,494	364,637	**3,119,131**	6,063,051
TRANSFER OF NET ASSETS			**-**	(3,699,114)
NET ASSETS, END OF YEAR	$ 3,497,359	$ 799,708	**$ 4,297,067**	$ 3,119,131

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, 2016
With comparative totals for the year ended June 30, 2015

	Mental Health & Wellness	Economic Empowerment	Legal Services Center	Housing Management	Landscape Services	Management and General	Fundraising	Total Expenses 2016	Total Expenses 2015
Personnel Costs:									
Salaries	$ 939,583	$ 3,987,008	$ 381,076	$ 7,612	$ 2,609,515	$ 1,869,922	$ 294,455	**$ 10,089,171**	$ 10,162,442
Employee benefits and payroll taxes	193,279	881,194	64,863	2,678	944,425	324,875	46,370	**2,457,684**	2,437,440
Total personnel costs	1,132,862	4,868,202	445,939	10,290	3,553,940	2,194,797	340,825	**12,546,855**	12,599,882
Operating Expenses:									
Occupancy	118,253	573,493	24,473		180,766	164,077	13,884	**1,074,946**	1,087,773
Consultants and professional services	23,303	719,518	1,350	7,365	73,488	197,336	26,574	**1,048,934**	1,214,205
Landscape operations					913,178			**913,178**	478,777
Office expenses	100,978	233,769	19,580	694	93,380	327,278	22,925	**798,604**	1,174,522
Transportation and travel	36,983	79,139	3,746		348,316	16,694	92	**484,970**	425,688
Depreciation	28,557	111,980	10,121	58,441	118,345	61,153	1,923	**390,520**	372,613
Program and participant support	28,768	277,438				426		**306,632**	297,521
Other staff costs	17,788	116,704			27,456	73,725	1,760	**237,433**	175,135
Housing operations				221,442				**221,442**	206,766
Events and marketing	1,570	10,036	4,802		29,641	53,647	73,435	**173,131**	215,406
Bad debt (Note 5)						100,000		**100,000**	-
Miscellaneous non-operating				1,670	1,618	50,961		**54,249**	59,891
In-kind expenses								**-**	12,600
Total operating expenses	356,200	2,122,077	64,072	289,612	1,786,188	1,045,297	140,593	**5,804,039**	5,720,897
Indirect expenses	292,537	1,180,664	123,291	2,233	762,611	(2,449,064)	87,728	**-**	-
TOTAL 2016 FUNCTIONAL EXPENSES	**$ 1,781,599**	**$ 8,170,943**	**$ 633,302**	**$ 302,135**	**$ 6,102,739**	**$ 791,030**	**$ 569,146**	**$ 18,350,894**	
TOTAL 2015 FUNCTIONAL EXPENSES	$ 2,534,322	$ 7,868,851	$ 1,154,490	$ 636,341	$ 4,606,161	$ 942,256	$ 578,358		$ 18,320,779

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, 2016
With comparative totals for the year ended June 30, 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 1,177,936	$ 755,194
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Cash impact of transfer of assets	-	(942,975)
Depreciation and amortization	390,520	372,613
Forgiveness of debt (Note 13)	(229,500)	-
Receivables forgiven (Note 5)	185,335	-
(Gain) on sale of fixed assets (Note 7)	(21,071)	-
(Gain) from investment in partnerships and HUD project	(12,679)	(51,974)
Change in allowance for doubtful accounts	(3,704)	(55,762)
(Increase) decrease in operating assets:		
Accounts receivable	(347,392)	(603,827)
Pledges receivable	(68,600)	56,100
Receivable from other related parties	197,292	(335,735)
Prepaid expenses	(80,921)	83,290
Deposits and other assets	-	1,066,588
Increase (decrease) in operating liabilities:		
Accounts payable	15,796	153,957
Accrued liabilities	(51,451)	(795,387)
Funds held in trust	(204,901)	(23,769)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	946,660	(321,687)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from notes receivable	(4,000)	(4,000)
Payments on notes receivables	18,185	23,208
Proceeds from sale of real property (Note 7)	279,422	-
Purchase of property and equipment	(601,808)	(333,616)
NET CASH (USED) BY INVESTING ACTIVITIES	(308,201)	(314,408)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on line of credit	(7,660,990)	(7,627,841)
Proceeds from borrowings on line of credit	7,403,990	7,669,000
Payments on capital lease obligations	(64,978)	(48,586)
Proceeds from borrowings on notes payable	198,745	156,045
Payments on notes payable	(272,690)	(307,212)
NET CASH (USED) BY FINANCING ACTIVITIES	(395,923)	(158,594)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	242,536	(794,689)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,015,282	1,809,971
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,257,818	$ 1,015,282
SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest	$ 72,466	$ 155,588
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Acquisition of vehicles with capital lease	$ 239,056	$ 48,719

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

1. Organization

A nationally recognized nonprofit, Rubicon Programs Incorporated ("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.

The Board of Directors of Rubicon appoints members to the Board of Directors or has Board representation on the following nonprofit corporations: Rubicon Enterprises, Inc. ("REI") and Rubicon Homes, Inc. ("RHI").

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.

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.

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.

continued

2. Summary of Significant Accounting Policies, continued

Principles of Consolidation

The consolidated financial statements include the accounts of Rubicon and its commonly controlled not-for-profit entities REI and RHI (collectively referred to as "the Organization").

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

The HUD project with RHI, over which the Organization exercises significant influence, is included in the consolidated financial statements using the equity method of accounting (see Note 17).

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.

Unrestricted–Board designated. These are comprised of resources that the Board of Directors has established as being designated for particular purposes. For purposes of complying with net asset accounting, this fund is included in unrestricted net assets at June 30, 2016, with a balance of $1,460,038.

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 $799,708 of temporarily restricted net assets at June 30, 2016.

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, 2016.

continued

2. Summary of Significant Accounting Policies, continued

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 these financial statement elements are described in the notes below that relate to each element.

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.

continued

2. Summary of Significant Accounting Policies, continued

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, 2016, the Organization did not receive donated materials and/or service which met the criteria for recognition.

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.

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 17) 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.

continued

2. Summary of Significant Accounting Policies, continued

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, 2015, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through November 16, 2016, the date which the consolidated financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure in the consolidated financial statements.

3. Accounts Receivable

Accounts receivable at June 30, 2016 consist of the following:

Reimbursement for contract services and grants	$2,292,177
Landscape services	898,962
Other	88,956
	3,280,095
Less: allowance for doubtful accounts	(7,387)
	$3,272,708

Management has determined that these receivables are currently collectible within 60 days.

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, 2016. Pledges receivable at June 30, 2016 of $322,000 are expected to be collected as follows:

Year ended June 30,	
2017	$247,000
2018	75,000
	$322,000

The discount on pledges receivable at June 30, 2016 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, 2016 is $76,405.

During the year ended June 30, 2016, Rubicon forgave a note receivable and accrued interest from Church Lane-Rubicon Partners, a related party. Total amount forgiven was $185,335, which represented the principal of $100,000 and accrued interest of $85,335.

6. Fair Value Measurements

The table below presents transactions measured at fair value on a non-recurring basis during the year ended June 30, 2016:

	Level 1	Level 2	Level 3	Total
Pledges – current year	$ -	$ -	$322,000	**$322,000**

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).

7. Property and Equipment

Property and equipment at June 30, 2016 consist of the following:

Leasehold improvements	$ 3,453,783
Furniture and equipment	1,411,923
Buildings	1,111,199
Vehicles	703,149
Land	443,460
Work in progress	94,694
	7,218,208
Less: accumulated depreciation	(3,194,327)
	$ 4,023,881

Sale of Property

During the year ended June 30, 2016, Rubicon entered into a real estate transaction and sold the property located at 171 22nd Street, Richmond, California for $620,200. Following the settlement of related debt, net proceeds from the sale was $279,422. The total gain on the sale of the property was $21,071, this amount is included in the statement of activities as housing other income.

8. Accrued Liabilities

Accrued liabilities at June 30, 2016 consist of the following:

Accrued vacation	$ 497,393
Accrued salaries and payroll taxes	374,596
Accrued interest (see Note 13)	257,125
Other accrued liabilities	207,438
	$1,336,552

9. Line of Credit

The Organization has a revolving line of credit with a bank, in the amount of $2,000,000, with interest at 0.80% over the index, maturing April 30, 2017. There was no outstanding balance at June 30, 2016.

10. 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, 2016 was $12,770.

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, 2016 was $4,872.

11. 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:

Year ended June 30,	
2017	$ 130,189
2018	118,100
2019	70,880
2020	46,924
Total minimum lease payments	366,093
Less: portion representing interest	(52,029)
	314,064
Less: current portion	(130,189)
	$ 183,875

The cost of vehicles under capital leases at June 30, 2016 consists of the following:

Vehicles	$ 437,843
Less: accumulated depreciation	(123,870)
	$ 313,973

12. Equity (Deficit) in Partnerships and HUD Project

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

	Percentage of Interest	Equity (Deficit)
Rubicon Homes, Inc. (a HUD project)	-	($112,522)

The financial interests in this entity is accounted for under the equity method.

13. Notes Payable

Notes payable at June 30, 2016 consist of the following:

Note payable to Non-profit Finance Fund for a 7 year loan to renovate and replace roof at the 101 Broadway 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.	$ 498,050
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.	225,838

continued

13. Notes Payable, continued

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, 2016 as part of the renegotiation process.	185,107
Note payable to Source America for a 5 year loan, unsecured, quarterly payments of $8,082 including interest at 1.625%, due May 2021.	161,630
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.	100,694
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, 2016 as part of the renegotiation process.	80,000
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.	69,268
Note payable to Source America for a 5 year loan, unsecured, monthly payments of $5,011 including interest at 1.625%, due January 2020.	75,163
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, 2016 as part of the renegotiation process.	67,574
Note payable to Source America for a 5 year loan, unsecured, monthly payments of $2,791 including interest at 1.625%, due January 2020.	41,871

continued

13. Notes Payable, continued

Note payable to De Lage Landen Financial Services for 2 year loan, unsecured, monthly payments of \$1,546.47 including interest at 0%, due March 2018.	34,022
Forgivable loans:	
Promissory note issued to Contra Costa County for 20 years, to renovate the Virginia housing units, secured by a deed of trust against 909 Virginia Street, non-interest bearing, due March 2028, forgiven upon maturity.	564,332
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
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 property, 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
	\$2,537,680
Less: current portion	(310,224)
	\$2,227,456

continued

13. Notes Payable, continued

The following is the summary of the notes payable

Rubicon - conventional	$1,206,536
Housing notes – forgivable	861,332
Housing notes – extendable	412,681
Rubicon – forgivable	57,131
	$2,537,680

As of June 30, 2016, total accrued interest related to some of the notes payable was (see Note 8).	$257,125

Maturities for notes payable are as follows:

Year ended June 30,	
2017	$ 310,224
2018	310,536
2019	280,569
2020	265,059
2021	40,148
Thereafter	1,331,144
	$2,537,680

During the year ended June 30, 2016, a non-interest promissory note to the City of Richmond for the rehabilitation of the building located at 22nd street was forgiven. Total amount forgiven was $129,500. Additionally, a promissory note issued to Contra Costa County in the amount of $100,000 was also forgiven. The total amount recorded as forgiveness of a debt was $229,500 which included in the statement of activities as housing other income.

14. Commitments and Contingencies

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:

Year ended June 30,	
2017	$ 390,912
2018	267,448
2019	258,286
2020	161,114
2021	92,077
	$1,169,837

Rent expense under operating leases for the year ended June 30, 2016 was $354,608.

14. Commitments and Contingencies, continued

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.

15. 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.

Approximately 50% of revenue generated by the Organization at June 30, 2016 was derived from government grants and contracts.

At June 30, 2016, revenues from one landscape customer was approximately 77% of total landscape and maintenance contracts. At June 30, 2016, revenues from this client totaled $2,013,069.

16. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2016 consist of the following:

Economic Empowerment program	$554,151
Executive	153,224
Organizational Impact	50,000
Landscape	27,333
Other	15,000
	$799,708

For the year ended June 30, 2016, the Organization received restricted contributions in the amount of $964,856 and released net assets of $529,785, of which $159,878 from purpose restrictions and $369,907 from time restriction.

continued

17. Summary of Financial Information of Investee

Organization (HUD Project)

The following is a summary of the financial information of the HUD project as of June 30, 2016:

Total assets	$ 550,591
Total liabilities	$ 787,408
Net assets (deficit)	$(236,817)
Change in net assets	$ 12,679

18. Discontinued Operations

In the fiscal year 2015, Rubicon undertook a thoughtful, comprehensive process to determine how it can achieve the greatest social impact. This strategic plan was approved by the Board of Directors in February 2015. Rubicon began to implement this strategic plan in the fiscal year 2016. In line with the implementation of the plan, Rubicon has divested of certain contracts by electing not to renew them. Additionally, during its meeting of August 2015, the Board approved staff's recommendation to discontinue the Legal Services' Social Security Advocacy Program. The recommendation was based on the program's financial performance, along with the program not fitting within Rubicon's mission and external factors which have significantly changed the landscape of the Social Security disability law practice.