



**CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

**HABITAT FOR HUMANITY OF
GREATER SACRAMENTO, INC.**

June 30, 2018 and 2017

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors Habitat for Humanity of Greater Sacramento, Inc.

We have audited the accompanying consolidated financial statements of Habitat for Humanity of Greater Sacramento, Inc. (Habitat) (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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 auditor's 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 auditor considers 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Greater Sacramento, Inc. as of June 30, 2018 and 2017, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.


Sacramento, California
December 19, 2018

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

	2018	2017
ASSETS		
<i>Current assets</i>		
Cash and cash equivalents	\$ 1,346,283	\$ 498,684
Restricted cash and cash equivalents	173,265	152,580
Current portion of mortgages receivable, net	440,947	421,560
Neighborhood revitalization receivable, net	77,003	47,089
Current portion of note receivable	-	156,418
Prepaid expenses and deposits	68,281	63,782
Inventories	206,958	175,076
Homes awaiting transfer	129,232	521,835
Construction in progress	99,025	182,662
<i>Total current assets</i>	2,540,994	2,219,686
<i>Non-current assets</i>		
Deferred fees, net of amortization	62,607	83,328
Mortgages receivable, net of current portion	4,354,475	4,252,964
Cal-Home mortgages receivable, net of current portion	1,703,009	1,463,490
Land, buildings, and equipment, net of accumulated depreciation	946,652	981,913
Construction in progress	984,943	784,470
Investment in joint venture	1,590,597	2,777,597
TOTAL ASSETS	\$ 12,183,277	\$ 12,563,448
LIABILITIES AND NET ASSETS		
<i>Current liabilities</i>		
Accounts payable and accrued expenses	\$ 188,567	\$ 216,135
Impound accounts held	45,317	66,385
Current portion of deferred lease liability	16,321	10,789
Current portion of deferred revenue	60,000	470,000
Current portion of notes payable	123,250	1,523,961
<i>Total current liabilities</i>	433,455	2,287,270
<i>Non-current liabilities</i>		
Deferred lease liability, net of current portion	83,836	100,157
Deferred revenue, net of current portion	150,000	69,168
Notes payable, net of current portion	4,224,435	3,881,346
TOTAL LIABILITIES	4,891,726	6,337,941
COMMITMENTS AND CONTINGENCIES		
	-	-
NET ASSETS		
Unrestricted	4,383,942	3,920,911
Temporarily restricted	2,907,609	2,304,596
TOTAL NET ASSETS	7,291,551	6,225,507
TOTAL LIABILITIES AND NET ASSETS	\$ 12,183,277	\$ 12,563,448

The accompanying notes are an integral part of these statements.

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2018 and 2017

	June 30, 2018			June 30, 2017		
	Temporarily			Temporarily		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
SUPPORT AND REVENUE						
Homes transferred	\$ 1,255,470	\$ -	\$ 1,255,470	\$ 712,900	\$ -	\$ 712,900
Contributions	397,054	848,662	1,245,716	409,262	843,623	1,252,885
Grants	334,379	290,000	624,379	60,869	140,000	200,869
ReStore sales	1,068,517	-	1,068,517	986,748	-	986,748
Amortization of mortgage discounts	770,215	-	770,215	516,724	-	516,724
In-kind contributions	80,223	-	80,223	124,938	-	124,938
Interest income	46,799	-	46,799	78,547	-	78,547
Income from joint venture	-	-	-	35,832	-	35,832
Cancellation of debt income	200,489	-	200,489	-	-	-
Neighborhood revitalization	57,644	-	57,644	48,121	-	48,121
Other revenue	47,707	-	47,707	54,393	-	54,393
<i>Net assets released from restrictions</i>	535,649	(535,649)	-	362,310	(362,310)	-
	<u>4,794,146</u>	<u>603,013</u>	<u>5,397,159</u>	<u>3,390,644</u>	<u>621,313</u>	<u>4,011,957</u>
TOTAL SUPPORT AND REVENUE						
EXPENSES						
Program services	3,683,483	-	3,683,483	2,920,591	-	2,920,591
Management and administrative	307,464	-	307,464	257,815	-	257,815
Fundraising	340,168	-	340,168	515,304	-	515,304
	<u>4,331,115</u>	<u>-</u>	<u>4,331,115</u>	<u>3,693,710</u>	<u>-</u>	<u>3,693,710</u>
TOTAL EXPENSES						
CHANGE IN NET ASSETS	463,031	603,013	1,066,044	(303,066)	621,313	318,247
NET ASSETS AT BEGINNING OF YEAR	<u>3,920,911</u>	<u>2,304,596</u>	<u>6,225,507</u>	<u>4,223,977</u>	<u>1,683,283</u>	<u>5,907,260</u>
NET ASSETS AT END OF YEAR	<u>\$ 4,383,942</u>	<u>\$ 2,907,609</u>	<u>\$ 7,291,551</u>	<u>\$ 3,920,911</u>	<u>\$ 2,304,596</u>	<u>\$ 6,225,507</u>

The accompanying notes are an integral part of these statements.

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2018 and 2017

	June 30, 2018				June 30, 2017			
	Program Services	Management and Administrative	Fund-raising	Total	Program Services	Management and Administrative	Fund-raising	Total
Cost of homes sold	\$ 1,417,597	\$ 55	\$ 472	\$ 1,418,124	\$ 943,795	\$ -	\$ -	\$ 943,795
Wages, payroll taxes and benefits	734,843	147,576	176,090	1,058,509	671,595	98,543	218,977	989,115
Mortgage discount given	746,099	-	-	746,099	503,414	-	-	503,414
Marketing	3,214	-	51,848	55,062	1,891	6,173	190,342	198,406
Rent and occupancy	113,342	22,287	37,194	172,823	156,582	17,366	10,214	184,162
Bank fees and loan interest	178,866	1,214	24	180,104	127,481	4,800	7,886	140,167
Equipment, small tools and supplies	98,604	7,827	26,322	132,753	99,578	8,820	28,229	136,627
Professional services	24,674	70,691	4,219	99,584	33,652	87,147	4,533	125,332
Forgiven mortgages	97,461	-	-	97,461	112,529	-	-	112,529
Tithes to Habitat International	89,309	-	-	89,309	83,014	-	-	83,014
New market tax credit costs	50,126	165	-	50,291	39,796	4,056	19,748	63,600
Travel and training	15,505	4,130	3,953	23,588	20,751	-	21,416	42,167
Depreciation	36,261	-	-	36,261	39,238	-	-	39,238
Utilities and phone	24,382	6,041	5,981	36,404	26,195	4,799	4,514	35,508
Affiliation Fees	3,790	29,000	7,183	39,973	32,693	-	-	32,693
Insurance	12,574	4,191	4,191	20,956	-	18,945	-	18,945
Repairs and maintenance	23,920	11,722	2,858	38,500	11,013	2,282	1,850	15,145
Printing	8,593	1,811	18,477	28,881	4,728	3,160	4,726	12,614
Postage and freight	3,440	347	1,273	5,060	432	1,179	1,037	2,648
Board travel and meetings	463	407	83	953	217	544	1,232	1,993
Miscellaneous	420	-	-	420	11,997	1	600	12,598
	<u>\$ 3,683,483</u>	<u>\$ 307,464</u>	<u>\$ 340,168</u>	<u>\$ 4,331,115</u>	<u>\$ 2,920,591</u>	<u>\$ 257,815</u>	<u>\$ 515,304</u>	<u>\$ 3,693,710</u>

The accompanying notes are an integral part of these statements.

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,066,044	\$ 318,247
<i>Adjustments to reconcile the change in net assets to net cash provided by (used in) operating activities:</i>		
Depreciation	36,261	39,238
Amortization of deferred fees	20,721	10,901
Provision for bad debt expense	(51,171)	14,310
Sale of homes recognized through issuance of mortgage notes	(1,126,539)	(849,989)
Amortization of mortgage loan discount	(770,215)	(518,297)
Mortgage discount given	601,335	516,796
Discount to present value of Cal-Home mortgages	242,224	94,193
Gain on debt forgiveness	(200,489)	-
Loss on repurchase of mortgages receivable	21,534	-
Investment in joint venture (income)	(24,828)	(82,389)
<i>Change in operating assets and liabilities</i>		
Pledges receivable, net	-	22,587
Neighborhood revitalization receivable	(29,914)	(35,847)
Notes receivable	156,418	3,313
Prepaid expenses and deposits	(4,499)	38,727
Inventories	(31,882)	(61,613)
Homes awaiting transfer	521,835	(521,835)
Construction in progress	(22,882)	141,386
Accounts payable and accrued expenses	(27,568)	(5,400)
Impound accounts held	(21,068)	(1,573)
Deferred revenue and deferred lease liability	(339,957)	379,776
	<u>15,360</u>	<u>(497,469)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments received on mortgage notes receivable	499,229	396,789
Proceeds from sale of equipment	-	22,200
Cash paid for leasehold improvements and equipment	(1,000)	(2,895)
	<u>498,229</u>	<u>416,094</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES		

The accompanying notes are an integral part of these statements.

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	-	(12,500)
Proceeds from grants payable	7,196	-
Payments on grants payable	(42,195)	(218,712)
Proceeds for zero equivalent mortgage notes payable	471,392	194,604
Payments on zero equivalent mortgage notes payable	(37,393)	(31,820)
Principal payments on mortgage securitization loan payable	<u>(44,305)</u>	<u>(43,083)</u>
NET CASH PROVIDED BY (USED IN)		
FINANCING ACTIVITIES	<u>354,695</u>	<u>(111,511)</u>
NET CHANGE IN CASH	868,284	(192,886)
CASH AT BEGINNING OF YEAR	<u>651,264</u>	<u>844,150</u>
CASH AT END OF YEAR	<u>\$ 1,519,548</u>	<u>\$ 651,264</u>
Cash and cash equivalents - unrestricted	\$ 1,346,283	\$ 498,684
Cash and cash equivalents - temporarily restricted	<u>173,265</u>	<u>152,580</u>
	<u>\$ 1,519,548</u>	<u>\$ 651,264</u>
<u>SUPPLEMENTAL INFORMATION:</u>		
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>
Cash paid for interest	<u>\$ 79,445</u>	<u>\$ 102,845</u>
Noncash investing and financing transactions:		
Sale of partnership interest related to put option exercised	<u>\$ 1,211,828</u>	<u>\$ -</u>
Extinguishment of debt related to put option exercised	<u>\$ (1,412,317)</u>	<u>\$ -</u>
First mortgage amendment related to issuance of Cal-Home note	<u>\$ 50,000</u>	<u>\$ -</u>
Transfer of mortgage receivable to homes awaiting transfer due to mortgage being reacquired	<u>\$ 129,232</u>	<u>\$ -</u>
Transfer of mortgage receivable to CIP due to mortgage being reacquired	<u>\$ 93,954</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - ORGANIZATION

Habitat for Humanity of Greater Sacramento, Inc., formerly Sacramento Habitat for Humanity, Inc., (“Habitat”) (a nonprofit corporation) was incorporated on September 11, 1985. Habitat is an affiliate of Habitat for Humanity International, Inc. (“Habitat International”), a non-denominational, Christian, nonprofit organization whose purpose is to create decent, affordable housing for those in need, and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists with resources such as information, training, publications, and prayer support, Habitat is primarily and directly responsible for its own operations which are located in Sacramento and Yolo counties. Habitat receives the majority of its funding through grants and cash and noncash contributions.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America. Habitat reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. At June 30, 2018 and 2017, Habitat had no permanently restricted net assets. The accompanying consolidated financial statements reflect the consolidation of Habitat and its wholly-owned subsidiary, SHFH Funding Company, LLC (see note K).

Cash and Cash Equivalents: Habitat considers all highly liquid investments available for current use with a maturity of three months or less at the time of purchase to be cash equivalents.

Restricted Cash and Cash Equivalents: Restricted cash consists of the following at June 30:

	2018	2017
New Market Tax Credit program (see Note J)	\$ 63,801	\$ 102,807
SHFH Funding Company, LLC (see Note K)	8,728	18,758
Impound account	92,327	28,137
Joint account with SMUD	2,803	2,878
Rock-the-block project	5,606	-
	\$ 173,265	\$ 152,580

Land, Buildings, and Equipment: Land, buildings, and equipment are recorded at acquisition cost or at estimated fair market value as of date of donation. Depreciation expense is provided on a straight-line basis over the estimated useful life of the respective asset, ranging from three to twenty-five years. Maintenance and repairs are charged to expense as incurred. Renewals and betterments over \$500, which extend useful lives of assets, are capitalized.

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

Construction in Progress: The costs associated with the construction of a home, including direct labor, are recognized as construction in progress (CIP). Total payroll costs capitalized during the years ended June 30, 2018 and 2017 amounted to \$58,019 and \$149,621, respectively. Upon completion of a home, the home's CIP balance is reclassified to the Homes Awaiting Transfer account until such time as title transfers to the homeowners. Management reviews CIP for impairment, based primarily on the expected sales price of each home, whenever circumstances arise which could impact Habitat's ability to recover its costs. Management believes that no such impairments have occurred at June 30, 2018 and 2017.

Fair Value: Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between marketplace participants. Various valuation approaches can be used to determine fair value, each requiring different valuation inputs. The following hierarchy classifies the inputs used to determine fair value into three levels:

- Level 1 – quoted prices in active markets for identical assets or liabilities
- Level 2 – inputs, other than quoted prices, observable by a marketplace participant either directly or indirectly; and
- Level 3 – unobservable inputs significant to the fair value measurement.

Habitat utilizes the active market approach (level 1) to measure fair value for its monetary assets, with the exception of pledges and mortgages receivable and land value included in construction in progress, which are valued using the income approach (level 3). The carrying value of Habitat's nonmonetary assets and liabilities approximates fair value.

Pledges receivable: Habitat recognizes pledges at their estimated fair value. Fair value is determined by calculating the present value of the estimated future cash flows. The discount rate used in determining the net present value of pledges receivable is the same discount rates used to discount new mortgages received during each respective year (see Note E).

Deferred revenue: Certain grants and program funds are recognized as revenue only to the extent a specific event occurred or time has elapsed. Amounts received in advance are accounted for as deferred revenue until the revenue has been earned.

In-kind contributions: A substantial number of volunteers have made significant contributions of their time to Habitat's program and supporting services. The value of most of this donated time is not reflected in these consolidated financial statements since it is not susceptible to objective measurement, valuation, or does not require a specialized skill. Donated architectural and other professional services associated with construction are recognized if estimated values are received.

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

In-kind contributions were comprised of the following during the years ended June 30:

		<u>2018</u>		<u>2017</u>
Construction materials	\$	77,028	\$	93,670
Services		2,545		31,268
Miscellaneous		650		-
Total	\$	<u>80,223</u>	\$	<u>124,938</u>

Homes Transferred: Homes transferred represents the sale of homes during the fiscal year. Once all qualifying requirements are met, homes are transferred to the buyer at appraised value, unless grantor restrictions require different sales prices. The resulting non-interest bearing mortgages are discounted based upon annual market rates for affordable housing as determined annually by Habitat for Humanity International and amortized over the term of the mortgages.

Expense Allocation: Expenses relating to more than one function are allocated to program services, management and administrative and fundraising expenses based on employee time estimates and other appropriate usage factors.

Income Taxes: Habitat has received an exemption from income taxes under Section 501(c)(3) of the Internal Revenue Code under a group exemption letter granted to Habitat International by the Internal Revenue Service. Habitat is also exempt from taxation by the State of California under Section 23701d of the Revenue and Taxation Code.

Estimates in the Consolidated Financial Statements: The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Uncertainty in Income taxes: Habitat is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and is, therefore, subject to federal and state taxes only on nonexempt income earned. SHFH Funding Company, LLC is a California single member limited liability company and, for federal income tax purposes, it is considered a disregarded entity.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Habitat to report information regarding its exposure to various tax positions taken. Habitat has determined whether any tax positions have met the recognition threshold and have measured the exposure to those tax positions. Management believes that Habitat has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to Habitat are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying consolidated financial statements.

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

Reclassifications: Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

NOTE C - DONATED INVENTORIES/ReSTORE AND DONATED CONSTRUCTION COSTS

Habitat operates a “ReStore” which sells donated building materials. The fair value of the donated ReStore inventory is not ultimately determined until such time as the inventory is actually sold. ReStore sales in 2018 and 2017 amounted to \$1,068,517 and \$986,748, respectively. Management uses historical records and experience to estimate the value of donated ReStore inventory on hand. Construction materials donated for use in homes under construction and donated professional services are recognized at estimated fair value at time of donation.

Inventory consists of the following at June 30:

	<u>2018</u>	<u>2017</u>
ReStore inventory	\$ 135,613	\$ 145,334
Construction inventory	71,345	29,742
Total	<u>\$ 206,958</u>	<u>\$ 175,076</u>

NOTE D -RECEIVABLES

Note Receivable

During 2016, Habitat sold a commercial property that had been previously donated several years prior. The sales price of \$210,000 was partially financed by Habitat with a \$160,000 note receivable. The note had a 5% annual interest rate, required monthly payments of \$935 and matured on May 16, 2018. The note receivable was fully paid as of June 30, 2018.

Charitable Remainder Trust

During 2000, Habitat was named remainder beneficiary to an irrevocable charitable remainder unitrust. Under terms of the split interest agreement, the lead beneficiaries are to receive the lesser of the trust income or five percent of the net fair market value of the trust assets, payable annually. Additionally, each year, the lead beneficiaries are to receive any excess trust income to the extent that the aggregate amounts paid in prior years were less than the aggregate amounts computed as five percent of the net fair market value of the trust assets on the valuation dates in such prior years. Upon the death of the lead beneficiaries, or by 2020, whichever is sooner, two and a half percent of the assets in the trust will revert to Habitat without restrictions. Due to the ambiguity in estimating and discounting to present value the fair market value of assets to be contributed to Habitat in the future, a contribution has not been recognized in Habitat’s consolidated financial statements.

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE E – MORTGAGES RECEIVABLE

Habitat provides non-interest bearing mortgage loans, payable in monthly installments, to qualified low-income individuals in the greater Sacramento area. All loans are secured by real property with fair values estimated to exceed mortgage balances. Because interest is not charged, Habitat discounts each note using applicable market interest rates for the year of origination. These rates are determined by Habitat for Humanity International at the end of each fiscal year based upon low-income housing credits published by the Federal Government. Discount rates for mortgages held range from 7.39% to 8.48%.

New mortgages received during the years ended June 30, 2018 and 2017 were discounted at 7.48%.

Mortgages are issued based upon the value of the home and the buyer's qualifications. These may include a "silent second" mortgage or a forgiveness portion, which represents the difference between total construction costs and the sales price of the property. Sales price is determined by appraisal unless grantors impose other restrictions.

The silent second mortgages or forgiveness portions are forgiven at a rate of 5% of the original amount at the end of each anniversary date if all first mortgage payments have been received timely during the prior year. This is used as an incentive for the buyer to remain in the home for a specified period of time and to keep current on mortgage payments. Habitat usually charges 5% interest or \$20, whichever is greater, on past due payments.

In 2018, discounts recorded for first and second mortgages granted during the year amounted to \$503,874 and accretion of discounts amounted to \$578,472. In 2017, discounts recorded for first and second mortgages granted during the year amounted to \$410,793 and accretion of discounts amounted to \$318,786.

All mortgages are secured by the property and management has estimated an allowance for bad debts based upon overall collection issues. The write-off of receivables is rare and occurs at management's discretion after all collection efforts have failed. Mortgages receivable consist of the following at June 30:

	2018	2017
First mortgages (including homeowner receivables)	\$ 9,042,839	\$ 9,103,048
Less: unamortized discount	(4,795,035)	(4,877,911)
Less: allowance for uncollectible amounts	(84,920)	(136,091)
	4,162,884	4,089,046
 Second mortgages receivable	 992,747	 963,779
Less: unamortized discount	(360,209)	(378,301)
	632,538	585,478
	\$ 4,795,422	\$ 4,674,524

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE E – MORTGAGES RECEIVABLE - Continued

Cal-Home Mortgage Assistance Program: During the fiscal year ended June 30, 2006, Habitat began use of the State of California, Department of Housing and Community Development, Cal-Home Mortgage Assistance Program. This program provides qualified first-time homebuyers with mortgage assistance funding. The notes are non-interest bearing, require no monthly payments and are due-in-full thirty years from the date of the note. The Cal-Home notes require immediate repayment under certain circumstances, and, if a home is subsequently sold, funds from the payoff are restricted for future first-time qualified homebuyers (Cal-Home ReUse funds).

At June 30, 2018 and 2017, Habitat had \$3,816,566 and \$3,745,700 of Cal-Home mortgage receivables, respectively. Of this amount, \$219,134 and \$118,486 was restricted for Cal-Home ReUse funds for years ended June 30, 2018 and 2017, respectively.

Cal-Home mortgages receivable consist of the following at June 30:

		<u>2018</u>		<u>2017</u>
Cal-Home mortgage receivable	\$	4,035,700	\$	3,745,700
Less: unamortized discount		(2,332,691)		(2,282,210)
	\$	<u>1,703,009</u>	\$	<u>1,463,490</u>

Habitat discounts the Cal-Home mortgage notes to present value based on an estimated expected repayment term of 20 years. The discount rates range from 7.39% to 8.48% as of June 30, 2018 and 2017. In 2018, discounts recorded for Cal-Home mortgages granted during the year amounted to \$242,224 and accretion of discounts amounted to \$191,743. In 2017, discounts recorded for Cal-Home mortgages granted during the year amounted to \$94,193 and accretion of discounts amounted to \$87,318.

NOTE F - LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment consist of the following at June 30:

		<u>2018</u>		<u>2017</u>
Land	\$	697,585	\$	686,335
Buildings		214,106		225,356
Vehicles		55,162		55,162
Construction equipment		62,746		61,746
Office and special event equipment		95,951		95,951
Tenant improvements		133,404		133,404
		<u>1,258,954</u>		<u>1,257,954</u>
Accumulated depreciation		(312,302)		(276,041)
	\$	<u>946,652</u>	\$	<u>981,913</u>

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE G - DEBT

	<u>2018</u>	<u>2017</u>
<p>Note payable to Clearinghouse NMTC (Sub 21), LLC, interest-only payments until December 5, 2017 at .76633% at which point amortized payments over the remaining eight years commence. Note matures in July 2025 and is secured by substantially all the assets acquired by Habitat from the proceeds. Note has a put option feature that was exercised in August 2017 (see Note J).</p>	\$ -	\$ 1,412,317
<p>Note payable to CCM Community Development XXVII LLC, interest-only payments until November 10, 2020 at .7613% at which point amortized payments over the remaining eight years commence. Note matures in July 2028 and is secured by substantially all the assets acquired by Habitat from the proceeds. Note has a put option feature that is exercisable in July 2020 (see Note J).</p>	1,880,000	1,880,000
<p>Note payable to Premier West Bank, dated April 17, 2013, total amount of credit granted \$979,029, principal and interest payments of \$5,273 are due monthly at 2.8%. Note matures on November 15, 2039 (See note K).</p>	653,426	697,731
<p>Zero equivalent mortgage notes payable to River City Bank and SAFE Credit Union, various dates, total amount of credit granted \$1,839,482 and \$1,367,095 in 2018 and 2017, respectively, principal and interest payments of \$7,583 and \$5,638 in 2018 and 2017, respectively, are due monthly at 2.8%. Notes mature between December 2043 to December 2047.</p>	1,728,377	1,294,738
<p>Various notes payable to Habitat for Humanity International, Inc. for site improvement costs on approved properties receiving SHOP (HUD's Self-Help Homeownership Opportunity Program) funding. Non-interest-bearing notes due in monthly principal payments ranging from \$79 to \$703 beginning in January 2009 until the remaining notes mature from January 2016 to January 2017.</p>	<u>85,882</u> \$ <u>4,347,685</u>	<u>120,881</u> \$ <u>5,405,307</u>

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE G – DEBT - Continued

The future minimum loan payments are as follows at June 30, 2018:

<u>Year Ending June 30</u>		
2019	\$	123,250
2020		118,763
2021		100,449
2022		88,032
2023		90,530
Thereafter		3,826,661
Total	\$	<u>4,347,685</u>

The principal amount due in 2018 totaling \$1,523,961 includes the note payable to Clearinghouse NMTC (Sub 21), LLC of \$1,412,317 and although due in fiscal year 2018, the note payable was satisfied through the put option discussed in Note J rather than through actual payments.

Line of Credit

During 2016, Habitat entered into a line of credit agreement with River City Bank to provide borrowing capacity up to \$200,000. The line of credit bears interest at 6% and had an original maturity date of March 15, 2017. Interest rate increased to 6.25% effective March 21, 2018 and an amended agreement extended the maturity date to May 14, 2018. During 2018, \$158,321 of the line of credit was used to cover expenses but was fully paid before the end of the year. As of June 30, 2018 and 2017, the line of credit has no outstanding balance.

NOTE H - COMMITMENTS AND CONTINGENCIES

Lease Commitments: Habitat leases office space under the terms of a noncancelable operating lease agreement that expires on June 30, 2022. The office lease agreement provided for free rent for the first six months of the lease term. The period of free rent has been included in rent expense on a straight-line basis and as such a deferred lease liability has been recorded on the balance sheets at June 30, 2018 and 2017 of \$100,157 and \$110,945, respectively. During 2015, Habitat also entered into a new operating lease for one truck expiring in fiscal year 2022. Total rent expense under the above leases amounted to \$209,103 and \$204,839 during the years ended June 30, 2018 and 2017, respectively.

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE H - COMMITMENTS AND CONTINGENCIES - Continued

The future minimum lease payments under operating leases are as follows:

<u>Year Ending June 30</u>	
2019	\$ 209,040
2020	214,740
2021	220,608
2022	111,880
Total	\$ <u>756,268</u>

Contingencies: Habitat receives grants and restricted contributions from various sources for construction costs and other specific projects which are subject to audit by the grantors. While it is possible that an expenditure may be disallowed and required to be refunded to a grantor, management believes the fiscal impact, if any, would be insignificant.

NOTE I - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2018</u>	<u>2017</u>
Low-income housing construction	\$ 953,827	\$ 714,106
PG&E solar habitat program	-	42,000
West Sacramento NRI	32,585	30,000
Noralto NRI	-	25,000
Della Reed	-	18,000
Bank of the West	-	5,000
Veterans NR Elk Grove	9,350	2,000
Thrivent build repairs	-	5,000
Gala	98,993	-
43rd Avenue NRI	65,000	-
NR General	35,403	-
North Sac NRI	9,442	-
Cal-Home mortgage assistance	1,703,009	1,463,490
	\$ <u>2,907,609</u>	\$ <u>2,304,596</u>

Temporarily restricted net assets released from restrictions includes the portion of construction in process costs received from donors for specific homes when the home is sold as well as other temporarily restricted net assets released from restriction due to the passage of time or meeting such restrictions.

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE J – NEW MARKET TAX CREDIT PROGRAM

Habitat has participated in a New Market Tax Credit (NMTC) program. The program provides funds to eligible organizations for investment in qualified low-income communities. Program compliance requirements included creation of a promissory note (see Note G) and investment in a qualified community development entity (CDE). Tax credit recapture is required if compliance requirements are not met over a seven-year period.

In 2013, Habitat invested, along with four other Habitat affiliates, in a joint venture (CCML Leverage II, LLC) with a 19.99% ownership interest to take advantage of NMTC financing. Habitat has recorded its investment in CCML Leverage II, LLC at the cost basis of \$1,431,008. NMTC financing allows an entity to receive a loan or investment capital from outside investors, who will receive NMTC to be applied against their federal tax liability.

As a result, Habitat has invested \$1,431,008 and was able to secure a 15-year loan in the amount of \$1,880,000 payable to a community development entity (an affiliate of CCML Leverage II, LLC); see Note G. The loan proceeds are required to be used solely for the purpose of constructing and selling qualified housing properties to low income residents.

In July 2020, Habitat California Investment Fund, LLC (the Fund), and the upstream effective owner (U.S. Bancorp Community Development Corporation) are expected to exercise the put option. Under the terms of the put option agreement, CCML Leverage II, LLC is expected to purchase the ownership interest of the Fund. Exercise of the option will effectively allow Habitat to extinguish its outstanding debt owed to the Fund, at which point Habitat will recognize revenue earned from the program.

In 2011, Habitat invested, along with three other Habitat affiliates, in a joint venture (HFHI-SA Leverage VI, LLC) with a 5.7646% ownership interest to take advantage of NMTC financing. Habitat has recorded its investment in HFHI-SA Leverage VI, LLC at the cost basis of \$1,073,122. NMTC financing allows an entity to receive a loan or investment capital from outside investors, who will receive NMTC to be applied against their federal tax liability.

As a result, Habitat has invested \$1,073,122 and was able to secure a 15-year loan in the amount of \$1,412,317 payable to a community development entity (an affiliate of HFHI-SA Leverage VI, LLC); see Note G. The loan proceeds are required to be used solely for the purpose of constructing and selling qualified housing properties to low income residents.

In August 2017, Habitat California Investment Fund, LLC (the Fund), and the upstream effective owner (U.S. Bancorp Community Development Corporation) exercised its put option. Under the terms of the put option agreement, HFHI-SA Leverage VI, LLC purchased the ownership interest of the Fund. Exercise of the option effectively extinguished Habitat's outstanding debt owed to the Fund and resulted in \$200,489 debt forgiveness income during 2018. Habitat's investment in HFHI-SA Leverage, LLC has no balance at year-end and all related entities have been dissolved.

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE J – NEW MARKET TAX CREDIT PROGRAM - Continued

At June 30, 2018 and 2017, Habitat has recorded \$29,843 and \$45,337 of deferred fees and \$63,801 and \$102,807 of restricted cash in conjunction with both of the NMTC transactions; such assets will be depleted over the seven-year program period as transaction costs are incurred. In 2018 and 2017, Habitat incurred \$15,234 and \$32,356 of loan interest and \$16,579 and \$32,980 of transaction costs related to the NMTC programs.

Under the terms of this leveraged tax transaction, Habitat pledged to segregate the property upon which the transaction was based, and track all expenditures related to these properties and subsequent home sales and mortgage payments over the seven-year term of the transaction.

NOTE K – MORTGAGE SECURITIZATION AND SALE

During the year ended June 30, 2012, Habitat entered into a securitization agreement to borrow against fifteen of its mortgage notes receivable (see Note E). In order to facilitate the securitization, Habitat created a wholly-owned limited liability company, SHFH Funding Company, LLC (the LLC) which has been consolidated in the accompanying financial statements. Habitat sold the fifteen mortgages to the LLC and subsequently, the LLC entered into a note purchase agreement with Premier West Bank (Premier). Under the agreement, Premier purchased the rights to payments of the fifteen mortgage notes at an annual discount rate of 2.8% resulting in an aggregate amount of \$979,029 (see Note G). The fifteen mortgages continued to be serviced by the LLC while payments are remitted to Premier. In connection with the securitization, Habitat incurred loan fees of \$43,300 which are included in deferred fees in the accompanying statements of financial position. These fees are being amortized over the life of the loan.

During the year ended June 30, 2011, Habitat sold seven mortgages to the California Housing Finance Agency (Cal-HFA). The mortgages were sold on a recourse basis, which obligates Habitat to either buy back mortgages that become delinquent or replace these mortgages with new mortgages of equal value.

Cal-HFA will be fully responsible for servicing these loans. In addition to receiving the mortgage principal payments, Cal-HFA will also receive impound payments for property taxes and insurance, and in turn be responsible for making property tax and insurance payments on behalf of the homeowners. Full disclosure was made to the homeowners prior to the sale of their mortgage notes to Cal-HFA, and permission was provided to Habitat to receive information from Cal-HFA on their performance. The seven mortgage loans continue to perform and management believes none of the loans will require a replacement loan due to delinquency.

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE L- CONCENTRATION OF RISK

Financial Instruments: Financial instruments that potentially subject Habitat to concentrations of credit risk consist principally of cash and cash equivalents. Such assets have been placed with high-quality financial institutions however, the deposits with financial institutions may, at times, exceed federally insured limits. The balances are insured by Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per account category per financial institution. At June 30, 2018 and 2017, the organization had \$1,193,916 and \$179,428, respectively, in excess of the federally insured limits. Habitat has not experienced any losses in such accounts and believes it is not exposed to any significant risk on cash accounts.

Mortgages Receivable: In accordance with its exempt purpose, Habitat extends credit to low-income individuals in Sacramento and Yolo counties. The individuals must qualify based upon both monetary and time commitment criteria. All mortgages are secured by underlying real estate, which the homeowner is required to maintain as part of the purchase agreement. Therefore, risk of loss to Habitat would occur if the market value of the secured property decreases to an amount that is less than the underlying mortgage, less the allowance for bad debts on these consolidated financial statements.

NOTE M – RELATED PARTIES

Habitat receives pledges from board members and key employees. There were no pledges receivable due from board members and key employees at June 30, 2018 and 2017.

Habitat is an affiliate of Habitat for Humanity International, Inc. (“HFHI”). While the organizations share a common mission, HFHI does not own or control Habitat. Therefore, Habitat’s operations are not consolidated in the financial statements of HFHI. However, Habitat is an independent corporation which has subordinate status under HFHI’s Section 501(c)(3) exemption. As an affiliate, Habitat receives grant monies from HFHI. HFHI receives funds from grantors and allocates such funds to affiliates based on competitive applications. One of the most competitive of these is the SHOP grant program.

The notes payable due to HFHI under these SHOP grants amounted to \$85,882 and \$120,881 at June 30, 2018 and 2017, respectively (see Note G).

Habitat also donates funds to HFHI, these funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2018 and 2017, the amount contributed was \$89,309 and \$ 83,014, respectively.

NOTE N - SUBSEQUENT EVENTS

In preparing the consolidated financial statements, Habitat has evaluated events and transactions for potential recognition or disclosure through December 19, 2018, the date that the financial statements were available to be issued.