



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

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

June 30, 2020 and 2019

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, 2020 and 2019, 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

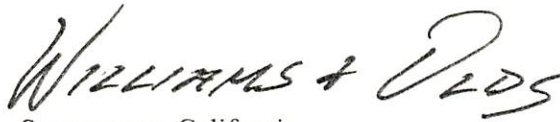
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable 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, 2020 and 2019, 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
January 25, 2021

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
<i>Current assets</i>		
Cash and cash equivalents	\$ 1,275,567	\$ 1,080,314
Restricted cash and cash equivalents	197,942	227,934
Pledge receivable	95,000	-
Current portion of mortgages receivable, net	464,551	461,719
Neighborhood revitalization receivable, net	144,401	100,225
Prepaid expenses and deposits	52,586	100,615
Inventories	245,527	288,664
Homes awaiting transfer	-	129,232
Current portion of construction in progress	1,042,537	736,182
<i>Total current assets</i>	<u>3,518,111</u>	<u>3,124,885</u>
<i>Non-current assets</i>		
Deferred fees, net of amortization	-	21,255
Mortgages receivable, net of current portion	4,898,351	4,484,581
Cal-Home mortgages receivable	1,786,159	1,726,308
Land, buildings, and equipment, net of accumulated depreciation	740,686	788,674
Construction in progress, net of current portion	149,017	689,099
Investment in joint venture	-	1,615,425
TOTAL ASSETS	<u>\$ 11,092,324</u>	<u>\$ 12,450,227</u>
LIABILITIES AND NET ASSETS		
<i>Current liabilities</i>		
Accounts payable and accrued expenses	\$ 210,311	\$ 191,676
Impound accounts held	8,639	31,627
Current portion of deferred lease liability	27,889	22,021
Refundable advances	17,799	-
Current portion of deferred revenue	8,901	35,309
Line of credit	20,000	48,189
Current portion of notes payable	246,508	117,031
<i>Total current liabilities</i>	<u>540,047</u>	<u>445,853</u>
<i>Non-current liabilities</i>		
Deferred lease liability, net of current portion	33,926	61,815
Deferred revenue, net of current portion	257,000	195,000
Notes payable, net of current portion	2,272,419	4,098,195
TOTAL LIABILITIES	<u>3,103,392</u>	<u>4,800,863</u>
COMMITMENTS AND CONTINGENCIES		
	-	-
NET ASSETS		
Without donor restrictions	5,182,257	5,363,865
With donor restrictions	2,806,675	2,285,499
TOTAL NET ASSETS	<u>7,988,932</u>	<u>7,649,364</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,092,324</u>	<u>\$ 12,450,227</u>

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, 2020 and 2019

	June 30, 2020			June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
	SUPPORT AND REVENUE					
Homes transferred	\$ 1,668,387	\$ -	\$ 1,668,387	\$ 961,948	\$ -	\$ 961,948
Contributions	513,575	1,093,663	1,607,238	667,173	632,443	1,299,616
Grants	40,408	-	40,408	32,541	60,000	92,541
ReStore sales	1,055,262	-	1,055,262	1,198,790	-	1,198,790
Amortization of mortgage discounts	586,487	59,851	646,338	565,637	-	565,637
In-kind contributions	147,950	-	147,950	255,466	-	255,466
Interest income	2,268	-	2,268	42,915	-	42,915
Home sold	-	-	-	337,333	-	337,333
Early loan pay-out fee	-	-	-	48,924	-	48,924
Neighborhood revitalization	133,146	-	133,146	43,986	-	43,986
Other revenue	38,795	-	38,795	93,297	-	93,297
<i>Net assets released from restrictions</i>	632,338	(632,338)	-	1,314,553	(1,314,553)	-
TOTAL SUPPORT AND REVENUE	4,818,616	521,176	5,339,792	5,562,563	(622,110)	4,940,453
EXPENSES						
Program services	4,351,023	-	4,351,023	3,713,629	-	3,713,629
Management and administrative	407,935	-	407,935	358,875	-	358,875
Fundraising	513,102	-	513,102	510,136	-	510,136
TOTAL EXPENSES	5,272,060	-	5,272,060	4,582,640	-	4,582,640
CHANGE IN NET ASSETS BEFORE OTHER ITEMS	(453,444)	521,176	67,732	979,923	(622,110)	357,813
Cancellation of debt income	271,836	-	271,836	-	-	-
CHANGE IN NET ASSETS	(181,608)	521,176	339,568	979,923	(622,110)	357,813
NET ASSETS AT BEGINNING OF YEAR	5,363,865	2,285,499	7,649,364	4,383,942	2,907,609	7,291,551
NET ASSETS AT END OF YEAR	\$ 5,182,257	\$ 2,806,675	\$ 7,988,932	\$ 5,363,865	\$ 2,285,499	\$ 7,649,364

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, 2020 and 2019

	June 30, 2020				June 30, 2019			
	<u>Program Services</u>	<u>Management and Administrative</u>	<u>Fund-raising</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and Administrative</u>	<u>Fund-raising</u>	<u>Total</u>
Cost of homes sold	\$ 1,838,218	\$ -	\$ -	\$ 1,838,218	\$ 1,377,635	\$ -	\$ -	\$ 1,377,635
Wages, payroll taxes and benefits	838,240	174,858	239,442	1,252,540	847,516	230,176	196,303	1,273,995
Mortgage discount given	898,584	-	-	898,584	685,841	-	-	685,841
Marketing	6,063	8,019	205,651	219,733	2,340	957	235,180	238,477
Rent and occupancy	147,185	14,530	14,613	176,328	152,252	15,240	15,240	182,732
Bank fees and loan interest	146,722	25,924	2,070	174,716	139,540	4,464	3,103	147,107
Equipment, small tools and supplies	108,617	18,978	16,592	144,187	88,993	19,069	20,772	128,834
Professional services	26,791	60,094	5,037	91,922	28,012	45,832	5,554	79,398
Forgiven mortgages	113,926	-	-	113,926	113,081	-	-	113,081
Tithes to Habitat International	62,867	-	-	62,867	78,489	-	-	78,489
New market tax credit costs	25,996	3,173	9,762	38,931	37,522	351	2,033	39,906
Travel and training	10,136	7,887	206	18,229	27,397	11,071	4,900	43,368
Depreciation	-	28,652	-	28,652	22,235	8,476	1,193	31,904
Utilities and phone	31,293	3,669	3,511	38,473	32,708	3,274	3,274	39,256
Affiliation fees	23,896	8,618	1,035	33,549	28,600	4,949	1,455	35,004
Insurance	14,153	3,712	1,824	19,689	11,419	3,742	3,742	18,903
Repairs and maintenance	48,033	4,567	3,180	55,780	27,919	4,125	3,160	35,204
Printing	8,892	1,677	9,655	20,224	9,691	2,333	13,827	25,851
Postage and freight	440	3,966	524	4,930	2,155	2,968	265	5,388
Board travel and meetings	470	2,139	-	2,609	284	1,476	135	1,895
Uncollected pledges	-	-	-	-	-	-	-	-
Loss on the sale of asset	-	37,031	-	37,031	-	-	-	-
Miscellaneous	501	441	-	942	-	372	-	372
	<u>\$ 4,351,023</u>	<u>\$ 407,935</u>	<u>\$ 513,102</u>	<u>\$ 5,272,060</u>	<u>\$ 3,713,629</u>	<u>\$ 358,875</u>	<u>\$ 510,136</u>	<u>\$ 4,582,640</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 339,568	\$ 357,813
<i>Adjustments to reconcile the change in net assets to net cash used in operating activities:</i>		
Depreciation	28,652	31,904
Amortization of deferred fees	21,255	8,588
Amortization of loan fees	1,732	1,732
Provision for bad debt expense	(13,538)	(2,134)
Sale of homes recognized through issuance of mortgage notes	(1,539,277)	(1,121,948)
Amortization of mortgage loan discount	(646,338)	(565,637)
Mortgage discount given	828,650	504,160
Write-off of forgiveness	113,926	113,082
Cal-Home mortgage discount given	69,935	181,681
Cal-Home mortgage reuse	88,894	160,000
Gain on debt forgiveness	(271,836)	-
(Gain) loss on sale of property	37,031	(199,395)
Gain on sale of equipment	-	(1,613)
Investment in joint venture income	-	(24,828)
<i>Change in operating assets and liabilities</i>		
Pledge receivable	(95,000)	-
Neighborhood revitalization receivable	(44,176)	(23,222)
Prepaid expenses and deposits	48,029	(32,334)
Inventories	43,137	(81,706)
Homes awaiting transfer	129,232	-
Construction in progress	233,727	(341,313)
Accounts payable and accrued expenses	25,896	3,109
Impound accounts held	(22,988)	(13,690)
Refundable advances	17,799	-
Deferred revenue and deferred lease liability	13,571	3,988
NET CASH USED IN OPERATING ACTIVITIES	<u>(592,119)</u>	<u>(1,041,763)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments received on mortgage notes receivable	621,295	556,619
Proceeds from sale of property	-	337,333
Cash paid for leasehold improvements and equipment	(17,695)	(10,251)
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>603,600</u>	<u>883,701</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, 2020 and 2019

	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	287,605	-
Proceeds from line of credit	121,811	48,189
Payments on line of credit	(150,000)	-
Proceeds from Habitat for Humanity International, Inc. notes payable	-	20,462
Payments on Habitat for Humanity International, Inc. notes payable	(22,722)	(34,479)
Payments on zero equivalent mortgage notes payable	(44,387)	(43,162)
Principal payments on mortgage securitization loan payable	(38,527)	(44,248)
	153,780	(53,238)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
	165,261	(211,300)
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH		
	165,261	(211,300)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT BEGINNING OF YEAR	1,308,248	1,519,548
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF YEAR	\$ 1,473,509	\$ 1,308,248
<u>SUPPLEMENTAL INFORMATION:</u>		
Cash paid for income taxes	\$ -	\$ -
Cash paid for interest	\$ 67,226	\$ 80,559
 Noncash investing and financing transactions:		
Sale of partnership interest related to put option exercised	\$ 1,615,425	\$ -
Extinguishment of debt related to put option exercised	\$ (1,880,000)	\$ -

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 consolidated financial statements of Habitat have been prepared in accordance with U.S. generally accepted accounting principles (“US GAAP”), which require Habitat to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of Habitat’s management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Habitat or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

The accompanying consolidated financial statements reflect the consolidation of Habitat and its wholly-owned subsidiary, SHFH Funding Company, LLC (see note M).

Measure of Operations: The Statements of Activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to Habitat’s ongoing services and interest and dividends earned on investments. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature. The cancellation of debt income during 2020 was a nonoperating activity (see Note L). There were no nonoperating activities during 2019.

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.

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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, 2020 and 2019 amounted to \$124,024 and \$145,926 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, 2020 and 2019.

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.

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.

Contributions: Contributions are recognized when cash, securities, or other assets, or an unconditional promise to give is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Some contributions are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. Assets received with donor-imposed conditions are reported as "Refundable Advances" in the Statement of Financial Position until the conditions have been substantially met.

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restriction and reported in the Statement of Activities as net assets released from restrictions.

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.

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

		<u>2020</u>		<u>2019</u>
Construction materials	\$	45,012	\$	103,508
Property		-		151,100
Services		101,838		-
Miscellaneous		1,100		858
Total	\$	<u>147,950</u>	\$	<u>255,466</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: The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

Expense	Method of Allocation
Payroll, taxes and benefits	Job duties; time and effort
Rent and occupancy	Square footage
Utilities and phone	Square footage

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

Recent Accounting Pronouncements: In June 2018, the FASB issued ASU 2018-08, Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. Habitat has implemented the provisions of ASU 2018-08 effective July 1, 2019 applicable to both contributions received and contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with our implementation.

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE C - CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following at June 30:

	2020	2019
Cash and cash equivalents	\$ 1,275,567	\$ 1,080,314
Cash restricted for:		
New Market Tax Credit program (see Note L)	-	46,885
SHFH Funding Company, LLC (see Note M)	5,529	5,638
Impound account	79,527	71,031
SMUD employee giving campaign	31,515	15,072
Rock-the-block project	81,371	89,308
Total restricted cash	197,942	227,934
Total cash, cash equivalents, and restricted cash	\$ 1,473,509	\$ 1,308,248

NOTE D - 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 2020 and 2019 amounted to \$1,055,262 and \$ 1,198,790, 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:

	2020	2019
ReStore inventory	\$ 166,894	\$ 213,000
Construction inventory	78,633	75,664
Total	\$ 245,527	\$ 288,664

NOTE E - RECEIVABLES

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. At June 30, 2020, the estimated fair value of the charitable remainder trust receivable amounted to \$95,000 and was recognized as a pledge receivable in Habitat’s consolidated financial statements.

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE F - 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, 2020 and 2019 were discounted at 7.38% or 7.66% and 7.48% or 7.51%, respectively.

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. Forgiveness written off totaled \$113,926 and \$113,082 during 2020 and 2019, respectively.

In 2020, discounts recorded for first and second mortgages granted during the year amounted to \$828,650 and accretion of discounts amounted to \$516,552. In 2019, discounts recorded for first and second mortgages granted during the year amounted to \$504,160 and accretion of discounts amounted to \$420,657.

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:

	2020	2019
First mortgages (including homeowner receivables)	\$ 9,525,677	\$ 9,111,607
Less: unamortized discount	(4,961,477)	(4,785,113)
Less: allowance for uncollectible amounts	(69,248)	(82,786)
	4,494,952	4,243,708
 Second mortgages receivable	 1,457,319	 1,156,227
Less: unamortized discount	(589,369)	(453,635)
	867,950	702,592
	\$ 5,362,902	\$ 4,946,300

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE F - 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, 2020 and 2019, Habitat had \$4,095,700 of Cal-Home mortgage receivables, respectively. Of this amount, \$8,901 and \$93,795 was restricted for Cal-Home ReUse funds for years ended June 30, 2020 and 2019, respectively.

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

		<u>2020</u>		<u>2019</u>
Cal-Home mortgage receivable	\$	4,095,700	\$	4,095,700
Less: unamortized discount		<u>(2,309,541)</u>		<u>(2,369,392)</u>
	\$	<u>1,786,159</u>	\$	<u>1,726,308</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 8.14% as of June 30, 2020 and 2019. In 2020, discounts recorded for Cal-Home mortgages granted during the year amounted to \$69,935 and accretion of discounts amounted to \$129,786. In 2019, discounts recorded for Cal-Home mortgages granted during the year amounted to \$181,681 and accretion of discounts amounted to \$144,980.

NOTE G - LAND, BUILDINGS, AND EQUIPMENT

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

		<u>2020</u>		<u>2019</u>
Land	\$	662,835	\$	686,335
Buildings		-		76,500
Vehicles		64,285		63,913
Construction equipment		24,386		60,887
Office and special event equipment		38,620		95,951
Tenant improvements		<u>133,404</u>		<u>133,404</u>
		923,530		1,116,990
Accumulated depreciation		<u>(182,844)</u>		<u>(328,316)</u>
	\$	<u>740,686</u>	\$	<u>788,674</u>

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE H - DEBT

	2020	2019
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 had an original maturity date of July 2028 and was secured by substantially all the assets acquired by Habitat from the proceeds. Note has a put option feature that was exercised in September 2019 (see Note L).	\$ -	\$ 1,880,000
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 M).	570,651	609,178
Zero equivalent mortgage notes payable to River City Bank and SAFE Credit Union, various dates, total amount of credit granted \$1,839,482 in 2019 and 2018, principal and interest payments of \$7,583 in 2019 and 2018, are due monthly at 2.8%. Notes mature between December 2043 to December 2047.	1,640,828	1,685,215
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 \$78 to \$537. Notes mature between beginning in July 2014 until the remaining notes mature from January 2019 to January 2023.	49,143	71,865
Note payable to River City Bank (see <i>SBA Loan</i>).	262,605	-
Note payable to City of Sacramento (see <i>Small Business Emergency Economic Relief Fund loan</i>).	25,000	-
Total principal balance	2,548,227	4,246,258
Less unamortized loan fees	(29,300)	(31,032)
Notes payable	\$ 2,518,927	\$ 4,215,226

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE H - DEBT - Continued

SBA Loan

On April 10, 2020, Habitat received a U.S. Small Business Administration Loan (the “SBA Loan”) from River City Bank, pursuant to the Paycheck Protection Program (the “PPP”) established under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), in the amount of \$262,605. The application for these funds required Habitat in good faith to certify that the current economic uncertainty made the loan request necessary to support the ongoing operations of Habitat. This certification further required Habitat to take into account current business activity and the ability to access other sources of liquidity sufficient to support ongoing operations in a manner that is not significantly detrimental to the business.

Small Business Emergency Economic Relief Fund Loan

On March 13, 2020, the City of Sacramento Council (the “city council”) adopted resolution 2020-0075, part of which established economic relief package for small local businesses including a program to issue zero-interest loans. On April 8, 2020, Habitat received a Small Business Emergency Economic Relief Fund Loan from the City of Sacramento in the amount of \$25,000. Monthly loan payments in the amount of \$500 are due beginning on the 120th day after the earlier of the 1) date that the city council declares an end of the local emergency relating to the COVID-19 pandemic and 2) the date the County of Sacramento proclaims the termination of the local public health emergency. The loan has a maturity date of 49 months after the due date of the first payment. The loan proceeds are to be used only for business operating expenses of Habitat and can be converted to the terms of a forgivable loan.

The future minimum loan payments are as follows at June 30, 2020:

<u>Year Ending June 30</u>		
2021	\$	248,240
2022		260,950
2023		90,161
2024		91,604
2025		85,243
Thereafter		1,772,029
	Total \$	2,548,227

Line of Credit

Habitat has a line of credit agreement with River City Bank to provide borrowing capacity up to \$200,000 with interest rate at 6.25% and original maturity of May 15, 2019. The note was amended on May 16, 2019 increasing the maximum principal amount available for advances to \$250,000 and extending the maturity date to May 15, 2020. Effective June 3, 2020, the maturity date and repayment terms under the note were extended to May 15, 2021. During 2020, \$121,811 of the line of credit was used to cover expenses and had an outstanding balance of \$20,000 at end of the year. During 2019, \$48,189 of the line of credit was used and was outstanding as of June 30, 2019. As of June 30, 2020 and 2019, the line of credit available for issuance was \$230,000 and \$201,811, respectively.

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE I - 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, 2020 and 2019 of \$61,815 and \$83,836 respectively. During 2015, Habitat entered into an operating lease agreement for a truck expiring in fiscal year 2022. Total rent expense under the above leases amounted to \$220,922 and \$208,782 during the years ended June 30, 2020 and 2019, respectively. On June 24, 2020, Habitat entered into a noncancellable operating lease agreement effective July 30, 2020 for office equipment expiring in October 2023. The future minimum lease payments under operating leases are as follows:

<u>Year Ending June 30</u>	
2021	\$ 223,325
2022	114,802
2023	2,964
2024	988
Total	\$ 342,079

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 J - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods at June 30:

	2020	2019
Subject to the Passage of Time or Expenditure for Specified Purpose:		
Low-income housing construction	\$ 714,280	\$ 399,059
West Sacramento NRI	23,603	21,277
Veterans NR Elk Grove	7,344	1,385
Gala	15,000	45,600
43rd Avenue NRI	-	23,471
NR General	165,290	66,285
North Sac NRI	-	2,114
Cal-Home mortgage assistance	1,786,158	1,726,308

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE J - NET ASSETS WITH DONOR RESTRICTIONS - Continued

	2020	2019
Subject to the Passage of Time or Expenditure for Specified Purpose (Continued):		
Pledge – time restricted	95,000	-
Total Subject to the Passage of Time or Expenditure for Specified Purpose	2,806,675	2,285,499
Total net assets with donor restrictions	\$ 2,806,675	\$ 2,285,499

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 net assets released from restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors:

	2020	2019
Purpose Restrictions Accomplished:		
Low-income housing construction	\$ 252,735	\$ 922,715
West Sacramento NRI	8,415	11,308
Veterans NR Elk Grove	20,208	12,965
NR General	183,579	92,723
North Sac NRI	2,114	7,328
43 rd Avenue NRI	34,092	66,529
Gala	106,195	164,284
District 2	25,000	-
Cal-Home mortgage assistance	-	36,701
Total restrictions released	\$ 632,338	\$ 1,314,553

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE K - BOARD DESIGNATED NET ASSETS

Habitat's board of directors has designated certain net assets without donor restrictions for the purpose of holding reserves for cash flow purposes at June 30:

	2020	2019
Contingency fund	\$ 11,960	\$ 50,000
Truck	-	10,000
Global Village fund	12,918	12,918
Stoner infrastructure	-	188,636
Mandolin Estates infrastructure	20,000	73,500
	\$ 44,878	\$ 335,054

NOTE L - 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 H) 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.

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.

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 H. The loan proceeds are required to be used solely for the purpose of constructing and selling qualified housing properties to low income residents.

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.

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE L - NEW MARKET TAX CREDIT PROGRAM - Continued

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 H. 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 fiscal year-end 2019 and all related entities have been dissolved.

In September 2019, 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, CCML Leverage II, 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 \$271,836 debt forgiveness income during 2020. Habitat's investment in CCML Leverage II, LLC has no balance at fiscal year-end 2020 and all related entities have been dissolved.

At June 30, 2019, Habitat has recorded \$21,255 of deferred fees and \$46,885 of restricted cash in conjunction with both of the NMTC transactions. In 2019, Habitat incurred \$14,312 of loan interest and \$18,663 of transaction costs related to the NMTC programs. Such assets has no balance at fiscal year-end 2020 and there no loan interest and transactions costs in 2020 as the related entities have been dissolved.

NOTE M - 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 F). 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 H). 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 being amortized using the straight-line method over the life of the loan. Loan fees, net of accumulated amortization, of \$29,300 and \$31,032 as of June 30, 2020 and 2019, respectively, are netted against the note payable balance in the accompanying statements of financial position.

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.

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE M - MORTGAGE SECURITIZATION AND SALE

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.

NOTE N - 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, 2020 and 2019, the organization had \$1,032,211 and \$986,708 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 O - 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, 2020 and 2019.

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 \$49,143 and \$71,865 at June 30, 2020 and 2019, respectively (see Note H).

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE O - RELATED PARTIES - Continued

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, 2020 and 2019, the amount contributed was \$62,867 and \$ 78,489, respectively.

NOTE P - AVAILABILITY AND LIQUIDITY

The following represents Habitat's financial assets at June 30, 2020 and 2019:

Financial assets at year-end:	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 1,275,567	\$ 1,080,314
Restricted cash and cash equivalents	197,942	227,934
Pledge receivable	95,000	-
Mortgages receivable, current portion	464,551	461,719
Neighborhood revitalization receivable, current portion	144,401	100,225
Total financial assets	<u>2,177,461</u>	<u>1,870,192</u>
Less amounts not available to be used within one year, due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	925,517	559,191
Board designated net assets	44,878	335,054
Impound accounts	8,639	31,627
Refundable advances	17,799	-
Deferred revenue	265,901	230,309
	<u>1,262,734</u>	<u>1,156,181</u>
Financial assets available to meet general expenditures within one year	<u>\$ 914,727</u>	<u>\$ 714,011</u>

Habitat's goal is generally to maintain financial assets to meet 90 days of operating expenses. As part of its liquidity plan, the Board will redesignate the reserves to meet current expenditures, and replenish the reserves when funds are available.

NOTE Q - SUBSEQUENT EVENTS

In preparing the consolidated financial statements, Habitat has evaluated subsequent events and transactions that occurred after the balance sheet date through January 25, 2021, the date that the financial statements were available to be issued. Management has evaluated the impact of the COVID-19 pandemic in the industry and has concluded that the virus could have a minimal negative effect on Habitat's financial position and results of its operations. No adjustments have been made to these financial statements as a result of the analysis.