



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

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

**June 30, 2019 and 2018**

# HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

## TABLE OF CONTENTS

	<u>Page</u>
<b>INDEPENDENT AUDITOR'S REPORT</b> .....	1
<b>CONSOLIDATED FINANCIAL STATEMENTS</b>	
Consolidated Statements of Financial Position.....	3
Consolidated Statements of Activities .....	4
Consolidated Statements of Functional Expenses.....	5
Consolidated Statements of Cash Flows .....	6
Notes to Consolidated Financial Statements.....	8



## **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, 2019 and 2018, 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, 2019 and 2018, 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.

A handwritten signature in black ink that reads "WILLIAMS & OLDS". The signature is written in a cursive, flowing style.

Sacramento, California

January 28, 2020

# HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
<i>Current assets</i>		
Cash and cash equivalents	\$ 1,080,314	\$ 1,346,283
Restricted cash and cash equivalents	227,934	173,265
Current portion of mortgages receivable, net	461,719	440,947
Neighborhood revitalization receivable, net	100,225	77,003
Prepaid expenses and deposits	100,615	68,281
Inventories	288,664	206,958
Homes awaiting transfer	129,232	129,232
Construction in progress	736,182	99,025
<i>Total current assets</i>	<u>3,124,885</u>	<u>2,540,994</u>
<i>Non-current assets</i>		
Deferred fees, net of amortization	21,255	29,843
Mortgages receivable, net of current portion	4,484,581	4,354,475
Cal-Home mortgages receivable, net of current portion	1,726,308	1,703,009
Land, buildings, and equipment, net of accumulated depreciation	788,674	946,652
Construction in progress	689,099	984,943
Investment in joint venture	1,615,425	1,590,597
<b>TOTAL ASSETS</b>	<u>\$ 12,450,227</u>	<u>\$ 12,150,513</u>
<b>LIABILITIES AND NET ASSETS</b>		
<i>Current liabilities</i>		
Accounts payable and accrued expenses	\$ 191,676	\$ 188,567
Impound accounts held	31,627	45,317
Current portion of deferred lease liability	22,021	16,321
Current portion of deferred revenue	35,309	60,000
Line of credit	48,189	-
Current portion of notes payable	117,031	123,250
<i>Total current liabilities</i>	<u>445,853</u>	<u>433,455</u>
<i>Non-current liabilities</i>		
Deferred lease liability, net of current portion	61,815	83,836
Deferred revenue, net of current portion	195,000	150,000
Notes payable, net of current portion	4,098,195	4,191,671
<b>TOTAL LIABILITIES</b>	<u>4,800,863</u>	<u>4,858,962</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
	-	-
<b>NET ASSETS</b>		
Without donor restrictions	5,363,865	4,383,942
With donor restrictions	2,285,499	2,907,609
<b>TOTAL NET ASSETS</b>	<u>7,649,364</u>	<u>7,291,551</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 12,450,227</u>	<u>\$ 12,150,513</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, 2019 and 2018

	June 30, 2019			June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
	<b>SUPPORT AND REVENUE</b>					
Homes transferred	\$ 961,948	\$ -	\$ 961,948	\$ 1,255,470	\$ -	\$ 1,255,470
Contributions	667,173	632,443	1,299,616	397,054	848,662	1,245,716
Grants	32,541	60,000	92,541	334,379	290,000	624,379
ReStore sales	1,198,790	-	1,198,790	1,068,517	-	1,068,517
Amortization of mortgage discounts	565,637	-	565,637	770,215	-	770,215
In-kind contributions	255,466	-	255,466	80,223	-	80,223
Interest income	42,915	-	42,915	46,799	-	46,799
Home sold	337,333	-	337,333	-	-	-
Early loan pay-out fee	48,924	-	48,924	-	-	-
Neighborhood revitalization	43,986	-	43,986	57,644	-	57,644
Other revenue	93,297	-	93,297	47,707	-	47,707
<i>Net assets released from restrictions</i>	1,314,553	(1,314,553)	-	535,649	(535,649)	-
<b>TOTAL SUPPORT AND REVENUE</b>	<b>5,562,563</b>	<b>(622,110)</b>	<b>4,940,453</b>	<b>4,593,657</b>	<b>603,013</b>	<b>5,196,670</b>
<b>EXPENSES</b>						
Program services	3,713,629	-	3,713,629	3,683,483	-	3,683,483
Management and administrative	358,875	-	358,875	307,464	-	307,464
Fundraising	510,136	-	510,136	340,168	-	340,168
<b>TOTAL EXPENSES</b>	<b>4,582,640</b>	<b>-</b>	<b>4,582,640</b>	<b>4,331,115</b>	<b>-</b>	<b>4,331,115</b>
<b>CHANGE IN NET ASSETS BEFORE OTHER ITEMS</b>	<b>979,923</b>	<b>(622,110)</b>	<b>357,813</b>	<b>262,542</b>	<b>603,013</b>	<b>865,555</b>
Cancellation of debt income	-	-	-	200,489	-	200,489
<b>CHANGE IN NET ASSETS</b>	<b>979,923</b>	<b>(622,110)</b>	<b>357,813</b>	<b>463,031</b>	<b>603,013</b>	<b>1,066,044</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>4,383,942</b>	<b>2,907,609</b>	<b>7,291,551</b>	<b>3,920,911</b>	<b>2,304,596</b>	<b>6,225,507</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 5,363,865</b>	<b>\$ 2,285,499</b>	<b>\$ 7,649,364</b>	<b>\$ 4,383,942</b>	<b>\$ 2,907,609</b>	<b>\$ 7,291,551</b>

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, 2019 and 2018**

	<b>June 30, 2019</b>				<b>June 30, 2018</b>			
	<b>Program Services</b>	<b>Management and Administrative</b>	<b>Fund- raising</b>	<b>Total</b>	<b>Program Services</b>	<b>Management and Administrative</b>	<b>Fund- raising</b>	<b>Total</b>
Cost of homes sold	\$ 1,377,635	\$ -	\$ -	\$ 1,377,635	\$ 1,417,597	\$ 55	\$ 472	\$ 1,418,124
Wages, payroll taxes and benefits	847,516	230,176	196,303	1,273,995	734,843	147,576	176,090	1,058,509
Mortgage discount given	685,841	-	-	685,841	746,099	-	-	746,099
Marketing	2,340	957	235,180	238,477	3,214	-	51,848	55,062
Rent and occupancy	152,252	15,240	15,240	182,732	113,342	22,287	37,194	172,823
Bank fees and loan interest	139,540	4,464	3,103	147,107	178,866	1,214	24	180,104
Equipment, small tools and supplies	88,993	19,069	20,772	128,834	98,604	7,827	26,322	132,753
Professional services	28,012	45,832	5,554	79,398	24,674	70,691	4,219	99,584
Forgiven mortgages	113,081	-	-	113,081	97,461	-	-	97,461
Tithes to Habitat International	78,489	-	-	78,489	89,309	-	-	89,309
New market tax credit costs	37,522	351	2,033	39,906	50,126	165	-	50,291
Travel and training	27,397	11,071	4,900	43,368	15,505	4,130	3,953	23,588
Depreciation	22,235	8,476	1,193	31,904	36,261	-	-	36,261
Utilities and phone	32,708	3,274	3,274	39,256	24,382	6,041	5,981	36,404
Affiliation fees	28,600	4,949	1,455	35,004	3,790	29,000	7,183	39,973
Insurance	11,419	3,742	3,742	18,903	12,574	4,191	4,191	20,956
Repairs and maintenance	27,919	4,125	3,160	35,204	23,920	11,722	2,858	38,500
Printing	9,691	2,333	13,827	25,851	8,593	1,811	18,477	28,881
Postage and freight	2,155	2,968	265	5,388	3,440	347	1,273	5,060
Board travel and meetings	284	1,476	135	1,895	463	407	83	953
Miscellaneous	-	372	-	372	420	-	-	420
	<u>\$ 3,713,629</u>	<u>\$ 358,875</u>	<u>\$ 510,136</u>	<u>\$ 4,582,640</u>	<u>\$ 3,683,483</u>	<u>\$ 307,464</u>	<u>\$ 340,168</u>	<u>\$ 4,331,115</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 357,813	\$ 1,066,044
<i>Adjustments to reconcile the change in net assets to net cash provided by (used in) operating activities:</i>		
Depreciation	31,904	36,261
Amortization of deferred fees	8,588	18,989
Amortization of loan fees	1,732	1,732
Provision for bad debt expense	(2,134)	(51,171)
Sale of homes recognized through issuance of mortgage notes	(1,121,948)	(1,126,539)
Amortization of mortgage loan discount	(565,637)	(770,215)
Mortgage discount given	504,160	503,874
Write-off of forgiveness	113,082	97,461
Discount to present value of Cal-Home mortgages	181,681	242,224
Cal-Home mortgage reuse	160,000	-
Gain on debt forgiveness	-	(200,489)
Gain on sale of property	(199,395)	-
Gain on sale of equipment	(1,613)	-
Loss on repurchase of mortgages receivable	-	21,534
Investment in joint venture income	(24,828)	(24,828)
<i>Change in operating assets and liabilities</i>		
Neighborhood revitalization receivable	(23,222)	(29,914)
Notes receivable	-	156,418
Prepaid expenses and deposits	(32,334)	(4,499)
Inventories	(81,706)	(31,882)
Homes awaiting transfer	-	521,835
Construction in progress	(341,313)	(22,882)
Accounts payable and accrued expenses	3,109	(27,568)
Impound accounts held	(13,690)	(21,068)
Deferred revenue and deferred lease liability	3,988	(339,957)
	<u>(1,041,763)</u>	<u>15,360</u>
<b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments received on mortgage notes receivable	556,619	499,229
Proceeds from sale of property	337,333	-
Cash paid for leasehold improvements and equipment	(10,251)	(1,000)
	<u>883,701</u>	<u>498,229</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>		

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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from line of credit	48,189	-
Proceeds from grants payable	20,462	7,196
Payments on grants payable	(34,479)	(42,195)
Proceeds for zero equivalent mortgage notes payable	-	471,392
Payments on zero equivalent mortgage notes payable	(43,162)	(37,393)
Principal payments on mortgage securitization loan payable	(44,248)	(44,305)
	<u>                    </u>	<u>                    </u>
<b>NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b>	<u>(53,238)</u>	<u>354,695</u>
<b>NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH</b>	(211,300)	868,284
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT BEGINNING OF YEAR</b>	<u>1,519,548</u>	<u>651,264</u>
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF YEAR</b>	<u>\$ 1,308,248</u>	<u>\$ 1,519,548</u>
<b><u>SUPPLEMENTAL INFORMATION:</u></b>		
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>
Cash paid for interest	<u>\$ 80,559</u>	<u>\$ 79,445</u>
Noncash investing and financing transactions:		
Sale of partnership interest related to put option exercised	<u>\$ -</u>	<u>\$ 1,211,828</u>
Extinguishment of debt related to put option exercised	<u>\$ -</u>	<u>\$ (1,412,317)</u>
First mortgage amendment related to issuance of Cal-Home note	<u>\$ -</u>	<u>\$ 50,000</u>
Transfer of mortgage receivable to homes awaiting transfer due to mortgage being reacquired	<u>\$ -</u>	<u>\$ 129,232</u>
Transfer of mortgage receivable to CIP due to mortgage being reacquired	<u>\$ -</u>	<u>\$ 93,954</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 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. There were no nonoperating activities during 2019. The cancellation of debt income during 2018 was a nonoperating activity (see Note L).

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, 2019 and 2018 amounted to \$145,926 and \$58,019 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, 2019 and 2018.

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 F).

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.

# HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

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>2019</u>	<u>2018</u>
Construction materials	\$ 103,508	\$ 77,028
Property	151,100	-
Services	-	2,545
Miscellaneous	858	650
Total	<u>\$ 255,466</u>	<u>\$ 80,223</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:

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

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.

# HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

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: On August 18, 2016, the FASB issued ASU 2016-14 Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Habitat has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

On November 17, 2016, the FASB issued ASU 2016-18 Statement of Cash Flows (Topic 230) Restricted Cash. The update clarifies the presentation of restricted cash in the statement of cash flow. Habitat has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

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

# 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:

	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 1,080,314	\$ 1,346,283
Cash restricted for:		
New Market Tax Credit program (see Note L)	46,885	63,801
SHFH Funding Company, LLC (see Note M)	5,638	8,728
Impound account	71,031	92,327
SMUD employee giving campaign	15,072	2,803
Rock-the-block project	89,308	5,606
Total restricted cash	227,934	173,265
Total cash, cash equivalents, and restricted cash	\$ 1,308,248	\$ 1,519,548

### 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 2019 and 2018 amounted to \$1,198,790 and \$1,068,517, 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:

	<b>2019</b>	<b>2018</b>
ReStore inventory	\$ 213,000	\$ 135,613
Construction inventory	75,664	71,345
Total	\$ 288,664	\$ 206,958

### 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. 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 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, 2019 and 2018 were discounted at 7.48% or 7.51%.

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 \$113,082 and \$97,461 during 2019 and 2018, respectively.

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. 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.

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:

	<u>2019</u>	<u>2018</u>
First mortgages (including homeowner receivables)	\$ 9,111,607	\$ 9,042,839
Less: unamortized discount	(4,785,113)	(4,795,035)
Less: allowance for uncollectible amounts	<u>(82,786)</u>	<u>(84,920)</u>
	<u>4,243,708</u>	<u>4,162,884</u>
 Second mortgages receivable	 1,156,227	 992,747
Less: unamortized discount	(453,635)	(360,209)
	<u>702,592</u>	<u>632,538</u>
	<u>\$ 4,946,300</u>	<u>\$ 4,795,422</u>

# 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, 2019 and 2018, Habitat had \$4,095,700 and \$4,035,700 of Cal-Home mortgage receivables, respectively. Of this amount, \$93,795 and \$219,134 was restricted for Cal-Home ReUse funds for years ended June 30, 2019 and 2018, respectively.

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

		<u>2019</u>		<u>2018</u>
Cal-Home mortgage receivable	\$	4,095,700	\$	4,035,700
Less: unamortized discount		<u>(2,369,392)</u>		<u>(2,332,691)</u>
	\$	<u>1,726,308</u>	\$	<u>1,703,009</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, 2019 and 2018. In 2019, discounts recorded for Cal-Home mortgages granted during the year amounted to \$181,681 and accretion of discounts amounted to \$144,980. In 2018, discounts recorded for Cal-Home mortgages granted during the year amounted to \$242,224 and accretion of discounts amounted to \$191,743.

### NOTE G - LAND, BUILDINGS, AND EQUIPMENT

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

		<u>2019</u>		<u>2018</u>
Land	\$	686,335	\$	697,585
Buildings		76,500		214,106
Vehicles		63,913		55,162
Construction equipment		60,887		62,746
Office and special event equipment		95,951		95,951
Tenant improvements		<u>133,404</u>		<u>133,404</u>
		1,116,990		1,258,954
Accumulated depreciation		<u>(328,316)</u>		<u>(312,302)</u>
	\$	<u>788,674</u>	\$	<u>946,652</u>



# HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE H - DEBT

	2019	2018
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 L).	\$ 1,880,000	\$ 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).	609,178	653,426
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.	1,685,215	1,728,377
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.	71,865	85,882
Total principal balance	4,246,258	4,347,685
Less unamortized loan fees	(31,032)	(32,764)
Notes payable	\$ 4,215,226	\$ 4,314,921

The future minimum loan payments are as follows at June 30, 2019:

<u>Year Ending June 30</u>			
2020	\$	118,763	
2021		112,017	
2022		97,966	
2023		90,530	
2024		91,605	
Thereafter		3,735,377	
Total	\$	4,246,258	

# HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE H - DEBT - Continued

#### Line of Credit

Habitat has a line of credit agreement with River City Bank to provide borrowing capacity up to \$200,000. Effective May 30, 2018, the line of credit bears interest at 6.25% and had a maturity date 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. During 2019, \$48,189 of the line of credit was used and was outstanding as of June 30, 2019. 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, 2019 and 2018, the line of credit available for issuance was \$201,811 and \$200,000, respectively.

### 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, 2019 and 2018 of \$83,836 and \$100,157 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 \$208,782 and \$209,103 during the years ended June 30, 2019 and 2018, respectively.

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

<u>Year Ending June 30</u>	
2020	\$ 214,740
2021	220,608
2022	111,880
Total	\$ <u>547,228</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.

# HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE J - NET ASSETS WITH DONOR RESTRICTIONS

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

	2019	2018
<b>Subject to the Passage of Time or Expenditure for Specified Purpose:</b>		
Low-income housing construction	\$ 399,059	\$ 953,827
West Sacramento NRI	21,277	32,585
Veterans NR Elk Grove	1,385	9,350
Gala	45,600	98,993
43rd Avenue NRI	23,471	65,000
NR General	66,285	35,403
North Sac NRI	2,114	9,442
Cal-Home mortgage assistance	1,726,308	1,703,009
<b>Total Subject to the Passage of Time or Expenditure for Specified Purpose</b>	<b>2,285,499</b>	<b>2,907,609</b>
Total net assets with donor restrictions	\$ 2,285,499	\$ 2,907,609

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:

	2019	2018
<b>Purpose Restrictions Accomplished:</b>		
Low-income housing construction	\$ 922,715	\$ 337,895
West Sacramento NRI	11,308	-
Veterans NR Elk Grove	12,965	-
NR General	92,723	-
North Sac NRI	7,328	-
43 <sup>rd</sup> Avenue NRI	66,529	-
PG&E solar habitat program	-	42,000
Noralto NRI	-	25,000
Dela Reed	-	18,000
Bank of the West	-	5,000
Thrivent build repairs	-	5,000
Gala	164,284	52,273
Cal-Home mortgage assistance	36,701	50,481
Total restrictions released	\$ 1,314,553	\$ 535,649

# 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:

	2019	2018
Contingency fund	\$ 50,000	\$ 25,000
Truck	10,000	-
Global Village fund	12,918	12,918
Stoner infrastructure	188,636	-
Mandolin Estates infrastructure	73,500	-
	\$ 335,054	\$ 37,918

### 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.

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 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.

# HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE L - NEW MARKET TAX CREDIT PROGRAM - Continued

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 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 year-end and all related entities have been dissolved.

At June 30, 2019 and 2018, Habitat has recorded \$21,255 and \$29,843 of deferred fees and \$46,885 and \$63,801 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 2019 and 2018, Habitat incurred \$14,312 and \$15,234 of loan interest and \$18,663 and \$16,579 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 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 \$31,032 and \$32,764 as of June 30, 2019 and 2018, respectively, are netted against the note payable balance in the accompanying statements of financial position.

# HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **NOTE M - MORTGAGE SECURITIZATION AND SALE - Continued**

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.

### **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, 2019 and 2018, the organization had \$986,708 and \$1,193,916 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, 2019 and 2018.

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.

# HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **NOTE O - RELATED PARTIES - Continued**

The notes payable due to HFHI under these SHOP grants amounted to \$71,865 and \$85,882 at June 30, 2019 and 2018, respectively (see Note H).

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, 2019 and 2018, the amount contributed was \$78,489 and \$ 89,309, respectively.

### **NOTE P - AVAILABILITY AND LIQUIDITY**

The following represents Habitat's financial assets at June 30, 2019 and 2018:

Financial assets at year-end:	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 1,080,314	\$ 1,346,283
Restricted cash and cash equivalents	227,934	173,265
Mortgages receivable, current portion	461,719	440,947
Neighborhood revitalization receivable, current portion	100,225	77,003
Total financial assets	<u>1,870,192</u>	<u>2,037,498</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	559,191	1,204,600
Board designated net assets	335,054	37,918
Impound accounts	31,627	45,317
Deferred revenue	230,309	210,000
	<u>1,156,181</u>	<u>1,497,835</u>
Financial assets available to meet general expenditures within one year	<u>\$ 714,011</u>	<u>\$ 539,663</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 events and transactions for potential recognition or disclosure through January 28, 2020, the date that the financial statements were available to be issued.