Williams & Olds
Certified Public Accountants

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

June 30, 2021 and 2020

900 University Avenue, Suite 100
Sacramento, CA 95825
Phone: 916.858.1680
Fax: 916.858.1055
A Professional Corporation

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

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WILLIAMS
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Certified Public Accountants

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, 2021 and 2020, 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.

WILLIAMS
& OLDS
Certified Public Accountants

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, 2021 and 2020, 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.

Emphasis of Matter

As discussed in Note B to the financial statements, Habitat for Humanity of Greater Sacramento, Inc. adopted Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made.* Our opinion is not modified with respect to this matter.

Williams & Olds

Sacramento, California
December 28, 2021

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2021 and 2020

		2021		2020
ASSETS				
Current assets				
Cash and cash equivalents	$	3,336,287	$	1,275,567
Restricted cash and cash equivalents		170,234		197,942
Pledge receivable		-		95,000
Grant receivable		32,500		-
Current portion of mortgages receivable, net		240,264		245,047
Current portion of pledged mortgages receivable, net		228,199		219,504
Neighborhood revitalization receivable, net		235,513		144,401
Prepaid expenses and deposits		71,501		52,586
Inventories		122,591		245,527
Current portion of construction in progress		1,572,850		1,042,537
Total current assets		6,009,939		3,518,111
Non-current assets				
Mortgages receivable, net of current portion		2,936,692		4,760,465
Pledged mortgages receivable, net of current portion		2,089,427		137,886
Cal-Home mortgages receivable		1,867,003		1,777,258
Land, buildings, and equipment, net of accumulated depreciation		859,373		740,686
Construction in progress, net of current portion		197,194		149,017
TOTAL ASSETS	$	13,959,628	$	11,083,423
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable and accrued expenses	$	280,532	$	210,311
Impound accounts held		26,618		8,639
Current portion of deferred lease liability		33,926		27,889
Refundable advances		-		17,799
Line of credit		115,769		20,000
Current portion of secured financing		121,844		45,385
Current portion of notes payable		334,736		201,123
Total current liabilities		913,425		531,146
Non-current liabilities				
Deferred lease liability, net of current portion		-		33,926
Contract liabilities, net of current portion		291,000		257,000
Secured financing, net of current portion		3,005,408		1,595,443
Notes payable, net of current portion		497,528		676,976
TOTAL LIABILITIES		4,707,361		3,094,491
COMMITMENTS AND CONTINGENCIES		-		-
NET ASSETS				
Without donor restrictions		3,968,568		2,881,617
With donor restrictions		5,283,699		5,107,315
TOTAL NET ASSETS		9,252,267		7,988,932
TOTAL LIABILITIES AND NET ASSETS	$	13,959,628	$	11,083,423

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, 2021 and 2020

	June 30, 2021			June 30, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
Homes transferred	$ 1,629,400	$ -	$ 1,629,400	$ 1,668,387	$ -	$ 1,668,387
Contributions	695,321	1,657,688	2,353,009	424,680	1,182,558	1,607,238
Grants	62,500	-	62,500	40,408	-	40,408
ReStore sales	929,154	-	929,154	1,055,262	-	1,055,262
Amortization of mortgage discounts	671,228	-	671,228	646,338	-	646,338
In-kind contributions	387,071	-	387,071	147,950	-	147,950
Interest income	1,083	-	1,083	2,268	-	2,268
Neighborhood revitalization	233,096	-	233,096	133,146	-	133,146
Other revenue	58,523	-	58,523	38,795	-	38,795
Net assets released from restrictions	1,481,304	(1,481,304)	-	636,338	(636,338)	-
TOTAL SUPPORT AND REVENUE	6,148,680	176,384	6,325,064	4,793,572	546,220	5,339,792
EXPENSES						
Program services	4,259,676	-	4,259,676	4,351,023	-	4,351,023
Management and administrative	662,257	-	662,257	407,935	-	407,935
Fundraising	427,546	-	427,546	513,102	-	513,102
TOTAL EXPENSES	5,349,479	-	5,349,479	5,272,060	-	5,272,060
CHANGE IN NET ASSETS BEFORE OTHER ITEMS	799,201	176,384	975,585	(478,488)	546,220	67,732
NON-OPERATING ACTIVITIES:						
Cancellation of debt	287,750	-	287,750	271,836	-	271,836
CHANGE IN NET ASSETS	1,086,951	176,384	1,263,335	(206,652)	546,220	339,568
NET ASSETS AT BEGINNING OF YEAR	2,881,617	5,107,315	7,988,932	3,088,269	4,561,095	7,649,364
NET ASSETS AT END OF YEAR	$ 3,968,568	$ 5,283,699	$ 9,252,267	$ 2,881,617	$ 5,107,315	$ 7,988,932

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, 2021 and 2020

	June 30, 2021				June 30, 2020			
	Program Services	Management and Administrative	Fund-raising	Total	Program Services	Management and Administrative	Fund-raising	Total
Cost of homes sold	$ 1,968,837	$ -	$ -	$ 1,968,837	$ 1,838,218	$ -	$ -	$ 1,838,218
Wages, payroll taxes and benefits	824,666	311,386	288,522	1,424,574	838,240	174,858	239,442	1,252,540
Mortgage discount given	610,015	-	-	610,015	898,584	-	-	898,584
Forgiven mortgages	273,816	-	-	273,816	113,926	-	-	113,926
Bank fees and loan interest	74,128	148,254	614	222,996	146,722	25,924	2,070	174,716
Rent and occupancy	146,975	15,680	14,565	177,220	147,185	14,530	14,613	176,328
Equipment, small tools and supplies	98,054	30,501	23,612	152,167	108,617	18,978	16,592	144,187
Professional services	73,115	43,651	15,258	132,024	26,791	60,094	5,037	91,922
Tithes to Habitat International	63,304	-	-	63,304	62,867	-	-	62,867
Depreciation	-	58,577	-	58,577	-	28,652	-	28,652
New market tax credit costs	-	-	-	-	25,996	3,173	9,762	38,931
Marketing	2,411	-	49,525	51,936	6,063	8,019	205,651	219,733
Utilities and phone	33,069	4,359	4,451	41,879	31,293	3,669	3,511	38,473
Repairs and maintenance	33,268	5,028	3,364	41,660	48,033	4,567	3,180	55,780
Affiliation fees	25,100	9,996	1,445	36,541	23,896	8,618	1,035	33,549
Printing	8,335	4,897	19,065	32,297	8,892	1,677	9,655	20,224
Insurance	14,574	3,123	3,761	21,458	14,153	3,712	1,824	19,689
Travel and training	5,191	10,880	977	17,048	10,136	7,887	206	18,229
Miscellaneous	4,171	11,533	-	15,704	501	441	-	942
Postage and freight	647	3,820	2,387	6,854	440	3,966	524	4,930
Board travel and meetings	-	572	-	572	470	2,139	-	2,609
Loss on the sale of asset	-	-	-	-	-	37,031	-	37,031
	$ 4,259,676	$ 662,257	$ 427,546	$ 5,349,479	$ 4,351,023	$ 407,935	$ 513,102	$ 5,272,060

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, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 1,263,335	$ 339,568
Adjustments to reconcile the change in net assets to net cash used in operating activities:		
Depreciation	58,577	28,652
Amortization of deferred fees	-	21,255
Amortization of loan fees	1,732	1,732
Amortization of secured financing costs	1,599	-
Provision for bad debt expense	(1,737)	(13,538)
Sale of homes recognized through issuance of mortgage notes	(982,342)	(1,539,277)
Amortization of mortgage loan discount	(671,228)	(646,338)
Discount on secured financing	(499,709)	-
Mortgage discount given	430,249	828,650
Write-off of forgiveness	273,816	113,926
Cal-Home mortgage discount given	179,765	69,935
Cal-Home mortgage reuse	4,100	58,486
Gain on debt forgiveness	(287,605)	(271,836)
Loss on sale of property	-	37,031
Change in operating assets and liabilities		
Pledge receivable	95,000	(95,000)
Grant receivable	(32,500)	-
Neighborhood revitalization receivable	(91,112)	(44,176)
Prepaid expenses and deposits	(18,915)	48,029
Inventories	122,936	43,137
Homes awaiting transfer	-	129,232
Construction in progress	(578,490)	233,727
Accounts payable and accrued expenses	70,221	25,896
Impound accounts held	17,979	(22,988)
Refundable advances	(17,799)	17,799
Contract liabilities and deferred lease liability	6,111	39,979
NET CASH USED IN OPERATING ACTIVITIES	(656,017)	(596,119)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments received on mortgage notes receivable	280,102	461,838
Payments received on pledged mortgage notes receivable	261,030	159,457
Payments received on Cal-Home mortgages receivable	4,820	4,000
Cash paid for leasehold improvements and equipment	(177,264)	(17,695)
NET CASH PROVIDED BY INVESTING ACTIVITIES	368,688	607,600

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, 2021 and 2020

	2021	2020
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	284,877	287,605
Proceeds from line of credit	197,792	121,811
Payments on line of credit	(102,023)	(150,000)
Proceeds from Habitat for Humanity International, Inc. notes payable	16,250	-
Payments on Habitat for Humanity International, Inc. notes payable	(21,469)	(22,722)
Proceeds from secured financing	2,137,872	-
Payments on secured financing	(81,463)	(44,387)
Principal payments on mortgage securitization loan payable	(39,620)	(38,527)
Secured financing costs incurred	(71,875)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,320,341	153,780
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	2,033,012	165,261
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT BEGINNING OF YEAR	1,473,509	1,308,248
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF YEAR	$ 3,506,521	$ 1,473,509
SUPPLEMENTAL INFORMATION:		
Cash paid for income taxes	$ -	$ -
Cash paid for interest	$ 71,915	$ 67,226
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 G).

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.

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, 2021 and 2020 amounted to $195,109 and $124,024 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, 2021 and 2020.

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.

Contributions and Grants: Contributions and grants 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 and grants 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.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

Contributions and grants 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:

	2021	2020
Construction materials	$ 26,322	$ 45,012
Property	333,979	-
Services	13,770	101,838
Miscellaneous	13,000	1,100
Total	$ 387,071	$ 147,950

Revenue Recognition: Revenue is measured based on the amount of consideration specified in a contract with a customer. Revenue is recognized when earned and as our performance obligations under the terms of the contract are satisfied which generally occurs when the services are provided.

Homes Transferred – Homes transferred are recognized as income at the time the homes are sold. 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.

ReStore Sales – Restore sales are recognized as income at the time the goods are sold.

Neighborhood Revitalization – Revenue is recognized over time generally using the cost-to-cost method (e.g., costs incurred to date relative to total estimated costs at completion) to measure progress because it depicts the transfer of value to the customer. Contract costs include all direct materials, labor and subcontractor costs and an allocation of indirect costs related to contract performance.

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

Contract Assets and Liabilities - When billing occurs subsequent to revenue recognition, resulting in unbilled revenue, a contract asset ensues and is presented under the caption "Contract assets" in the Statements of Financial Position. This represents unbilled revenues which arise when revenue has been earned, but the amount will not be billed until a later date. When advances or deposits from customers are received, resulting in deferred revenue, a contract liability ensues and is presented under the caption "Contract Liabilities" in the Statements of Financial Position. This represents deferred revenue when Habitat has billed a customer in excess of revenue recognized to date or when payments are received in advance.

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

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.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

Reclassifications: Certain prior year amounts have been reclassified to conform to current year presentation. These reclassifications had no effect on the change in net assets.

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. The year ended June 30, 2019 net assets at beginning of year balances were adjusted to reclassify Cal-Home unamortized discount balance which were previously recorded in the without donor restrictions balance.

	Previously Stated	As Restated
Net Assets at Beginning of Year:		
Without Donor Restrictions	$ 5,363,865	$ 3,088,269
With Donor Restrictions	$ 2,285,499	$ 4,561,095
Net Assets at End of Year:		
Without Donor Restrictions	$ 5,182,257	$ 2,881,617
With Donor Restrictions	$ 2,806,675	$ 5,107,315

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which provides guidance on revenue recognition and supersedes the revenue recognition requirements in Topic 605, Revenue Recognition and most industry-specific guidance. The standard's core principle is that a company recognizes revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under current guidance. These judgments may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation.

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

Habitat adopted ASU 2014-09 effective July 1, 2020 using the full retrospective transition method. This adoption did not have a significant impact on the financial statements. Habitat analyzed the revenue streams and concluded there was no change to the timing and pattern of revenue recognition for these revenue streams under the new guidance. As such, adoption of the standard did not result in a change to the revenue recognition policies, require recognition of a cumulative adjustment or have a material impact on the financial statements

NOTE C - CASH AND CASH EQUIVALENTS

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

		2021		2020
Cash and cash equivalents	$	3,336,287	$	1,275,567
Cash restricted for:				
SHFH Funding Company, LLC (see Note G)		31,671		5,529
Impound account		138,569		79,527
SMUD employee giving campaign		-		31,515
Rock-the-block project		-		81,371
Total restricted cash		170,240		197,942
Total cash, cash equivalents, and restricted cash	$	3,506,527	$	1,473,509

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 2021 and 2020 amounted to $929,154 and $ 1,055,262, 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:

		2021		2020
ReStore inventory	$	82,454	$	166,894
Construction inventory		40,137		78,633
Total	$	122,591	$	245,527

NOTE E - MORTGAGES RECEIVABLE

Habitat provides non-interest bearing mortgage loans, payable in monthly installments, to qualified low-income individuals in the greater Sacramento area. All loans are secured by real property with fair values estimated to exceed mortgage balances. Because interest is not charged, Habitat discounts each note using applicable market interest rates for the year of origination. These rates are determined by Habitat for Humanity International at the end of each fiscal year based upon low-income housing credits published by the Federal Government. Discount rates for mortgages held range from 7.38% to 8.48%.

New mortgages received during the years ended June 30, 2021 and 2020 were discounted at 7.38% and 7.38% or 7.66%, 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 $273,816 and $113,926 during 2021 and 2020, respectively.

In 2021, discounts recorded for first and second mortgages granted during the year amounted to $430,249 and accretion of discounts amounted to $469,898. 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.

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:

	2021	2020
First mortgages (including homeowner receivables)	$ 4,299,360	$ 6,504,097
Less: unamortized discount	(2,128,377)	(2,297,287)
Less: allowance for uncollectible amounts	(67,511)	(69,248)
	2,103,472	2,207,487
Second mortgages receivable	1,825,831	1,457,319
Less: unamortized discount	(752,347)	(589,369)
	1,073,484	867,950
	$ 3,176,956	$ 3,075,437

NOTE E - MORTGAGES RECEIVABLE - Continued

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

At June 30, 2021 and 2020, Habitat had $4,154,979 and $4,086,799 of Cal-Home mortgage receivables, respectively. At June 30, 2021 and 2020, $140,721 and $8,901 is available for Cal-Home ReUse loans, respectively.

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

	2021	2020
Cal-Home mortgage receivable	$ 4,154,979	$ 4,086,799
Less: unamortized discount	(2,287,976)	(2,309,541)
	$ 1,867,003	$ 1,777,258

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 7.38% to 8.14% and 7.39% to 8.14% as of June 30, 2021 and 2020, respectively. In 2021, discounts recorded for Cal-Home mortgages granted during the year amounted to $179,765 and accretion of discounts amounted to $201,330. In 2020, discounts recorded for Cal-Home mortgages granted during the year amounted to $69,935 and accretion of discounts amounted to $129,786.

NOTE F - LAND, BUILDINGS, AND EQUIPMENT

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

	2021	2020
Land	$ 662,835	$ 662,835
Vehicles	64,285	64,285
Construction equipment	24,386	24,386
Office and special event equipment	188,127	38,620
Tenant improvements	133,404	133,404
	1,073,037	923,530
Accumulated depreciation	(213,664)	(182,844)
	$ 859,373	$ 740,686

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE G - DEBT

		2021		2020
Note payable to Banner Bank (formerly Premier West Bank), dated April 17, 2012, total amount of credit granted $979,029, principal and interest payments of $5,273 are due monthly. Note matures on November 15, 2039.	$	531,031	$	570,651
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 from January 2022 to January 2027.		43,924		49,143
Note payable to River City Bank (see *SBA Loan*).		284,877		262,605
Note payable to City of Sacramento (see *Small Business Emergency Economic Relief Fund loan*).		-		25,000
Total principal balance		859,832		907,399
Less unamortized loan fees		(27,568)		(29,300)
Notes payable	$	832,264	$	878,099

Banner Bank

During the year ended June 30, 2012, Habitat entered into a securitization agreement to borrow against fifteen of its mortgage notes receivable. 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 Banner Bank ("BB"). Under the agreement, Banner Bank 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. 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 $27,568 and $29,300 as of June 30, 2021 and 2020, respectively, are netted against the note payable balance in the accompanying statements of financial position.

NOTE G - 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. On February 9, 2021, the PPP loan forgiveness was approved and the full amount was forgiven and is included in Non-Operating Activities in the Statements of Activities.

On February 9, 2021, Habitat received a second SBA Loan from River City Bank, pursuant to the PPP established under the CARES Act, in the amount of $284,877. Habitat was subject to the same good faith certifications as required by the SBA Loan received on April 10, 2020. On July 27, 2021, the PPP loan forgiveness was approved and the full amount was forgiven.

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 was 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. On April 5, 2021, the City of Sacramento loan forgiveness was approved and the full amount was forgiven.

The future minimum loan payments are as follows at June 30, 2021:

Year Ending June 30		
2022	$	336,468
2023		74,975
2024		41,469
2025		34,430
2026		32,540
Thereafter		339,950
Total	$	859,832

NOTE G - DEBT - Continued

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. Effective April 21, 2021, the maturity date was extended to May 14, 2022. During 2021, $197,792 of the line of credit was used to cover expenses and had an outstanding balance of $115,769 as of June 30, 2021. During 2020, $121,811 of the line of credit was used to cover expenses and had an outstanding balance of $20,000 as of June 30, 2020. As of June 30, 2021 and 2020, the line of credit available for issuance was $115,519 and $230,000, respectively.

NOTE H – SECURED FINANCING AND MORTGAGE LOAN SALES

On June 17, 2021 and July 23, 2020, Habitat entered into a loan purchase and sale agreements with East West Bank (EWB). The loans were sold for $1,160,592 and 977,280, at an annual discount rate of 2.25% and 2.00%. As part of the agreements the 13 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 has first right of refusal to repurchase the property if sold by the homeowner. Habitat is responsible for servicing these loans. As of June 30, 2021, 13 mortgage loans were outstanding, the loans continue to perform and management believes none of the loans will require a replacement loan due to delinquency.

On July 23, 2013, Habitat entered into a loan origination agreement with River City Bank (“RCB”). Loans are sold at an annual discount rate of 2.8%. As part of the agreement the mortgages are 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 has first right of refusal to repurchase the property if sold by the homeowner. Habitat is responsible for servicing these loans. As of June 30, 2021 and 2020, 11 mortgage loans were outstanding, the loans continue to perform and management believes none of the loans will require a replacement loan due to delinquency.

On July 23, 2013, Habitat entered into a loan origination agreement with Safe Credit Union (“SCU”). Loans are sold at an annual discount rate of 2.8%. As part of the agreement the mortgages are 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 has first right of refusal to repurchase the property if sold by the homeowner. Habitat is responsible for servicing these loans. As of June 30, 2021 and 2020, 7 mortgage loans were outstanding, the loans continue to perform and management believes none of the loans will require a replacement loan due to delinquency.

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.

NOTE H – SECURED FINANCING AND MORTGAGE LOAN SALES - Continued

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.

The secured financing balances as of June 30, 2021 and 2020 are as follows:

	2021	2020
EWB	$ 2,102,056	$ -
RCB	1,010,774	1,039,076
SCU	584,407	601,752
Total secured financing balance	3,697,237	1,640,828
Less: unamortized financing discounts and fees	(569,985)	-
Total secured financing balance, net	$ 3,127,252	$ 1,640,828

The underlying pledged mortgages receivable balance as of June 30, 2021 and 2020 are as follows:

	2021	2020
EWB	$ 2,106,280	$ -
RCB	1,468,330	1,533,603
SCU	798,088	831,923
BB	575,401	656,054
Total pledged mortgages receivable	4,948,099	3,021,580
Less: unamortized discount	(2,630,473)	(2,664,190)
Total pledged mortgages receivable, net	$ 2,317,626	$ 357,390

The future remaining contractual maturity of the pledged mortgages receivable are as follows at June 30, 2021:

Year Ending June 30	
2022	$ 219,504
2023	219,504
2024	219,504
2025	219,504
2026	219,504
Thereafter	3,850,579
Total	$ 4,948,099

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, 2021 and 2020 of $33,926 and $61,815 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 $195,758 and $220,922 during the years ended June 30, 2021 and 2020, 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:

Year Ending June 30		
2022	$	114,802
2023		2,964
2024		988
Total	$	118,754

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 - 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, 2021 and 2020, the organization had $3,178,771 and $1,032,211 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.

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE K - 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, 2021 and 2020.

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 $43,924 and $49,143 at June 30, 2021 and 2020, respectively (see Note G).

Habitat also donates funds to HFHI, these funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2021 and 2020, the amount contributed was $63,304 and $ 62,867, respectively.

NOTE L - NET ASSETS WITH DONOR RESTRICTIONS

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

	2021	2020
Subject to the Passage of Time or Expenditure for Specified Purpose:		
Low-income housing construction	$ 551,432	$ 714,280
West Sacramento NRI	13,749	23,603
Veterans NR Elk Grove	-	7,344
Gala	51,880	15,000
NR General	106,875	165,290
Rock-the-block	6,000	-
NR SMUD	398,784	4,086,798
Cal-Home mortgage assistance	4,154,978	4,086,798
Pledge – time restricted	-	95,000
Total Subject to the Passage of Time or Expenditure for Specified Purpose	5,283,699	5,107,315
Total net assets with donor restrictions	$ 5,283,699	$ 5,107,315

NOTE L - NET ASSETS WITH DONOR RESTRICTIONS – Continued

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:

	2021	2020
Purpose Restrictions Accomplished:		
Low-income housing construction	$ 751,001	$ 252,735
West Sacramento NRI	9,854	8,415
Veterans NR Elk Grove	17,344	20,208
NR General	96,965	183,579
NR SMUD	322,946	-
North Sac NRI	-	2,114
43rd Avenue NRI	-	34,092
Gala	56,375	106,195
District 2	-	25,000
Cal-Home mortgage assistance	131,819	4,000
Time Restrictions Expired:		
Pledge – time restricted	95,000	-
Total restrictions released	$ 1,481,304	$ 636,338

NOTE M - 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:

	2021	2020
Contingency fund	$ -	$ 11,960
Global Village fund	12,918	12,918
Mandolin Estates infrastructure	-	20,000
	$ 12,918	$ 44,878

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE N - 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 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). The loan proceeds were required to be used solely for the purpose of constructing and selling qualified housing properties to low income residents.

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.

NOTE O - AVAILABILITY AND LIQUIDITY

The following represents Habitat's financial assets at June 30, 2021 and 2020:

Financial assets at year-end:	2021	2020
Cash and cash equivalents	$ 3,336,287	$ 1,275,567
Restricted cash and cash equivalents	170,234	197,942
Pledge receivable	-	95,000
Grant receivable	32,500	-
Mortgages receivable	3,176,956	5,005,512
Neighborhood revitalization receivable, net	235,513	144,401
Total financial assets	6,951,490	6,718,422

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE O - AVAILABILITY AND LIQUIDITY - Continued

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	1,128,720	925,517
Board designated net assets	12,918	44,878
Impound accounts	26,618	8,639
Refundable advances	-	17,799
Contract liabilities	291,000	257,000
	1,459,259	1,253,833
Financial assets available to meet general expenditures within one year	$ 5,492,234	$ 5,464,589

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 P - SUBSEQUENT EVENTS

In preparing the consolidated financial statements, Habitat has evaluated subsequent events and transactions that occurred after the balance sheet date through December 28, 2021, the date that the financial statements were available to be issued.