



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

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

June 30, 2022 and 2021

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

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, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Habitat for Humanity of Greater Sacramento, Inc. as of June 30, 2022 and 2021, and the consolidated change in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Habitat for Humanity of Greater Sacramento, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Habitat for Humanity of Greater Sacramento, Inc.'s ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



Sacramento, California
November 28, 2022

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2022 and 2021

	2022	2021
ASSETS		
<i>Current assets</i>		
Cash and cash equivalents	\$ 8,454,741	\$ 3,336,287
Restricted cash and cash equivalents	88,405	170,234
Investments	61,166	-
Grants receivable	570,995	32,500
Neighborhood revitalization receivable, net	348,059	235,513
Prepaid expenses and deposits	61,338	71,501
Inventories	154,117	122,591
Current portion of mortgages receivable, net	264,143	240,264
Current portion of pledged mortgages receivable, net	221,431	228,199
Current portion of construction in progress	1,368,975	1,572,850
<i>Total current assets</i>	11,593,370	6,009,939
<i>Non-current assets</i>		
Mortgages receivable, net of current portion	3,611,533	2,936,692
Pledged mortgages receivable, net of current portion	2,147,250	2,089,427
Cal-Home mortgages receivable	2,069,401	1,867,003
Land, buildings, and equipment, net of accumulated depreciation	867,875	859,373
Construction in progress, net of current portion	286,213	197,194
<i>Total non-current assets</i>	8,982,272	7,949,689
TOTAL ASSETS	\$ 20,575,642	\$ 13,959,628
LIABILITIES AND NET ASSETS		
<i>Current liabilities</i>		
Accounts payable and accrued expenses	\$ 381,982	\$ 307,150
Current portion of deferred lease liability	-	33,926
Line of credit	-	115,769
Current portion of notes payable and secured financing	178,790	456,580
<i>Total current liabilities</i>	560,772	913,425
<i>Non-current liabilities</i>		
Contract liabilities	363,000	291,000
Secured financing, net of current portion	2,869,577	3,005,408
Notes payable, net of current portion	445,349	497,528
<i>Total non-current liabilities</i>	3,677,926	3,793,936
TOTAL LIABILITIES	4,238,698	4,707,361
COMMITMENTS AND CONTINGENCIES		
	-	-
NET ASSETS		
Without donor restrictions	9,554,268	3,968,568
With donor restrictions	6,782,676	5,283,699
TOTAL NET ASSETS	16,336,944	9,252,267
TOTAL LIABILITIES AND NET ASSETS	\$ 20,575,642	\$ 13,959,628

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

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2022 and 2021

	June 30, 2022			June 30, 2021		
	Without Donor	With Donor	Total	Without Donor	With Donor	Total
	Restrictions	Restrictions		Restrictions	Restrictions	
SUPPORT AND REVENUE						
Contributions	\$ 6,263,906	\$ 2,325,039	\$ 8,588,945	\$ 644,538	\$ 1,564,433	\$ 2,208,971
Homes transferred	3,237,540	-	3,237,540	1,629,400	-	1,629,400
ReStore sales	973,907	-	973,907	929,154	-	929,154
Amortization of mortgage discounts	624,428	-	624,428	671,228	-	671,228
Grants	598,495	-	598,495	62,500	-	62,500
Neighborhood revitalization	292,169	-	292,169	233,096	-	233,096
Special events, net of direct costs	27,191	106,989	134,180	23,866	93,255	117,121
Contributions of nonfinancial assets	68,517	-	68,517	387,071	-	387,071
Interest income	11,645	-	11,645	1,083	-	1,083
Other revenue	8,287	-	8,287	58,523	-	58,523
Investment return, net	(37,810)	-	(37,810)	-	-	-
<i>Net assets released from restrictions</i>	933,051	(933,051)	-	1,481,304	(1,481,304)	-
TOTAL SUPPORT AND REVENUE	13,001,326	1,498,977	14,500,303	6,121,763	176,384	6,298,147
EXPENSES						
Program services	6,459,421	-	6,459,421	4,259,676	-	4,259,676
Management and administrative	702,082	-	702,082	662,257	-	662,257
Fundraising	539,000	-	539,000	400,629	-	400,629
TOTAL EXPENSES	7,700,503	-	7,700,503	5,322,562	-	5,322,562
CHANGE IN NET ASSETS BEFORE NON-OPERATING ACTIVITIES	5,300,823	1,498,977	6,799,800	799,201	176,384	975,585
NON-OPERATING ACTIVITIES:						
Forgiveness of SBA loan	284,877	-	284,877	287,750	-	287,750
CHANGE IN NET ASSETS	5,585,700	1,498,977	7,084,677	1,086,951	176,384	1,263,335
NET ASSETS AT BEGINNING OF YEAR	3,968,568	5,283,699	9,252,267	2,881,617	5,107,315	7,988,932
NET ASSETS AT END OF YEAR	\$ 9,554,268	\$ 6,782,676	\$ 16,336,944	\$ 3,968,568	\$ 5,283,699	\$ 9,252,267

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

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2022 and 2021

	June 30, 2022				June 30, 2021			
	Program Services	Management and Administrative	Fund- raising	Total	Program Services	Management and Administrative	Fund- raising	Total
Cost of homes sold	\$ 2,831,553	\$ 11,157	\$ -	\$ 2,842,710	\$ 1,968,837	\$ -	\$ -	\$ 1,968,837
Mortgage discount given	1,818,649	-	-	1,818,649	610,015	-	-	610,015
Wages, payroll taxes and benefits	923,099	361,292	383,066	1,667,457	824,666	311,386	288,522	1,424,574
Bank fees and loan interest	201,939	30,830	553	233,322	74,128	148,254	614	222,996
Equipment, small tools and supplies	144,506	29,942	8,906	183,354	98,054	30,501	23,612	152,167
Rent and occupancy	161,934	-	17,408	179,342	146,975	15,680	14,565	177,220
Forgiven mortgages	160,450	-	-	160,450	273,816	-	-	273,816
Professional services	26,625	57,829	6,042	90,496	73,115	43,651	15,258	132,024
Tithes to Habitat International	-	85,624	-	85,624	63,304	-	-	63,304
Marketing	13,973	1,382	68,914	84,269	2,411	-	22,608	25,019
Depreciation	-	56,246	-	56,246	-	58,577	-	58,577
Printing	16,680	4,447	27,283	48,410	8,335	4,897	19,065	32,297
Repairs and maintenance	35,756	8,953	3,167	47,876	33,268	5,028	3,364	41,660
Utilities and phone	33,216	4,795	4,580	42,591	33,069	4,359	4,451	41,879
Affiliation fees	25,340	15,668	876	41,884	25,100	9,996	1,445	36,541
Travel and training	13,745	16,756	9,044	39,545	5,191	10,880	977	17,048
New market tax credit costs	30,413	3,934	1,746	36,093	-	-	-	-
Insurance	20,981	4,182	6,562	31,725	14,574	3,123	3,761	21,458
Miscellaneous	-	5,896	-	5,896	4,171	11,533	-	15,704
Postage and freight	487	2,699	853	4,039	647	3,820	2,387	6,854
Board travel and meetings	75	450	-	525	-	572	-	572
	<u>\$ 6,459,421</u>	<u>\$ 702,082</u>	<u>\$ 539,000</u>	<u>\$ 7,700,503</u>	<u>\$ 4,259,676</u>	<u>\$ 662,257</u>	<u>\$ 400,629</u>	<u>\$ 5,322,562</u>

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

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 7,084,677	\$ 1,263,335
<i>Adjustments to reconcile the change in net assets to net cash provided by/(used in) operating activities:</i>		
Depreciation	56,247	58,577
Amortization of loan fees	1,732	1,732
Amortization of secured financing costs	3,403	1,599
Provision for bad debt expense	(1,161)	(1,737)
Sale of homes recognized through issuance of mortgage notes	(2,828,585)	(982,342)
Amortization of mortgage loan discount	(635,111)	(671,228)
Discount on secured financing	18,645	(499,709)
Mortgage discount given	1,127,868	430,249
Write-off of forgiveness	160,450	273,816
Cal-Home mortgage discount given	701,462	179,765
Cal-Home mortgage reuse	7,350	4,100
Gain on debt forgiveness	(284,877)	(287,605)
Donated securities	(61,166)	-
<i>Change in operating assets and liabilities</i>		
Pledge receivable	-	95,000
Grant receivable	(538,495)	(32,500)
Neighborhood revitalization receivable	(112,546)	(91,112)
Prepaid expenses and deposits	10,163	(18,915)
Inventories	(31,526)	122,936
Construction in progress	114,856	(578,490)
Accounts payable and accrued expenses	105,137	70,221
Impound accounts held	(30,305)	17,979
Refundable advances	-	(17,799)
Contract liabilities and deferred lease liability	38,074	6,111
NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES	<u>4,906,292</u>	<u>(656,017)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments received on mortgage notes receivable	282,855	280,102
Payments received on pledged mortgage notes receivable	225,349	261,030
Payments received on Cal-Home mortgages receivable	7,350	4,820
Leasehold improvements and equipment	(64,749)	(177,264)
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES	<u>450,805</u>	<u>368,688</u>

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

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2022 and 2021

	2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	-	284,877
Proceeds from line of credit	-	197,792
Payments on line of credit	(115,769)	(102,023)
Proceeds from Habitat for Humanity International, Inc. notes payable	-	16,250
Payments on Habitat for Humanity International, Inc. notes payable	(10,848)	(21,469)
Proceeds from secured financing	80,510	2,137,872
Payments on secured financing	(233,622)	(81,463)
Principal payments on mortgage securitization loan payable	(40,743)	(39,620)
Secured financing costs incurred	-	(71,875)
NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES	(320,472)	2,320,341
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	5,036,625	2,033,012
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT BEGINNING OF YEAR	3,506,521	1,473,509
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF YEAR	\$ 8,543,146	\$ 3,506,521
<u>SUPPLEMENTAL INFORMATION:</u>		
Cash paid for income taxes	\$ -	\$ -
Cash paid for interest	\$ 79,293	\$ 71,915

The accompanying notes are an integral part of these financial 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 single member limited liability company, SHFH Funding Company, LLC.

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, 2022 and 2021 amounted to \$225,564 and \$195,109 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, 2022 and 2021.

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.

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

Contributions of nonfinancial assets: 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.

Contributions of nonfinancial assets were comprised of the following during the years ended June 30:

		<u>2022</u>		<u>2021</u>
Construction materials	\$	54,891	\$	26,322
Property		6,771		333,979
Services		-		13,770
Miscellaneous		<u>6,855</u>		<u>13,000</u>
Total	\$	<u>68,517</u>	\$	<u>387,071</u>

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:

<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.

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.

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

NOTE C - CASH AND CASH EQUIVALENTS

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

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 8,454,741	\$ 3,336,287
Cash restricted for:		
SHFH Funding Company, LLC	25,382	31,671
Impound account	<u>63,023</u>	<u>138,563</u>
Total restricted cash	<u>88,405</u>	<u>170,234</u>
 Total cash, cash equivalents, and restricted cash	 \$ <u>8,543,146</u>	 \$ <u>3,506,521</u>

NOTE D - INVESTMENTS AND FAIR VALUE MEASUREMENTS

Following is a description of the valuation methodologies used for investments measured at fair value.

Common stock and money market funds: Valued at the closing price reported on the active market on which the individual securities are traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the valuation methods are appropriate and consistent within the industry, the use of different methodologies or assumption to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE D - INVESTMENTS AND FAIR VALUE MEASUREMENTS - Continued

The following table summarizes the investments at June 30, 2022 based on the inputs used to value them:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common Stock	\$ <u>61,166</u>	<u>-</u>	<u>-</u>	\$ <u>61,166</u>
Total investments	\$ <u>61,166</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>61,166</u>

NOTE E - 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 2022 and 2021 amounted to \$973,907 and \$929,154, respectively. Management uses historical records and experience to estimate the value of donated ReStore inventory on hand. Construction materials donated for use in homes under construction and donated professional services are recognized at estimated fair value at time of donation.

Inventory consists of the following at June 30:

	<u>2022</u>	<u>2021</u>
ReStore inventory	\$ <u>80,728</u>	\$ <u>82,454</u>
Construction inventory	<u>73,389</u>	<u>40,137</u>
Total	\$ <u>154,117</u>	\$ <u>122,591</u>

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 7.23% to 8.48%.

New mortgages received during the years ended June 30, 2022 and 2021 were discounted at 7.23% and 7.23% or 7.38%, 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.

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE F - MORTGAGES RECEIVABLE - Continued

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 \$160,450 and \$273,816 during 2022 and 2021, respectively.

During the year ended June 30, 2022, discounts recorded for first and second mortgages granted during the year amounted to \$1,117,186 and accretion of discounts amounted to \$513,218. During the year ended June 30, 2021, discounts recorded for first and second mortgages granted during the year amounted to \$430,249 and accretion of discounts amounted to \$469,898.

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

	2022	2021
First mortgages (including homeowner receivables)	\$ 5,432,365	\$ 4,299,360
Less: unamortized discount	(2,833,137)	(2,128,377)
Less: allowance for uncollectible amounts	(66,350)	(67,511)
	2,532,878	2,103,472
 Second mortgages receivable	 2,299,944	 1,825,831
Less: unamortized discount	(957,146)	(752,347)
	1,342,798	1,073,484
	\$ 3,875,676	\$ 3,176,956

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, 2022 and 2021, Habitat had \$4,947,629 and \$4,154,979 of Cal-Home mortgage receivables, respectively. At June 30, 2022 and 2021, \$148,071 and \$140,721 is available for Cal-Home ReUse loans, respectively.

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE F - MORTGAGES RECEIVABLE - Continued

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

		<u>2022</u>		<u>2021</u>
Cal-Home mortgage receivable	\$	4,947,629	\$	4,154,979
Less: unamortized discount		<u>(2,878,228)</u>		<u>(2,287,976)</u>
	\$	<u>2,069,401</u>	\$	<u>1,867,003</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 7.23% to 8.14% and 7.38% to 8.14% as of June 30, 2022 and 2021, respectively. During the year ended June 30, 2022, discounts recorded for Cal-Home mortgages granted during the year amounted to \$701,463 and accretion of discounts amounted to \$111,210. During the year ended June 30, 2021, discounts recorded for Cal-Home mortgages granted during the year amounted to \$179,765 and accretion of discounts amounted to \$201,330.

NOTE G - LAND, BUILDINGS, AND EQUIPMENT

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

		<u>2022</u>		<u>2021</u>
Land	\$	662,835	\$	662,835
Office and special event equipment		196,807		188,127
Tenant improvements		155,958		133,404
Vehicles		93,285		64,285
Construction equipment		<u>28,900</u>		<u>24,386</u>
		1,137,785		1,073,037
Accumulated depreciation		<u>(269,910)</u>		<u>(213,664)</u>
	\$	<u>867,875</u>	\$	<u>859,373</u>

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE H - DEBT

Notes payable consist of the following at June 30:

	2022	2021
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.	\$ 490,288	\$ 531,031
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.	33,076	43,924
Note payable to River City Bank (see <i>SBA Loan</i>).	-	284,877
Total principal balance	523,364	859,832
Less unamortized loan fees	(25,836)	(27,568)
Notes payable including current portion of \$52,179 and \$334,736	\$ 497,528	\$ 832,264

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 single member 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 are serviced by the LLC and 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 \$25,836 and \$27,568 as of June 30, 2022 and 2021, 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 H - DEBT - Continued

SBA Loan

On April 10, 2020, Habitat received a U.S. Small Business Administration Loan (the "SBA Loan") from River City Bank, pursuant to the Paycheck Protection Program (the "PPP") established under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), in the amount of \$262,605. The application for these funds required Habitat in good faith to certify that the current economic uncertainty made the loan request necessary to support the ongoing operations of Habitat. This certification further required Habitat to take into account current business activity and the ability to access other sources of liquidity sufficient to support ongoing operations in a manner that is not significantly detrimental to the business. On February 9, 2021, the PPP loan forgiveness was approved and the full amount was forgiven.

On February 9, 2021, Habitat received a second SBA Loan from River City Bank 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 entire amount of the PPP loan was forgiven.

The future minimum principal payments are as follows at June 30, 2022:

<u>Year Ending June 30</u>		
2023	\$	53,911
2024		62,533
2025		34,430
2026		32,540
2027		31,650
Thereafter		<u>308,300</u>
Total	\$	<u>523,364</u>

Line of Credit

Habitat has a line of credit per annum through May 15, 2023 with River City Bank to provide borrowing capacity up to \$250,000, bearing interest on any outstanding balance at 6.25%. As of June 30, 2022, no balance is outstanding on the line of credit.

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE I – 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. 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, 2022, 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. 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, 2022 and 2021, 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. 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, 2022 and 2021, 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.

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

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE I – SECURED FINANCING AND MORTGAGE LOAN SALES - Continued

The secured financing balances as of June 30, 2022 and 2021 are as follows:

	2022	2021
East West Bank	\$ 2,020,936	\$ 2,102,056
River City Bank	956,620	1,010,774
Safe Credit Union	566,570	584,407
Total secured financing balance	3,544,126	3,697,237
Less: unamortized financing discounts and fees	(547,938)	(569,985)
Total secured financing balance, including current portion of \$126,611 and \$121,844	\$ 2,996,188	\$ 3,127,252

The underlying pledged mortgages receivable balance as of June 30, 2022 and 2021 are as follows:

	2022	2021
East West Bank	\$ 2,031,368	\$ 2,106,280
River City Bank	1,371,587	1,468,330
Safe Credit Union	766,910	798,088
Banner Bank	523,697	575,401
Total pledged mortgages receivable	4,693,562	4,948,099
Less: unamortized discount	(2,324,881)	(2,630,473)
Total pledged mortgages receivable, net	\$ 2,368,681	\$ 2,317,626

The future remaining contractual maturity of the pledged mortgages receivable are as follows at June 30, 2022:

<u>Year Ending June 30</u>		
2023	\$	219,504
2024		219,504
2025		219,504
2026		219,504
2027		219,504
Thereafter		3,596,043
Total	\$	4,693,563

NOTE J - COMMITMENTS AND CONTINGENCIES

Lease Commitments: Habitat leases office and warehouse space under the terms of a noncancelable operating lease agreement that expires on June 30, 2027. The lease agreement provided for free rent during the first six months of the lease term. The period of free rent was included in rent expense on a straight-line basis and a deferred lease liability was recorded. The deferred lease liability was fully amortized at June 30, 2022.

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE J - COMMITMENTS AND CONTINGENCIES - Continued

Habitat has also entered into operating lease agreements for the use of a truck and office equipment. The future minimum lease payments under all operating leases are as follows:

<u>Year Ending June 30</u>		
2023	\$	338,136
2024		346,215
2025		355,584
2026		366,251
2027		<u>377,239</u>
Total	\$	<u>1,783,425</u>

Total rent expense under the above leases amounted to \$193,186 and \$195,758 during the years ended June 30, 2022 and 2021, respectively.

Habitat has entered into a disposition and development agreement with the Sacramento Housing and Redevelopment Agency to build Cornerstone, an all-electric affordable housing community, alongside Mutual Housing California (MHC) and other partners. The development will combine 18 single-family homes built by Habitat and 108 affordable multi-family rental units built by MHC.

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 K - 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, 2022 and 2021, the organization had \$8,101,300 and \$3,178,771 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 L - RELATED PARTIES

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 \$33,076 and \$43,924 at June 30, 2022 and 2021, respectively.

Habitat donates funds to HFHI, these funds are used to construct homes in economically depressed areas around the world. During the years ended June 30, 2022 and 2021, the amount contributed was \$85,624 and \$63,304, respectively.

NOTE M - NET ASSETS WITH DONOR RESTRICTIONS

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

	2022	2021
Subject to the Passage of Time or Expenditure for Specified Purpose:		
Cal-Home mortgage assistance	\$ 4,947,629	\$ 4,154,978
SMUD Neighborhood Revitalization Initiative (NRI)	902,691	398,784
Rock-the-block	299,000	6,000
Low-income housing construction	294,987	551,432
EV truck	113,000	-
Veterans NRI	95,000	-
Aging-in-place	35,000	-
Gala	31,250	51,880
General NRI	30,370	106,875
District 2 NRI	20,000	-
West Sacramento NRI	13,749	13,749
Total Net Assets Subject to the Passage of Time or Expenditure for Specified Purpose	\$ 6,782,676	\$ 5,283,699

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE M - NET ASSETS WITH DONOR RESTRICTIONS - Continued

Net assets released from restrictions includes the portion of construction in progress costs received from donors for specific homes when the home is sold and 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. Net assets released from donor restrictions during the years ended June 30 are as follows:

	2022	2021
Purpose Restrictions Accomplished:		
Low-income housing construction	\$ 565,756	\$ 751,001
SMUD NRI	125,558	322,946
Rancho Cordova NRI	100,000	-
General NRI	76,506	96,965
Gala	51,880	56,375
Cal-Home mortgage assistance	7,350	131,819
Rock-the-block	6,001	-
Veterans NRI	-	17,344
West Sacramento NRI	-	9,854
Time Restrictions Expired:		
Pledge – time restricted	-	95,000
Total restrictions released	\$ 933,051	\$ 1,481,304

NOTE N - 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:

	2022	2021
Global Village fund	\$ 12,918	\$ 12,918
	\$ 12,918	\$ 12,918

HABITAT FOR HUMANITY OF GREATER SACRAMENTO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE O - AVAILABILITY AND LIQUIDITY

The following represents Habitat's financial assets at June 30, 2022 and 2021:

Financial assets at year-end:	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 8,454,741	\$ 3,336,287
Investments	61,166	-
Grant receivable	570,995	32,500
Mortgages receivable	3,875,676	3,176,956
Neighborhood revitalization receivable, net	348,059	235,513
Total financial assets	<u>13,310,637</u>	<u>6,781,256</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	1,835,045	1,128,720
Board designated net assets	12,918	12,918
Contract liabilities	363,000	291,000
	<u>2,210,963</u>	<u>1,432,638</u>
Financial assets available to meet general expenditures within one year	\$ <u>11,099,674</u>	\$ <u>5,348,618</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 P - SUBSEQUENT EVENTS

In preparing the consolidated financial statements, Habitat has evaluated subsequent events and transactions that occurred after the balance sheet date through November 28, 2022, the date that the financial statements were available to be issued.