San Diego Habitat for Humanity, Inc.

Consolidated Financial Statements
and Independent Auditor's Report

June 30, 2021 and 2020

San Diego Habitat for Humanity, Inc.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
San Diego Habitat for Humanity, Inc.

We have audited the accompanying consolidated financial statements of San Diego Habitat for Humanity, Inc. (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 and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of San Diego Habitat for Humanity, Inc. as of June 30, 2021 and 2020, and the changes 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.

JGD & Associates, LLP

San Diego, California
November 11, 2021

San Diego Habitat for Humanity, Inc.

Consolidated Statements of Financial Position
June 30, 2021 and 2020

Assets

	2021	2020
Cash and cash equivalents	$ 1,259,163	$ 846,657
Restricted cash	784,987	106,928
Accounts receivable, net of allowance for doubtful accounts of $30,000 and $15,248 (2021 and 2020)	371,259	35,444
Mortgage notes receivable, net of unamortized discount	5,005,800	6,414,560
Inventory - ReStores and other	363,185	301,335
Prepaid expenses	69,593	85,151
Construction-in-process	2,500,916	1,690,057
Finished homes held for sale	-	333,125
Property and equipment, net of accumulated depreciation	5,370,013	5,594,893
Investment in NMTC Program	1,188,646	1,200,776
Beneficial interest in assets held by community foundation	417,835	336,902
Deposits and other assets	92,878	104,673
Total assets	$ 17,424,275	$ 17,050,501

Liabilities and Net Assets

	2021	2020
Accounts payable, accrued expenses and other liabilities	$ 755,667	$ 562,121
Secured obligations	4,724,861	4,886,372
Notes payable - governmental agencies, net	383,845	421,751
Refundable advances	-	39,979
Note payable - Bank, net	3,537,337	3,585,450
Note payable - HFHI, net	12,674	15,807
Notes payable - Construction	100,000	118,561
Note payable - NMTC Program, net	1,684,760	1,680,983
Note payable - MDF, net	1,850,000	1,625,000
Notes payable - CARES Act loans	1,085,335	734,800
Total liabilities	14,134,479	13,670,824
Commitments and contingencies	-	-
Net assets		
Without donor restriction	2,871,961	3,042,775
With donor restriction	417,835	336,902
Total net assets	3,289,796	3,379,677
Total liabilities and net assets	$ 17,424,275	$ 17,050,501

See Notes to Consolidated Financial Statements.

San Diego Habitat for Humanity, Inc.

Consolidated Statement of Activities and Changes in Net Assets
Year Ended June 30, 2021

	Without Donor Restriction	With Donor Restriction	Total
Support and revenue			
Support			
Contributions	$ 938,814	$ 355,073	$ 1,293,887
In-kind contributions	-	217,783	217,783
Retail store, net	1,469,272	-	1,469,272
Special events	62,104	-	62,104
Grants	75,046	244,970	320,016
Net assets released from restrictions			
Satisfaction of program/donor restrictions	834,882	(834,882)	-
Total support	3,380,118	(17,056)	3,363,062
Revenue			
Sales of homes	1,450,626	-	1,450,626
Mortgage loan discount amortization	422,472	-	422,472
Investment income	-	97,989	97,989
Other income	1,047,122	-	1,047,122
Total revenue	2,920,220	97,989	3,018,209
Total support and revenue	6,300,338	80,933	6,381,271
Expenses			
Cost of homes sold and program support	5,092,634	-	5,092,634
Management and general	875,576	-	875,576
Fundraising	502,942	-	502,942
Total expenses	6,471,152	-	6,471,152
Change in net assets	(170,814)	80,933	(89,881)
Net assets at beginning	3,042,775	336,902	3,379,677
Net assets at end	$ 2,871,961	$ 417,835	$ 3,289,796

See Notes to Consolidated Financial Statements.

San Diego Habitat for Humanity, Inc.

Consolidated Statement of Activities and Changes in Net Assets
Year Ended June 30, 2020

	Without Donor Restriction	With Donor Restriction	Total
Support and revenue			
Support			
Contributions	$ 704,478	$ 682,688	$ 1,387,166
In-kind contributions	-	235,151	235,151
Retail store, net	1,849,527	-	1,849,527
Special events	89,355	-	89,355
Grants	190,197	220,567	410,764
Net assets released from restrictions			
Satisfaction of program/donor restrictions	1,189,217	(1,189,217)	-
Total support	4,022,774	(50,811)	3,971,963
Revenue			
Sales of homes	5,639,045	-	5,639,045
Mortgage loan discount amortization	320,587	-	320,587
Investment income	-	3,010	3,010
Other income	25,463	-	25,463
Total revenue	5,985,095	3,010	5,988,105
Total support and revenue	10,007,869	(47,801)	9,960,068
Expenses			
Cost of homes sold and program support	11,422,863	-	11,422,863
Management and general	910,750	-	910,750
Fundraising	889,769	-	889,769
Total expenses	13,223,382	-	13,223,382
Change in net assets	(3,215,513)	(47,801)	(3,263,314)
Net assets at beginning	6,258,288	384,703	6,642,991
Net assets at end	$ 3,042,775	$ 336,902	$ 3,379,677

See Notes to Consolidated Financial Statements.

San Diego Habitat for Humanity, Inc.

Consolidated Statement of Functional Expenses
Year Ended June 30, 2021

	Cost of Homes Sold and Program Support	Management and General	Fundraising	Total
Cost of homes sold - construction costs	$ 1,539,799	$ -	$ -	$ 1,539,799
Mortgage discount subsidy	235,035	-	-	235,035
Compensation of officers and key employees	213,885	200,108	213,135	627,128
Compensation of all other employees	1,355,451	178,782	216,707	1,750,940
Occupancy, utilities, telephone, insurance and office supplies	423,629	119,360	17,830	560,819
Outside services - legal, audit, IT and other services	115,056	154,674	8,289	278,019
Interest, merchant and bank fees and amortization of loan fees	330,535	71,894	12,264	414,693
Advertising, marketing and events	159,243	23,887	34,028	217,158
Depreciation	170,100	121,881	-	291,981
Non-capitalized construction materials and services	424,233	-	-	424,233
Vehicle expenses and mileage reimbursements	88,256	420	241	88,917
HFHI Tithe and affiliate fee	28,700	-	-	28,700
Other	8,712	4,570	448	13,730
Total	$ 5,092,634	$ 875,576	$ 502,942	$ 6,471,152

See Notes to Consolidated Financial Statements.

San Diego Habitat for Humanity, Inc.

Consolidated Statement of Functional Expenses
Year Ended June 30, 2020

	Cost of Homes Sold and Program Support	Management and General	Fundraising	Total
Cost of homes sold - construction costs	$ 5,861,002	$ -	$ -	$ 5,861,002
Mortgage discount subsidy	958,530	-	-	958,530
Compensation of officers and key employees	251,432	256,100	234,093	741,625
Compensation of all other employees	1,990,562	356,102	479,542	2,826,206
Occupancy, utilities, telephone, insurance and office supplies	605,773	17,593	12,444	635,810
Outside services - legal, audit, IT and other services	523,067	121,235	30,493	674,795
Interest, merchant and bank fees and amortization of loan fees	439,020	95,142	11,726	545,888
Advertising, marketing and events	216,053	-	106,016	322,069
Depreciation	264,431	15,628	8,178	288,237
Non-capitalized construction materials and services	137,891	-	-	137,891
Vehicle expenses and mileage reimbursements	124,859	18,022	4,616	147,497
HFHI Tithe and affiliate fee	28,700	-	-	28,700
Other	21,543	30,928	2,661	55,132
Total	$ 11,422,863	$ 910,750	$ 889,769	$ 13,223,382

See Notes to Consolidated Financial Statements.

San Diego Habitat for Humanity, Inc.

Consolidated Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Change in net assets	$ (89,881)	$ (3,263,314)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Origination of non-interest bearing mortgages	(1,191,090)	(3,242,414)
Discount on origination of non-interest bearing mortgages	235,035	958,530
Change in value - beneficial interest in assets held by community foundation	(80,933)	12,195
Loss on disposal of fixed assets	(31,227)	-
Gain on sale of mortgage notes receivable	(145,599)	-
Depreciation	291,981	288,237
Mortgage discount amortization	(422,472)	(320,588)
Amortization of loan fees and discount on notes payable		
Amortization of loan fees	14,465	187,168
Amortization of discount on notes payable	21,203	27,012
Changes in operating assets and liabilities		
Accounts receivable	(335,815)	273,974
Inventory - ReStores and other	(61,850)	213,802
Prepaid expenses and deferred charges	15,558	(21,846)
Finished homes held for sale	333,125	265,859
Construction-in-process	(810,859)	3,024,756
Deposits and other assets	11,795	23,321
Accounts payable, accrued expenses and other liabilities	193,546	(235,614)
Mortgage payments received	491,191	348,158
Homeowner impounds	-	(5,548)
Refundable advances	(39,979)	(122,387)
Net cash used in operating activities	(1,601,806)	(1,588,699)

See Notes to Consolidated Financial Statements.

San Diego Habitat for Humanity, Inc.

Consolidated Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	2021	2020
Cash flows from investing activities		
Purchases of property and equipment	(77,000)	(62,773)
Proceeds from sale of property and equipment	41,126	28,061
Proceeds from sale of mortgage notes receivable	2,441,695	-
Investment in NMTC program	12,130	12,130
Net cash used in investing activities	2,417,951	(22,582)
Cash flows from financing activities		
Proceeds from borrowings under LOC	-	1,420,000
Payments on LOC	-	(1,420,000)
Proceeds from borrowings from secured obligations	-	1,922,593
Proceeds from issuance of notes payable	1,327,002	1,160,697
Principal payments on notes payable, including grants forgiven	(891,071)	(1,599,876)
Payments on secured obligations	(161,511)	(188,091)
Net cash provided by financing activities	274,420	1,295,323
Change in cash, cash equivalents and restricted cash	1,090,565	(315,958)
Cash, cash equivalents and restricted cash, beginning	953,585	1,269,543
Cash, cash equivalents and restricted cash, ending	$ 2,044,150	$ 953,585
Supplemental disclosure of cash flow information		
Interest paid	$ 51,774	$ 183,550
Supplemental disclosure of non-cash financing activities		
Notes forgiven - government grants	$ 734,800	$ 135,650
Reconciliation of cash		
Cash and cash equivalents	1,259,163	846,657
Restricted cash	784,987	106,928
	$ 2,044,150	$ 953,585

See Notes to Consolidated Financial Statements.

Note 1 - Organization and summary of significant accounting policies

Nature of activities

San Diego Habitat for Humanity, Inc. (a nonprofit corporation) is the local affiliate of Habitat for Humanity International, Inc. ("HFHI"), a nonprofit, ecumenical Christian housing ministry. By building homes in partnership with families in need, San Diego Habitat for Humanity, Inc. seeks to eliminate poverty housing and substandard living conditions in San Diego County, and to make decent shelter a matter of conscience and action. San Diego Habitat for Humanity, Inc. invites people of all backgrounds, faiths, or no faith, races and religions to build houses together in partnership with families in need. Although HFHI assists with information resources, training, publications and prayer support, San Diego Habitat for Humanity, Inc. is an independently governed entity.

An equal housing lender and provider, San Diego Habitat for Humanity, Inc. addresses the issues of substandard housing through home ownership. The purpose is to offer families a "hand up" instead of a "hand out," fostering self-sufficiency and independence. To be considered for home ownership, San Diego Habitat for Humanity, Inc. families must demonstrate a need for better housing, an ability to make mortgage payments, and a willingness to work in partnership with San Diego Habitat for Humanity, Inc. This partnership consists, in part, of each family completing 250-500 hours of "sweat equity" and making monthly mortgage payments. San Diego Habitat for Humanity, Inc. acquires the land, finds and qualifies the families, raises the funding, finds and supervises construction volunteers, builds the houses, and provides the mortgages.

Basis of Accounting

The Organization’s accounting records and the accompanying financial statements are prepared on the accrual basis in accordance with generally accepted accounting principles.

Principles of consolidation

The accompanying consolidated financial statements include the accounts of San Diego Habitat for Humanity, Inc. and San Diego HFH Community Housing Corporation (collectively, "SDHFH" or the "Organization"). All material intra-organization transactions have been eliminated in consolidation.

Revenue Recognition

In accordance with Topic 606 and Topic 958, the Organization recognizes revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions

- Net assets without donor restricted net assets represent expendable funds available for operations, which are not otherwise limited by donor restrictions.
- Net assets with donor restricted net assets consist of contributed funds subject to donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Organization may use the funds. Total net assets with donor restrictions for the years ended June 30, 2021 and 2020 were $417,835 and $336,902, respectively.

Use of estimates
The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements, and revenues and expenses recognized during the reporting period. Actual results could differ from these estimates.

Liquidity

The Organization's financial assets available within one year of the balance sheet date for general expenditures such as operating expenses and capital purchases are as follows:

	2021
Cash, cash equivalents and restricted cash	$ 2,044,150
Beneficial interest in assets held by community foundation	417,835
Accounts receivable	371,259
Total	$ 2,833,244

$417,835 of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures. The Organization has a good current ratio and working capital. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

Cash and cash equivalents
SDHFH considers all highly liquid investments with an original maturity of three months or less, when purchased, to be cash equivalents.

Restricted cash

Mortgage monetization - Represents money set aside from mortgage monetization to maintain a 15% reserve. The funds will be released when the Encinitas property is sold. The Organization had $735,783 and $0 of restricted cash related to mortgage monetization at June 30, 2021 and 2020, respectively.

CHDO - Represents Community Housing Development Organization proceeds to be used to acquire, rehabilitate or develop additional real properties located in the respective city for resale to low-income households. The Organization had $0 and $39.979 of restricted cash related to CHDO funds at June 30, 2021 and 2020, respectively.

NMTC Program - Represents cash received as a result of the New Market Tax Credit Program and will be used to pay future program expenses. See Note 7 for further discussion. The Organization had $49,204 and $66,949 of restricted cash related to the NMTC Program at June 30, 2021 and 2020, respectively.

Accounts receivable
Accounts receivable at June 30, 2021, consists primarily of Employee Retention Tax Credits that the Organization earned in Q2 of 2021 in which they were eligible through the CARES Act. Accounts receivable also consisted of mortgage principal amounts collected by AmeriNat, a loan servicing organization utilized by SDHFH and amounts due from homeowners for property taxes

and insurance premiums paid pursuant to the homeowners' impound agreements. Accounts receivable at June 30, 2020, consist primarily of federal expenditure reimbursements.

The Organization has evaluated the impound accounts and has recorded an allowance for doubtful accounts based on the estimated eventual collection of these impound account deficits. No bad debt expense was recorded for the years ended June 30, 2021 and 2020.

It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Mortgage notes receivable
Mortgage notes receivable consist of non-interest-bearing residential home loans made to qualified borrowers that are secured by a deed of trust, payable in monthly installments over the term of the note, generally ranging from 5 to 35 years. These non-interest-bearing mortgages have been discounted based on historical experience from SDHFH's portfolio of mortgages and upon prevailing market rates for low-income housing at the inception of each mortgage. SDHFH's portfolio of mortgage notes receivable includes first trust deeds for direct loans made by SDHFH and second trust deeds funded by Cal Home Program First-Time Homebuyer loans. The Cal Home Program loans are non-interest-bearing loans with a balloon payment due in 30 years.

Additionally, homes may be encumbered with a second, third and/or fourth trust deed in favor of either SDHFH or a local governmental agency to ensure compliance with the terms of the Organization's homeownership programs. These mortgage notes receivable are referred to as "silent." The primary purpose of these silent mortgages is to allow SDHFH or the agency to capture a portion of any equity appreciation over and above a specified amount if the home is sold or transferred to a nonqualified homeowner before a certain number of years have elapsed since the original sale to the qualified homeowner, usually 25 to 55; and to protect the homeowner by preventing predatory lenders from paying off the first mortgage and saddling the homeowner with an onerous new mortgage. These silent mortgage notes receivable typically bear no interest and are forgiven if the homeowner lives in the home for the required period of time and complies with all other covenants and restrictions per the deed of trust. Accordingly, since these silent mortgage notes receivable have no value unless or until a homeowner fails to comply with the covenants and restrictions of the terms of the home sale, SDHFH does not record a value for these silent mortgage notes receivable.

Allowance for mortgage notes receivable losses
SDHFH uses established underwriting criteria to ensure that only families who meet the Organization's financial and credit criteria are approved to be partner families and receive a non-interest-bearing mortgage loan from SDHFH. This includes, but is not limited to, a thorough review of each prospective homeowner's credit report, sources of income and financial history.

SDHFH regularly reviews its portfolio of mortgage notes receivable and monitors the accounts for delinquencies. Homeowners whose mortgages are more than 30 days past due are considered to be in an early stage of default. During the period of delinquency of 16 to 60 days past due, the Organization contacts the homeowner using collection efforts and establishes a payment plan with the homeowner, if necessary. Thereafter, if forgoing collection efforts are not successful, the Organization attempts to enter into a mutually agreed-upon deed-in-lieu of foreclosure with the homeowner. Homeowners whose mortgages are more than 60 days past due, who have not made satisfactory payment arrangements or reached a deed-in-lieu of foreclosure agreement with SDHFH are subject to foreclosure proceedings. As of the date of these consolidated financial statements, there are no mortgages subject to foreclosure proceedings.

Non-interest-bearing mortgages originated are discounted at the time of sale based on historical experience from SDHFH's portfolio mortgages and upon prevailing market rates. This results in the net mortgage receivable balances being 40-60% of the home's fair market value. Therefore, SDHFH believes that losses resulting from non-payment of mortgage notes receivable, given its collateral value, are not likely. Accordingly, SDHFH has not recorded an allowance for mortgage notes receivable losses.

Contributions
Unconditional promises to give are recognized as support when the underlying promises are received by SDHFH and are recorded at fair value, based on management's initial estimate of the present value of future cash flows expected to be received. Subsequent changes in estimates are recorded as an allowance for uncollectible promises to give.

Gifts of cash and other assets are reported as with donor restriction support if they are received with donor stipulations that specify the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, donor restricted net assets are reclassified to net assets without donor restriction and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Donated services
Donated services are recognized as contributions in accordance with Accounting Standards Codification ("ASC") 958-605 and subsections, *Not-for-profit Entities - Revenue Recognition*, if the services (a) create or enhance nonfinancial assets or (b) require licensed skills, are performed by people with those skills, and would otherwise be purchased by SDHFH. A substantial number of unlicensed volunteers have contributed their time during the years ended June 30, 2021 and 2020 to SDHFH's construction program and supporting services. The value of this contributed time is not reflected in the consolidated financial statements since it does not require a licensed skill.

Donated construction materials, property and equipment and other donated goods
Donations of construction materials, property and equipment, and other goods are recorded as in-kind contributions at their estimated fair value at the date of donation.

Various companies and individuals have provided licensed labor and materials for current projects. During the years ended June 30, 2021 and 2020, the Organization recognized $64,381 and $61,055, respectively, of in-kind materials and licensed labor as contribution revenue. The estimated value of these materials and services was capitalized into construction-in-process and allocated accordingly to the projects receiving benefit. The Organization also recognized $0 and $0 of donated fixed assets during the years ended June 30, 2021 and 2020, respectively.

In addition to the construction-related in-kind contributions, SDHFH recognized $153,402 and $174,096 for donated goods and services supporting various programs and fundraising activities during the years ended June 30, 2021 and 2020, respectively. Accordingly, the Organization recognized total in-kind contributions of $217,783 and $235,151 during the years ended June 30, 2021 and 2020, respectively.

Government funding
SDHFH receives funds from various governmental agencies for land acquisition, development and construction costs pursuant to various types of agreements. The following are details on the various types of funding agreements:

Grants - SDHFH receives grants from various sources to assist in purchasing and developing properties. These grants include various compliance requirements to be followed by SDHFH. These funds are recognized as grants in the consolidated statements of activities and changes in net assets.

Loans - SDHFH enters into various funding agreements that result in it receiving funds to acquire and develop qualified properties. These loans may or may not be repayable. In some cases, the loans are forgiven after homes have been sold to qualified borrowers. Certain forgivable loans are transferred to the qualified home buyer at the time of purchase and the loans require the homeowner to continue to comply with certain provisions for specified periods of time. SDHFH records these forgivable loans as notes payable until they are forgiven. In other cases, the loans are repayable to the governmental entity. These repayable loans are recorded until the loans are repaid.

Refundable advances - SDHFH enters into certain agreements that result in the receipt of funds that require SDHFH to continue to utilize these funds for specified low-income housing purposes until a certain number of units have been sold. These advances are often sourced from federal funds and require ongoing compliance with certain specified federal requirements. Once related compliance requirements are satisfied, SDHFH will recognize these as unrestricted grants. SDHFH records these funds as refundable advances until the compliance requirements are satisfied.

Concentrations of credit risk
Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash, cash equivalents, and investments. The Organization places its cash, cash equivalents and investments with high credit quality financial institutions. At times, such amounts may exceed federally insured limits. At June 30, 2021, the Organization had approximately $1,531,909 in excess of federally insured limits.

Inventories
Inventories consist primarily of donated home furnishings and building and home improvement materials which are sold in the ReStore. SDHFH believes that the inventory of donated goods and materials does not possess an attribute that is easily measurable or verifiable with sufficient reliability to determine an inventory value at the time of donation.

Accordingly, donated inventory is valued at zero prior to being offered for sale. At the end of its fiscal year, SDHFH estimates the value of donated goods on hand and records the amount as merchandise inventory with corresponding adjustments to cost of sales. It is not practical to determine the fair value of donated merchandise inventory during the course of the year.

Property, equipment and depreciation
Property and equipment are recorded at acquisition cost, including costs necessary to ready the asset for its intended use, or at fair market value, if donated. Expenses that materially increase property lives are capitalized. The costs of maintenance and repairs are charged to expenses as incurred. Depreciation expense is provided on a straight-line basis over the estimated useful lives of the respective assets, currently ranging from 3 to 7 years for equipment and vehicles and from 5 to 39 years for buildings and building improvements. When depreciable property is retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in the consolidated statements of activities and changes in net assets.

Construction-in-process and finished homes held for sale
Construction-in-process represents costs incurred to build or rehabilitate single-family homes and condominiums for eventual sale to SDHFH partner families. The Organization's projects consist of new single-family home and condominium developments and major rehabilitations of existing homes acquired by SDHFH. Since the purpose and mission of SDHFH is to build affordable housing for low-income families, the Organization does not generally write down the value of construction-in-process to estimated sales value, because any excess cost over sales value is a component of program services. Projects are classified as construction-in-process until the build/rehabilitation project is substantially completed, at which time they are reclassified as "finished homes held for sale."

Finished homes held for sale may include homes purchased from SDHFH partner families, acquired as part of a deed-in-lieu of foreclosure or as part of a foreclosure. These homes usually require repairs or rehabilitation and then are resold to a qualifying family.

Revenue and costs of homes sold
Revenue is recognized on the sale of homes when title passes to eligible purchasers. The amount of home sale revenue SDHFH records is the total of the cash down payment, the face value of the non-interest-bearing mortgage receivable, and the value of any government funding, such as notes payable forgiven and/or transferred to the homeowner at the time of sale (see *Government funding* above).

Cost of homes sold and program support consists of capitalized home construction costs and certain other related costs associated with the sale of a home. A mortgage discount subsidy, which is the discount on the non-interest mortgage with the borrower, is recognized as a cost of sale at the closing of the sale. Cost of homes sold and program support is considered a program expense in the consolidated statements of functional expenses.

Homeowner impounds
As part of the mortgage servicing process, SDHFH collects monthly payments for property taxes and insurance from homeowners, along with their monthly mortgage payments. SDHFH then remits the property taxes and insurance, when due, directly to the County Tax Collector and insurance providers, using the impounded funds. The homeowner impounds balance at June 30, 2021 and 2020 represents amounts collected by SDHFH for property taxes and insurance that has not yet been paid to the County Tax Collector and insurance providers.

Income taxes
SDHFH, a California nonprofit public benefit corporation, is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code of 1954, as amended, and the Revenue and Taxation Code of the State of California.

For the years ended June 30, 2021 and 2020, management of SDHFH believes it has adequate support for all material tax positions and that it is more likely than not, based on the technical merits, that the positions will be sustained upon examination. SDHFH has analyzed the tax positions taken in its filings with the Internal Revenue Service and the California Franchise Tax Board. SDHFH believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the SDHFH's financial condition, results of operations or cash flows. Accordingly, SDHFH has not recorded any reserves, or related accruals for interest and penalties, for uncertain income tax positions at June 30, 2021 and 2020.

Management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

Functional expenses

Expenses related to more than one functional expense category are allocated based on reasonable estimates by the Organization. Salaries, benefits and other related expenses are allocated based on job function. Directly identifiable expenses are charged to construction and program support, management and general, or fundraising as applicable.

Subsequent events

Subsequent events have been evaluated through November 11, 2021, which is the date the consolidated financial statements were available to be issued.

Note 2 - Mortgage notes receivable

Mortgage notes receivable consist primarily of non-interest-bearing residential home loans made to qualified borrowers that are secured by a deed of trust and payable in monthly installments over the terms of the notes, generally ranging from 5 to 35 years. These non-interest-bearing mortgages have been discounted to net present values. During the years ended June 30, 2021 and 2020, new mortgages were discounted at rates of 1.50% and 2.50%, respectively, resulting in mortgage discount subsidy expense of $235,035 and $958,530, respectively. The mortgage discount subsidy is amortized over the lives of the underlying mortgages and included as revenue. Mortgage loan discount amortization revenue was $422,472 for the year ended June 30, 2021 and $320,587 for the year ended June 30, 2020.

Mortgage notes receivable and the related discount at June 30, 2021 and 2020 are summarized as follows:

	2021	2020
Mortgage notes receivable	$ 9,841,314	$ 12,059,227
Less unamortized discount	(4,835,514)	(5,644,667)
Net present value of mortgage notes receivable	$ 5,005,800	$ 6,414,560

In previous years, SDHFH was party to several transactions in which it used non-interest-bearing mortgage notes receivable as security to obtain operating loans from various banks. The details of these loans are shown in Note 8 – Secured Obligations. The mortgage notes receivable used as security remain as assets in the consolidated statements of financial position with a corresponding liability in the form of secured obligations. The terms and payment schedules of the secured obligations are coincident with those of the underlying mortgage notes receivable. At June 30, 2021 and 2020, the book value of these secured obligations, net of unamortized discount and deferred finance fees, was $4,724,861 and $4,886,372, respectively.

Scheduled mortgage notes receivable collections for five years subsequent to June 30, 2021 and thereafter are summarized as follows:

2022	$	457,050
2023		433,154
2024		403,669
2025		396,217
Thereafter		8,151,225
Total	$	9,841,314

On November 27, 2018, the Organization sold 22 mortgage notes receivable to City National Bank for $1,498,776 before transaction costs. These mortgage notes receivable had balances of $1,947,083 ($1,076,277 net of unamortized discount) as of the cut-off date for the transaction. SDHFH recorded a gain on the sale of mortgages of $367,699 for the year ended June 30, 2019. In previous years, the Organization sold an additional 33 mortgage notes receivable to City National Bank. As per the terms of the sale agreements, SDHFH remains responsible for the servicing of the mortgage notes receivable sold to City National Bank. The mortgage notes receivable sold to City National Bank are no longer included as assets in the consolidated statements of financial position. During the year ended June 30, 2021, the Organization sold 8 mortgage notes receivable to East West Bank for $2,015,007 before transactions costs. These mortgage notes receivable had balances of $2,441,695 ($621,715 net of unamortized discount) as of the cutoff date for the transaction. SDHFH recorded a gain on the sale of mortgages of $145,599 for the year ended June 30, 2021.

Note 3 - Construction-in-process

Construction-in-process and real estate development costs for the years ended June 30, 2021 and 2020 are summarized by project as follows:

	2021	2020
Encinitas - Leucadia Blvd	$ 987,043	$ 310,114
Escondido - Citracado Parkway	60,134	59,791
Escondido - El Norte Parkway	484,300	384,099
National City - 40th & Alpha	17,000	17,000
National City - 410 W. 18th St	952,439	223,261
San Diego - Comm22	-	695,792
Total	$ 2,500,916	$ 1,690,057

The following is a summary of home building activity for the years ended June 30, 2021 and 2020:

	2021			2020		
	Number of homes		Cost	Number of homes		Cost
Home construction-in-process, beginning balance	11	$	1,690,057	22	$	4,714,813
Costs incurred on homes						
New and existing projects	-		2,015,182	-		1,990,871
Costs transferred to finished homes	(5)		(1,204,323)	(11)		(5,015,627)
Home construction-in-progress, ending balance	6	$	2,500,916	11	$	1,690,057

Note 4 - Finished homes held for sale

Finished homes held for sale for the years ended June 30, 2021 and 2020 consist of the following developments:

		2021		2020
CITY - Meadowood	$	-	$	333,125
Total	$	-	$	333,125

Following is a summary of finished homes activity for the years ended June 30, 2021 and 2020:

	2021			2020		
	Number of homes		Cost	Number of homes		Cost
Finished homes, beginning balance	2	$	333,125	2	$	598,984
Costs transferred from construction-in-process	-		1,669	-		-
Homes purchased	-			4		650,000
Homes sold to new owners	(2)		(334,794)	(4)		(915,859)
Finished homes, ending balance	-	$	0	2	$	333,125

Note 5 - Property and equipment, net

Property and equipment for the years ended June 30, 2021 and 2020 consist of the following:

	2021	2020
Land	$ 1,874,778	$ 1,874,778
Buildings and improvements	4,121,129	4,048,790
Vehicles	309,187	345,652
Equipment	396,594	396,594
Total	6,701,688	6,665,814
Less accumulated depreciation	(1,331,675)	(1,070,921)
Property and equipment, net	$ 5,370,013	$ 5,594,893

Depreciation expense for the years ended June 30, 2021 and 2020 was $291,981 and $288,237, respectively.

Note 6 - Retail store, net

SDHFH operates four home improvement stores (the "ReStores") in San Diego, Escondido, National City and Carlsbad, California. The ReStores sell new and used home furnishings and building and home improvement materials to the general public. Donations to the ReStores are made by contractors and other businesses, organizations and individuals that have surplus or discontinued merchandise.

The purpose of the ReStores is to raise funds to support SDHFH programs. Accordingly, expenses of operating the ReStores are reported as program expenses in the consolidated statements of functional expenses. The amount of revenue reported from the ReStores includes cash receipts plus the fair market value of donated goods sold, net of the cost of purchased inventory sold. As most revenue earned by the ReStores is from the sale of donated goods, ReStore revenue is classified as support in the consolidated statements of activities and changes in net assets.

Retail store net revenues for the years ended June 30, 2021 and 2020 are summarized as follows:

	2021	2020
Donations to retail store	$ 1,625,287	$ 2,001,263
Sales of donated and purchased items	1,549,890	2,215,065
Delivery contributions and other income	8,864	29,927
Fair market value of donated items sold and cost of purchased inventory sold	(1,714,769)	(2,396,728)
Net revenue from retail store	$ 1,469,272	$ 1,849,527

Note 7 - New Market Tax Program

In April 2018, SDHFH participated in a New Markets Tax Credit ("NMTC") financing transaction with other entities in order to procure financing for the construction of 16 homes – 8 at Comm22 in San Diego, 5 on Ballantyne Street in El Cajon and 3 on Grossmont Avenue in El Cajon. The NMTC Program permits corporate and individual taxpayers to receive a credit against federal income taxes for making qualified equity investments in qualified community development entities ("CDE").

As a participant in this transaction, SDHFH invested $1,212,933 into HFHI NMTC Leverage Lender 2018, LLC ("HFHI Leverage Lender"), consisting of cash and qualified construction-in-process. The HFHI Leverage Lender contributed its resources to Twain Investment Fund 306, LLC ("Investment Fund"), which received additional investment from U.S. Bancorp Community Development Corporation ("Bank") as the federal tax credit investor under the NMTC Program.

As part of the NMTC Program, the Investment Fund invested in HFHI NMTC Sub-CDE III, LLC, a qualified CDE. The CDE deployed a loan to SDHFH in the amount of $1,786,082 at an annual interest rate of 0.679239% for the construction of homes in a qualified census tract for low income persons. Semi-annual interest-only payments are required through April 19, 2025. After April 19, 2025, SDHFH shall make semi-annual payments in an amount sufficient to fully amortize the remaining principal balance over twenty-three years. See Note 13. The loan proceeds are to be used solely in accordance with NMTC compliance requirements. The Investment Fund may be subject to tax credit recapture if the NMTC Program compliance requirements are not met over a seven-year period.

The ultimate holder of the above loan from the CDE to SDHFH is the Bank through its participation in the Investment Fund. In April 2025, the Bank has the option to waive the payment of the debt by exercising its put option agreement. Under the terms of the put option agreement, the HFHI Leverage Lender has the option to purchase the Bank's ownership interest in the Investment Fund. If the option is exercised it will effectively extinguish SDHFH's outstanding debt to the Bank.

Note 8 - Secured obligations - mortgage notes receivable

The Organization has entered into agreements with several financial institutions in which SDHFH used a portion of its mortgage notes receivable as security for operating loans (see Note 2).

Secured obligations consist of the following at June 30, 2021 and 2020:

	2021	2020
Four non-interest-bearing mortgage notes with Northern Trust Company, entered into on December 18, 2014, originally in the amount of $651,130, payable in equal monthly installments, due in July 2040.	$ 472,826	$ 500,614
Seven non-interest-bearing mortgage notes with Pacific Premier Bank, entered into on April 9, 2015, originally in the amount of $971,654, payable in equal monthly installments, due in July 2043.	699,748	743,841

Five non-interest-bearing mortgage notes with Pacific Premier Bank, entered into on October 23, 2015, originally in the amount of $664,639, payable in equal monthly installments, due in April 2043.	462,522	498,722
Five non-interest-bearing mortgage notes with Northern Trust Company, entered into on October 29, 2015, originally in the amount of $631,959, payable in equal monthly installments, due in May 2043.	437,400	472,246
Eleven non-interest-bearing mortgage notes with Pacific Western Bank, entered into on December 23, 2015, originally in the amount of $1,908,897, payable in equal monthly installments, due in December 2045.	1,561,216	1,625,403
Non-interest-bearing mortgage notes with Northern Trust Company, entered into on various dates between June 24, 1997 and December 27, 2002, originally in the amount of $272,377, payable in equal monthly installments, due in various periods through June 2021.	2,206	6,608
Nine non-interest-bearing mortgage notes with Northern Trust Company, entered into on December 23, 2019, originally in the amount of $2,384,884, payable in equal monthly installments, due in September 2049.	2,269,987	2,346,585
Secured obligations, gross	5,905,905	6,194,019
Less unamortized discount	(1,181,044)	(1,307,647)
Net present value of secured obligations	$ 4,724,861	$ 4,886,372

The following table summarizes the payments due for secured obligations for five years subsequent to June 30, 2021 and thereafter:

2022	$ 283,820
2023	283,712
2024	283,712
2025	283,713
2026	283,714
Thereafter	4,487,232
	$ 5,905,905

Note 9 - Note payable – Bank

Note payable - Bank consists of the following at June 30, 2021 and 2020:

	2021	2020
SDHFH purchased a new property to house its corporate headquarters and San Diego ReStore in May 2017 and obtained a short-term bridge loan from Pacific Western Bank in the amount of $3,675,000. This interest-only loan bore interest at 4.0% per annum and was due on November 18, 2017. The mortgage loan was secured by a deed of trust on the Organization’s new corporate headquarters and ReStore in San Diego. This note was paid off early in August 2017 and refinanced with a longterm, tax exempt mortgage loan with Pacific Western Bank in the amount of $3,760,000. The new loan bears interest at a rate of 3.5%, with interest only payments due through September 2018, at which point principal payments began and continue through July 2027, when the note matures. The mortgage loan is secured by a deed of trust on the property.	$ 3,603,247	$ 3,662,048
Total note payable	3,603,247	3,662,048
Less deferred finance fees, net	(65,910)	(76,598)
Total note payable, net	$ 3,537,337	$ 3,585,450

The following table summarizes the principal payments due for notes payable - Bank subsequent to June 30, 2021 and thereafter:

2022	60,922
2023	63,119
2024	65,059
2025	67,742
2026	70,186
Thereafter	3,276,219
	$ 3,603,247

As of June 30, 2021, the Organization met the Liquidity Requirement and the Debt Service Coverage Ratio as specified in the Loan Agreement.

Note 10 - Notes payable - governmental agencies

Notes payable - governmental agencies as of June 30, 2021 and 2020 consist of the following:

	2021	2020
Notes payable, San Diego Housing Commission, require payments of $248 per month through 2021. The notes have been discounted using imputed interest rates from 9.75% to 11.50%.	$ 287	$ 2,504
Note payable, City of Oceanside, secured by certain mortgage receivables. The note bears no interest, requires monthly payments of $5,000 and matures in August 2029. The note has been discounted using a 6.0% imputed interest rate.	485,000	545,000
Total	485,287	547,504
Less unamortized discount	(101,442)	(125,753)
Net present value of notes payable - governmental agencies	$ 383,845	$ 421,751

The following table summarizes the scheduled principal payments on these notes for five years subsequent to June 30, 2021 and thereafter:

2022	62,787
2023	65,000
2024	65,000
2025	65,000
2026	65,000
Thereafter	162,500
Total	$ 485,287

Note 11 - Refundable advances

Refundable advances as of June 30, 2021 and 2020 consist of the following:

	2021	2020
HOME funds - City of National City - refundable advances to be utilized for purchase and development of qualifying properties. Utilization of these funds must continue to meet compliance requirements during compliance period. After compliance activities and periods are met, these funds shall become unrestricted. Compliance requirements were met as of June 30, 2021.	$ -	$ 39,979
Total	$ -	$ 39,979

Note 12 - Note payable - HFHI

Note payable - HFHI as of June 30, 2021 and 2020 consists of the following:

	2021	2020
The note payable, HFHI, represents a loan made to SDHFH in conjunction with the Self-Help Homeownership Opportunity Program 2015. The note payable requires monthly payments of $338 beginning July 2020, with a final payment of $364 due June 2024. The note bears no interest and has been discounted using a 2.55% imputed interest rate.	$ 12,870	$ 16,250
Less unamortized discount	(196)	(443)
Total	$ 12,674	$ 15,807

The following table summarizes the scheduled principal payments on the note for five years subsequent to June 30, 2021 and thereafter:

2022	$ 4,056
2023	4,056
2024	4,082
2025	676
Total	$ 12,870

Note 13 - Notes Payable – NMTC Program

Note payable – NMTC Program as of June 30, 2021 and 2020 consists of the following:

	2021	2020
Note payable, NMTC Program, bears interest at a rate of 0.679239%. The note requires interest only payments due semi-annuallly through April 2025, at which point the loan is amortized over 23 years, with principal and interest payments due semi-annually.	$ 1,786,082	$ 1,786,082
Less deferred financing fees, net	(101,322)	(105,099)
Total	$ 1,684,760	$ 1,680,983

The following table summarizes the scheduled principal payments on the note for five years subsequent to June 30, 2021 and thereafter:

2022	$ -
2023	-
2024	-
2025	-
2026	-
Thereafter	1,786,082
Total	$ 1,786,082

Note 14 - Notes Payable - construction

On April 4, 2017, SDHFH purchased land from COMM22, LLC upon which it will build 11 units of affordable for-sale housing. The purchase price for the land was $200,000, of which $75,000 was paid at closing and the remaining $125,000 was due in the form of a non-interest-bearing promissory note. The first $50,000 payment on the promissory note was due one year from the closing date and was paid in March 2018. The remaining $75,000 was paid in December 2018 upon the sale of the first home in phase I of the project.

Also, as part of the purchase agreement, SDHFH is required to pay a minimum of $150,000 to the San Diego Unified School District (SDUSD). Payments representing 5% of the home buyer's first mortgage will be due to SDUSD upon the sale of each of the 11 homes. If after the sale of the final home the total of these payments is less than $150,000, the payment for the final home shall be increased so that the total of the payments for all 11 homes will be equal to $150,000. The four homes comprising phase I of the COMM22 project were sold during the year ended June 30, 2019 and a payment of $59,614 was made to SDUSD in June 2019, in accordance with the purchase agreement. During the year ended June 30, 2021, 3 more homes were sold and a payment $18,561 was made to SDUSD leaving a remaining balance owed of $0 at June 30, 2021.

On October 3, 2019, SDHFH received a loan in the amount of $100,000 to purchase 6 acres in Escondido to develop 10 homes. SDHFH intends to pay back the loan on or before September 30, 2021.

Total amounts due for these notes payable as of June 30, 2021 and 2020 were $100,000 and $118,561, respectively.

Note 15 - Line of Credit

On October 9, 2018, SDHFH entered into a Business Loan Agreement with Pacific Western Bank. This agreement provided the Organization with a revolving line of credit in the amount of $500,000. The loan agreement is evidenced by a Promissory Note. The loan was scheduled to mature on October 9, 2019. Interest on the loan is based on the Lender's Base Rate plus 0.5%. The Lender's Base Rate at the time the agreement was executed was 6.0%. On August 12, 2019, a Change in Terms Agreement was signed, and the principal amount was increased to $1,000,000 with a new maturity date of October 9, 2020. Interest on the loan is now based on Wall Street Journal Prime Rate plus 1.00%. The line has since been extended through October 15, 2021, and a 1-year renewal is pending the issuance of the FY21 financials statements. During the year ended June 30, 2021, SDHFH drew down and repaid $0. As of June 30, 2021, the balance owed was $0.

Note 16 - Note payable - MDF

On January 18, 2019, SDHFH secured a promissory note with MDF Fund I, a California limited partnership in an amount up to $2,000,000, at 2.25% interest with a maturity date of January 17, 2024. Interest payments commence on April 1, 2019 and are due quarterly. Principal is owed at maturity. SDHFH borrowed an additional $225,000 during the year ended June 30, 2021. The outstanding balance as of June 30, 2021 was $1,850,000.

Note 17 - Notes payable - CARES Act loans

On March 27, 2020, the "Coronavirus Aid, Relief and Economic Security (CARES) Act" was put into law. The CARES Act appropriated funds for the SBA Payroll Protection Program (PPP) loans that are forgivable in certain situations to promote continued employment, as well as Economic Injury Disaster Loans (EIDL) to provide liquidity to small businesses harmed by COVID-19.

The Organization applied for and received funding in the amount of $734,800 under the Paycheck Protection Program. The Organization applied for and received full forgiveness of the loan during the year ended June 30, 2021 and recognized the income in Other income on the Consolidated Statement of Activities and Changes in Net Assets.

The Organization applied for a second PPP loan and received funding in the amount of $652,002 under this program. The Organization expects to apply for full forgiveness of the loan.

The Organization applied for and received an EIDL in the amount of $150,000 on August 4, 2020. Installment payments, including principal and interest, will begin twelve months from this date, with the balance and interest due thirty years from this date. Interest will accrue at the rate of 2.75% per annum.

The Organization applied for and received an interest-free loan in the amount of $300,000 on September 25, 2020, from Mission Driven Finance. Installment payments began on May 1, 2021, with the balance due on April 1, 2023. The outstanding balance as of June 30, 2021 was $283,333.

Note 18 - Related party transactions

SDHFH remits a discretionary portion of its non-donor restricted contributions (excluding in-kind contributions) to HFHI on an annual basis. These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2021 and 2020, SDHFH remitted $3,700 and $3,700, respectively, in tithes to HFHI.

In addition, during the years ended June 30, 2021 and 2020, SDHFH paid a U.S. Stewardship and Organizational Sustainability Fee of $25,000 to HFHI for each year. Furthermore, for the years ended June 30, 2021 and 2020, SDHFH paid HFHI approximately $16,000 and $107,000, respectively, for services provided by Americorps on behalf of SDHFH.

As discussed in Note 12, SDHFH is a party to a Subgrant Agreement with HFHI in conjunction with the Self-Help Homeownership Opportunity Program 2015. As part of this agreement, SDHFH has a note payable to HFHI. Total amounts due for this note payable as of June 30, 2021 and 2020 were $16,250 and $12,870, respectively.

Note 19 - Commitments and contingencies

Leases

SDHFH leases various systems and equipment under noncancelable leases running through July 2022. Equipment rental expense for the years ended June 30, 2021 and 2020 was $15,774 and $13,768, respectively.

In January 2014, SDHFH entered into a lease agreement for its ReStore located in Escondido, California. According to the lease and its amendment in December 2015, the lease term was scheduled to terminate on March 31, 2021. The parties agreed to a new lease agreement on January 11, 2020 that is scheduled to terminate on April 30, 2030. The rent expense for the years ended June 30, 2021 and 2020 was $246,186 and $226,564, respectively.

In May 2018, SDHFH entered into a 36-month rental agreement for its ReStore located in Carlsbad, California. The term began on July 1, 2018 and terminated on June 30, 2021. Rent was comprised of a base rent component and a percent of sales component. Rent expense for the Carlsbad ReStore was $4,120 and $36,164 for the years ended June 30, 2021 and 2020, respectively. SDHFH did not renew the lease.

Future minimum rental payments under these leases for the years subsequent to June 30, 2021 are as follows:

2022	$ 206,465
2023	122,166
2024	125,822
2025	129,598
2026	133,492
Thereafter	549,562
Total	$ 1,267,105

Note 20 - Donor restricted net assets

Donor restricted net assets as of June 30, 2021 and 2020 consist of amounts restricted by donor-imposed stipulations as follows:

	2021	2020
Unappropriated investment income	$ 114,776	$ 33,843
Endowed component fund	303,059	303,059
Total	$ 417,835	$ 336,902

Note 21 - Endowment component fund

Donor restricted net assets as of June 30, 2021 and 2020, includes a beneficial interest in assets held by The San Diego Foundation (the "Foundation") which is holding them as an endowed component fund ("Fund") for the benefit of the Organization. The Fund is subject to the Foundation's investment and spending policies, which currently result in a distribution to the Organization of 5%, annually, of the 36-month average principal market value of the Fund. Distributions are generally made semi-annually. The Organization reports the fair value of the Fund as a beneficial interest in assets held at a community foundation in the consolidated statements of financial position and reports distributions received as a reduction to the Fund balance. Changes in the value of the Fund are reported as donor restricted investment income in the consolidated statements of activities and changes in net assets.

Interpretation of relevant law

The Organization has interpreted the State of California's Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization has classified as donor restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The earnings of the donor restricted endowment fund are classified as donor restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

(1) The duration and preservation of the fund;

(2) The purposes of the Organization and the donor restricted endowment fund;

(3) General economic conditions;

(4) The possible effect of inflation and deflation;

(5) The expected total return from income and the appreciation of investments;

(6) Other resources of the Organization; and

(7) The investment policies of the Organization.

The following is a summary of changes in endowment net assets for the year ended June 30, 2021:

	Without Donor Restriction	With Donor Restriction	Total
Fund balance, beginning	$ -	$ 336,902	$ 336,902
Fund appreciation	-	97,989	97,989
Investment expenses	-	(1,693)	(1,693)
Distributable grants approved	-	(15,363)	(15,363)
Fund balance, end	$ -	$ 417,835	$ 417,835

The following is a summary of changes in endowment net assets for the year ended **June 30, 2020**:

	Without Donor Restriction	With Donor Restriction	Total
Fund balance, beginning	$ -	$ 349,097	$ 349,097
Fund appreciation	-	4,687	4,687
Investment expenses	-	(1,677)	(1,677)
Distributable grants approved	-	(15,205)	(15,205)
Fund balance, end	$ -	$ 336,902	$ 336,902

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no deficiencies of this nature that were reported in net assets without donor restrictions as of June 30, 2021 and 2020.

Return objectives and risk parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that the Organization must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that follows the policies of the Foundation. Actual returns in any given year may vary from this expected return. See Note 22.

Strategies for achieving objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization uses a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk parameters.

Spending policy and how the investment objectives relate to the spending policy
The Organization follows the policies of the Foundation in determining the distribution amount to be appropriated each year. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow at an average annual rate equal to the general inflation rate. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Note 22 - Assets and liabilities measured at fair value on a recurring basis

The Organization values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments in Level 1 include listed equities, bond instruments, and mutual funds held in the name of the Organization, and exclude listed equities and other securities held indirectly through commingled funds.

Level 2: Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3: Pricing inputs are unobservable for the investment, including situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include privately held investments and partnership interests.

The inputs and methodology used for valuing the Organization's financial assets and liabilities are not indicators of the risks associated with those instruments.

There have been no changes in methodology during the year.

The following table sets forth by level, within the fair value hierarchy, SDHFH's assets at fair value as of June 30, 2021:

	Level 1	Level 2	Level 3	Total
Beneficial interest in assets held by community foundation	$ -	$ -	$ 417,835	$ 417,835
Total assets at fair value	$ -	$ -	$ 417,835	$ 417,835

The following table sets forth by level, within the fair value hierarchy, SDHFH's assets at fair value as of **June 30, 2020**:

	Level 1	Level 2	Level 3	Total
Beneficial interest in assets held by community foundation	$ -	$ -	$ 336,902	$ 336,902
Total assets at fair value	$ -	$ -	$ 336,902	$ 336,902

The following table sets forth a summary of changes in the fair value of SDHFH's Level 3 assets for the years ended June 30, 2021 and 2020:

	2021	2020
Balance, beginning	$ 336,902	$ 349,097
Investment return	96,296	3,010
Distributed to SDHFH	(15,363)	(15,205)
Balance, end	$ 417,835	$ 336,902

The following table represents SDHFH's Level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs for 2021:

Instrument	Fair value	Principal valuation technique	Unobservable inputs	Significant input values	Weighted average
Beneficial interest in assets held by community foundation	$ 417,835	Valuation of underlying assets as provided by trustee	Investment period (liquidity)	N/A	N/A

The following table represents SDHFH's Level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs for 2020:

Instrument	Fair value	Principal valuation technique	Unobservable inputs	Significant input values	Weighted average
Beneficial interest in assets held by community foundation	$ 336,902	Valuation of underlying assets as provided by trustee	Investment period (liquidity)	N/A	N/A

The Organization's investments consist entirely of the beneficial interest in assets held at the Foundation and are classified as Level 3 investments as described above. Accordingly, the changes in the value of Level 3 financial instruments are set forth in the tables above.

The beneficial interest in assets held at the Foundation has been valued, as a practical expedient, at the fair value of the Organization's share of the Foundation's investment pool as of June 30, 2021 and 2020. The Foundation values securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the Foundation, which include private placements and other securities for which prices are not readily available, are determined by the management of the Foundation and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The Foundation's target asset allocation for the Fund is 45% global equities, 17% fixed income instruments (domestic and international), 25% alternative investments and 13% real assets. The beneficial interest in assets held at the Foundation is not redeemable by the Organization.

Note 23 - Other income

	2021	2020
Loss on disposal of assets	$ -	$ (1,100)
PPP loan forgiveness	734,800	-
Gain on sale of mortgage notes receivable	145,599	-
Other income	166,723	26,563
Total	$ 1,047,122	$ 25,463

Note 24 - Defined Contribution Plan

In October 2019, the Organization established a defined contribution plan under Section 403(b) of the Internal Revenue Code. Employer matching contributions are discretionary and may be a percentage of the employee's elective deferral contributions. Employer discretionary contributions may be contributed. The total employer discretionary contribution elected by the Organization will be divided among all eligible participants based on their annual compensation in relation to the total annual compensation of all eligible participants. Participants are 100% vested in employer matching contributions and employer discretionary contributions. For the years ended of June 30, 2021 and 2020, the Organization elected to contribute $9,045 and $34,721, respectively.