

San Diego Habitat for Humanity, Inc.

**Consolidated Financial Statements
and Independent Auditor's Report**

June 30, 2022 and 2021

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.

Opinion

We have audited the accompanying financial statements of San Diego Habitat for Humanity, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the 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, 2022 and 2021, 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.

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 Financial Statements section of our report. We are required to be independent of San Diego Habitat for Humanity, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 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 San Diego Habitat for Humanity, Inc. 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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about San Diego Habitat for Humanity, Inc.'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.

JGI & Associates, LLP

San Diego, California
December 20, 2022

San Diego Habitat for Humanity, Inc.

**Consolidated Statements of Financial Position
June 30, 2022 and 2021**

	<u>Assets</u>	
	2022	2021
Cash and cash equivalents	\$ 553,166	\$ 1,259,163
Restricted cash	250,731	784,987
Accounts receivable, net of allowance for doubtful accounts of \$70,338 and \$30,000 (2022 and 2021)	752,172	371,259
Mortgage notes receivable, net of unamortized discount	7,370,855	5,005,800
Inventory - ReStores	189,256	363,185
Prepaid expenses	123,192	69,593
Construction-in-process	1,449,349	2,500,916
Property and equipment, net of accumulated depreciation	5,401,431	5,370,013
Beneficial interest in assets held by community foundation	386,168	417,835
Deposits and other assets	20,343	43,674
Operating lease right-of-use asset, net	1,490,868	-
Total assets	<u>\$ 17,987,531</u>	<u>\$ 16,186,425</u>
	<u>Liabilities and Net Assets</u>	
Accounts payable, accrued expenses and other liabilities	\$ 736,364	\$ 706,463
Secured obligations	4,536,252	4,724,861
Notes payable - governmental agencies, net	345,825	383,845
Note payable - Bank, net	3,487,104	3,537,337
Note payable - HFHI, net	8,618	12,674
Note payable - Construction	-	100,000
Note payable - MDF, net	1,850,000	1,850,000
Notes payable - Other loans	822,028	1,085,335
Deferred revenue	960,619	496,114
Operating lease liability	1,533,891	-
Total liabilities	<u>14,280,701</u>	<u>12,896,629</u>
Commitments and contingencies	-	-
Net assets		
Without donor restriction	3,320,662	2,871,961
With donor restriction	386,168	417,835
Total net assets	<u>3,706,830</u>	<u>3,289,796</u>
Total liabilities and net assets	<u>\$ 17,987,531</u>	<u>\$ 16,186,425</u>

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, 2022**

	Without Donor Restriction	With Donor Restriction	Total
Support and revenue			
Support			
Contributions	\$ 846,638	\$ 308,253	\$ 1,154,891
In-kind contributions	-	221,868	221,868
Retail store, net	1,686,174	-	1,686,174
Special events	155,218	-	155,218
Grants	1,873,334	-	1,873,334
Net assets released from restrictions			
Satisfaction of program/donor restrictions	547,803	(547,803)	-
Total support	5,109,167	(17,682)	5,091,485
Revenue			
Sales of homes	3,282,968	-	3,282,968
Mortgage loan discount amortization	301,836	-	301,836
Investment loss	-	(13,985)	(13,985)
Other income	661,162	-	661,162
Total revenue	4,245,966	(13,985)	4,231,981
Total support and revenue	9,355,133	(31,667)	9,323,466
Expenses			
Cost of homes sold and program support	7,284,500	-	7,284,500
Management and general	722,818	-	722,818
Fundraising	899,114	-	899,114
Total expenses	8,906,432	-	8,906,432
Change in net assets	448,701	(31,667)	417,034
Net assets at beginning	2,871,961	417,835	3,289,796
Net assets at end	\$ 3,320,662	\$ 386,168	\$ 3,706,830

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 Functional Expenses
Year Ended June 30, 2022**

	Cost of Homes Sold and Program Support	Management and General	Fundraising	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Cost of homes sold - construction costs	\$ 3,419,596	\$ -	\$ -	\$ 3,419,596
Mortgage discount subsidy	764,189	-	-	764,189
Compensation of officers and key employees	213,494	186,040	250,457	649,991
Compensation of all other employees	1,405,448	203,651	451,779	2,060,878
Occupancy, utilities, telephone, insurance and office supplies	509,272	33,202	33,994	576,468
Construction materials and services	72,216	-	-	72,216
Vehicles and mileage	116,146	1,118	2,468	119,732
Advertising and events	175,933	3,876	118,106	297,915
Interest, merchant & bank fees	337,477	55,594	14,306	407,377
Outside services - legal, audit, IT, other consulting	84,485	137,208	21,666	243,359
Depreciation	157,027	77,485	-	234,512
HFHI Tithe and fees	28,700	-	-	28,700
Other	517	24,644	6,338	31,499
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 7,284,500</u>	<u>\$ 722,818</u>	<u>\$ 899,114</u>	<u>\$ 8,906,432</u>

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
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
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
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 5,092,634</u>	<u>\$ 875,576</u>	<u>\$ 502,942</u>	<u>\$ 6,471,152</u>

See Notes to Consolidated Financial Statements.

San Diego Habitat for Humanity, Inc.
Consolidated Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Change in net assets	\$ 417,034	\$ (89,881)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Origination of non-interest bearing mortgages	(3,311,536)	(1,191,090)
Discount on origination of non-interest bearing mortgages	764,189	235,035
Change in value - beneficial interest in assets held by community foundation	31,667	(80,933)
Loss on disposal of fixed assets	(16,408)	(31,227)
Gain on sale of mortgage notes receivable	-	(145,599)
Gains on forgiveness of PPP loans	(652,002)	(734,800)
Depreciation	234,512	291,981
Mortgage discount amortization	(301,836)	(422,472)
Amortization of loan fees	10,688	10,688
Amortization of discount on notes payable	20,166	21,203
Amortization of right of use asset	(1,490,868)	-
Changes in operating assets and liabilities		
Accounts receivable	(380,913)	(335,815)
Inventory - ReStores and other	173,929	(61,850)
Prepaid expenses and deferred charges	(53,599)	15,558
Finished homes held for sale	-	333,125
Construction-in-process	1,051,567	(810,859)
Deposits and other assets	23,331	(1,041)
Accounts payable, accrued expenses and other liabilities	29,901	175,801
Mortgage payments received	484,128	491,191
Operating lease liability	1,533,891	-
Deferred revenue	464,505	46,488
Refundable advances	-	(39,979)
	<u>(967,654)</u>	<u>(2,324,476)</u>
Net cash used in operating activities		

See Notes to Consolidated Financial Statements.

San Diego Habitat for Humanity, Inc.

Consolidated Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from investing activities		
Purchases of property and equipment	(518,496)	(77,000)
Proceeds from sale of property and equipment	268,974	41,126
Proceeds from sale of mortgage notes receivable	<u>-</u>	<u>2,441,695</u>
Net cash provided by (used in) investing activities	<u>(249,522)</u>	<u>2,405,821</u>
Cash flows from financing activities		
Proceeds from issuance of notes payable	505,361	1,327,002
Principal payments on notes payable, including grants forgiven	(339,829)	(156,271)
Payments on secured obligations	<u>(188,609)</u>	<u>(161,511)</u>
Net cash provided by (used in) financing activities	<u>(23,077)</u>	<u>1,009,220</u>
Change in cash, cash equivalents and restricted cash	(1,240,253)	1,090,565
Cash, cash equivalents and restricted cash, beginning	<u>2,044,150</u>	<u>953,585</u>
Cash, cash equivalents and restricted cash, ending	<u><u>\$ 803,897</u></u>	<u><u>\$ 2,044,150</u></u>
Supplemental disclosure of cash flow information		
Interest paid	<u><u>\$ 37,458</u></u>	<u><u>\$ 51,744</u></u>
Supplemental disclosure of non-cash financing activities		
Notes forgiven - government grants	<u><u>\$ 652,002</u></u>	<u><u>\$ 734,800</u></u>
Reconciliation of cash		
Cash and cash equivalents	553,166	1,259,163
Restricted cash	<u>250,731</u>	<u>784,987</u>
	<u><u>\$ 803,897</u></u>	<u><u>\$ 2,044,150</u></u>

See Notes to Consolidated Financial Statements.

San Diego Habitat for Humanity, Inc.

Notes to Consolidated Financial Statements June 30, 2022 and 2021

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, 2022 and 2021 were \$386,168 and \$417,835, respectively.

San Diego Habitat for Humanity, Inc.

Notes to Consolidated Financial Statements June 30, 2022 and 2021

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:

	<u>2022</u>
Cash, cash equivalents and restricted cash	\$ 803,897
Beneficial interest in assets held by community foundation	386,168
Accounts receivable	<u>752,172</u>
Total	<u>\$ 1,942,237</u>

\$386,168 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 Organization had \$100,000 and \$735,783 of restricted cash related to mortgage monetization at June 30, 2022 and 2021, respectively.

NMTC Programs - Represents cash received as a result of the New Market Tax Credit Programs and will be used to pay future program expenses. See Note 7 for further discussion. The Organization had \$150,731 and \$49,204 of restricted cash related to the NMTC Programs at June 30, 2022 and 2021, respectively.

Accounts receivable

Accounts receivable at June 30, 2022 and 2021 are the 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.

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, 2022 and 2021.

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

San Diego Habitat for Humanity, Inc.

**Notes to Consolidated Financial Statements
June 30, 2022 and 2021**

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 30 years. These non-interest-bearing mortgages have been discounted based on the rate at which the affiliate expects to be able to monetize the mortgage to the bank. 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. As of the date of these consolidated financial statements, there are no mortgages subject to foreclosure proceedings.

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.

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.

San Diego Habitat for Humanity, Inc.

Notes to Consolidated Financial Statements June 30, 2022 and 2021

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, 2022 and 2021 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, 2022 and 2021, the Organization recognized \$42,907 and \$64,381, 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.

In addition to the construction-related in-kind contributions, SDHFH recognized \$178,961 and \$153,402 for donated goods and services supporting various programs and fundraising activities during the years ended June 30, 2022 and 2021, respectively. Accordingly, the Organization recognized total in-kind contributions of \$221,868 and \$217,783 during the years ended June 30, 2022 and 2021, 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.

San Diego Habitat for Humanity, Inc.

Notes to Consolidated Financial Statements June 30, 2022 and 2021

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, 2022, the Organization had approximately \$294,284 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. These homes usually require repairs or rehabilitation and then are resold to a qualifying family.

San Diego Habitat for Humanity, Inc.

Notes to Consolidated Financial Statements June 30, 2022 and 2021

Lessee arrangements

The Organization is the lessee under non-cancelable real estate lease agreements. Beginning on July 1, 2021, the date of the Organization's adoption of Accounting Standards Update ("ASU") No. 2016-02, Leases ("Topic 842"), as defined and discussed further in "Accounting Standards Issued and Adopted", below, operating lease right-of-use ("ROU") assets and liabilities are recognized at the commencement date and initially measured based on the present value of lease payments over the defined lease term. The Organization's lease terms may include options to extend or terminate the lease. The Organization assesses these options using a threshold of reasonably certain. For leases the Organization is reasonably certain to renew, those option periods are included within the lease term and, therefore, the measurement of the right-of-use asset and lease liability. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Organization's lease agreement does not contain any material residual value guarantees, restrictions or covenants.

As the Organization's lease does not provide an implicit rate, the incremental borrowing rate is estimated based on the information available at the commencement date in determining the present value of lease payments. The implicit rate will be used when readily determinable. The operating lease ROU asset also includes any prepaid lease payments made and are net of lease incentives. The Organization does not record an asset or liability for operating leases with a term of 12 months or less. Prior to the adoption of Topic 842 on July 1, 2021, the Organization did not record an asset or liability for any of its operating leases.

Accounting standards issued and adopted

The Company adopted Topic 842, as amended, as of July 1, 2021, and elected the option to apply the transition requirements in the new standard at the effective date of July 1, 2021.

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.

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, 2022 and 2021, 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

San Diego Habitat for Humanity, Inc.

**Notes to Consolidated Financial Statements
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reserves, or related accruals for interest and penalties, for uncertain income tax positions at June 30, 2022 and 2021.

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 December 20, 2022, which is the date the consolidated financial statements were available to be issued.

Reclassifications

Certain prior year balances have been reclassified to agree to the current year presentation. During the year ended June 30, 2021, the Company presented the accounts associated with the NMTC transaction at gross on the statement of financial position. During the year ended June 30, 2022, the Company entered into a second NMTC transaction and reported the accounts at net as deferred revenue on the Statement of financial position, which is consistent with how other habitat organizations recognize these transactions. These reclassifications had no effect on the statement of activities. In order to properly present the 2021 NMTC transaction to conform to the 2022 NMTC transaction, the following accounts were reclassified as of June 30, 2021 to present the 2021 NMTC transaction at net versus gross:

	<u>2021</u>	<u>Reclassification</u>	<u>Reclassified 2021</u>
Deposits and other assets	\$ 92,878	\$ (49,204)	\$ 43,674
Investment in NMTC Program	1,188,646	(1,188,646)	-
Accounts payable, accrued expenses and other liabilities	(755,667)	49,204	(706,463)
Notes payable - NMTC Program, net	(1,684,760)	1,684,760	-
Deferred revenue	-	(496,114)	(496,114)

San Diego Habitat for Humanity, Inc.

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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, 2022 and 2021, new mortgages were discounted at rates of 1.50% and 1.50%, respectively, resulting in mortgage discount subsidy expense of \$764,189 and \$235,035, respectively. The mortgage discount subsidy is amortized over the lives of the underlying mortgages and included as revenue. Mortgage loan discount amortization revenue was \$301,836 and \$422,472 for the years ended June 30, 2022 and 2021.

Mortgage notes receivable and the related discount at June 30, 2022 and 2021 are summarized as follows:

	<u>2022</u>	<u>2021</u>
Mortgage notes receivable	\$ 12,668,722	\$ 9,841,314
Less unamortized discount	<u>(5,297,867)</u>	<u>(4,835,514)</u>
Net present value of mortgage notes receivable	<u>\$ 7,370,855</u>	<u>\$ 5,005,800</u>

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, 2022 and 2021, the book value of these secured obligations, net of unamortized discount and deferred finance fees, was \$4,536,252 and \$4,724,861, respectively.

Scheduled mortgage notes receivable collections for five years subsequent to June 30, 2022 and thereafter are summarized as follows:

2023	\$ 527,302
2024	499,332
2025	493,624
2026	484,089
Thereafter	<u>10,664,376</u>
Total	<u>\$ 12,668,722</u>

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. There were no mortgages sold during year ended June 30, 2022.

San Diego Habitat for Humanity, Inc.

**Notes to Consolidated Financial Statements
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Note 3 - Construction-in-process

Construction-in-process and real estate development costs for the years ended June 30, 2022 and 2021 are summarized by project as follows:

	<u>2022</u>	<u>2021</u>
Encinitas - Leucadia Blvd	\$ -	\$ 987,043
Escondido - Citracado Parkway	61,196	60,134
Escondido - El Norte Parkway	1,356,228	484,300
National City - 40th & Alpha	-	17,000
National City - 410 W. 18th St	-	952,439
Santee	<u>31,925</u>	<u>-</u>
Total	<u>\$ 1,449,349</u>	<u>\$ 2,500,916</u>

The following is a summary of home building activity for the years ended June 30, 2022 and 2021:

	<u>2022</u>		<u>2021</u>	
	<u>Number of homes</u>	<u>Cost</u>	<u>Number of homes</u>	<u>Cost</u>
Home construction-in-process, beginning balance	18	\$ 2,500,916	11	\$ 1,690,057
New spends on projects	-	1,883,886	10	2,015,182
Costs transferred to cost of homes sold	<u>(8)</u>	<u>(2,935,453)</u>	<u>(3)</u>	<u>(1,204,323)</u>
Home construction-in-progress, ending balance	<u>10</u>	<u>\$ 1,449,349</u>	<u>18</u>	<u>\$ 2,500,916</u>

Note 4 - Finished homes held for sale

There were no finished homes held for sale as of June 30, 2022 and 2021.

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Notes to Consolidated Financial Statements
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Note 5 - Property and equipment, net

Property and equipment for the years ended June 30, 2022 and 2021 consist of the following:

	<u>2022</u>	<u>2021</u>
Land	\$ 1,874,778	\$ 1,874,778
Buildings and improvements	4,418,039	4,121,129
Vehicles	210,544	309,187
Equipment	<u>216,942</u>	<u>396,594</u>
 Total	 6,720,303	 6,701,688
Less accumulated depreciation	<u>(1,318,872)</u>	<u>(1,331,675)</u>
 Property and equipment, net	 <u><u>\$ 5,401,431</u></u>	 <u><u>\$ 5,370,013</u></u>

Depreciation expense for the years ended June 30, 2022 and 2021 was \$234,512 and \$291,981, respectively.

Note 6 - Retail store, net

SDHFH operated four home improvement stores (the "ReStores") in San Diego, Escondido, National City and Carlsbad, California. The ReStore located in Carlsbad was closed on June 2021. 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, 2022 and 2021 are summarized as follows:

	<u>2022</u>	<u>2021</u>
Donations to retail store	\$ 1,850,300	\$ 1,625,287
Sales of donated and purchased items	2,012,490	1,549,890
Delivery contributions and other income	9,497	8,864
Fair market value of donated items sold and cost of purchased inventory sold	<u>(2,186,113)</u>	<u>(1,714,769)</u>
 Net revenue from retail store	 <u><u>\$ 1,686,174</u></u>	 <u><u>\$ 1,469,272</u></u>

San Diego Habitat for Humanity, Inc.

**Notes to Consolidated Financial Statements
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Note 7 - Deferred Revenue

New Market Tax Program (2018 Transaction)

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.

New Market Tax Program (2021 Transaction)

In November 2021, SDHFH entered into a New Market Tax Credit ("NMTC") financing agreement with various other entities in order to procure financing for the construction of 15 homes - 5 in National City and 10 in Escondido. 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 \$1,679,412 into HFHI NMTC Leverage Lender 2021, LLC ("HFHI Leverage Lender"), consisting of cash and qualified construction-in-process. The HFHI Leverage Lender contributed its resources to Twain Investment Fund 544, 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 IV, LLC, a qualified CDE. The CDE is the conduit for accomplishing the NMTC Program specifics of constructing and selling qualified housing properties to low income residents. Under the CDE, SDHFH was able to secure a loan in the amount of \$2,273,349 at an annual interest rate of 0.737931%. Semi-annual interest-only payments are required through November 5, 2028. After January 1, 2029, SDHFH shall make semi-annual payments in an amount sufficient to fully amortize the remaining principal balance over twenty-three years. The loan proceeds are to be used solely in accordance with NMTC compliance requirements. The Investment Fund may be subject to tax

San Diego Habitat for Humanity, Inc.

**Notes to Consolidated Financial Statements
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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 November 2028, the Bank is expected to waive the payment of the debt so as to participate in the NMTC Program by exercising its put option agreement. Under the terms of the put option agreement, the HFHI Leverage Lender is expected to purchase the Bank's ownership interest in the Investment Fund. Exercise of the option will effectively allow SDHFH to extinguish its outstanding debt to the Bank.

Deferred revenue is summarized as follows at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
New Market Tax Credits (2018 transaction):		
Investment in leverage lender	\$ 1,176,516	\$ 1,188,646
Note payable from CDE	(1,786,082)	(1,786,082)
Transaction costs	97,545	101,322
New Market Tax Credits (2021 transaction):		
Investment in leverage lender	1,672,192	-
Note payable from CDE	(2,273,349)	-
Transaction costs	<u>152,559</u>	<u>-</u>
Total deferred revenue	<u>\$ (960,619)</u>	<u>\$ (496,114)</u>

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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
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.	\$ 445,039	\$ 472,826
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.	655,655	699,748

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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.	426,322	462,522
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.	402,553	437,400
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.	1,497,028	1,561,216
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. The notes were paid in full as of June 30, 2022.	-	2,206
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.	<u>2,193,389</u>	<u>2,269,987</u>
Secured obligations, gross	5,619,986	5,905,905
Less unamortized discount	<u>(1,083,734)</u>	<u>(1,181,044)</u>
Net present value of secured obligations	<u><u>\$ 4,536,252</u></u>	<u><u>\$ 4,724,861</u></u>

The following table summarizes the payments due for secured obligations for five years subsequent to June 30, 2022 and thereafter:

2023	\$ 207,114
2024	207,114
2025	207,115
2026	207,116
2027	207,117
Thereafter	<u>4,584,408</u>
	<u><u>\$ 5,619,986</u></u>

San Diego Habitat for Humanity, Inc.

**Notes to Consolidated Financial Statements
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Note 9 - Note payable – Bank

Note payable - Bank consists of the following at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
SDHFH has a tax exempt mortgage loan for \$3,760,000 on its property at Murcury Ct which houses the headquarters and the Kearny Mesa ReStore. The rate on the loan is 3.5% until July 2027, when the note matures. The mortgage loan is secured by a deed of trust on the property.		
	\$ 3,542,326	\$ 3,603,247
Total note payable	3,542,326	3,603,247
Less deferred finance fees, net	<u>(55,222)</u>	<u>(65,910)</u>
Total note payable, net	<u>\$ 3,487,104</u>	<u>\$ 3,537,337</u>

The following table summarizes the principal payments due for notes payable - Bank subsequent to June 30, 2022 and thereafter:

2023	63,119
2024	65,059
2025	67,742
2026	70,186
2027	72,717
Thereafter	<u>3,203,503</u>
	<u>\$ 3,542,326</u>

As of June 30, 2022, the Organization met the Liquidity Requirement and the Debt Service Coverage Ratio as specified in the Loan Agreement.

San Diego Habitat for Humanity, Inc.

**Notes to Consolidated Financial Statements
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Note 10 - Notes payable - governmental agencies

Notes payable - governmental agencies as of June 30, 2022 and 2021 consist of the following:

	<u>2022</u>	<u>2021</u>
Notes payable, San Diego Housing Commission, to be paid off in FY23.	\$ 287	\$ 287
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.	<u>425,000</u>	<u>485,000</u>
Total	425,287	485,287
Less unamortized discount	<u>(79,462)</u>	<u>(101,442)</u>
Net present value of notes payable - governmental agencies	<u><u>\$ 345,825</u></u>	<u><u>\$ 383,845</u></u>

The following table summarizes the scheduled principal payments on these notes for five years subsequent to June 30, 2022 and thereafter:

2023	60,000
2024	60,000
2025	60,000
2026	60,000
2027	60,000
Thereafter	<u>125,287</u>
Total	<u><u>\$ 425,287</u></u>

San Diego Habitat for Humanity, Inc.

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Note 11 - Note payable - HFHI

Note payable - HFHI as of June 30, 2022 and 2021 consists of the following:

	<u>2022</u>	<u>2021</u>
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.	\$ 8,814	\$ 12,870
Less unamortized discount	<u>(196)</u>	<u>(196)</u>
Total	<u>\$ 8,618</u>	<u>\$ 12,674</u>

The following table summarizes the scheduled principal payments on the note for five years subsequent to June 30, 2022 and thereafter:

2023	\$ 4,056
2024	4,082
2025	<u>676</u>
Total	<u>\$ 8,814</u>

Note 12 - Note Payable - construction

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 paid back the loan during the year ended June 30, 2022.

Note 13 - 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 line of credit which is now \$25,000. 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, 2022, and a 1-year renewal is pending the issuance of the FY22 financials statements. During the year ended June 30, 2022 and 2021, SDHFH did not draw down on the line of credit.

Note 14 - 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, 2022 and 2021 was \$1,850,000.

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Note 15 - Notes payable - Other 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 applied for and received full forgiveness of the loan during the year ended June 30, 2022 and recognized the income in Other income on the Consolidated Statement of Activities and Changes in Net Assets.

The Organization applied for and received an EIDL in the amount of \$150,000 after August 4, 2020. The Organization received a further \$350,000 in EIDL loan in January 2022, bringing the total EIDL loan to \$500,000. 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, 2022 was \$166,667.

The Organization applied for and received funding in the amount of \$126,984 on December 7, 2021, from CollectiveSun to finance the installation of solar panels on the headquarters. Installment payments began on February 1, 2022, with the balance due on January 1, 2032. The outstanding balance as of June 30, 2022 was \$122,157.

The Organization applied for and received an interest-free loan in the amount of \$204,950 on April 16, 2021, from Roof King Roofing, Inc. Installment payments will begin twenty-four months from this date. The outstanding balance as of June 30, 2022 was \$33,204.

Note 16 - 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, 2022 and 2021, SDHFH remitted \$3,700 and \$3,700, respectively, in tithes to HFHI.

In addition, during the years ended June 30, 2022 and 2021, 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, 2022 and 2021, SDHFH paid HFHI approximately \$17,000 and \$16,000, respectively, for services provided by Americorps on behalf of SDHFH.

As discussed in Note 11, 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, 2022 and 2021 were \$8,814 and \$12,870, respectively.

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Notes to Consolidated Financial Statements
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Note 17 - 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, 2022 and 2021 was \$15,513 and \$15,774, 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, 2022 and 2021 was \$84,904 and \$105,766, respectively.

In January 2016, SDHFH entered into a lease agreement for its ReStore located in National City, California. According to the lease and its amendment in October 2016, the lease term was scheduled to terminate on January 20, 2022. The parties agreed to a new lease agreement in June, 2022 that is scheduled to terminate on May 31, 2025. The rent expense for the years ended June 30, 2022 and 2021 was \$148,879 and \$141,988, 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 \$0 and \$29,236 for the years ended June 30, 2022 and 2021, respectively. SDHFH did not renew the lease.

In accordance with ASC 842, lessees are required to classify leases as either finance or operating leases and to record a right-of-use asset and a lease liability for all leases with a term greater than 12 months. Total rent expense under the operating lease for the year ended June 30, 2022 was \$233,838.

Supplemental balance sheet information related to the operating lease is as follows as of June 30, 2022:

	<u>2022</u>
Supplemental cash flows information	
Right of use assets obtained in exchange for lease obligations:	
Operating leases	\$ 1,490,868
Weighted average remaining lease term	
Operating leases (in months)	60
Weighted average discount rate	
Operating leases	3.07%

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Future minimum rental payments under these leases for the years subsequent to June 30, 2022 are as follows:

2023	\$	329,341
2024		338,344
2025		326,547
2026		148,017
2027		137,502
Thereafter		<u>412,088</u>
Total lease payments	\$	<u>1,691,839</u>
Amount of interest		<u>(157,948)</u>
Present value of lease liability	\$	<u>1,533,891</u>

As of June 30, 2022, the Company does not have any leases that have not yet commenced but that create significant rights and obligations.

Note 18 - Donor restricted net assets

Donor restricted net assets as of June 30, 2022 and 2021 consist of amounts restricted by donor-imposed stipulations as follows:

	<u>2022</u>	<u>2021</u>
Unappropriated investment income (loss)	\$ 83,109	\$ 114,776
Endowed component fund	<u>303,059</u>	<u>303,059</u>
Total	<u>\$ 386,168</u>	<u>\$ 417,835</u>

Note 19 - Endowment component fund

Donor restricted net assets as of June 30, 2022 and 2021, 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

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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, 2022:

	Without Donor Restriction	With Donor Restriction	Total
Fund balance, beginning	\$ -	\$ 417,835	\$ 417,835
Fund depreciation	-	(14,127)	(14,127)
Investment expenses	-	(1,828)	(1,828)
Distributable grants approved	-	(15,712)	(15,712)
Fund balance, end	<u>\$ -</u>	<u>\$ 386,168</u>	<u>\$ 386,168</u>

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	<u>\$ -</u>	<u>\$ 417,835</u>	<u>\$ 417,835</u>

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, 2022 and 2021.

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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 20.

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 20 - 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.

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The following table sets forth by level, within the fair value hierarchy, SDHFH's assets at fair value as of June 30, 2022:

	Level 1	Level 2	Level 3	Total
Beneficial interest in assets held by community foundation	\$ -	\$ -	\$ 386,168	\$ 386,168
Total assets at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 386,168</u>	<u>\$ 386,168</u>

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	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 417,835</u>	<u>\$ 417,835</u>

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, 2022 and 2021:

	2022	2021
Balance, beginning	\$ 417,835	\$ 336,902
Investment return	(15,955)	96,296
Distributed to SDHFH	(15,712)	(15,363)
Balance, end	<u>\$ 386,168</u>	<u>\$ 417,835</u>

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 2022:

Instrument	Fair value	Principal valuation technique	Unobservable inputs	Significant input values	Weighted average
Beneficial interest in assets held by community foundation	\$ 386,168	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 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 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.

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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, 2022 and 2021. 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 21 - Other income

	<u>2022</u>	<u>2021</u>
PPP loan forgiveness (loan #1)	\$ -	\$ 734,800
PPP loan forgiveness (loan #2)	652,002	-
Gain on sale of mortgage notes receivable	-	145,599
Other income	<u>9,160</u>	<u>166,723</u>
Total	<u><u>\$ 661,162</u></u>	<u><u>\$ 1,047,122</u></u>

Note 22 - 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, 2022 and 2021, the Organization elected to contribute \$46,229 and \$30,346, respectively.