

**San Diego Habitat for Humanity, Inc.**

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

**June 30, 2023 and 2022**

# **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 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, 2023 and 2022, 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.

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, 2023 and 2022, 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 Consolidated 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 Consolidated Financial Statements

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

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

### Auditor's Responsibility for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that,

individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 consolidated 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.

 JGD & Associates, LLP

San Diego, California  
January 8, 2024

**San Diego Habitat for Humanity, Inc.**

**Consolidated Statements of Financial Position  
June 30, 2023 and 2022**

	<u>Assets</u>	
	2023	2022
Cash and cash equivalents	\$ 993,183	\$ 553,166
Restricted cash	227,949	250,731
Accounts receivable, net of allowance for doubtful accounts of \$0 and \$70,338 (2023 and 2022)	115,179	752,172
Mortgage notes receivable, net of unamortized discount	7,533,315	7,370,855
Inventory - ReStores	195,848	189,256
Prepaid expenses	211,185	123,192
Construction-in-process	3,311,248	1,449,349
Property and equipment, net of accumulated depreciation	5,287,312	5,401,431
Beneficial interest in assets held by community foundation	394,981	386,168
Deposits and other assets	23,860	20,343
Operating lease right-of-use asset, net	1,168,847	1,490,868
<b>Total assets</b>	<b>\$ 19,462,907</b>	<b>\$ 17,987,531</b>
	<u>Liabilities and Net Assets</u>	
Accounts payable, accrued expenses and other liabilities	\$ 804,408	\$ 736,364
Secured obligations	5,665,971	4,536,252
Notes payable - governmental agencies, net	309,866	345,825
Note payable - Bank, net	3,429,170	3,487,104
Note payable - HFHI, net	4,562	8,618
Refundable advances	1,623,011	-
Note payable - MDF, net	1,850,000	1,850,000
Notes payable - Other loans	611,991	822,028
Deferred revenue	122,500	-
Deferred revenue - NMTC Programs	986,490	960,619
Operating lease liability	1,245,324	1,533,891
<b>Total liabilities</b>	<b>16,653,293</b>	<b>14,280,701</b>
Commitments and contingencies	-	-
Net assets		
Without donor restriction	2,292,133	3,320,662
With donor restriction	517,481	386,168
<b>Total net assets</b>	<b>2,809,614</b>	<b>3,706,830</b>
<b>Total liabilities and net assets</b>	<b>\$ 19,462,907</b>	<b>\$ 17,987,531</b>

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, 2023**

	Without Donor Restriction	With Donor Restriction	Total
Support and revenue			
Support			
Contributions	\$ 978,251	\$ 399,787	\$ 1,378,038
In-kind contributions	-	169,238	169,238
Retail store, net	2,038,129	-	2,038,129
Special events	112,596	-	112,596
Grants	238,230	-	238,230
Net assets released from restrictions			
Satisfaction of program/donor restrictions	446,525	(446,525)	-
Total support	3,813,731	122,500	3,936,231
Revenue			
Sales of homes	516,250	-	516,250
Mortgage loan discount amortization	352,869	-	352,869
Investment gain	18,700	8,813	27,513
Other income	22,226	-	22,226
Total revenue	910,045	8,813	918,858
Total support and revenue	4,723,776	131,313	4,855,089
Expenses			
Cost of homes sold and program support	4,281,900	-	4,281,900
Management and general	525,033	-	525,033
Fundraising	945,372	-	945,372
Total expenses	5,752,305	-	5,752,305
Change in net assets	(1,028,529)	131,313	(897,216)
Net assets at beginning	3,320,662	386,168	3,706,830
Net assets at end	\$ 2,292,133	\$ 517,481	\$ 2,809,614

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**

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
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	<u>547,803</u>	<u>(547,803)</u>	<u>-</u>
Total support	<u>5,109,167</u>	<u>(17,682)</u>	<u>5,091,485</u>
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	<u>661,162</u>	<u>-</u>	<u>661,162</u>
Total revenue	<u>4,245,966</u>	<u>(13,985)</u>	<u>4,231,981</u>
Total support and revenue	<u>9,355,133</u>	<u>(31,667)</u>	<u>9,323,466</u>
Expenses			
Cost of homes sold and program support	7,320,689	-	7,320,689
Management and general	669,927	-	669,927
Fundraising	<u>915,816</u>	<u>-</u>	<u>915,816</u>
Total expenses	<u>8,906,432</u>	<u>-</u>	<u>8,906,432</u>
Change in net assets	448,701	(31,667)	417,034
Net assets at beginning	<u>2,871,961</u>	<u>417,835</u>	<u>3,289,796</u>
Net assets at end	<u><u>\$ 3,320,662</u></u>	<u><u>\$ 386,168</u></u>	<u><u>\$ 3,706,830</u></u>

See Notes to Consolidated Financial Statements.

**San Diego Habitat for Humanity, Inc.**  
**Consolidated Statement of Functional Expenses**  
**Year Ended June 30, 2023**

	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	\$ 416,267	\$ -	\$ -	\$ 416,267
Mortgage discount subsidy	84,441	-	-	84,441
Compensation of officers and key employees	278,261	222,007	267,575	767,843
Compensation of all other employees	1,806,900	118,425	441,694	2,367,019
Occupancy, utilities, telephone, insurance and office supplies	624,974	40,259	14,946	680,179
Construction materials and services	126,989	-	-	126,989
Vehicles and mileage	158,987	1,264	9,668	169,919
Advertising and events	160,216	18,861	146,112	325,189
Interest, merchant & bank fees	284,889	-	9,496	294,385
Outside services - legal, audit, IT, other consulting	177,697	69,963	55,881	303,541
Depreciation	133,579	38,646	-	172,225
HFHI Tithe and fees	28,700	-	-	28,700
Other	-	15,608	-	15,608
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total	<u>\$ 4,281,900</u>	<u>\$ 525,033</u>	<u>\$ 945,372</u>	<u>\$ 5,752,305</u>

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
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, marketing and events	175,933	3,876	118,106	297,915
Interest, merchant and bank fees and amortization of loan fees	337,477	55,594	14,306	407,377
Outside services - legal, audit, IT and other services	120,674	84,317	38,368	243,359
Depreciation	157,027	77,485	-	234,512
HFHI Tithe and affiliate fee	28,700	-	-	28,700
Other	517	24,644	6,338	31,499
	<u>517</u>	<u>24,644</u>	<u>6,338</u>	<u>31,499</u>
Total	<u>\$ 7,320,689</u>	<u>\$ 669,927</u>	<u>\$ 915,816</u>	<u>\$ 8,906,432</u>

See Notes to Consolidated Financial Statements.

**San Diego Habitat for Humanity, Inc.**

**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Change in net assets	\$ (897,216)	\$ 417,034
Adjustments to reconcile change in net assets to net cash used in operating activities		
Origination of non-interest bearing mortgages	(516,250)	(3,311,536)
Discount on origination of non-interest bearing mortgages	84,441	764,189
Change in value - beneficial interest in assets held by community foundation	(8,813)	31,667
(Gain) loss on disposal of fixed assets	(7,000)	16,408
Gain on forgiveness of PPP loan	-	(652,002)
Depreciation	172,225	234,512
Mortgage discount amortization	(352,869)	(301,836)
Amortization of loan fees	10,688	10,688
Amortization of discount on notes payable	20,272	20,166
Amortization of right of use asset	322,021	813,487
Changes in operating assets and liabilities		
Accounts receivable	636,993	(380,913)
Inventory - ReStores and other	(6,592)	173,929
Prepaid expenses and deferred charges	(87,993)	(53,599)
Construction-in-process	(1,861,899)	1,051,567
Deposits and other assets	(3,517)	23,331
Accounts payable, accrued expenses and other liabilities	128,334	29,901
Mortgage payments received	622,218	484,128
Operating lease liability	(288,567)	(770,464)
Deferred revenue	122,500	-
Deferred revenue - NMTC Programs	25,871	464,505
Refundable advances	<u>1,623,011</u>	<u>-</u>
Net cash used in operating activities	<u>(262,142)</u>	<u>(934,838)</u>

See Notes to Consolidated Financial Statements.

**San Diego Habitat for Humanity, Inc.**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
Cash flows from investing activities		
Purchases of property and equipment	(58,106)	(518,496)
Proceeds from sale of property and equipment	<u>7,000</u>	<u>236,158</u>
Net cash used in investing activities	<u>(51,106)</u>	<u>(282,338)</u>
Cash flows from financing activities		
Proceeds from issuance of notes payable	-	505,361
Proceeds from borrowings from secured obligations	1,270,210	-
Principal payments on notes payable, including grants forgiven	(338,946)	(339,829)
Payments on secured obligations	<u>(200,781)</u>	<u>(188,609)</u>
Net cash provided by (used in) financing activities	<u>730,483</u>	<u>(23,077)</u>
Change in cash, cash equivalents and restricted cash	417,235	(1,240,253)
Cash, cash equivalents and restricted cash, beginning	<u>803,897</u>	<u>2,044,150</u>
Cash, cash equivalents and restricted cash, ending	<u><u>\$ 1,221,132</u></u>	<u><u>\$ 803,897</u></u>
Supplemental disclosure of cash flow information		
Interest paid	<u><u>\$ 43,645</u></u>	<u><u>\$ 37,458</u></u>
Supplemental disclosure of non-cash buildings and vehicles under operating leases		
Right of use asset obtained in exchange for operating lease liability	<u><u>\$ -</u></u>	<u><u>\$ 2,304,355</u></u>
Supplemental disclosure of non-cash financing activities		
Notes forgiven - government grants	<u><u>\$ -</u></u>	<u><u>\$ 652,002</u></u>
Reconciliation of cash		
Cash and cash equivalents	993,183	553,166
Restricted cash	<u>227,949</u>	<u>250,731</u>
	<u><u>\$ 1,221,132</u></u>	<u><u>\$ 803,897</u></u>

See Notes to Consolidated Financial Statements.

## **San Diego Habitat for Humanity, Inc.**

### **Notes to Consolidated Financial Statements June 30, 2023 and 2022**

#### **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, 2023 and 2022 were \$517,481 and \$386,168, respectively.

## San Diego Habitat for Humanity, Inc.

### Notes to Consolidated Financial Statements June 30, 2023 and 2022

#### 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>2023</u>
Cash, cash equivalents and restricted cash	\$ 1,221,132
Beneficial interest in assets held by community foundation	394,981
Accounts receivable	<u>115,179</u>
Total	<u>\$ 1,731,292</u>

\$517,481 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 \$105,030 and \$100,000 of restricted cash related to mortgage monetization at June 30, 2023 and 2022, 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 \$122,919 and \$150,731 of restricted cash related to the NMTC Programs at June 30, 2023 and 2022, respectively.

#### Accounts receivable

Accounts receivable at June 30, 2023 and 2022 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, 2023 and 2022.

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, 2023 and 2022**

#### **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, 2023 and 2022**

#### **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, 2023 and 2022 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, 2023 and 2022, the Organization recognized \$15,390 and \$42,907, 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 \$153,848 and \$178,961 for donated goods and services supporting various programs and fundraising activities during the years ended June 30, 2023 and 2022, respectively. Accordingly, the Organization recognized total in-kind contributions of \$169,238 and \$221,868 during the years ended June 30, 2023 and 2022, 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, 2023 and 2022**

#### **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, 2023, the Organization had approximately \$523,806 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.

#### **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 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



## **San Diego Habitat for Humanity, Inc.**

### **Notes to Consolidated Financial Statements June 30, 2023 and 2022**

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.

#### **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, 2023 and 2022, 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, 2023 and 2022.

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 January 8, 2024, which is the date the consolidated financial statements were available to be issued.

**San Diego Habitat for Humanity, Inc.**

**Notes to Consolidated Financial Statements**  
**June 30, 2023 and 2022**

**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, 2023 and 2022, new mortgages were discounted at rates of 1.50% and 1.50%, respectively, resulting in mortgage discount subsidy expense of \$84,441 and \$764,189, respectively. The mortgage discount subsidy is amortized over the lives of the underlying mortgages and included as revenue. Mortgage loan discount amortization revenue was \$352,869 and \$301,836 for the years ended June 30, 2023 and 2022.

Mortgage notes receivable and the related discount at June 30, 2023 and 2022 are summarized as follows:

	<u>2023</u>	<u>2022</u>
Mortgage notes receivable	\$ 12,547,807	\$ 12,668,722
Less unamortized discount	<u>(5,014,492)</u>	<u>(5,297,867)</u>
Net present value of mortgage notes receivable	<u>\$ 7,533,315</u>	<u>\$ 7,370,855</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, 2023 and 2022, the book value of these secured obligations, net of unamortized discount and deferred finance fees, was \$5,665,971 and \$4,536,252, respectively.

Scheduled mortgage notes receivable collections for five years subsequent to June 30, 2023 and thereafter are summarized as follows:

2024	\$ 516,010
2025	488,719
2026	479,185
2027	471,679
Thereafter	<u>10,592,214</u>
Total	<u>\$ 12,547,807</u>

During the year ended June 30, 2023, the Organization sold 8 mortgage notes receivable to Community Bank of the Bay for \$1,552,574 before transactions costs. These mortgage notes receivable had balances of \$1,248,073 (\$291,896 net of unamortized discount) as of the cutoff date for the transaction. There were no mortgages sold during year ended June 30, 2022.

**San Diego Habitat for Humanity, Inc.**

**Notes to Consolidated Financial Statements  
June 30, 2023 and 2022**

**Note 3 - Construction-in-process**

Construction-in-process and real estate development costs for the years ended June 30, 2023 and 2022 are summarized by project as follows:

	<u>2023</u>	<u>2022</u>
Escondido - Citracado Parkway	\$ 62,672	\$ 61,196
Escondido - El Norte Parkway	3,115,351	1,356,228
Santee	<u>133,225</u>	<u>31,925</u>
Total	<u><u>\$ 3,311,248</u></u>	<u><u>\$ 1,449,349</u></u>

The following is a summary of home building activity for the years ended June 30, 2023 and 2022:

	<u>2023</u>		<u>2022</u>	
	<u>Number of homes</u>	<u>Cost</u>	<u>Number of homes</u>	<u>Cost</u>
Home construction-in-process, beginning balance	10	\$ 1,449,349	18	\$ 2,500,916
New spends on projects	-	1,861,899	-	1,883,886
Costs transferred to cost of homes sold	<u>(1)</u>	<u>-</u>	<u>(8)</u>	<u>(2,935,453)</u>
Home construction-in-progress, ending balance	<u><u>9</u></u>	<u><u>\$ 3,311,248</u></u>	<u><u>10</u></u>	<u><u>\$ 1,449,349</u></u>

**Note 4 - Finished homes held for sale**

There were no finished homes held for sale as of June 30, 2023 and 2022.

**Note 5 - Property and equipment, net**

Property and equipment for the years ended June 30, 2023 and 2022 consist of the following:

	<u>2023</u>	<u>2022</u>
Land	\$ 1,874,778	\$ 1,874,778
Buildings and improvements	4,418,039	4,418,039
Vehicles	268,649	210,544
Equipment	<u>167,249</u>	<u>216,942</u>
Total	6,728,715	6,720,303
Less accumulated depreciation	<u>(1,441,403)</u>	<u>(1,318,872)</u>
Property and equipment, net	<u><u>\$ 5,287,312</u></u>	<u><u>\$ 5,401,431</u></u>

Depreciation expense for the years ended June 30, 2023 and 2022 was \$172,225 and \$234,512, respectively.

**San Diego Habitat for Humanity, Inc.**

**Notes to Consolidated Financial Statements**  
**June 30, 2023 and 2022**

**Note 6 - Retail store, net**

SDHFH operates three home improvement stores (the "ReStores") in San Diego, Escondido and National City, 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, 2023 and 2022 are summarized as follows:

	<u>2023</u>	<u>2022</u>
Donations to retail store	\$ 2,243,485	\$ 1,850,300
Sales of donated and purchased items	2,228,511	2,012,490
Delivery contributions and other income	4,201	9,497
Fair market value of donated items sold and cost of purchased inventory sold	<u>(2,438,068)</u>	<u>(2,186,113)</u>
Net revenue from retail store	<u><u>\$ 2,038,129</u></u>	<u><u>\$ 1,686,174</u></u>

**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. 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.

**San Diego Habitat for Humanity, Inc.**

**Notes to Consolidated Financial Statements  
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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 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.

**San Diego Habitat for Humanity, Inc.**

**Notes to Consolidated Financial Statements  
June 30, 2023 and 2022**

Deferred revenue is summarized as follows at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
New Market Tax Credits (2018 transaction):		
Investment in leverage lender	\$ 1,164,386	\$ 1,176,516
Note payable from CDE	(1,786,082)	(1,786,082)
Transaction costs	85,599	97,545
New Market Tax Credits (2021 transaction):		
Investment in leverage lender	1,655,420	1,672,192
Note payable from CDE	(2,273,349)	(2,273,349)
Transaction costs	<u>167,536</u>	<u>152,559</u>
Total deferred revenue	<u>\$ (986,490)</u>	<u>\$ (960,619)</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, 2023 and 2022:

	<u>2023</u>	<u>2022</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.	\$ 417,251	\$ 445,039
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.	611,562	655,655
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.	390,121	426,322
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.	367,706	402,553
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.	1,432,841	1,497,028

**San Diego Habitat for Humanity, Inc.**

**Notes to Consolidated Financial Statements  
June 30, 2023 and 2022**

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.

2,116,791	2,193,389
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Eight non-interest-bearing mortgage notes with Community Bank of the Bay, entered into on December 20, 2022, originally in the amount of \$1,552,574, payable in equal monthly installments, due in July 2052.

<u>1,320,390</u>	<u>-</u>
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Secured obligations, gross

6,656,662	5,619,986
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Less unamortized discount

<u>(990,691)</u>	<u>(1,083,734)</u>
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Net present value of secured obligations

<u>\$ 5,665,971</u>	<u>\$ 4,536,252</u>
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The following table summarizes the payments due for secured obligations for five years subsequent to June 30, 2023 and thereafter:

2024	\$ 336,684
2025	336,685
2026	336,686
2027	336,687
2028	336,687
Thereafter	<u>4,973,233</u>
	<u>\$ 6,656,662</u>

**Note 9 - Note payable – Bank**

Note payable - Bank consists of the following at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
SDHFH has a tax exempt mortgage loan for \$3,760,000 on its property at Mercury 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.	<u>\$ 3,473,704</u>	<u>\$ 3,542,326</u>
Total note payable	3,473,704	3,542,326
Less deferred finance fees, net	<u>(44,534)</u>	<u>(55,222)</u>
Total note payable, net	<u>\$ 3,429,170</u>	<u>\$ 3,487,104</u>

**San Diego Habitat for Humanity, Inc.**

**Notes to Consolidated Financial Statements**  
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The following table summarizes the principal payments due for notes payable - Bank subsequent to June 30, 2023 and thereafter:

2024	65,059
2025	67,742
2026	70,186
2027	72,717
2028	72,717
Thereafter	<u>3,125,283</u>
	<u><u>\$ 3,473,704</u></u>

As of June 30, 2023, 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, 2023 and 2022 consist of the following:

	<u>2023</u>	<u>2022</u>
Notes payable, San Diego Housing Commission, to be paid off in FY23.	\$ -	\$ 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>365,000</u>	<u>425,000</u>
Total	365,000	425,287
Less unamortized discount	<u>(55,134)</u>	<u>(79,462)</u>
Net present value of notes payable - governmental agencies	<u><u>\$ 309,866</u></u>	<u><u>\$ 345,825</u></u>

The following table summarizes the scheduled principal payments on these notes for five years subsequent to June 30, 2023 and thereafter:

2023	60,000
2024	60,000
2025	60,000
2026	60,000
2027	60,000
Thereafter	<u>65,000</u>
Total	<u><u>\$ 365,000</u></u>



**San Diego Habitat for Humanity, Inc.**

**Notes to Consolidated Financial Statements  
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**Note 11 - Note payable - HFHI**

Note payable - HFHI as of June 30, 2023 and 2022 consists of the following:

	<u>2023</u>	<u>2022</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.	\$ 4,758	\$ 8,814
Less unamortized discount	<u>(196)</u>	<u>(196)</u>
Total	<u>\$ 4,562</u>	<u>\$ 8,618</u>

The following table summarizes the scheduled principal payments on the note for five years subsequent to June 30, 2023 and thereafter:

2024	\$ 4,082
2025	<u>676</u>
Total	<u>\$ 4,758</u>

**Note 12 - 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 for \$25,000. Interest on the loan is based on Wall Street Journal Prime Rate plus 1.00%. The line was since extended through October 15, 2023, and the line of credit was not renewed again. During the years ended June 30, 2023 and 2022, SDHFH did not draw down on the line of credit.

**Note 13 - 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, 2023 and 2022 was \$1,850,000.

**Note 14 - 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 a second Paycheck Protection Program 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,

## **San Diego Habitat for Humanity, Inc.**

### **Notes to Consolidated Financial Statements June 30, 2023 and 2022**

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, began 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, 2023 and 2022 was \$0 and \$166,667, respectively.

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, 2023 and 2022 was \$1,586 and \$122,177, respectively.

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 began twenty-four months from this date. The outstanding balance as of June 30, 2023 and 2022 was \$10,642 and \$33,204, respectively.

#### **Note 15 - 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, 2023 and 2022, SDHFH remitted \$3,700 and \$3,700, respectively, in tithes to HFHI.

In addition, during the years ended June 30, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and 2022 were \$4,758 and \$8,814, respectively.

SDHFH is a party to the Home Ownership Program with HFHI and receives funds for homeownership services. The funds are recorded as deferred revenue until the homes are sold. During the year ended June 30, 2023, the Organization received \$22,500 under this program.

#### **Note 16 - 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, 2023 and 2022 was \$15,788 and \$15,513, respectively.

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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, 2023 and 2022 was \$84,904 and \$84,904, 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, 2023 and 2022 was \$164,099 and \$148,879, respectively.

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, 2023 and 2022 was \$279,878 and \$233,838, respectively.

Supplemental balance sheet information related to the operating leases is as follows as of June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
<b>Supplemental cash flows information</b>		
Right of use assets obtained in exchange for lease obligations:		
Operating leases	\$ 1,168,847	\$ 1,490,868
<b>Weighted average remaining lease term</b>		
Operating leases (in months)	63	60
<b>Weighted average discount rate</b>		
Operating leases	3.06%	3.07%

Future minimum rental payments under these leases for the years subsequent to June 30, 2023 are as follows:

2024	\$ 338,344
2025	329,018
2026	133,497
2027	137,502
2028	141,627
Thereafter	<u>269,935</u>
Total lease payments	<u>\$ 1,349,923</u>
Amount of interest	<u>(104,599)</u>
Present value of lease liability	<u>\$ 1,245,324</u>

As of June 30, 2023, the Company does not have any leases that have not yet commenced but that create significant rights and obligations.

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**Note 17 - Donor restricted net assets**

Donor restricted net assets as of June 30, 2023 and 2022 consist of amounts restricted by donor-imposed stipulations as follows:

	<u>2023</u>	<u>2022</u>
Unappropriated investment income (loss)	\$ 8,813	\$ (13,985)
Construction in Santee	100,000	-
Homeowner services	22,500	-
Endowed component fund	<u>386,168</u>	<u>400,153</u>
Total	<u>\$ 517,481</u>	<u>\$ 386,168</u>

**Note 18 - Endowment component fund**

Donor restricted net assets as of June 30, 2023 and 2022, 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.

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The following is a summary of changes in endowment net assets for the year ended June 30, 2023:

	Without Donor Restriction	With Donor Restriction	Total
Fund balance, beginning	\$ -	\$ 386,168	\$ 386,168
Fund depreciation	-	27,553	27,553
Investment expenses	-	(1,929)	(1,929)
Distributable grants approved	-	(16,811)	(16,811)
Fund balance, end	<u>\$ -</u>	<u>\$ 394,981</u>	<u>\$ 394,981</u>

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 appreciation	-	(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>

**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, 2023 and 2022.

**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 19.

**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

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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 19 - 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, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial interest in assets held by community foundation	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 394,981</u>	<u>\$ 394,981</u>
Total assets at fair value	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 394,981</u></u>	<u><u>\$ 394,981</u></u>

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

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

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, 2023 and 2022:

	2023	2022
Balance, beginning	\$ 386,168	\$ 417,835
Investment return	25,624	(15,955)
Distributed to SDHFH	(16,811)	(15,712)
Balance, end	\$ 394,981	\$ 386,168

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 2023:

Instrument	Fair value	Principal valuation technique	Unobservable inputs	Significant input values	Weighted average
Beneficial interest in assets held by community foundation	\$ 394,981	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 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 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, 2023 and 2022. 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.

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**Note 20 - Other income**

	<u>2023</u>	<u>2022</u>
PPP loan forgiveness (loan #2)	\$ -	\$ 652,002
Gain on disposal of asset	7,000	-
Other income	<u>15,226</u>	<u>9,160</u>
Total	<u>\$ 22,226</u>	<u>\$ 661,162</u>

**Note 21 - 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, 2023 and 2022, the Organization elected to contribute \$57,831 and \$46,229, respectively.

**Note 22 - Subsequent Event**

On October 4, 2023, the Organization entered into a new loan agreement with MDF Fund I, LP in an amount up to \$6,250,000, at 6.0% interest with a maturity date of January 31, 2029. Principal is due at maturity.