

**Habitat For Humanity Greater
San Francisco, Inc. and Subsidiary**

Consolidated Financial Statements

June 30, 2020
(With Comparative Totals for 2019)



TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1 - 2
Consolidated Statement of Financial Position	3 - 4
Consolidated Statement of Activities	5
Consolidated Statement of Functional Expenses	6
Consolidated Statement of Cash Flows	7 - 8
Notes to Consolidated Financial Statements	9 - 26



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Habitat For Humanity Greater San Francisco, Inc. and Subsidiary
San Francisco, California

We have audited the accompanying consolidated financial statements of Habitat For Humanity Greater San Francisco, Inc. and Subsidiary (a California nonprofit corporation) (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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



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Global Network Limited

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Habitat For Humanity Greater San Francisco, Inc. and Subsidiary as of June 30, 2020, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 2 to the financial statements, the Organization has adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to that matter.

Emphasis of Matter

As discussed in Note 21 to the financial statements, on March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited Habitat For Humanity Greater San Francisco, Inc. and Subsidiary's 2019 consolidated financial statements, and our report dated November 6, 2019 expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



Armanino^{LLP}
San Jose, California

October 30, 2020

Habitat For Humanity Greater San Francisco, Inc. and Subsidiary
Consolidated Statement of Financial Position
June 30, 2020
(With Comparative Totals for 2019)

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 9,380,106	\$ 10,622,858
Accounts receivable	62,880	62,151
Current portion of mortgage notes receivables	1,118,564	1,182,604
Current portion of grants and contributions receivable	1,411,778	1,621,811
Inventory of homes	-	342,732
Prepaid and other current assets	96,603	94,193
Total current assets	12,069,931	13,926,349
Property and equipment, net	65,822	177,004
Other assets		
Restricted cash	-	28,054
Mortgage notes receivable, net of current portion and unamortized discount	8,188,558	8,854,594
Grants and contributions receivable, net of current portion	1,274,558	2,183,559
Construction in progress	9,834,256	6,585,310
Deposits	98,288	102,110
Total other assets	19,395,660	17,753,627
Total assets	\$ 31,531,413	\$ 31,856,980

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

Habitat For Humanity Greater San Francisco, Inc. and Subsidiary
Consolidated Statement of Financial Position
June 30, 2020
(With Comparative Totals for 2019)

	2020	2019
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable, operating	\$ 111,369	\$ 154,074
Accounts payable, construction	383,982	-
Accrued liabilities	428,512	386,118
Unearned revenue	45,762	10,000
Current portion of notes payable	67,269	65,897
Total current liabilities	1,036,894	616,089
Long-term liabilities		
Notes payable, net of current portion	1,475,925	1,536,087
Refundable advances	1,334,000	1,334,000
Paycheck Protection Program loan	853,500	-
Deferred lease obligation	44,665	71,103
Total long-term liabilities	3,708,090	2,941,190
Total liabilities	4,744,984	3,557,279
Net assets		
Without donor restrictions		
Undesignated	21,359,459	22,182,134
Board designated operating reserve	4,163,576	2,931,943
Total without donor restrictions	25,523,035	25,114,077
With donor restrictions		
Total net assets	1,263,394	3,185,624
Total net assets	26,786,429	28,299,701
Total liabilities and net assets	\$ 31,531,413	\$ 31,856,980

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

Habitat For Humanity Greater San Francisco, Inc. and Subsidiary
Consolidated Statement of Activities
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Support, revenues, and gains				
Support				
Grants and contributions	\$ 3,875,905	\$ 842,946	\$ 4,718,851	\$ 7,946,906
Special events	474,655	-	474,655	547,937
Donated services	194,647	-	194,647	118,771
Donated materials	<u>16,788</u>	<u>-</u>	<u>16,788</u>	<u>59,671</u>
Total support	4,561,995	842,946	5,404,941	8,673,285
ReStore revenue	274,469	-	274,469	1,627,918
Mortgage discount amortization	478,556	-	478,556	471,198
Sale of homes	725,785	-	725,785	1,763,381
NMTC investment income	-	-	-	216,204
Gain on sale of notes receivable	535,035	-	535,035	-
Loss on disposal of property and equipment	(103,318)	-	(103,318)	-
Gain on cancellation of NMTC financing	-	-	-	1,455,650
Other income	43,406	-	43,406	1,075,794
Net assets released from restriction	<u>2,765,176</u>	<u>(2,765,176)</u>	<u>-</u>	<u>-</u>
Total support, revenues, and gains	<u>9,281,104</u>	<u>(1,922,230)</u>	<u>7,358,874</u>	<u>15,283,430</u>
Functional expenses				
Program services				
Housing Development	2,667,277	-	2,667,277	3,756,528
Homeowner Development, Volunteers, Neighborhood Revitalization	2,174,598	-	2,174,598	1,758,679
ReStore	<u>341,841</u>	<u>-</u>	<u>341,841</u>	<u>1,418,269</u>
Total program services	<u>5,183,716</u>	<u>-</u>	<u>5,183,716</u>	<u>6,933,476</u>
Support services				
General and administrative	2,222,069	-	2,222,069	2,380,862
Fundraising	<u>1,466,361</u>	<u>-</u>	<u>1,466,361</u>	<u>1,643,076</u>
Total support services	<u>3,688,430</u>	<u>-</u>	<u>3,688,430</u>	<u>4,023,938</u>
Total functional expenses	<u>8,872,146</u>	<u>-</u>	<u>8,872,146</u>	<u>10,957,414</u>
Change in net assets	408,958	(1,922,230)	(1,513,272)	4,326,016
Net assets, beginning of year	<u>25,114,077</u>	<u>3,185,624</u>	<u>28,299,701</u>	<u>23,973,685</u>
Net assets, end of year	<u>\$ 25,523,035</u>	<u>\$ 1,263,394</u>	<u>\$ 26,786,429</u>	<u>\$ 28,299,701</u>

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

Habitat For Humanity Greater San Francisco, Inc. and Subsidiary
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

	Housing Development	Homeowner Development, Volunteers, Neighborhood Revitalization	ReStore	Total Program Services	General and Administrative	Fundraising	Total Support Services	2020 Total	2019 Total
Direct housing expenses									
Cost of sales - homes	\$ 739,750	\$ -	\$ -	\$ 739,750	\$ -	\$ -	\$ -	\$ 739,750	\$ 1,514,223
Loss on sale of homes	103,596	-	-	103,596	-	-	-	103,596	230,184
Total direct housing expenses	<u>843,346</u>	<u>-</u>	<u>-</u>	<u>843,346</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>843,346</u>	<u>1,744,407</u>
Salaries and benefits									
Salaries and wages	597,109	1,309,117	116,191	2,022,417	1,072,076	855,511	1,927,587	3,950,004	3,733,580
Employee benefits	49,177	174,003	12,025	235,205	113,538	90,784	204,322	439,527	416,596
Payroll taxes	41,390	103,226	13,397	158,013	71,726	65,256	136,982	294,995	275,924
Workers' compensation insurance	2,447	6,220	-	8,667	2,561	4,893	7,454	16,121	31,843
Stipend - Vista/AmeriCorp	4,000	500	-	4,500	-	-	-	4,500	23,275
Total salaries and benefits	<u>694,123</u>	<u>1,593,066</u>	<u>141,613</u>	<u>2,428,802</u>	<u>1,259,901</u>	<u>1,016,444</u>	<u>2,276,345</u>	<u>4,705,147</u>	<u>4,481,218</u>
Professional services	371,178	49,827	185	421,190	205,011	87,553	292,564	713,754	520,586
Rent	137,345	95,405	119,642	352,392	99,200	60,504	159,704	512,096	791,000
Special events expenses	-	-	-	-	-	121,388	121,388	121,388	268,581
Donated services and goods	-	-	-	-	74,800	-	74,800	74,800	72,428
Promotions and supplies	1,298	27,814	-	29,112	-	-	-	29,112	49,179
Interest	63,941	-	-	63,941	-	-	-	63,941	63,871
NMTC annual fees	-	-	-	-	-	-	-	-	181,121
Tithe	172,000	-	-	172,000	-	-	-	172,000	100,853
Communications	12,619	24,782	575	37,976	15,858	8,835	24,693	62,669	76,609
Office expenses	23,886	26,610	19,109	69,605	66,889	14,290	81,179	150,784	175,437
Postage and printing	5,167	6,234	87	11,488	36,385	107,932	144,317	155,805	142,040
Depreciation	-	-	-	-	52,637	-	52,637	52,637	122,213
Amortization	-	-	-	-	-	-	-	-	19,018
Bad debt	-	-	-	-	334,512	-	334,512	334,512	325,508
Taxes and licenses	-	-	-	-	3,864	-	3,864	3,864	17,970
Travel and training	6,816	13,307	1,089	21,212	23,066	10,726	33,792	55,004	73,846
Neighborhood revitalization project expense	-	303,738	-	303,738	-	-	-	303,738	215,870
Computer software/hardware	2,148	6,385	808	9,341	7,610	-	7,610	16,951	13,367
Bank fees	43	591	8,641	9,275	17,162	29,286	46,448	55,723	59,595
Insurance	19,782	23,911	-	43,693	11,729	7,351	19,080	62,773	81,275
Employee engagement	443	357	1,626	2,426	11,717	1,273	12,990	15,416	12,248
Equipment rental and maintenance	208	2,571	536	3,315	1,633	597	2,230	5,545	33,522
Discontinued construction	130,319	-	-	130,319	-	-	-	130,319	438,653
Discount on mortgage issued	182,492	-	-	182,492	-	-	-	182,492	797,302
Marketing	123	-	47,930	48,053	95	182	277	48,330	79,614
Other expenses	-	-	-	-	-	-	-	-	83
	<u>\$ 2,667,277</u>	<u>\$ 2,174,598</u>	<u>\$ 341,841</u>	<u>\$ 5,183,716</u>	<u>\$ 2,222,069</u>	<u>\$ 1,466,361</u>	<u>\$ 3,688,430</u>	<u>\$ 8,872,146</u>	<u>\$ 10,957,414</u>

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

Habitat For Humanity Greater San Francisco, Inc. and Subsidiary
Consolidated Statement of Cash Flows
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ (1,513,272)	\$ 4,326,016
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	52,637	141,231
Loss (gain) on disposal of property and equipment	103,318	(20,407)
Gain on sale of mortgage notes receivable	(535,035)	-
Sales of homes recognized through issuance of mortgage notes	(725,785)	(1,763,381)
Amortization of mortgage notes receivable discount	(478,556)	(471,198)
Discount on notes payable issued	-	(1,032,778)
Discount on mortgage notes issued	182,492	797,302
Amortization of notes payable discount	63,941	17,332
Amortization of debt issuance costs	-	91,489
Gain on cancellation of NMTC financing	-	(1,455,650)
Bad debt write off	334,512	325,508
Changes in operating assets and liabilities		
Accounts receivable	(730)	85,765
Grants and contributions receivable	784,522	(2,427,670)
Impounds receivable	-	10,207
Inventory of homes	342,732	1,719,431
Prepaid expenses and other current assets	(2,410)	(11,327)
Construction in progress	(2,864,964)	(438,348)
Deposits	3,822	(15,000)
Accounts payable	(42,704)	(207,475)
Accrued liabilities	15,956	164,565
Unearned revenue	<u>35,762</u>	<u>10,000</u>
Net cash used in operating activities	<u>(4,243,762)</u>	<u>(154,388)</u>
Cash flows from investing activities		
Purchase of property and equipment	(44,773)	(21,525)
Payments received on mortgage notes receivable	1,210,130	1,220,123
Proceeds from mortgage notes receivable sold	1,076,830	-
Investment in new markets tax credit venture	-	(162,392)
Net cash provided by investing activities	<u>2,242,187</u>	<u>1,036,206</u>
Cash flows from financing activities		
Payments on notes payable	(122,731)	(65,566)
Proceeds from issuance of notes payable	<u>853,500</u>	<u>2,010,798</u>
Net cash provided by financing activities	<u>730,769</u>	<u>1,945,232</u>
Net increase (decrease) in cash	(1,270,806)	2,827,050
Cash, cash equivalents and restricted cash, beginning of year	<u>10,650,912</u>	<u>7,823,862</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 9,380,106</u>	<u>\$ 10,650,912</u>

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

Habitat For Humanity Greater San Francisco, Inc. and Subsidiary
Consolidated Statement of Cash Flows
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

	2020	2019
Cash, cash equivalents and restricted cash consisted of the following:		
Cash	\$ 9,380,106	\$ 10,622,858
Restricted cash	-	28,054
	\$ 9,380,106	\$ 10,650,912
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ -	\$ 54,361
Supplemental schedule of noncash investing and financing activities		
Construction in progress acquired by short term liabilities	\$ 383,982	\$ -
Cancellation of NMTC financing	\$ -	\$ 8,875,195

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

Habitat For Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

1. ORGANIZATION

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary, (the "Organization" or "Habitat"), is a nonprofit public benefit corporation incorporated in California in 1988 (originally as Peninsula Habitat for Humanity). Effective August 1, 2008, Habitat for Humanity San Francisco merged into Peninsula Habitat for Humanity and the combined entities were renamed Habitat for Humanity Greater San Francisco, Inc. The new Organization serves San Francisco, San Mateo, and Marin Counties. The Organization is affiliated with Habitat for Humanity International, Inc..

HFHGSF Funding Company, LLC (the "Company"), a limited liability company incorporated in California in July 2019, is a wholly-owned subsidiary of the Organization. The Company acquired from the Organization all of its rights, title and interest in nine mortgage notes. The Company pledged the nine mortgage notes as collateral to secure a note from the Northern Trust Company (see Note 11).

The Organization partners with working families and the community to develop affordable homes for first-time home ownership. The Organization builds homes by engaging volunteers to work alongside carefully selected candidate families. Over 50% of the construction labor is done by volunteers and the qualified families selected. The candidate families invest approximately 500 hours of "sweat equity" in the home in lieu of a down payment. The Organization provides financing for the homes at zero percent interest.

The following is a brief description of the Organization's program services:

Housing development

- *Land acquisition* - Fosters relationships with Marin, San Francisco and San Mateo Counties and their municipalities; locates and acquires land for home construction; obtains funding from multiple affordable housing sources.
- *Construction* - Builds and rehabilitates homes; trains, organizes and supervises on-site volunteers.
- *Tithe* - Contributes a portion of undesignated donated funds annually to Habitat for Humanity International, Inc. for the construction of homes outside the United States.

Programs

- *Homeowner development* - Selects, qualifies, and mentors candidate families, and provides them financial and home ownership education; manages long-term homeowner relationships.
- *Volunteer services* - Recruits, trains, schedules, and supports volunteers for work at the construction sites, NR projects, in the office, and on committees.

Habitat For Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

1. ORGANIZATION (continued)

Programs (continued)

- *Neighborhood revitalization (NR)* - Beautifies parks and community gardens, renovates community assets like schools and community centers and delivers critical home repairs to improve health, safety, and well-being of residents in three focus neighborhoods: the Bayview in San Francisco, Bell Haven in Menlo Park, and East Palo Alto.
- *ReStore* - In September 2012, the Organization opened its first ReStore, a volunteer-driven home improvement resale outlet that accepts and resells new and gently-used building materials, appliances, and furniture to the public at a fraction of their retail price. The Organization closed its doors to the public on September 1, 2019 ahead of the termination of the lease on the store property on September 30, 2019. The store took donations of gently-used furniture, cabinets, applicables and lighting and, in turn, sold them on to customers. The proceeds were used to support the affiliate's mission. The closure plan for the ReStore has ensured that existing customers and potential furniture donors are encouraged to support ReStores operated by other nearby Habitat affiliates, including Habitat East Bay & Silicon Valley.

New Markets Tax Credit Financing

In December 2011, the Organization invested in its second New Markets Tax Credit (NMTC) financing venture, HFHGSF Leverage Lender, LLC, as the sole Habitat affiliate, to take advantage of tax credit equity financing (see Notes 8, 9, and 18). The venture wound down during the fiscal year ended June 30, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The Organization's financial statements are presented in accordance with accounting principles generally accepted in the United States of America on an accrual basis. Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

The Organization reports its financial position and operating activities in two classes of net assets:

- *Net assets without donor restrictions* - include those assets that are not subject to donor imposed restrictions and can be used for the general operations of the Organization. The Board of Directors has discretionary control in carrying out the operations of the Organization.

Habitat For Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation (continued)

- *Net assets with donor restrictions* - include those assets which are subject to donor restriction and for which the applicable restriction was not met as of the year end of the current reporting period. Other donor-imposed restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. There are no net assets restricted in perpetuity as of June 30, 2020 and 2019.

Change in accounting principle

In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-08, Not-For-Profit Entities (Topics 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the criteria for evaluating whether a transaction is a contribution or an exchange transaction and whether a contribution is conditional or unconditional. The Organization adopted ASU 2018-08 with a date of the initial application of July 1, 2019 using the modified prospective method. The adoption of ASU 2018-08 did not have a significant impact on the Organization's financial position, result of operations, or cash flows. The Organization has evaluated contributions received and contributions made and has determined that there is no change as a result of the adoption of the standard.

Basis of consolidation

The consolidated financial statements include the accounts of the Organization and its wholly-owned subsidiary - HFHGSF Funding Company, LLC. All significant intercompany balances and transactions have been eliminated.

Use of estimates

The preparation of 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 at the date of the financial statements and the reported amounts of revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments and investments with an original maturity of three months or less, and exclude donor restricted receipts and amounts designated for long-term purposes.

Habitat For Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents (continued)

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Mortgage notes receivable

The Organization records home sale mortgages at the gross amount of payments to be received over the lives of the mortgages. The mortgage notes receivable bear no interest and, accordingly, the notes are discounted to reflect imputed interest over the lives of the mortgages. The discount rates used to impute interest are based on the Freddie Mac 30 year fixed-rate mortgage rates for the years ended June 30, 2020 and 2019. Prior to July 1, 2018, the rates were based on estimated interest rates by Habitat for Humanity International.

Mortgage notes receivable is reported net of unamortized discount. Prior to July 1, 2018, the amortization was calculated using the effective interest method; from July 1, 2018 forward, the straight-line method was used. Management estimates that the difference between amortization calculated using the straight-line method and amortization calculated using the effective interest method is not material. Discount amortization is recognized as revenue on the statement of activities.

Management does not believe an allowance for doubtful accounts is necessary because the mortgage notes receivable is secured by the properties.

Contributions

Contributions are recorded at their fair value and are recognized as revenue when the donor makes an unconditional promise to give to the Organization. Donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the same year in which the contributions are recognized. Net assets released from restrictions represent the satisfaction of donor restrictions or the passage of time. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. There were no conditional promises as of June 30, 2020.

Habitat For Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Grants and contributions receivable

Grants and contributions receivable that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

The Organization evaluates grants and contributions receivable for collectability based upon economic situation, historical collection information and any relevant factors. Prior to July 1, 2019, no allowance for doubtful accounts was considered necessary because the Organization believed all grants and contributions receivable to be fully collectible. For the year ended June 30, 2020, the Organization reviewed the prior year's bad debt write-off and current year's balances of each grant and contribution receivable and set up a 3% loss reserve based on the total outstanding unconditional promises to give.

Property and equipment

Furniture, equipment, leasehold improvements, and vehicles are carried at cost or, if donated, at their fair value at the date of donation. The Organization capitalizes all acquisitions of property and equipment in excess of \$3,000. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets, which range from three to seven years.

Impairment of long-lived assets

The Organization reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of the property and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. For the years ended June 30, 2020 and 2019, there were no events or changes in circumstances indicating that the carrying amount of the property and equipment may not be recoverable.

Restricted cash

Restricted cash is comprised of the following:

- *Restricted cash - construction in progress performance deposit* - In lieu of posting a performance bond on active construction projects, the Organization pledges a certificate of deposit. The money is released once the project is completed. The balance of the construction in progress performance deposit totaled \$0 and \$28,054 as of June 30, 2020 and 2019, respectively.

Habitat For Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventory of homes

The Organization classifies as inventory the following: completed new construction homes; homes purchased for resale program in which rehabilitation is substantially complete; and Habitat built homes that are bought back from the homeowner (resale homes). Completed new construction homes and purchased or repurchased homes are stated at the lower of cost or market using the specific identification method. Habitat resale homes are stated at buy back cost (the original sales price plus appreciation).

Construction in progress

Construction in progress is stated at the lower of cost or market using the specific identification method. Construction in progress consists of new home building projects under construction, purchased or repurchased homes undergoing rehabilitation, and pre-development costs of future projects (see Note 7).

Advertising

The Organization's policy is to expense advertising costs as the costs are incurred. Advertising expenses (included as "Marketing" in the accompanying statement of functional expenses) for the years ended June 30, 2020 and 2019, were \$48,330 and \$79,614, respectively.

Comparative financial statements

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional expense categories. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Expense allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses and Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on a time study analysis and other reasonable methods.

Habitat For Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). The Organization is also exempt from state income tax under Section 23701(d) of the California Revenue and Taxation Code.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Organization in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination.

Reclassifications

Certain reclassifications have been made to the financial statements for the year ended June 30, 2019 for comparative purposes to conform with the presentation in the current year financial statements.

Subsequent events

The Organization has evaluated subsequent events through October 30, 2020, the date the financial statements were available to be issued. See Note 22 for subsequent events that have a material impact on the presentation of the Organization's financial statements.

3. MORTGAGE NOTES RECEIVABLE

As of June 30, 2020, the Organization holds 127 mortgage notes receivable, totaling \$17,851,782 at gross value with maturities of 1 to 40 years. The notes are non-interest bearing mortgages, payable in equal monthly installments, and are secured by deeds of trust on the properties. According to an agreement with Habitat for Humanity International, Inc., the collections on these notes receivable are to be used to construct additional homes. The notes have been discounted at a rate of 3.33% for mortgages issued during the year ended June 30, 2020 and at a rate of 3.86% for mortgages issued during the year ended June 30, 2019, and using the straight-line method to amortize unamortized discount (see Note 2) over the lives of the mortgages. Mortgages are reported net of unamortized discount.

Habitat For Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

3. MORTGAGE NOTES RECEIVABLE (continued)

Principal payments due on mortgage notes receivable are as follows:

<u>Year ending June 30,</u>		
2021	\$	1,118,564
2022		1,092,506
2023		1,076,560
2024		1,055,230
2025		1,036,152
Thereafter		<u>12,472,770</u>
		17,851,782
Less: unamortized discount		<u>(8,544,660)</u>
		9,307,122
Net present value of mortgage notes		9,307,122
Less current portion		<u>(1,118,564)</u>
		<u>\$ 8,188,558</u>

4. GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable consisted of the following:

	2020	2019
Receivable in less than one year	\$ 1,411,778	\$ 1,621,811
Receivable in one to five years	<u>1,465,576</u>	<u>2,281,300</u>
	<u>2,877,354</u>	<u>3,903,111</u>
Less discounts to net present value (see Note 2)	(104,697)	(97,741)
Less allowance for doubtful accounts	<u>(86,321)</u>	<u>-</u>
	<u>(191,018)</u>	<u>(97,741)</u>
Less current portion	<u>(1,411,778)</u>	<u>(1,621,811)</u>
	<u>\$ 1,274,558</u>	<u>\$ 2,183,559</u>

Habitat For Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

5. INVENTORY OF HOMES

Inventory of homes consisted of the following:

	2020	2019
Habitat resale homes	\$ -	\$ 342,732

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2020	2019
Furniture and equipment	\$ 175,210	\$ 164,432
Vehicles	67,241	151,111
Leasehold improvements	60,512	380,352
	302,963	695,895
Accumulated depreciation	(237,141)	(518,891)
	\$ 65,822	\$ 177,004

Depreciation expense for the years ended June 30, 2020 and 2019, was \$52,637 and \$122,213, respectively.

7. CONSTRUCTION IN PROGRESS

Construction in progress consisted of the following:

	2020	2019
New construction		
Redwood City: Jefferson Ave. (20 homes)	\$ 5,166,009	\$ 3,054,637
Daly City: Geneva (6 Homes)	1,573,951	1,023,225
San Francisco: Amber Dr. (8 Homes)	2,737,479	2,318,603
	9,477,439	6,396,465
Pre-development		
North Bay development	356,817	188,845
	356,817	188,845
	\$ 9,834,256	\$ 6,585,310

Habitat For Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

8. NMTC INVESTMENT

In December 2011, the Organization entered into its second NMTC financing venture, investing in a sole venture (HFHGSF Leverage Lender, LLC). The Organization contributed a combination of cash, construction in progress, and NR inventory homes totaling \$7,922,319 for a 100% ownership stake and securing a loan in the amount of \$10,330,845 payable to Northern California Community Loan Fund NMTC Sub-CDE V, LLC (a community development entity).

In January 2019, HFHGSF Leverage Lender, LLC purchased the ownership interest of the investment as a result of the exercise of the put option on the related loan (see Note 9). The investment in HFHGSF Leverage Lender, LLC was \$0 as of June 30, 2019.

9. LOANS PAYABLE

Loan Payable, NMTC Financing

The Organization recorded a loan payable to Northern California Community Loan Fund NMTC Sub-CDE V, LLC (a NMTC community development entity) dated December 23, 2011 as part of the NMTC financing transaction. It was a 15-year loan bearing interest at 0.767% interest with semi-annual interest-only payments for 7 years from May 5, 2012 until May 5, 2019. Principal payments were scheduled to begin on May 5, 2019. The loan had a put option feature defined by a put option agreement that was exercised in January 2019 between the related parties. Exercise of the option extinguished the Organization's outstanding debt balance of \$10,330,844 and resulted in a gain of \$1,455,650 for the year ended June 30, 2019.

Interest expense on the loan for the years ended June 30, 2020 and 2019 was \$0 and \$46,538. Interest expense includes \$0 and \$5,382 of amortization of the debt issuance costs for the years ended June 30, 2020 and 2019.

10. LINE OF CREDIT

In July 2019, the Organization entered into a revolving line of credit agreement with the Bank of San Francisco. The line of credit is for a maximum amount of \$2,000,000, and is secured by the Organization's assets. The term of the line is for two years from the effective date and is automatically renewed unless the Organization gives prior notice. Interest accrues monthly at an annual variable rate. Interest is due monthly on the fifteenth calendar day of the following month. Any unpaid interest will be added to principal amount due. No line of credit was drawn down as of June 30, 2020.

In July 2019, the Organization entered into a non-revolving line of credit agreement with the Bank of San Francisco. The line of credit is for a maximum amount of \$3,000,000, and is secured by the Organization's assets. The term of the line is for five years from the effective date. Interest accrues monthly at an annual rate of 5.5%. Interest is due monthly on the fifteenth calendar day of the following month. Any unpaid interest will be added to the principal amount due. No line of credit was drawn down as of June 30, 2020.

Habitat For Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

11. NOTES PAYABLE

Notes payable are detailed as follows:

	2020	2019
Payable to the County of San Mateo - Home Program federal funds used for site construction costs of two housing units, secured by individual deeds of trust on property located in Brisbane, CA, due in semi-annual non-interest bearing payments of \$698 through June 2037.	\$ 23,260	\$ 24,655
Payable to the County of San Mateo - Home Program federal funds used for site construction costs of five housing units, secured by individual deeds of trust on property located in Brisbane, CA, due in semi-annual non-interest bearing payments of \$2,111 through June 2032.	49,325	53,548
Payable to the County of San Mateo - Home Program federal funds used for site construction of four housing units, secured by individual deeds of trust on property located in South San Francisco, CA, due in semi-annual non-interest bearing payments of \$7,261 through December 2025.	75,739	90,258
Payable to Habitat for Humanity International, Inc. - 0% interest, federal funds used for housing construction costs, payable in 47 monthly installments of \$581.	8,727	13,956
Payable to the Housing Authority of the County of San Mateo, 0% interest, used for the purpose of acquiring the property located at Jefferson Avenue in Redwood City, secured by individual deeds of trust on the property. Should all requirements of the agreement be met, loan is to be forgiven in five equal, \$100,000, installments over the last 5 years of the term of the loan, from July 2042 to June 2047.	500,000	500,000
Payable to the Northern Trust Company, 0% interest, secured by deeds of nine mortgage loans. Due in various monthly installments through July 2047.	1,905,325	2,002,691
	2,562,376	2,685,108
Less discount on notes payable	(1,019,182)	(1,083,124)
	1,543,194	1,601,984
Current portion	(67,269)	(65,897)

Habitat For Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

11. NOTES PAYABLE (continued)

	2020	2019
	\$ 1,475,925	\$ 1,536,087

The discount rates on the notes payable range from 3.86% to 8.4% based on an annual simple average using rates published by Habitat for Humanity International, Inc and the Federal Home Loan Mortgage Corporation. Amortization of these discounts on the notes for the years ended June 30, 2020 and 2019 was \$16,999 and \$17,333, respectively.

The discounted principal payments due on the notes payable are as follows:

<u>Year ending June 30,</u>	
2021	\$ 67,269
2022	61,606
2023	62,640
2024	62,097
2025	58,450
Thereafter	1,231,132
	\$ 1,543,194

12. PAYCHECK PROTECTION PROGRAM LOAN

On April 16, 2020, the Organization obtained a Small Business Administration (SBA) Paycheck Protection Program Loan (PPP) through the Bank of San Francisco, in the amount of \$853,500, with interest rate of 1%. No payments are due on the PPP loan for 6 months from the date of first disbursement of the loan. Interest will continue to accrue during the deferment period. The principal amount of the PPP loan is subject to forgiveness to the extent that proceeds are used to pay eligible program expenses including payroll costs, rent obligations, and utility payments. The Organization intends to apply for forgiveness of the PPP loan with respect to these covered expenses (see Note 22).

13. REFUNDABLE ADVANCES

The Organization receives funds from governmental agencies for the purpose of constructing homes, and ultimately lowering the mortgage of the prospective homeowners. There are no payments or interest due by the Organization. At the time of homes sale, the loans are transferred to the buyers and forgiven over varying time periods. The Organization recognizes revenue from the sale of homes upon the transfer of their liabilities to the homeowners. As of June 30, 2020 and 2019 no refundable advances were reconveyed to homebuyers for mortgage funds.

Habitat For Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

13. REFUNDABLE ADVANCES (continued)

Refundable advances are detailed as follows:

	2020	2019
Department of Housing and Community Development (CalHome Program) - various projects	\$ 25,000	\$ 25,000
Housing Endowment and Regional Trust of San Mateo County (HEART): used for the acquisition of real property at 612 Jefferson Avenue, Redwood City, CA	500,000	500,000
Daly City Housing Development - Geneva	809,000	809,000
	\$ 1,334,000	\$ 1,334,000

14. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions include those assets which are subject to donor imposed stipulations. Those restrictions may involve purpose (i.e. the donation is restricted to a specific use) or time (i.e. the assets are used in a future period). In some cases, both a time and purpose restriction may apply.

The Organization's net assets with donor restrictions for the year ended June 30, 2020, consisted of the following:

	Balance at June 30, 2019	Contributions	Releases	Balance at June 30, 2020
Contributions from discount on note payable issued	\$ 1,028,173	\$ -	\$ (48,463)	\$ 979,710
Low-income housing acquisition and construction	2,041,304	651,139	(2,506,515)	185,928
Homeowner development and neighborhood revitalization	116,147	191,807	(210,198)	97,756
	\$ 3,185,624	\$ 842,946	\$ (2,765,176)	\$ 1,263,394

Habitat For Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

15. SALE OF HOMES

During the fiscal year ended June 30, 2020 the Organization sold three repurchased homes with a total cost of \$829,381. The sales revenue was \$725,785 and the loss from the sales totaled \$103,596. During the fiscal year ended June 30, 2019 the Organization sold six repurchased homes with a total cost of \$1,533,197. The sales revenue was \$1,763,381 and the loss from the sales totaled \$230,184.

16. DONATED MATERIALS AND SERVICES

Donated materials

The value of donated office supplies and construction materials for the years ended June 30, 2020 and 2019 was \$16,788 and \$59,671, respectively.

Donated services

Donated services which require a specialized skill and which the Organization would have paid for if not donated, are recorded in the financial statements as in-kind contribution revenue at the estimated fair value at the time the services are rendered.

Donated services of a specialized or professional nature consisted of the following:

	2020	2019
Legal services	\$ 178,569	\$ 114,890
Construction services	16,078	-
	\$ 194,647	\$ 114,890

The Organization also receives significant donated services of an unskilled nature, primarily volunteers who work on the construction and rehabilitation of homes, as well as in the office. During the years ended June 30, 2020 and 2019, volunteers donated approximately 10,429 and 24,520 hours, respectively, whose value management has estimated at \$312,831 and \$578,254, respectively. The value of the donated hours were not recorded in the financial statements.

17. RETIREMENT PLAN

The Organization has a 403(b) retirement plan in which the employer matches employee contributions up to 5% of gross salary. The plan covers all employees with one year of service or more and who are at least 21 years of age. Employer contributions to the employee accounts for the years ended June 30, 2020 and 2019, were \$96,185 and \$71,030, respectively.

Habitat For Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

18. RELATED PARTY TRANSACTIONS

HFHI Tithe

The Organization donates to Habitat for Humanity International, Inc. (HFHI) annually for the construction of homes outside of the United States, as determined by the Organization's Board of Directors. These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2020 and 2019, the amount contributed was \$172,000 and \$100,853, respectively, and is included in housing development expense under program services in the Statement of Functional Expenses.

Insurance policy

The Organization has a blanket policy for auto, general and builder's risk insurance through Habitat for Humanity International, Inc. For the years ended June 30, 2020 and 2019, the insurance expense was \$62,773 and \$81,275, respectively.

SHOP loans

The Organization has received a SHOP (Self-Help Ownership Program) loan from Habitat for Humanity International, Inc. The balance of the loan as of June 30, 2020 and 2019, was \$8,727, and \$13,956 respectively.

New Markets Tax Credit Investment

As a component of the NMTC financing transaction, the Organization recorded debt of \$10,330,844 (see Note 9) payable to Northern California Community Loan Fund NMTC Sub-CDE, LLC, a community development entity (CDE) and an affiliate of the joint venture. Simultaneous with these transactions, the LLC entered into an option agreement with U.S. Bancorp Community Development Corporation (USBCDC), the federal tax credit investor, who is the sole-member of NCCLF NMTC V Investment Fund, LLC (the "Fund"), an affiliate of the joint venture, and the upstream effective owner of Northern California Community Loan Fund NMTC Sub-CDE, LLC. In January 2019, USBCDC exercised its put option which effectively extinguished the Organization's outstanding debt owed to the Fund. The Organization recognized income on the forgiveness of debt in an amount of \$1,455,650, the difference in the book value of the investment and the debt. The investment and debt have a balance of zero at June 30, 2019. All entities related to the joint venture including HFHI-SA LeverageVI, LLC were dissolved, ending the NMTC structured financing deal.

Habitat For Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

19. COMMITMENTS

Right of first purchase

Upon the acquisition of land granted to the Organization for construction, various agreements require the Organization to maintain the properties as affordable housing for a certain period of time. These affordability restrictions vary from 45 to 55 years. A right of first purchase is recorded at the time of sale giving the Organization the right to purchase the property should the homeowner decide to sell. The Organization resells purchased Habitat built homes to newly qualified families at an updated but below market value price, at which time the required affordability term continues.

Office and warehouse leases

The Organization leases commercial office space in the city of San Francisco under a non-cancelable lease expiring in December 2021, and leased retail space under a non-cancelable lease for its ReStore in the city of San Carlos which expired in September 2019.

On October 15, 2019, the Organization signed a three-year lease agreement to rent a warehouse in the city of San Francisco, with a base rent of \$7,669, increasing 3% annually. The Organization has an option to renew the lease for another three-year term when the rent expires on November 30, 2022.

The scheduled minimum lease payments under the lease terms are as follows:

<u>Year ending June 30,</u>	
2021	\$ 431,844
2022	268,055
2023	<u>48,818</u>
	<u>\$ 748,717</u>

The rent expense for the years ended June 30, 2020 and 2019, was \$512,096 and \$791,000, respectively.

20. LIQUIDITY

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.

To meet liquidity needs, the Organization maintains adequate levels of cash and cash equivalents available. Accounts receivable, current portion of mortgage notes receivable and unrestricted contribution receivables will be collected within one year to support general operations of the Organization.

Habitat For Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

20. LIQUIDITY (continued)

The Board requires that the Organization maintains a minimum of six months of operating reserve at all times. As of June 30, 2020, the balance of the reserve was \$4,163,576. However, the Board can undesignate the funds for operational needs at any time.

The following is a quantitative disclosure which describes financial assets that are available as of June 30, 2020 to fund general expenditures and other obligations when they become due for one year:

Financial assets	
Cash and cash equivalents	\$ 9,380,106
Accounts receivable	62,881
Current portion of contributions receivable	1,411,778
Current portion of mortgage notes receivable	<u>1,118,564</u>
	<u>11,973,329</u>
Less: Amounts unavailable for general expenditure within one year:	
Net assets with purpose restrictions	<u>(283,684)</u>
	<u>(283,684)</u>
	<u>\$ 11,689,645</u>

21. COVID-19 IMPACT

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to a number of other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition several states in the U.S. including California, where the Organization is located, have declared a state of emergency. In response, the U.S. Government enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which includes significant provisions to provide relief and assistance to affected organizations.

Habitat For Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

21. COVID-19 IMPACT (continued)

COVID-19 could adversely affect the economics and financial markets of many countries, including the United States, resulting in an economic downturn that could affect the Organization in a variety of ways. The Organization cannot anticipate all of the ways in which COVID-19 could adversely impact the Organization's operations. There are few aspects of the Organization's work that have been unaffected by COVID-19. When the Stay at Home orders were first issued in March 2020, in-person fundraising events were postponed or canceled, and many private and institutional donors focused their efforts on causes more directly aligned with healthcare - all of which negatively impacted the Organization level of financial support from the community. Government funding sources stayed intact, but receipts of reimbursement funding and building permits were delayed due to the disruption of work at government agencies. While construction crews were largely able to continue essential work on build sites unabated, home repairs and any volunteer-supported projects were suspended for several months. Through the CARES Act Paycheck Protection Program, the Organization was able to retain staff without furloughs through the end of the year. The Organization also initiated a remote work protocol for the majority of its in-office staff and expects to maintain a low level of office occupancy throughout early 2021.

22. SUBSEQUENT EVENTS

In April 2020, the Organization was awarded \$853,500 from the Paycheck Protection Program from the SBA (see Note 12). The SBA will forgive loans if all employee retention criteria were met and the funds were used for eligible expenses. The Organization believes this to be the case and has started the process of applying for forgiveness.

In July 2020, the Organization received \$1,545,277 in subsidies for its project at 612 Jefferson Street in Redwood City. This transaction was recorded as a refundable advance from the Department of Housing County of San Mateo.

In August 2020, the Organization sold 15 mortgage notes to The Northern Trust Company through a securitization loan at a 0% discount for gross cash proceeds of \$2,433,804.

In September 2020, one homeowner gave notice to the Organization of her intent to sell her home back to Habitat. The Organization expects this transaction to close by the end of November 2020.