

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

Consolidated Financial Statements
and Single Audit Reports and Schedules

June 30, 2022
(With Comparative Totals for 2021)



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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of Habitat for Humanity Greater San Francisco, Inc. and Subsidiary (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2022, 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.

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, 2022, 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.

Basis for Opinion

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

Responsibilities of Management for the 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Habitat for Humanity Greater San Francisco, 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.



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Auditor's Responsibilities for the Audit of the 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 and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government 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 Habitat for Humanity Greater San Francisco, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Habitat for Humanity Greater San Francisco, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2022, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited Habitat for Humanity Greater San Francisco, Inc.'s 2021 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 22, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



Armanino^{LLP}
San Jose, California

December 12, 2022

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
Consolidated Statement of Financial Position
June 30, 2022
(With Comparative Totals for 2021)

	2022	2021
ASSETS		
Current assets		
Cash and cash equivalents	\$ 12,479,159	\$ 9,854,037
Accounts receivable	632,682	153,486
Current portion of mortgage notes receivable	1,057,536	945,455
Current portion of grants and contributions receivable	305,000	1,229,644
Inventory of homes	273,958	518,195
Prepaid expenses and other current assets	66,919	10,962
Total current assets	14,815,254	12,711,779
Property and equipment, net	230,452	53,009
Other assets		
Mortgage notes receivable, net of current portion and unamortized discount	7,373,883	6,239,494
Grants and contributions receivable, net of current portion	46,450	118,616
Construction in progress	22,382,424	18,274,943
Deposits	22,669	98,288
Total other assets	29,825,426	24,731,341
Total assets	\$ 44,871,132	\$ 37,496,129

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, 2022
(With Comparative Totals for 2021)

	2022	2021
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable, operating	\$ 120,457	\$ 90,062
Accounts payable, construction	860,817	592,048
Accrued liabilities	641,427	563,988
Unearned revenue	49,470	162,820
Current portion of notes payable	257,943	131,819
Refundable advances - Paycheck Protection Program	1,004,064	1,004,064
Total current liabilities	2,934,178	2,544,801
Long-term liabilities		
Notes payable, net of current portion and unamortized discount	6,542,100	4,611,005
Refundable advances - governmental grants	500,000	1,334,000
Deferred lease obligation	51,644	18,976
Total long-term liabilities	7,093,744	5,963,981
Total liabilities	10,027,922	8,508,782
Net assets		
Without donor restrictions		
Undesignated	27,149,278	23,565,634
Board designated operating reserve	4,196,611	3,251,452
Total without donor restrictions	31,345,889	26,817,086
With donor restrictions		
Total net assets	34,843,210	28,987,347
Total liabilities and net assets	\$ 44,871,132	\$ 37,496,129

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, 2022
(With Comparative Totals for 2021)

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
Support, revenues, and gains				
Support				
Grants and contributions	\$ 9,876,966	\$ 3,658,201	\$ 13,535,167	\$ 5,310,476
Contribution revenue - Paycheck Protection Program	-	-	-	860,755
Special events	433,285	-	433,285	363,321
Contribution from discount on note payable issued (Note 10)	-	1,636,618	1,636,618	1,054,545
In-kind contributions - services	-	95,075	95,075	228,379
In-kind contributions - materials	-	72,927	72,927	20,668
Total support	<u>10,310,251</u>	<u>5,462,821</u>	<u>15,773,072</u>	<u>7,838,144</u>
Mortgage discount amortization	407,639	-	407,639	490,081
Sale of homes	5,739,762	-	5,739,762	-
Gain on sale of mortgage notes receivable	-	-	-	702,101
Gain (loss) on disposal of property and equipment	(902)	-	(902)	16,809
Other income	57,164	-	57,164	85,890
Net assets released from restriction	<u>4,135,761</u>	<u>(4,135,761)</u>	<u>-</u>	<u>-</u>
Total support, revenues, and gains	<u>20,649,675</u>	<u>1,327,060</u>	<u>21,976,735</u>	<u>9,133,025</u>
Functional expenses				
Program services				
Housing Development	9,130,787	-	9,130,787	1,659,125
Homeowner Development, Volunteers, Home Preservation	<u>2,409,501</u>	<u>-</u>	<u>2,409,501</u>	<u>1,579,048</u>
Total program services	<u>11,540,288</u>	<u>-</u>	<u>11,540,288</u>	<u>3,238,173</u>
Support services				
General and administrative	2,780,213	-	2,780,213	2,025,190
Fundraising	<u>1,800,371</u>	<u>-</u>	<u>1,800,371</u>	<u>1,668,744</u>
Total support services	<u>4,580,584</u>	<u>-</u>	<u>4,580,584</u>	<u>3,693,934</u>
Total functional expenses	<u>16,120,872</u>	<u>-</u>	<u>16,120,872</u>	<u>6,932,107</u>
Change in net assets	4,528,803	1,327,060	5,855,863	2,200,918
Net assets, beginning of year	<u>26,817,086</u>	<u>2,170,261</u>	<u>28,987,347</u>	<u>26,786,429</u>
Net assets, end of year	<u>\$ 31,345,889</u>	<u>\$ 3,497,321</u>	<u>\$ 34,843,210</u>	<u>\$ 28,987,347</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, 2022
(With Comparative Totals for 2021)

	Housing Development	Homeowner Development, Volunteers, Home Preservation	Total Program Services	General and Administrative	Fundraising	Total Support Services	2022 Total	2021 Total
Direct housing expenses								
Cost of sales - homes	\$ 4,982,579	\$ -	\$ 4,982,579	\$ -	\$ -	\$ -	\$ 4,982,579	\$ -
Total direct housing expenses	<u>4,982,579</u>	<u>-</u>	<u>4,982,579</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,982,579</u>	<u>-</u>
Salaries and benefits								
Salaries and wages	1,237,609	1,289,545	2,527,154	1,568,255	995,089	2,563,344	5,090,498	3,664,902
Employee benefits	114,282	145,432	259,714	197,137	85,963	283,100	542,814	480,456
Payroll taxes	97,856	100,985	198,841	119,017	74,759	193,776	392,617	264,430
Workers' compensation insurance	7,773	4,569	12,342	2,812	1,933	4,745	17,087	38,075
Total salaries and benefits	<u>1,457,520</u>	<u>1,540,531</u>	<u>2,998,051</u>	<u>1,887,221</u>	<u>1,157,744</u>	<u>3,044,965</u>	<u>6,043,016</u>	<u>4,447,863</u>
Discount on mortgage issued	1,965,429	-	1,965,429	-	-	-	1,965,429	-
Professional services	31,690	319,089	350,779	364,908	245,815	610,723	961,502	1,024,612
Rent	132,621	247,927	380,548	152,093	107,069	259,162	639,710	439,443
Tithe	323,900	-	323,900	-	-	-	323,900	200,000
Office expenses	23,724	40,674	64,398	111,784	31,238	143,022	207,420	66,893
Communications	51,884	56,122	108,006	50,010	24,331	74,341	182,347	99,201
Interest	125,090	-	125,090	10,347	-	10,347	135,437	63,295
Travel and training	34,892	31,579	66,471	45,906	18,499	64,405	130,876	21,138
Computer software/hardware	12,290	46,940	59,230	28,791	27,068	55,859	115,089	92,953
Postage and printing	738	5,370	6,108	11,568	89,134	100,702	106,810	105,477
Neighborhood revitalization project expense	(5,313)	57,133	51,820	-	7,057	7,057	58,877	45,514
Depreciation	-	-	-	52,681	-	52,681	52,681	49,079
Fundraising	-	-	-	-	49,935	49,935	49,935	20,278
Bank fees	(457)	5,464	5,007	17,894	26,662	44,556	49,563	18,530
Insurance	11,827	12,968	24,795	11,311	6,359	17,670	42,465	61,682
Promotions and supplies	27	28,651	28,678	2,640	3,487	6,127	34,805	42,254
Marketing	-	1,029	1,029	19,557	205	19,762	20,791	5,000
Equipment rental and maintenance	7,895	4,412	12,307	3,196	2,345	5,541	17,848	347
Employee engagement	604	1,691	2,295	5,628	979	6,607	8,902	5,941
Donated services and goods	422	5,295	5,717	-	-	-	5,717	27,251
Discontinued construction	2,351	-	2,351	-	-	-	2,351	37,166
Taxes and licenses	(28,926)	4,626	(24,300)	4,678	2,444	7,122	(17,178)	34,637
Bad debt	-	-	-	-	-	-	-	23,553
	<u>\$ 9,130,787</u>	<u>\$ 2,409,501</u>	<u>\$ 11,540,288</u>	<u>\$ 2,780,213</u>	<u>\$ 1,800,371</u>	<u>\$ 4,580,584</u>	<u>\$ 16,120,872</u>	<u>\$ 6,932,107</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, 2022
(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Change in net assets	\$ 5,855,863	\$ 2,200,918
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	52,681	49,079
(Gain) loss on sale and disposal of property and equipment	-	(16,809)
Home sales revenue through issuance of home mortgage notes	(3,772,969)	-
Home sales revenue through refundable advances reconveyed to homebuyer mortgages fund	(1,966,793)	-
Gain on sale of mortgage notes receivable	-	(702,101)
Amortization of mortgage notes receivable discount	(407,639)	(490,081)
Discount on mortgage notes issued	1,965,429	-
Contribution from discount on note payable issued (Note 10)	(1,636,618)	(1,054,545)
Amortization of notes payable discount	135,437	56,040
Bad debt write-off	-	23,553
Changes in operating assets and liabilities		
Accounts receivable	(479,196)	(90,605)
Grants and contributions receivable	996,810	1,314,523
Inventory of homes	244,237	(518,195)
Prepaid expenses and other current assets	(55,957)	85,641
Construction in progress	(3,838,712)	(8,232,621)
Deposits	75,619	-
Accounts payable	30,395	(21,308)
Accrued liabilities	77,439	135,476
Unearned revenue	(113,350)	117,058
Deferred lease obligation	32,668	(25,689)
Refundable advances - Paycheck Protection Program	-	150,564
Net cash used in operating activities	<u>(2,804,656)</u>	<u>(7,019,102)</u>
Cash flows from investing activities		
Purchase of property and equipment	(230,124)	(39,195)
Proceeds from sales of property and equipment	-	19,738
Payments received on mortgage notes receivable	1,681,502	1,260,564
Proceeds from mortgage notes receivable sold	-	2,053,791
Net cash provided by investing activities	<u>1,451,378</u>	<u>3,294,898</u>
Cash flows from financing activities		
Payments on notes payable	(338,441)	(235,669)
Proceeds from issuance of notes payable	4,316,841	4,433,804
Net cash provided by financing activities	<u>3,978,400</u>	<u>4,198,135</u>
Net increase in cash	2,625,122	473,931
Cash and cash equivalents, beginning of year	<u>9,854,037</u>	<u>9,380,106</u>
Cash and cash equivalents, end of year	<u>\$ 12,479,159</u>	<u>\$ 9,854,037</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, 2022
(With Comparative Totals for 2021)

	<u>2022</u>		<u>2021</u>
Supplemental schedule of noncash investing and financing activities			
Construction in progress acquired by short term liabilities	\$ 860,817	\$	592,048

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, 2022
(With Comparative Totals for 2021)

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 9 mortgage notes in May of 2019, 15 mortgage notes in August of 2020, 20 mortgage notes in December of 2021, and 3 mortgage notes in May of 2022. The Company pledged mortgage notes as collateral to secure 4 notes payable to the Northern Trust Company (see Note 10).

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. 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, HP projects, in the office, and on committees.

Home Preservation (HP) - Beautifies community gardens, delivers critical home repairs to improve health, safety, and well-being of residents in several focus neighborhoods, including the Bayview in San Francisco, Belle Haven in Menlo Park, and East Palo Alto.

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2022
(With Comparative Totals for 2021)

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 ("U.S. GAAP") 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.

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, 2022 and 2021.

Adoption of accounting standards update

In September 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The update requires nonprofits to expand their financial statement presentation and disclosure of contributed nonfinancial assets, including fixed assets, supplies, services, and other items. The update includes disclosure of information on an entity's policies on contributed nonfinancial assets about monetization and utilization during the reporting period, information on donor-imposed restrictions, and valuation techniques. The Organization adopted ASU 2020-07 with a date of the initial application of July 1, 2021, using the full retrospective method.

The adoption of ASU 2020-07 did not have a significant impact on the Organization's financial position, result of operations, or cash flows. The Organization has updated disclosures as necessary.

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.

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2022
(With Comparative Totals for 2021)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP 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.

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, 2022 and 2021. Prior to July 1, 2018, the rates were based on estimated interest rates by Habitat for Humanity International.

Mortgage notes receivable are 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 consolidated statement of activities.

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

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2022
(With Comparative Totals for 2021)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Grants and contributions

Grants and 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 grants and 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 consolidated statement of activities as net assets released from restriction. Net assets released from restriction 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.

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 grants and contributions income.

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 years ended June 30, 2022 and 2021, 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.

In-kind contributions

The Organization records various types of in-kind contributions, including professional services, and materials and equipment. Contributed services and materials are recorded at fair value. The Organization also receives donated services that do not require specific expertise, but which are nonetheless central to the Organization's operations, which are not reflected in the financial statements. Brochures, items for silent auctions at events, or other program-related resources may also be considered a contribution if there is a direct connection to the project or event being funded.

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.

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2022
(With Comparative Totals for 2021)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2022 and 2021, there were no events or changes in circumstances indicating that the carrying amount of the property and equipment may not be recoverable.

Inventory of homes

The Organization classifies inventory as 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 repurchase 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, pre-development costs of future projects, and personnel costs (see Note 8).

Discount on notes payable

U.S. GAAP requires that notes payable bearing no interest are discounted to reflect imputed interest over the lives of the loan if the financial statement impact is material. The Organization records the discount as a contribution in the consolidated statement of activities when the notes are issued, and the unamortized discount is recorded against the balance of notes payable and amortized in the term of the notes. Notes payable to governmental entities are exempt from the requirement to impute interest.

Advertising

The Organization's policy is to expense advertising costs as the costs are incurred. Advertising expenses (included as "Marketing" in the accompanying consolidated statement of functional expenses) for the years ended June 30, 2022 and 2021, were \$20,791 and \$5,000, respectively.

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
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(With Comparative Totals for 2021)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2021, 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 consolidated statement of activities and the consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the programs and support services benefited based on a time study analysis and other reasonable methods.

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.

U.S. GAAP provides 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, 2021 for comparative purposes to conform with the presentation in the current year financial statements.

Subsequent events

The Organization has evaluated subsequent events through December 12, 2022, the date the financial statements were available to be issued. See Note 20 for subsequent events that have a material impact on the presentation of the Organization's consolidated financial statements.

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
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3. MORTGAGE NOTES RECEIVABLE

As of June 30, 2022, the Organization holds 137 mortgage notes receivable, totaling \$17,147,580 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 5.93% for mortgages issued during the year ended June 30, 2022, and at a rate of 3.20% for mortgages issued during the year ended June 30, 2021, 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.

Principal payments due on mortgage notes receivable are as follows:

<u>Year ending June 30,</u>	
2023	\$ 1,057,536
2024	1,036,397
2025	1,022,354
2026	975,809
2027	953,862
Thereafter	<u>12,101,622</u>
	17,147,580
Less: unamortized discount	<u>(8,716,161)</u>
Net present value of mortgage notes	8,431,419
Less current portion	<u>(1,057,536)</u>
	<u><u>\$ 7,373,883</u></u>

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
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4. GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable consisted of the following:

	2022	2021
Receivable in less than one year	\$ 305,000	\$ 1,229,644
Receivable in one to five years	<u>100,000</u>	<u>205,000</u>
	<u>405,000</u>	<u>1,434,644</u>
Less discounts to net present value (see Note 2)	(23,732)	(40,300)
Less allowance for doubtful accounts	<u>(29,818)</u>	<u>(46,084)</u>
	<u>(53,550)</u>	<u>(86,384)</u>
Less current portion	<u>(305,000)</u>	<u>(1,229,644)</u>
	<u>\$ 46,450</u>	<u>\$ 118,616</u>

5. CONDITIONAL PROMISES TO GIVE

Conditional grants are recognized as revenue when the Organization meets or substantially meets the terms of the conditions.

Conditional promises to give consist of the following:

	2022	2021
Fund development of Pre-Development North-Bay	<u>\$ 200,000</u>	<u>\$ -</u>

6. INVENTORY OF HOMES

Inventory of homes consisted of the following:

	2022	2021
Habitat resale homes	<u>\$ 273,958</u>	<u>\$ 518,195</u>

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
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7. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2022	2021
Furniture and equipment	\$ 294,613	\$ 207,571
Vehicles	49,741	49,741
Leasehold improvements	80,257	60,512
	424,611	317,824
Accumulated depreciation	(194,159)	(264,815)
	\$ 230,452	\$ 53,009

Depreciation expense for the years ended June 30, 2022 and 2021, was \$52,681 and \$49,079, respectively.

8. CONSTRUCTION IN PROGRESS

Construction in progress consisted of the following:

	2022	2021
New construction		
Redwood City: Jefferson Avenue (20 homes)	\$ 15,578,542	\$ 11,090,323
Daly City: Geneva (6 Homes)	-	3,369,386
San Francisco: Amber Drive (8 Homes)	4,499,395	2,866,065
	20,077,937	17,325,774
Pre-development		
North Bay development	2,118,593	844,151
Redwood City	185,893	105,018
	2,304,486	949,169
	\$ 22,382,423	\$ 18,274,943

9. LINES OF CREDIT

In July 2019, the Organization entered into a revolving line of credit agreement (loan #110274) with the Bank of San Francisco ("Bank"). The line of credit is for a maximum amount of \$2,000,000 and is secured by the Organization's assets. In July 2021, the Organization renewed the line of credit agreement with the Bank, and the maturity date was extended to July 25, 2023, with an interest rate of 3.25%. 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. There were no amounts outstanding on this line of credit as of June 30, 2022.

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
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9. LINES OF CREDIT (continued)

In July 2019, the Organization entered into a non-revolving line of credit agreement (loan #120429) with the Bank. The line of credit is for a maximum amount of \$3,000,000 and is secured by the Organization's assets. In July 2021, the Organization renewed the line of credit agreement with the Bank, and the maturity date was extended to April 25, 2026, with an interest 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. There were no amounts outstanding on this line of credit as of June 30, 2022.

In May 2020, the Organization entered into an irrevocable stand-by letter of credit agreement with the Bank, to assist with the Jefferson Avenue project, in favor of the beneficiary of County of San Mateo Department of Housing, with a maximum draw amount of \$1,029,387. The letter of credit is attached to the loan #120429, and no additional underwriting was required. The letter of credit expires upon the earlier of the close of business on October 14, 2021, or the day that the Bank honors the full amount of the letter of credit. The letter of credit is automatically extended for an additional period of one year from the expiration date, through the final expiration date of October 14, 2022. On March 31, 2022, the Organization cancelled the letter of credit.

In June 2020, the Organization entered into a stand-by letter of credit agreement with the Bank to assist with the Geneva Avenue project, in favor of the beneficiary of County of San Mateo Department of Housing, with a maximum draw amount of \$223,118. The letter of credit is attached to the loan #120429, and no additional underwriting was required. The letter of credit expires upon the earlier of the close of business on November 30, 2021, or the day that the Bank honors the full amount of the letter of credit. The letter of credit is automatically extended for an additional period of one year from the expiration date, through the final expiration date of November 30, 2022. On March 31, 2022, the Organization cancelled the letter of credit.

10. NOTES PAYABLE

Notes payable are detailed as follows:

	2022	2021
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, California, due in semi-annual non-interest bearing payments of \$698 through June 2037.	\$ 20,469	\$ 21,864

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10. NOTES PAYABLE (continued)

	2022	2021
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, California, due in semi-annual non-interest bearing payments of \$2,111 through June 2032.	40,879	45,102
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, California, due in semi-annual non-interest bearing payments of \$7,261 through December 2025.	46,696	61,217
Payable to Habitat for Humanity International, Inc. - 0% interest, federal funds used for housing construction costs, payable in 47 monthly installments of \$581 through November 2021.	-	2,917
Payable to the Housing Authority of the County of San Mateo - 0% interest, used for the purpose of acquiring the property located at the Jefferson Avenue project, secured by individual deeds of trust on the property. Should all requirements of the agreement be met, the loan is to be forgiven in five equal installments of \$100,000 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. The Organization recognized a contribution from the discount totaling \$1,032,778 in the consolidated statement of activities during the year ended June 30, 2019. The discount is amortized using the straight-line method in the term of the loan.	1,710,605	1,807,965

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
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10. NOTES PAYABLE (continued)

	2022	2021
<p>Payable to the County of San Mateo Department of Housing - Community Development Block Grant federal funds are used for the construction of the 612 Jefferson Avenue project. The loan matures 45 years from date of project completion. No interest accrues until project completion at which time the simple interest will be 3%. The outstanding balance will be forgiven in five equal installments of \$200,000 over the last 5 years of the note (years 41-45).</p>	1,000,000	1,000,000
<p>Payable to the County of San Mateo - the fund is used for 612 Jefferson Avenue project. The loan matures 45 years from date of project completion. No interest accrues until project completion at which time the simple interest will be 3%. The outstanding balance will be forgiven in five equal installments of \$16,000 over the last 5 years of the note (years 41-45).</p>	80,000	80,000
<p>Payable to the Housing Authority of the County of San Mateo - 0% interest, the fund is used for the purpose of development of the 612 Jefferson Avenue project. The loan matures 45 years from date of project completion. The outstanding balance will be forgiven in five equal installments of \$100,000 over the last 5 years of the loan (years 41-45).</p>	500,000	500,000
<p>Payable to the Housing Authority of the County of San Mateo - the fund is used for the purpose of development of Geneva Avenue project. The loan matures 45 years from date of project completion. No interest accrues until project completion at which time the simple interest will be 3%. The outstanding balance will be forgiven in five equal installments \$84,000 over the last 5 years of the loan (years 41-45). The loan was reconveyed to homebuyers for mortgage assistance when the home was sold during the year ended June 30, 2022.</p>	-	420,000

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
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10. NOTES PAYABLE (continued)

	2022	2021
<p>Payable to the Northern Trust Company, 0% interest, secured by deeds of fifteen mortgage loans. Due in various monthly installments through January 2048. The Organization recognized a contribution from the discount totaling \$1,054,545 in the consolidated statement of activities during the year ended June 30, 2021. The discount is amortized using the straight-line method in the term of the loan.</p>	2,186,617	2,321,446
<p>Payable to Redwood City - Home Program federal funds used for site constructions of 20 housing units secured by individual deeds of trust on property located in Redwood City, California. The loan bears 3% simple annual interest upon origination date, and will be payable in full on the 55th anniversary of the date of the loan.</p>	898,503	-
<p>Payable to the Northern Trust Company, 0% interest, secured by deeds of twenty mortgage loans. Due in various monthly installments through January 2051. The Organization recognized a contribution from the discount totaling \$1,242,830 in the consolidated statement of activities during the year ended June 30, 2022. The discount is amortized using the straight-line method in the term of the loan.</p>	2,619,336	-
<p>Payable to the Northern Trust Company, 0% interest, secured by deeds of three mortgage loans. Due in various monthly installments through June 2052. The Organization recognized a contribution from the discount totaling \$393,788 in the consolidated statement of activities during the year ended June 30, 2022. The discount is amortized using the straight-line method in the term of the loan.</p>	<u>715,805</u> 10,318,910	<u>-</u> 6,760,511
Less discount on notes payable	<u>(3,518,867)</u>	<u>(2,017,687)</u>
Current portion	<u>6,800,043</u> <u>(257,943)</u>	<u>4,742,824</u> <u>(131,819)</u>
	<u>\$ 6,542,100</u>	<u>\$ 4,611,005</u>

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
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10. NOTES PAYABLE (continued)

The discount rates on the notes payable range from 3.20% to 8% 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 payable for the years ended June 30, 2022 and 2021 was \$135,437 and \$56,040, respectively.

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

<u>Year ending June 30,</u>		
2023	\$	257,943
2024		257,400
2025		253,753
2026		252,689
2027		250,113
Thereafter		<u>5,528,145</u>
	<u>\$</u>	<u>6,800,043</u>

11. REFUNDABLE ADVANCES - PAYCHECK PROTECTION PROGRAM

The Organization obtained two Small Business Administration ("SBA") Paycheck Protection Program Loans ("PPP") through the Bank of San Francisco, in the amount of \$853,500 on April 16, 2020, and \$1,004,064, on January 1, 2021. The PPP loans are subject to forgiveness to the extent that proceeds are used to pay eligible program expenses including payroll costs, rent obligations, and utility payments. The loans bear interest rate of 1% and have a maturity of five years.

Under the Coronavirus Aid, Relief and Economic Security ("CARES") Act, the Organization can apply for and be granted forgiveness for all or a portion of the PPP loan amounts if employees are kept on payroll for a covered period of time, and the money is used for payroll within certain limitations, rent, mortgage interest, or utilities. Forgiveness amounts will be reduced if the borrower terminates employees or reduces salaries during the covered period.

In accordance with U.S. GAAP, the Organization has two options to record the transactions of a PPP loan. An organization can record the PPP loan as a loan payable when it receives the loan proceeds, and other income when it receives loan forgiveness approval. Alternatively, if an organization expects to meet the PPP eligibility criteria and concludes that the PPP loan represents a grant, the PPP loan can be recorded as a refundable advance at receiving and recognize the loan as contribution revenue when conditions are met.

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11. REFUNDABLE ADVANCES - PAYCHECK PROTECTION PROGRAM (continued)

The Organization expects to meet the PPP's eligibility criteria and, therefore, has concluded that the PPP loans represent, in substance, grants that are expected to be forgiven. As a result, the Organization has accounted for the PPP loans in accordance with FASB ASC 958-605 as conditional contributions. On February 23, 2021, the Organization received forgiveness for its first loan of \$853,500 from the SBA, resulting in recognition of the entire amount as contribution revenue in the accompanying consolidated statements of activities.

The Organization has applied for the second PPP loan forgiveness and received notice of forgiveness for the entire loan amount on November 17, 2022 (see Note 20).

12. REFUNDABLE ADVANCES - GOVERNMENTAL GRANTS

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. In May 2022, 6 homes in Daly City were sold, and \$834,000 of the advance was reconveyed to homebuyers for mortgage assistance. See Note 14.

Refundable advances are detailed as follows:

	2022	2021
Department of Housing and Community Development (CalHome Program) - various projects	\$ -	\$ 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, California.	500,000	500,000
Daly City Housing Development - Geneva	-	809,000
	\$ 500,000	\$ 1,334,000

13. 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.

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13. NET ASSETS WITH DONOR RESTRICTIONS (continued)

The Organization's net assets with donor restrictions for the year ended June 30, 2022, consisted of the following:

	Balance at June 30, 2021	Contributions	Releases	Balance at June 30, 2022
Contribution from discount on note payable issued	\$ 1,985,793	\$ 1,636,618	\$ (125,090)	\$ 3,497,321
In-kind contributions	-	168,002	(168,002)	-
Low-income housing acquisition and construction	184,468	3,658,201	(3,842,669)	-
	<u>\$ 2,170,261</u>	<u>\$ 5,462,821</u>	<u>\$ (4,135,761)</u>	<u>\$ 3,497,321</u>

14. SALE OF HOMES

During the fiscal year ended June 30, 2022, the Organization sold seven homes with a total cost of \$4,982,579. The sales revenue was \$5,739,762. During the fiscal year ended June 30, 2021, the Organization sold no homes.

15. IN-KIND CONTRIBUTIONS

Donated materials

The value of donated office supplies and construction materials for the years ended June 30, 2022 and 2021 was \$72,927 and \$20,668, respectively.

Donated materials and equipment include materials physically incorporated into a project or the use of equipment to carry out project activities. Typically, these consist of materials or equipment used for the construction of a project. Donated materials and equipment are recorded at fair value based on invoices, price sheets, and quotations from third parties.

Donated services

Donated services which require a specialized skill and which the Organization would have paid for if not donated, are recorded in the consolidated financial statements as in-kind contribution revenue at the estimated fair value at the time the services are rendered, based on the costs provided by professionals at their standard rates.

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15. IN-KIND CONTRIBUTIONS (continued)

Donated services (continued)

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

	2022	2021
Legal services	\$ 16,124	\$ 152,272
Construction services	78,951	76,107
	\$ 95,075	\$ 228,379

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, 2022 and 2021, volunteers donated 25,150 and 18,702 hours, respectively, whose value management has estimated at \$767,464 and \$594,719, respectively. The value of the donated hours were not recorded in the consolidated financial statements.

16. 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, 2022 and 2021, were \$142,703 and \$114,301, respectively.

17. 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, 2022 and 2021, the amount contributed was \$323,900 and \$200,000, respectively, and is included in housing development expense under program services in the consolidated 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, 2022 and 2021, the insurance expense was \$42,465 and \$61,682, respectively.

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17. RELATED PARTY TRANSACTIONS (continued)

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, 2021, was \$2,917. The loan was paid off as of November 30, 2021.

18. 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 renews.

Office and warehouse leases

The Organization leased commercial office space in the city of San Francisco, and it expired in December 2021. In October 2021, the Organization signed a non-cancelable lease for new office space in San Francisco, expiring on December 31, 2031. The monthly rent of \$57,195 is payable commencing in January 2022, with annual increases on each anniversary as stated in the lease agreement.

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 had an option to renew the lease for another three-year term upon expiration of the rent on November 30, 2022, which the Organization ultimately did not exercise. See Note 20 subsequent events for discussion of the Organization's new warehouse lease agreement.

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

<u>Year ending June 30,</u>		
2023	\$	745,453
2024		717,534
2025		739,060
2026		761,232
2027		784,069
Thereafter		<u>3,826,419</u>
	\$	<u><u>7,573,767</u></u>

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18. COMMITMENTS (continued)

Office and warehouse leases (continued)

The rent expense for the years ended June 30, 2022 and 2021, was \$639,710 and \$439,443, respectively.

19. LIQUIDITY AND FINANCIAL ASSETS

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 contributions receivable will be collected within one year. Unrestricted short-term grants and contributions receivable will be available to support general operations of the Organization.

The Board requires that the Organization maintains a minimum of six months of operating reserve at all times. As of June 30, 2022, the balance of the reserve was \$4,196,611. 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, 2022 to fund general expenditures and other obligations when they become due for one year:

Cash and cash equivalents	\$ 12,479,159
Accounts receivable	55,887
Current portion of grants and contributions receivable	305,000
Current portion of mortgage notes receivable	<u>1,057,536</u>
	<u>\$ 13,897,582</u>

20. SUBSEQUENT EVENTS

On July 28, 2022, the Organization signed a noncancelable lease for new commercial warehouse space in San Francisco, expiring on July 31, 2027. The monthly rent of \$9,375 is payable commencing on November 1, 2022, with annual increases on each anniversary as stated in the lease agreement. The Organization has an option to extend the lease for another 5-year term when the lease expires.

Between August 30 and September 30, 2022, the Organization sold 19 of the 20 homes in Redwood City on Jefferson Avenue with a total cost of \$15,618,491. The sales revenue was \$12,994,596.

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
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20. SUBSEQUENT EVENTS (continued)

On October 28, 2022, the Organization signed a promissory note to receive a loan in the amount of \$1,000,000, payable to Habitat for Humanity International, Inc. at 3.75% interest, to be used for housing construction costs, payable in 4 quarterly interest-only payments until maturity on December 31, 2023. The loan has an automatic option to extend twice by 1-year terms by request of the borrower or to be called by the lender at the end of the December 31, 2023 term.

On November 17, 2022, the Organization sold 12 mortgage notes to East West Bank in the amount of \$3,910,603.

On November 17, 2022, the Organization received a notice of forgiveness for the second PPP loan for \$1,004,064.

SINGLE AUDIT REPORTS AND SCHEDULES

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Habitat for Humanity Greater San Francisco, Inc. and Subsidiary (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2022, 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, and have issued our report thereon dated December 12, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Jose, California

December 12, 2022

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Habitat for Humanity Greater San Francisco, Inc. and Subsidiary (the "Organization")'s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2022. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditor’s Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization’s compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization’s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Organization’s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization’s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Jose, California

December 12, 2022

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
<u>Expenditures of Federal Awards</u>			
US Department of Housing and Urban Development			
Direct awards			
Home Investment Partnership Program	14.239		\$ <u>898,503</u>
Total Expenditures of Federal Awards			\$ <u><u>898,503</u></u>

The accompanying notes to the Schedule of Expenditures of Federal Awards
are an integral part of this schedule.

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Schedule of Expenditures of Federal Awards
June 30, 2022

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Habitat for Humanity Greater San Francisco, Inc. and Subsidiary (the "Organization") under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or limited as to reimbursement. Pass-through entity identifying numbers are presented where available and applicable.

Grant periods for certain of the grants included in the Schedule may be different from the fiscal year of the Organization. Expenditures reported in the Schedule only include expenditures for the period of July 1, 2021 through June 30, 2022, which is the Organization's fiscal year.

3. INDIRECT COSTS

The Organization has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2022

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>Assistance Listing Number</u>
Home Investment Partnership Program	14.239
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	No

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2022

SECTION II - SUMMARY OF FINANCIAL STATEMENT FINDINGS

There are no financial statement findings to be reported.

SECTION III - SUMMARY OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no federal award findings to be reported.

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2022

There were no prior year findings.