

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

Consolidated Financial Statements
and Single Audit Reports and Schedules

June 30, 2023
(With Comparative Totals for 2022)



TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1 - 3
Consolidated Statement of Financial Position	4 - 5
Consolidated Statement of Activities	6
Consolidated Statement of Functional Expenses	7
Consolidated Statement of Cash Flows	8 - 9
Notes to Consolidated Financial Statements	10 - 30
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 <i>Government Auditing Standards</i>	32 - 33
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	34 - 36
Schedule of Expenditures of Federal Awards	37
Notes to Schedule of Expenditures of Federal Awards	38
Schedule of Findings and Questioned Costs	39 - 40
Summary Schedule of Prior Audit Findings	41



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, 2023, 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, 2023, 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.

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 6, 2023, 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 2022 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 12, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



Armanino^{LLP}
San Jose, California

December 6, 2023

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
Consolidated Statement of Financial Position
June 30, 2023
(With Comparative Totals for 2022)

	2023	2022
ASSETS		
Current assets		
Cash and cash equivalents	\$ 16,009,438	\$ 12,479,159
Accounts receivable	69,701	632,682
Current portion of grants and contributions receivable, net	97,855	305,000
Current portion of mortgage notes receivable	1,166,463	1,057,536
Inventory of homes	674,758	273,958
Prepaid expenses and other current assets	121,238	66,919
Total current assets	18,139,453	14,815,254
Property and equipment, net	232,851	230,452
Other assets		
Grants and contributions receivable, net of current portion	-	46,450
Mortgage notes receivable, net of current portion and unamortized discount	8,377,608	7,373,883
Construction in progress	12,614,309	22,382,424
Deposits	34,375	22,669
Operating lease right-of-use assets	6,359,676	-
Total other assets	27,385,968	29,825,426
Total assets	\$ 45,758,272	\$ 44,871,132

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, 2023
(With Comparative Totals for 2022)

	2023	2022
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable, operating	\$ 107,111	\$ 120,457
Accounts payable, construction	612,960	860,817
Accrued liabilities	737,155	641,427
Unearned revenue	50,520	49,470
Current portion of notes payable	318,764	257,943
Refundable advances - Paycheck Protection Program	-	1,004,064
Current portion of operating lease liabilities	664,460	-
Total current liabilities	2,490,970	2,934,178
Long-term liabilities		
Notes payable, net of current portion and unamortized discount	7,054,117	6,542,100
Refundable advances - governmental grants	-	500,000
Deferred lease obligation	-	51,644
Operating lease liabilities, net of current	5,860,345	-
Total long-term liabilities	12,914,462	7,093,744
Total liabilities	15,405,432	10,027,922
Net assets		
Without donor restrictions		
Undesignated	20,467,678	27,149,278
Board designated operating reserve	4,089,495	4,196,611
Total without donor restrictions	24,557,173	31,345,889
With donor restrictions		
Total net assets	30,352,840	34,843,210
Total liabilities and net assets	\$ 45,758,272	\$ 44,871,132

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, 2023
(With Comparative Totals for 2022)

	Without Donor Restrictions	With Donor Restrictions	2023 Total	2022 Total
Support, revenues, and gains				
Support				
Grants and contributions	\$ 2,294,372	\$ 5,120,785	\$ 7,415,157	\$ 13,535,167
Contribution revenue - Paycheck Protection Program	1,022,053	-	1,022,053	-
Special events	481,141	-	481,141	433,285
Contribution from discount on note payable issued (Note 10)	-	2,148,690	2,148,690	1,636,618
In-kind contributions - services	173,213	100,180	273,393	95,075
In-kind contributions - materials	<u>33,550</u>	<u>53,962</u>	<u>87,512</u>	<u>72,927</u>
Total support	<u>4,004,329</u>	<u>7,423,617</u>	<u>11,427,946</u>	<u>15,773,072</u>
Mortgage discount amortization	594,109	-	594,109	407,639
Sale of homes	13,207,162	-	13,207,162	5,739,762
Gain on sale of mortgage notes receivable	1,930,330	-	1,930,330	-
Loss on disposal of property and equipment	-	-	-	(902)
Other income	93,151	-	93,151	57,164
Net assets released from restriction	<u>5,125,271</u>	<u>(5,125,271)</u>	<u>-</u>	<u>-</u>
Total support, revenues, and gains	<u>24,954,352</u>	<u>2,298,346</u>	<u>27,252,698</u>	<u>21,976,735</u>
Functional expenses				
Program services				
Housing Development	23,130,999	-	23,130,999	9,130,787
Homeowner Development, Volunteers, Home Preservation	<u>3,285,007</u>	<u>-</u>	<u>3,285,007</u>	<u>2,409,501</u>
Total program services	<u>26,416,006</u>	<u>-</u>	<u>26,416,006</u>	<u>11,540,288</u>
Support services				
General and administrative	3,057,444	-	3,057,444	2,780,213
Fundraising	<u>2,269,618</u>	<u>-</u>	<u>2,269,618</u>	<u>1,800,371</u>
Total support services	<u>5,327,062</u>	<u>-</u>	<u>5,327,062</u>	<u>4,580,584</u>
Total functional expenses	<u>31,743,068</u>	<u>-</u>	<u>31,743,068</u>	<u>16,120,872</u>
Change in net assets	(6,788,716)	2,298,346	(4,490,370)	5,855,863
Net assets, beginning of year	<u>31,345,889</u>	<u>3,497,321</u>	<u>34,843,210</u>	<u>28,987,347</u>
Net assets, end of year	<u>\$ 24,557,173</u>	<u>\$ 5,795,667</u>	<u>\$ 30,352,840</u>	<u>\$ 34,843,210</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, 2023
(With Comparative Totals for 2022)

	Housing Development	Homeowner Development, Volunteers, Home Preservation	Total Program Services	General and Administrative	Fundraising	Total Support Services	2023 Total	2022 Total
Direct housing expenses								
Cost of sales - homes	\$ 15,604,379	\$ -	\$ 15,604,379	\$ -	\$ -	\$ -	\$ 15,604,379	\$ 4,982,579
Total direct housing expenses	<u>15,604,379</u>	<u>-</u>	<u>15,604,379</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,604,379</u>	<u>4,982,579</u>
Salaries and benefits								
Salaries and wages	1,210,518	1,788,021	2,998,539	1,704,864	1,216,140	2,921,004	5,919,543	5,090,498
Employee benefits	125,244	192,803	318,047	208,129	115,276	323,405	641,452	542,814
Payroll taxes	87,610	135,146	222,756	122,126	89,797	211,923	434,679	392,617
Workers' compensation insurance	8,872	19,568	28,440	6,120	4,651	10,771	39,211	17,087
Total salaries and benefits	<u>1,432,244</u>	<u>2,135,538</u>	<u>3,567,782</u>	<u>2,041,239</u>	<u>1,425,864</u>	<u>3,467,103</u>	<u>7,034,885</u>	<u>6,043,016</u>
Discount on mortgage issued	4,863,797	-	4,863,797	-	-	-	4,863,797	1,965,429
Professional services	225,175	364,699	589,874	234,108	263,654	497,762	1,087,636	961,502
Rent	293,180	249,891	543,071	300,788	153,946	454,734	997,805	639,710
Home Preservation project expenses	-	349,219	349,219	-	-	-	349,219	58,877
Interest	250,678	-	250,678	51,228	-	51,228	301,906	135,437
Tithe	225,000	-	225,000	-	-	-	225,000	323,900
Communications	44,908	30,548	75,456	70,456	27,537	97,993	173,449	182,347
Computer software/hardware	20,651	44,608	65,259	56,603	39,404	96,007	161,266	115,089
Bank fees	3,926	27,797	31,723	12,579	106,889	119,468	151,191	49,563
Office expenses	40,629	29,700	70,329	62,833	16,333	79,166	149,495	207,420
Fundraising	-	-	-	5,975	113,979	119,954	119,954	49,935
Postage and printing	1,404	10,538	11,942	5,709	93,047	98,756	110,698	106,810
Depreciation	-	-	-	96,844	-	96,844	96,844	52,681
Insurance	39,032	12,480	51,512	33,103	11,003	44,106	95,618	42,465
Travel and training	19,876	18,248	38,124	47,289	9,518	56,807	94,931	130,876
Miscellaneous construction project expenses	53,632	-	53,632	-	-	-	53,632	2,351
Taxes and licenses	5,707	7,843	13,550	13,134	5,708	18,842	32,392	(17,178)
Marketing	-	190	190	17,804	-	17,804	17,994	20,791
Employee engagement	1,646	1,099	2,745	7,497	2,459	9,956	12,701	8,902
Equipment rental and maintenance	5,065	1,283	6,348	115	86	201	6,549	17,848
Promotions and supplies	70	1,326	1,396	140	191	331	1,727	34,805
Donated services and goods	-	-	-	-	-	-	-	5,717
	<u>\$ 23,130,999</u>	<u>\$ 3,285,007</u>	<u>\$ 26,416,006</u>	<u>\$ 3,057,444</u>	<u>\$ 2,269,618</u>	<u>\$ 5,327,062</u>	<u>\$ 31,743,068</u>	<u>\$ 16,120,872</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, 2023
(With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Change in net assets	\$ (4,490,370)	\$ 5,855,863
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	96,844	52,681
Amortization of operating leases right-of-use asset	710,472	-
Home sales revenue through issuance of home mortgage notes	(10,517,659)	(3,772,969)
Home sales revenue through refundable advances reconveyed to homebuyer mortgages fund	-	(1,966,793)
Home sales revenue through reconveyed notes payable	(2,689,503)	-
Amortization of mortgage notes receivable discount	(594,109)	(407,639)
Discount on mortgage notes issued	4,863,797	1,965,429
Contribution from discount on note payable issued	(2,148,690)	(1,636,618)
Amortization of notes payable discount	258,500	135,437
Changes in operating assets and liabilities		
Accounts receivable	562,981	(479,196)
Grants and contributions receivable, net	253,595	996,810
Inventory of homes	(400,800)	244,237
Construction in progress	9,520,258	(3,838,712)
Prepaid expenses and other current assets	(54,319)	(55,957)
Deposits	(11,706)	75,619
Accounts payable	(13,346)	30,395
Accrued liabilities	95,728	77,439
Unearned revenue	1,050	(113,350)
Refundable advances - Paycheck Protection Program	(1,004,064)	-
Deferred lease obligation	-	32,668
Operating lease liabilities	(596,987)	-
Net cash used in operating activities	<u>(6,158,328)</u>	<u>(2,804,656)</u>
Cash flows from investing activities		
Purchase of property and equipment	(99,243)	(230,124)
Payments received on mortgage notes receivable	1,224,716	1,681,502
Proceeds from mortgage notes receivable sold	3,910,603	-
Net cash provided by investing activities	<u>5,036,076</u>	<u>1,451,378</u>
Cash flows from financing activities		
Payments on notes payable	(612,709)	(338,441)
Proceeds from notes payable	5,265,240	4,316,841
Net cash provided by financing activities	<u>4,652,531</u>	<u>3,978,400</u>
Net increase in cash	3,530,279	2,625,122
Cash, cash equivalents and restricted cash, beginning of year	<u>12,479,159</u>	<u>9,854,037</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 16,009,438</u>	<u>\$ 12,479,159</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, 2023
 (With Comparative Totals for 2022)

	2023	2022
Supplemental schedule of noncash investing and financing activities		
Operating lease right-of-use assets obtained in exchange for operating lease liabilities	\$ 7,070,149	\$ -
Construction in progress acquired by short-term liabilities	\$ 612,960	\$ 860,817

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, 2023
(With Comparative Totals for 2022)

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 entity was named 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 2019, 15 mortgage notes in August 2020, 20 mortgage notes in December 2021, 3 mortgage notes in May 2022 and 7 mortgage notes in March 2023. The Company pledged these mortgage notes as collateral to secure 5 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 up to 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, home repair projects, community gardens, the Organization's office, and on the Organization's committees.

Home Preservation ("HP") - Delivers critical home repairs to improve health, safety, and well-being of residents in three focus neighborhoods: Bayview in San Francisco, Belle Haven in Menlo Park, East Palo Alto.

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

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, 2023 and 2022.

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 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.

Change in accounting principle

In February 2016, the Financial Accounting Standards Board ("FASB") issued guidance Accounting Standards Codification ("ASC") 842, *Leases*, to increase transparency and comparability among organizations by requiring the recognition of right-of-use ("ROU") assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases.

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle (continued)

The Organization adopted the standard effective July 1, 2022 and recognized and measured leases existing at, or entered into after, July 1, 2022, the beginning of the period of adoption through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year ended June 30, 2022 are made under prior lease guidance in FASB ASC 840.

As a result of the adoption of the new lease accounting guidance, the Organization recognized operating lease liabilities and operating lease ROU assets of \$7,063,190 and \$7,070,149.

The standard impacted the Organization's consolidated statement of financial position as of June 30, 2023, but did not have a material impact on the Organization's consolidated statement of activities, nor consolidated statement of cash flows for the year then ended.

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, 2023 and 2022. 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, 2023
(With Comparative Totals for 2022)

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, 2023 and 2022, 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 consolidated 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, 2023
(With Comparative Totals for 2022)

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, 2023 and 2022, 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, 2023 and 2022, were \$17,994 and \$20,791, respectively.

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

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 consolidated financial statements for the year ended June 30, 2022, 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, 2022 for comparative purposes to conform with the presentation in the current year financial statements.

Subsequent events

The Organization has evaluated subsequent events through December 6, 2023, 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
Notes to Consolidated Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

3. MORTGAGE NOTES RECEIVABLE

As of June 30, 2023, the Organization holds 118 mortgage notes receivable, totaling \$19,982,951 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 6.71% for mortgages issued during the year ended June 30, 2023, and at a rate of 5.93% for mortgages issued during the year ended June 30, 2022, 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>	
2024	\$ 1,166,463
2025	1,156,900
2026	1,109,726
2027	1,085,381
2028	1,032,396
Thereafter	<u>14,432,085</u>
	19,982,951
Less: unamortized discount	<u>(10,438,880)</u>
Net present value of mortgage notes	9,544,071
Less current portion	<u>(1,166,463)</u>
	<u>\$ 8,377,608</u>

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

4. GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable consisted of the following:

	2023	2022
Receivable in less than one year	\$ 110,000	\$ 305,000
Receivable in one to five years	<u>-</u>	<u>100,000</u>
	<u>110,000</u>	<u>405,000</u>
Less discounts to net present value (see Note 2)	(8,247)	(23,732)
Less allowance for doubtful accounts	<u>(3,898)</u>	<u>(29,818)</u>
	<u>(12,145)</u>	<u>(53,550)</u>
Less current portion	<u>(97,855)</u>	<u>(305,000)</u>
	<u>\$ -</u>	<u>\$ 46,450</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:

	2023	2022
Fund development of Pre-Development North-Bay	<u>\$ -</u>	<u>\$ 200,000</u>

6. INVENTORY OF HOMES

Inventory of homes consisted of the following:

	2023	2022
Habitat resale homes	<u>\$ 674,758</u>	<u>\$ 273,958</u>

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

7. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2023	2022
Furniture and equipment	\$ 339,949	\$ 294,613
Vehicles	49,741	49,741
Leasehold improvements	134,164	80,257
	523,854	424,611
Accumulated depreciation	(291,003)	(194,159)
	\$ 232,851	\$ 230,452

Depreciation expense for the years ended June 30, 2023 and 2022, was \$96,844 and \$52,681, respectively.

8. CONSTRUCTION IN PROGRESS

Construction in progress consisted of the following:

	2023	2022
New construction		
Redwood City: Jefferson Avenue (1 home in 2023, and 20 homes in 2022)	\$ 818,046	\$ 15,578,542
San Francisco: Amber Drive (8 homes)	8,223,465	4,499,395
	9,041,511	20,077,937
Pre-development		
Marin County development (80 homes)	3,045,341	2,118,593
Redwood City (33 homes)	526,801	185,894
Menlo Park (18 homes)	656	-
	3,572,798	2,304,487
	\$ 12,614,309	\$ 22,382,424

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

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. On October 2, 2023, the Organization renewed the line of credit agreement and the maturity was extended to July 25, 2025 (see Note 20). There were no amounts outstanding on this line of credit as of June 30, 2023.

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. On September 20, 2023, the Organization renewed the line of credit agreement for loan #110339 and the maturity was extended to September 20, 2028 (see Note 20). There were no amounts outstanding on this line of credit as of June 30, 2023.

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 was 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 was 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.

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

10. NOTES PAYABLE

Notes payable are detailed as follows:

	2023		2022
Payable to the County of San Mateo (LTNHFB) - 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.	\$ 19,074	\$	20,469
Payable to the County of San Mateo (LTNHBC) - 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.	36,657		40,879
Payable to the County of San Mateo (LTNHFS) - 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.	32,174		46,696
Payable to the Housing Authority of the County of San Mateo (LTNHAC) - 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. In September 2022, 19 homes on Jefferson Avenue were sold, and \$425,000 of the loan balance was reconveyed to homebuyers for mortgage assistance.	75,000		500,000

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

10. NOTES PAYABLE (continued)

	2023	2022
<p>Payable to the County of San Mateo (LTNCS1) - 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 would be forgiven in 5 equal installments of \$16,000 over the last 5 years of the note (years 41-45). In September 2022, 19 homes on Jefferson Avenue were sold, and \$76,000 of the loan was reconveyed to homebuyers for mortgage assistance.</p>	4,000	80,000
<p>Payable to the Housing Authority of the County of San Mateo (LTNHCS) - 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 would be forgiven in 5 equal installments of \$100,000 over the last 5 years of the loan (years 41-45). In September 2022, 19 homes on Jefferson Avenue were sold, and the loan balance was reconveyed to homebuyers for mortgage assistance.</p>	-	500,000
<p>Payable to Redwood City (LTNRWC) - 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. In September 2022, 19 homes on Jefferson Avenue were sold, and \$763,503 of the loan balance was reconveyed to homebuyers for mortgage assistance. The outstanding balance will be forgiven at the end of the term if the Organization has materially complied with its obligations.</p>	135,000	898,503

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

10. NOTES PAYABLE (continued)

	2023	2022
<p>Payable to the County of San Mateo Department of Housing (LTNHCD) - Community Development Block Grant federal funds are used for the construction of the 612 Jefferson Avenue project. The loan matures 45 years from the date of project completion. No interest accrues until project completion at which time the simple interest will be 3%. The outstanding balance would be forgiven in 5 equal installments of \$200,000 over the last 5 years of the note (years 41-45). In September 2022, 19 homes on Jefferson Avenue were sold, and \$925,000 of the loan balance was reconveyed to homebuyers for mortgage assistance.</p>	75,000	1,000,000
<p>Payable to the Northern Trust Company (LTNNT1) - 0% interest, secured by deeds of 9 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.</p>	1,613,245	1,710,605
<p>Payable to the Northern Trust Company (LTNNT2) - 0% interest, secured by deeds of 15 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>	2,051,787	2,186,617
<p>Payable to the Northern Trust Company (LTNNT3) - 0% interest, secured by deeds of 20 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>	2,428,905	2,619,336

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

10. NOTES PAYABLE (continued)

	2023	2022
<p>Payable to the Northern Trust Company (LTNNT4) - 0% interest, secured by deeds of 3 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>	681,190	715,805
<p>Payable to the Northern Trust Company (LTNNT5) - 0% interest, secured by deeds of 7 mortgage loans. Due in various monthly installments through October 2052. The Organization recognized a contribution from the discount totaling \$2,148,690 in the consolidated statement of activities during the year ended June 30, 2023. The discount is amortized using the straight-line method in the term of the loan.</p>	3,942,406	-
<p>Payable to Housing Endowment and Regional Trust of San Mateo County (LTNHRT) - used to acquire real property at 612 Jefferson Avenue, Redwood City, California. In September 2022, 19 homes on Jefferson Avenue were sold, and the balance was reclassified from refundable advance to a loan that is secured by individual deeds of trust on properties on Jefferson Avenue (see Note 12). The loan bears no interest, and payment of \$12,500 is due monthly through September 2042.</p>	487,500	-
<p>Payable to Habitat for Humanity International, Inc. (LTNHHI) - In October 2022, the Organization signed a \$1,000,000 unsecured loan from Habitat for Humanity International. On June 30, 2023, the Organization signed an amendment updating the interest rate from 3.75% to 2.75%, effective July 1, 2023. The loan's automatic option was amended to automatically extend 4 times by one-year terms based on request of the Organization, or to be called by Habitat for Humanity International, Inc. at the end of December 31, 2023. The loan is used for general development and homebuilding efforts.</p>	1,000,000	-

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

10. NOTES PAYABLE (continued)

	2023	2022
Payable to City National Bank (LTNAHA) - 0% interest, the fund is used for the purpose of development of 36 Amber Drive project. Unless earlier prepayment is required, the balance will be due in full in October 2027. The grant deeds will be reconveyed to homebuyers for mortgage assistance and the balance will be forgiven at the end of the term.	200,000	-
	12,781,938	10,318,910
Less discount on notes payable	(5,409,057)	(3,518,867)
	7,372,881	6,800,043
Current portion	(318,764)	(257,943)
	\$ 7,054,117	\$ 6,542,100

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, 2023 and 2022 was \$258,500 and \$135,437, respectively.

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

<u>Year ending June 30,</u>		
2024	\$	318,764
2025		315,117
2026		314,053
2027		311,477
2028		307,477
Thereafter		5,805,993
	\$	7,372,881

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 were subject to forgiveness to the extent that proceeds were used to pay eligible program expenses including payroll costs, rent obligations, and utility payments. The loans bore interest rate of 1% and had a maturity of five years.

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

11. REFUNDABLE ADVANCES - PAYCHECK PROTECTION PROGRAM (continued)

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 are reduced if the borrower terminates employees or reduces salaries during the covered period.

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. The conditions were removed on February 23, 2021 and November 17, 2022, when the Organization received forgiveness for the first loan of \$853,500 and the second loan of \$1,004,064 from the SBA, resulting in recognition of the entire amount and accrued interest as contribution revenue in the accompanying consolidated statements of activities.

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 June 2022, 6 homes in Daly City were sold, and the funding of \$25,000 from CalHome and \$809,000 from Daly City Housing Development, were reconveyed to homebuyers for mortgage assistance. See Note 14.

Refundable advances are detailed as follows:

	2023	2022
Housing Endowment and Regional Trust of San Mateo County ("HEART"): used for the acquisition of real property at 612 Jefferson Avenue, Redwood City, California. In September 2023, the the balance was reclassified to a loan, when 19 homes on Jefferson Avenue were sold (see Note 10).	\$ <u> </u> -	\$ <u> 500,000</u>

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.

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

13. NET ASSETS WITH DONOR RESTRICTIONS (continued)

The Organization's net assets with donor restrictions for the year ended June 30, 2023, consisted of the following:

	<u>Balance at June 30, 2022</u>	<u>Contributions</u>	<u>Releases</u>	<u>Balance at June 30, 2023</u>
Contribution from discount on note payable issued	\$ 3,497,321	\$ 2,148,690	\$ (258,500)	\$ 5,387,511
Low-income housing acquisition and construction	-	5,120,785	(4,712,629)	408,156
In-kind contributions	<u>-</u>	<u>154,142</u>	<u>(154,142)</u>	<u>-</u>
	<u>\$ 3,497,321</u>	<u>\$ 7,423,617</u>	<u>\$ (5,125,271)</u>	<u>\$ 5,795,667</u>

14. SALE OF HOMES

During the year ended June 30, 2023, the Organization sold twenty homes, including 19 homes on Jefferson Avenue and one resale on Rolison Road, with a total cost of \$15,604,379. The sales revenue was \$13,207,162. During the year ended June 30, 2022, the Organization sold seven homes, including six homes on Geneva Avenue and Schwerin Street, and one resale on Habitat Way, with a total cost of \$4,982,579. The sales revenue was \$5,739,762.

15. IN-KIND CONTRIBUTIONS

Donated materials

The value of donated office supplies and construction materials for the years ended June 30, 2023 and 2022 was \$87,512 and \$72,927, 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 contributions revenue at the estimated fair value at the time the services are rendered, based on the costs provided by professionals at their standard rates.

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

15. IN-KIND CONTRIBUTIONS (continued)

Donated services (continued)

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

	2023	2022
Legal services	\$ 213,664	\$ 16,124
Construction services	59,729	78,951
	\$ 273,393	\$ 95,075

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, 2023 and 2022, volunteers donated 25,355 and 25,150 hours, respectively, whose value management has estimated at \$774,958 and \$767,464, 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, 2023 and 2022, were \$190,853 and \$142,703, 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, 2023 and 2022, the amount contributed was \$225,000 and \$323,900, 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, 2023 and 2022, the insurance expense was \$95,618 and \$42,465, respectively.

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

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 July 28, 2022, the Organization signed a non-cancelable lease for a 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.

Additional information related to leases is as follows:

Weighted-average discount rate - operating leases	2.77 %
Weighted-average lease term - operating leases	7.25 years
Cash paid on operating leases	\$ 723,815
Operating lease right-of-use assets obtained in exchange for operating lease liabilities	\$ 7,070,149
Operating lease liabilities	\$ 7,063,190

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

18. COMMITMENTS (continued)

Office and warehouse leases (continued)

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

<u>Year ending June 30,</u>	
2024	\$ 833,128
2025	860,246
2026	888,477
2027	917,676
2028	818,769
Thereafter	<u>3,018,829</u>
	<u>\$ 7,337,125</u>

Future minimum lease payments related to leases as of June 30, 2022, before the adoption of ASC 842 Leases, were 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>\$ 7,573,767</u>

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 grants and 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, 2023, the balance of the reserve was \$4,089,495. However, the Board can undesignate the funds for operational needs at any time.

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

19. LIQUIDITY AND FINANCIAL ASSETS (continued)

The following is a quantitative disclosure which describes financial assets that are available as of June 30, 2023 and 2022 to fund general expenditures and other obligations when they become due for one year:

	2023	2022
Cash and cash equivalents	\$ 16,009,438	\$ 12,479,159
Accounts receivable	69,701	55,887
Current portion of grants and contributions receivable	110,000	305,000
Current portion of mortgage notes receivable	1,166,463	1,057,536
	\$ 17,355,602	\$ 13,897,582

20. SUBSEQUENT EVENTS

On July 6, 2023, the Organization sold the last of 20 units in a midrise building on Jefferson Avenue, Redwood City at a cost of \$835,427. The sales revenue was \$899,408.

In August 2023, the Organization purchased two units in Bolinas and resold both units in September 2023. The total cost was \$1,445,321. The sales revenue was \$1,125,162.

In September 2023, the Organization entered escrow to purchase property in Bolinas where two housing units will be built and sold.

In September 2023, the Organization repurchased a home in Novato for \$163,347 and expects to resell the unit by June 2024.

On September 20, 2023, the Organization renewed its non-revolving line of credit (loan #110339) with the Bank and the maturity was extended to September 20, 2028 with an interest rate of 8.5%. Interest is due monthly on the fifteenth calendar date of the following month. Any unpaid interest will be added to the principal amount due.

On October 2, 2023, the Organization renewed its line of credit agreement (loan #110274) with the Bank and the maturity was extended to July 25, 2025. Interest is set at Prime and accrues monthly at an annual variable rate. Any unpaid interest will be added to the principal amount due.

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, 2023, 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 6, 2023.

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.



Armanino^{LLP}
San Jose, California

December 6, 2023



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, 2023. 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, 2023.

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 6, 2023

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2023

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			
Community Development Block Grant Program	14.218		\$ 1,000,000
Community Development Block Grant Program	14.218		235,362
Community Development Block Grant Program	14.218		<u>200,000</u>
Total Community Development Block Grant Program			<u>1,435,362</u>
Direct awards			
Home Investment Partnership Program	14.239		<u>898,503</u>
Total Expenditures of Federal Awards			<u>\$ 2,333,865</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, 2023

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, 2023. 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, 2022 through June 30, 2023, 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, 2023

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>
Community Development Block Grant Program	14.218
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

Habitat for Humanity Greater San Francisco, Inc. and Subsidiary
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023

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, 2023

There were no prior year findings.