

**HABITAT FOR HUMANITY**  
**EAST BAY/SILICON VALLEY**  
**AND SUBSIDIARIES**

***(A California Nonprofit Public Benefit Corporation)***

**COMBINED FINANCIAL STATEMENTS**

**JUNE 30, 2021 AND 2020**



*Accountants & Advisors*

**HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY  
AND SUBSIDIARIES**

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JUNE 30, 2021 AND 2020**

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## Independent Auditors' Report

Board of Directors  
Habitat for Humanity East Bay/Silicon Valley  
Oakland, California

### Report on the Financial Statements

We have audited the accompanying combined financial statements of Habitat for Humanity East Bay/Silicon Valley, a California nonprofit public benefit corporation, and Subsidiaries, which comprise the combined statement of financial position as of June 30, 2021, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

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

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

### Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Prior Period Financial Statements**

The financial statements of Habitat for Humanity East Bay/Silicon Valley as of June 30, 2020, were audited by other auditors whose report dated November 17, 2020, expressed an unmodified opinion on those statements.

### **Report on Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying schedule of expenditures of federal awards on page 39, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is also presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

### **Report on Other Legal and Regulatory Requirements**

In accordance with *Government Auditing Standards*, we have also issued a report dated December 17, 2021 on our consideration of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' 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 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 Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' internal control over financial reporting and compliance.

*RINA Accountancy LLP*

Certified Public Accountants

San Francisco, California  
December 17, 2021

**HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY  
AND SUBSIDIARIES**

**COMBINED STATEMENTS OF FINANCIAL POSITION**

<u>ASSETS</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>
<b>CURRENT:</b>		
Cash and cash equivalents	\$ 5,589,251	\$ 4,096,211
Investments	2,642,615	2,510,407
Current portion of restricted cash	29,826	29,826
Current portion of grants, contracts and contributions, net	5,708,034	10,655,250
Current portion of mortgages and notes receivable	592,962	580,295
Inventory:		
Property held for sale	299,283	5,501,065
Cost of homes in progress - current	286,323	4,263,769
ReStore inventory	522,121	540,956
Other	345,000	231,072
Current portion of prepaid expenses and deposits	<u>123,632</u>	<u>123,662</u>
 TOTAL CURRENT ASSETS	 16,139,047	 28,532,513
<b>OTHER:</b>		
Restricted cash, net of current portion	167,637	167,637
Receivables, net:		
Grants, contracts and contributions - net of current portion	152,658	252,658
Mortgages and notes - net of current portion	14,054,877	14,379,772
Cost of homes in progress - net of current portion	14,232,154	6,872,279
Prepaid expenses and deposits, net of current portion	143,909	144,238
Property and equipment, net	70,043	128,246
Deferred costs, net of amortization of \$5,197 (2021 and 2020)	<u>67,103</u>	<u>67,103</u>
 TOTAL ASSETS	 <u>\$ 45,027,428</u>	 <u>\$ 50,544,446</u>

See notes to combined financial statements.

**HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY  
AND SUBSIDIARIES**

**COMBINED STATEMENTS OF FINANCIAL POSITION**

<u>LIABILITIES AND NET ASSETS</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>
<b>CURRENT LIABILITIES:</b>		
Line of credit	\$ 508,150	\$ 1,637,150
Accounts payable and accrued expenses	4,593,933	7,336,096
Interest payable	3,546	6,556
Notes payable - current portion	187,598	5,571,438
Reconveyable notes payable - current portion	655,595	727,162
Deferred revenue - current portion	254,343	436,714
Deferred revenue - Paycheck Protection Program	-	688,967
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	6,203,165	16,404,083
<b>LONG-TERM LIABILITIES:</b>		
Notes payable - net of current portion	3,129,230	1,948,696
Reconveyable notes payable - net of current portion	5,375,047	3,374,398
Other subordinate debt	2,225,153	2,225,153
Deferred revenue - net of current portion	655,745	851,289
	<hr/>	<hr/>
TOTAL LIABILITIES	17,588,340	24,803,619
<b>NET ASSETS:</b>		
Without donor restrictions:		
Board designated	48,118	37,194
Undesignated	27,079,161	23,620,309
Total unrestricted	<hr/>	<hr/>
	27,127,279	23,657,503
With donor restrictions	<hr/>	<hr/>
	311,809	2,083,324
TOTAL NET ASSETS	<hr/>	<hr/>
	27,439,088	25,740,827
TOTAL LIABILITIES AND NET ASSETS	<hr/> <hr/>	<hr/> <hr/>
	\$ 45,027,428	\$ 50,544,446

See notes to combined financial statements.

**HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY  
AND SUBSIDIARIES**

**COMBINED STATEMENTS OF ACTIVITIES**

**YEAR ENDED JUNE 30, 2021**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>SUPPORT AND REVENUE:</b>			
Sales of homes	\$ 9,260,380	\$ -	\$ 9,260,380
Grants and contributions including general contracting revenue of \$16,212,532 and \$10,268,076 in 2021 and 2020, respectively.	- 24,887,361	- 797,762	- 25,685,123
In-kind contributions	3,129,893	-	3,129,893
Inventory donations to ReStore	3,194,047	-	3,194,047
Fundraising event contributions	406,983	-	406,983
Less: fundraising event costs	(127,392)	-	(127,392)
Other income	575,548	-	575,548
Paycheck Protection Program grant	2,152,867	-	2,152,867
Net assets released from restrictions	2,569,277	(2,569,277)	-
	<u>46,048,964</u>	<u>(1,771,515)</u>	<u>44,277,449</u>
<b>TOTAL SUPPORT AND REVENUE</b>			
<b>EXPENSES:</b>			
Program services:			
Housing	32,733,288	-	32,733,288
Home preservation	2,747,494	-	2,747,494
ReStore	3,266,231	-	3,266,231
Supporting services			
Management and general	2,725,300	-	2,725,300
Fundraising	1,657,830	-	1,657,830
	<u>43,130,143</u>	<u>-</u>	<u>43,130,143</u>
<b>TOTAL EXPENSES</b>			
<b>CHANGE IN NET ASSETS BEFORE OTHER REVENUE AND EXPENSES</b>			
	<u>2,918,821</u>	<u>(1,771,515)</u>	<u>1,147,306</u>
<b>OTHER REVENUE AND EXPENSES:</b>			
Mortgage discount amortization	398,441	-	398,441
Mortgage discount expenses	(33,023)	-	(33,023)
Investment income - NMTC	39,997	-	39,997
Interest expense - NMTC	(40,004)	-	(40,004)
Amortization of deferred revenue - NMTC	185,544	-	185,544
	<u>550,955</u>	<u>-</u>	<u>550,955</u>
<b>TOTAL OTHER REVENUE AND EXPENSES</b>			
<b>CHANGE IN NET ASSETS</b>	3,469,776	(1,771,515)	1,698,261
<b>NET ASSETS, beginning of year</b>	<u>23,657,503</u>	<u>2,083,324</u>	<u>25,740,827</u>
<b>NET ASSETS, end of year</b>	<u>\$ 27,127,279</u>	<u>\$ 311,809</u>	<u>\$ 27,439,088</u>

See notes to combined financial statements.

# HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

## COMBINED STATEMENTS OF ACTIVITIES

### YEAR ENDED JUNE 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUE:</b>			
Sales of homes	\$ 412,530	\$ -	\$ 412,530
Grants and contributions including general contracting revenue of \$10,268,076 and \$1,037,636 in 2020 and 2019, respectively.	15,009,090	3,015,529	18,024,619
In-kind contributions	2,347,301	-	2,347,301
Inventory donations to ReStore	2,978,246	-	2,978,246
Fundraising event contributions	420,301	-	420,301
Less: fundraising event costs	(205,086)	-	(205,086)
Other income including general contracting revenue of \$0 and \$352,448 in 2020 and 2019, respectively	332,535	-	332,535
Paycheck protection program grant	765,633	-	765,633
Net assets released from restrictions	1,008,731	(1,008,731)	-
<b>TOTAL SUPPORT AND REVENUE</b>	<b>23,069,281</b>	<b>2,006,798</b>	<b>25,076,079</b>
<b>EXPENSES:</b>			
Program services:			
Housing	11,893,845	-	11,893,845
Home preservation	2,461,501	-	2,461,501
ReStore	3,067,068	-	3,067,068
Supporting services			
Management and general	1,838,387	-	1,838,387
Fundraising	1,249,920	-	1,249,920
<b>TOTAL EXPENSES</b>	<b>20,510,721</b>	<b>-</b>	<b>20,510,721</b>
<b>CHANGE IN NET ASSETS BEFORE OTHER REVENUE AND EXPENSES</b>	<b>2,558,560</b>	<b>2,006,798</b>	<b>4,565,358</b>
<b>OTHER REVENUE AND EXPENSES:</b>			
Mortgage discount amortization	469,432	-	469,432
Mortgage discount expenses	(105,490)	-	(105,490)
Investment income -NMTC	39,997	-	39,997
Interest expense - NMTC	(40,004)	-	(40,004)
Amortization of deferred revenue - NMTC	185,544	-	185,544
<b>TOTAL OTHER REVENUE AND EXPENSES</b>	<b>549,479</b>	<b>-</b>	<b>549,479</b>
<b>CHANGE IN NET ASSETS</b>	<b>3,108,039</b>	<b>2,006,798</b>	<b>5,114,837</b>
NET ASSETS, beginning of year	20,549,464	76,526	20,625,990
NET ASSETS, end of year	<u>\$ 23,657,503</u>	<u>\$ 2,083,324</u>	<u>\$ 25,740,827</u>

See notes to combined financial statements.



# HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

## COMBINED STATEMENTS OF FUNCTIONAL EXPENSES

### YEAR ENDED JUNE 30, 2021

	Program Services			Total Program Services	Supporting Services <sup>(1)</sup>		Totals
	Housing	Home Preservation	ReStore		Management and General	Fundraising	
Cost of homes sold and reserve for homes in progress	\$ 11,698,421	\$ -	\$ -	\$ 11,698,421	\$ -	\$ -	\$ 11,698,421
Cost of general contractor services	19,044,128	-	-	19,044,128	-	-	19,044,128
Cost of miscellaneous projects	361,409	-	-	361,409	-	-	361,409
Cost of homes repaired	-	2,730,929	-	2,730,929	-	-	2,730,929
Personnel	3,685,750	1,071,534	1,383,987	6,141,271	1,602,105	1,010,889	8,754,265
Homeowner relations	103,170	-	-	103,170	-	-	103,170
Office	116,451	6,786	111,890	235,127	6,355	226,550	468,032
Professional services	175,704	50,756	349,788	576,248	433,568	89,416	1,099,232
Travel	12,138	-	2,806	14,944	162	279	15,385
Tithe to international projects	125,000	-	-	125,000	-	-	125,000
Property management	2,374	-	-	2,374	-	-	2,374
Public relations	99,742	-	241,820	341,562	-	20	341,582
Rent	368,657	-	575,576	944,233	13,340	30,719	988,292
Warehouse lease	36,418	-	46,023	82,441	-	-	82,441
Equipment	86,914	889	107,535	195,338	2,012	3,024	200,374
Education	4,053	1,006	1,582	6,641	5,184	2,591	14,416
Insurance	29,544	18,366	27,153	75,063	62,067	-	137,130
Depreciation	-	-	32,569	32,569	32,942	-	65,511
Interest	-	-	-	-	108,251	-	108,251
ReStore cost of sales	-	-	282,186	282,186	-	-	282,186
Bad debt	-	-	-	-	400,000	-	400,000
Miscellaneous	57,019	17,176	103,316	177,511	59,314	294,342	531,167
Allocation to cost of homes in progress	(3,273,604)	(1,149,948)	-	(4,423,552)	-	-	(4,423,552)
Total expenses as shown in the consolidated statement of activities	32,733,288	2,747,494	3,266,231	38,747,013	2,725,300	1,657,830	43,130,143
Interest expenses NMTC	40,004	-	-	40,004	-	-	40,004
Mortgage discount expenses	33,023	-	-	33,023	-	-	33,023
Fundraising event costs	-	-	-	-	-	124,927	124,927
<b>TOTAL EXPENSES</b>	<b>\$ 32,806,315</b>	<b>\$ 2,747,494</b>	<b>\$ 3,266,231</b>	<b>\$ 38,820,040</b>	<b>\$ 2,725,300</b>	<b>\$ 1,782,757</b>	<b>\$ 43,328,097</b>

(1) For the three fiscal period ended 2019 through 2021, supporting services expenses have averaged 12.7% of total expenses. The supporting services expense percentage fluctuates by year depending on the number of homes sold.

See notes to combined financial statements.

# HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

## COMBINED STATEMENTS OF FUNCTIONAL EXPENSES

### YEAR ENDED JUNE 30, 2020

	Program Services			Total Program Services	Supporting Services <sup>(1)</sup>		Totals
	Housing	Home Preservation	ReStore		Management and General	Fundraising	
Cost of homes sold and reserve for homes in progress	\$ 733,454	\$ -	\$ -	\$ 733,454	\$ -	\$ -	\$ 733,454
Cost of general contractor services	8,509,253	-	-	8,509,253	-	-	8,509,253
Cost of miscellaneous projects	220,982	-	-	220,982	-	-	220,982
Cost of homes repaired	-	2,467,602	-	2,467,602	-	-	2,467,602
Personnel	3,429,466	1,118,939	1,585,282	6,133,687	1,460,197	983,458	8,577,342
Homeowner relations	(18,609)	-	-	(18,609)	(147)	-	(18,756)
Office	114,294	17,554	97,370	229,218	7,244	8,963	245,425
Professional services	248,875	1,237	197,635	447,747	74,230	17,944	539,921
Travel	14,365	1,951	12,653	28,969	3,780	4,159	36,908
Tithe to international projects	103,561	-	-	103,561	-	-	103,561
Property management	69	-	-	69	-	-	69
Public relations	153,902	-	97,090	250,992	-	3,824	254,816
Rent	392,712	-	551,057	943,769	13,454	30,977	988,200
Warehouse lease	20,837	-	46,417	67,254	-	-	67,254
Equipment	126,503	3,134	8,007	137,644	1,298	2,829	141,771
Education	8,013	1,404	3,371	12,788	2,326	644	15,758
Insurance	24,774	20,837	27,020	72,631	65,947	-	138,578
Depreciation	-	-	41,417	41,417	37,915	-	79,332
Interest	-	-	-	-	154,047	-	154,047
ReStore cost of sales	-	-	309,703	309,703	-	-	309,703
Miscellaneous	522,315	30,227	90,046	642,588	18,096	197,122	857,806
Allocation to cost of homes in progress	(2,710,921)	(1,201,384)	-	(3,912,305)	-	-	(3,912,305)
<b>Total expenses as shown in the consolidated statement of activities</b>	<b>11,893,845</b>	<b>2,461,501</b>	<b>3,067,068</b>	<b>17,422,414</b>	<b>1,838,387</b>	<b>1,249,920</b>	<b>20,510,721</b>
Interest expenses NMTC	40,004	-	-	40,004	-	-	40,004
Mortgage discount expenses	105,490	-	-	105,490	-	-	105,490
Fundraising event costs	-	-	-	-	-	205,086	205,086
<b>TOTAL EXPENSES</b>	<b>\$ 12,039,339</b>	<b>\$ 2,461,501</b>	<b>\$ 3,067,068</b>	<b>\$ 17,567,908</b>	<b>\$ 1,838,387</b>	<b>\$ 1,455,006</b>	<b>\$ 20,861,301</b>

(1) For the three fiscal period ended 2018 through 2020, supporting services expenses have averaged 16.2% of total expenses. The supporting services expense percentage fluctuates by year depending on the number of homes sold.

See notes to combined financial statements.

# HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

## COMBINED STATEMENTS OF CASH FLOWS

	<u>Year Ended</u> <u>June 30, 2021</u>	<u>Year Ended</u> <u>June 30, 2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 1,698,261	\$ 5,114,837
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Amortization of deferred revenue - NMTC	(185,544)	(185,544)
Mortgage discount amortization	(398,441)	(469,432)
Mortgage discount expense	33,023	105,490
Depreciation	65,511	75,434
Interest - amortization of loan costs	-	11,781
Amortization of deferred costs	-	5,198
Realized and unrealized gain on investments	(100,038)	(96,832)
Increase (decrease) in assets:		
Grants, contracts and contributions receivable	5,047,216	(8,651,945)
Other receivables	-	72,767
Property held for sale	5,201,782	(5,501,065)
Cost of homes in progress	(3,382,429)	(2,003,682)
ReStore inventory	18,835	(158,673)
Other inventory	(113,928)	(231,072)
Prepaid expenses and deposits	359	(6,441)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(2,742,163)	5,851,344
Interest payable	(3,010)	(8,921)
Deferred revenue	(377,915)	169,198
Deferred revenue - Paycheck Protection Program	(688,967)	688,967
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>4,072,552</u>	<u>(5,218,591)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Issuance of mortgages receivable	(392,675)	(442,673)
Collection of mortgages receivable	704,903	914,443
Payment of deferred costs	(72,301)	(72,301)
Purchase of property and equipment	(7,308)	(5,478)
(Purchase) sale of investments - net	(32,170)	(14,415)
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>200,449</u>	<u>379,576</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from line of credit	-	579,000
Payment of line of credit	(1,129,000)	(741,850)
Proceeds from notes payable	6,071,896	6,012,590
Payment of loan costs	-	(136,628)
Payment of notes payable	(7,920,320)	(1,964,291)
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>(2,977,424)</u>	<u>3,748,821</u>

See notes to combined financial statements.

**HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY  
AND SUBSIDIARIES**

**COMBINED STATEMENTS OF CASH FLOWS**

	<u>Year Ended June 30, 2021</u>	<u>Year Ended June 30, 2020</u>
NET DECREASE IN CASH	1,295,577	(1,090,194)
CASH AND CASH EQUIVALENTS, beginning of year	<u>4,293,674</u>	<u>5,383,868</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 5,589,251</u>	<u>\$ 4,293,674</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest - net of capitalized portion	<u>\$ 148,255</u>	<u>\$ 94,498</u>
Cash and cash equivalents	\$ 5,589,251	\$ 4,096,211
Restricted cash:		
New Markets Tax Credits reserve	169,438	169,438
Stormwater reserve	<u>28,025</u>	<u>28,025</u>
Total cash, restricted cash and cash equivalents shown in the statements of cash flows	<u>\$ 5,786,714</u>	<u>\$ 4,293,674</u>

See notes to combined financial statements.

# HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

## NOTES TO COMBINED FINANCIAL STATEMENTS - JUNE 30, 2021 AND 2020

### Note 1. ORGANIZATION AND NATURE OF ACTIVITIES:

Habitat for Humanity East Bay/Silicon Valley (HEBSV) is a California nonprofit public benefit corporation which is the surviving corporation from a merger, effective July 1, 2012, between Habitat for Humanity East Bay (HHEB) and Habitat for Humanity Silicon Valley (HHSV), California nonprofit public benefit corporations incorporated in 1987 and 1986, respectively. Seeking to put God's love into action, Habitat for Humanity brings people together to build homes, communities, and hope. HEBSV pursues its mission of building affordable housing by utilizing volunteer labor and donated materials and funds.

The following programs are included in the accompanying combined financial statements:

#### Building Affordable Homes

Finished affordable homes are sold to qualified families who have been approved by the board of directors based upon the recommendation of the Family Selection Committee. The families are selected based upon income, current housing need, and a willingness to partner with HEBSV. HEBSV's policy is that each family is generally required to complete a minimum of 250 hours of "sweat equity" (voluntary labor). The mortgages for all homes are generally no profit, have terms of no more than 30 years, and generally have monthly payments no greater than 30% of the family's monthly income. For the years ended June 30, 2021 and June 30, 2020, HEBSV has been selling homes at a rate of twenty-one and twenty homes per year, respectively. Due to the unpredictable nature of final home sales and the timing relative to the accounting fiscal year, revenue from home sales can fluctuate significantly from year to year.

#### Home Preservation Program

HEBSV helps low-income homeowners restore and maintain their homes through its Home Preservation Program. All repairs impact the safety of residents and/or the preservation of the home. Qualified and selected homeowners receive a variety of home repair services including but not limited to exterior painting, landscaping, ramps, exterior carpentry, roofing, window and door replacements. Homeowners participate in their repairs by contributing sweat equity volunteer hours if physically able. Home repairs are led by trained crew leaders and completed by volunteers. The cost of the repairs are generally funded by loans and grants.

#### ReStores

ReStores are stores that accept donations of new and gently used items from individuals and businesses in the community, and sells those items to the public at a reduced cost. All proceeds go directly to HEBSV to build affordable homes for families with limited incomes in the Bay Area.

HEBSV is the sole member of Habitat for Humanity East Bay Funding Company, LLC (HEBFC) and Habitat for Humanity East Bay Funding Company II, LLC (HEBFCII), California limited liability companies formed in December 2009 and April 2011, respectively. HEBFC and HEBFCII were created for the sole purpose of acquiring and holding mortgage loans originated by HEBSV.

# HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

## NOTES TO COMBINED FINANCIAL STATEMENTS - JUNE 30, 2021 AND 2020

### **Note 1. ORGANIZATION AND NATURE OF ACTIVITIES (Continued):**

HEBSV is affiliated with and has majority board control of EBSV Community Development, Inc. (EBSV), a California nonprofit public benefit corporation, which was formed on May 25, 2016 as an instrument to further HEBSV's organizational objectives. EBSV's purposes are the attraction of long-term capital in order to finance a portion of the community development activities of HEBSV, and to provide development services to participants in the programs of that entity. EBSV obtained Community Development Financial Institution certification of the CDFI Fund of the U.S. Department of Treasury on May 5, 2017. HEBSV obtained a 25-year note in the total amount of \$1,164,555 from EBSV on July 1, 2016. HEBSV subsequently contributed this \$1,164,555 to EBSV under terms of the other subordinate debt.

HEBSV is an affiliate of Habitat for Humanity International, Inc. (HFHI), a nondenominational Christian nonprofit organization whose purpose is to create decent, affordable housing for those in need, and to make decent shelter a matter of conscience with people everywhere. Although HFHI assists with information resources, training, publications, prayer support and other ways, HEBSV is directly responsible for its own operations.

Various agreements dictate the maximum income level and other qualifications of eligible homebuyers for various extended periods.

HEBSV is especially vulnerable to the inherent risks associated with voluntary labor and with revenue that is substantially dependent on public support and contributions. The continued growth and well-being of HEBSV are contingent upon successful achievement of its long-term revenue-raising goals. In response to these risks, HEBSV has established a self-imposed Operating Reserve. The intent of the reserve is to bridge any fundamental changes that might come about in the intermediate term. The reserve is meant to cover losses that cannot be managed in normal business management and control processes. The goal is to maintain reserves at 3 times or more the monthly operating expenses. The reserve balance was \$2,000,000 at June 30, 2021 and June 30, 2020. The reserve balance has increased above \$2,000,000 in Fiscal year 2022.

### **Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

#### Principles of combination

The combined financial statements include the accounts of subsidiaries HEBFC and HEBFCII. The combined financial statements also include the accounts of EBSV, a nonprofit organization majority controlled by HEBSV's officers and board of directors. All significant intercompany transactions and balances have been eliminated in the combination.

#### Accounting methods:

HEBSV uses the accrual method of accounting, which recognizes income in the period earned and expenses when incurred, regardless of the timing of payments.

#### Basis of presentation:

HEBSV and subsidiaries reports information regarding its combined financial position and activities according to two classes of net assets, as applicable: net assets without donor restrictions and net assets with donor restrictions.

# HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

## NOTES TO COMBINED FINANCIAL STATEMENTS - JUNE 30, 2021 AND 2020

### Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Basis of presentation (continued):

- Net assets without donor restrictions include those assets over which the Board of Directors has discretionary control in carrying out the operations of HEBSV and subsidiaries.
- Net assets with donor restrictions include those assets subject to donor restrictions and for which the applicable restrictions were not met as of the end of the current reporting period. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. When a donor restriction expires; that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates the resources be maintained in perpetuity.

Revenue recognition:

Contributions are recognized as revenue when they are unconditionally communicated. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. Contributions are recognized when the donor makes a promise to give; that is, in substance, an unconditional promise. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Consequently, at June 30, 2021 and June 30, 2020, contributions of approximately \$1,892,000 and \$0, respectively, were not recognized in the accompanying combined statements of activities because the conditions on which they depend have not been met. Contributions are recorded at their fair value as support without donor restrictions or support with donor restrictions, depending on the absence or existence of donor-imposed restrictions as applicable. When a restriction expires; that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. If donors' restrictions are satisfied in the same period that the contribution is received, the contribution is reported as support without donor restrictions. Contributions restricted for the purchase of long-lived assets are reported as without donor restriction when the assets are placed in service.

Contributed services are stated at their estimated fair value if they are ordinarily purchased and are of a specialized nature.

Income from the sale of property is recognized only upon the close of escrow. Rental income received during the rehabilitation period and prior to sale is recognized as deferred income, and such income is used to defray the costs of the improvement to the property.

Forgiveness of debt is comprised of forgivable loans that are recognized upon the sale of the property to which they relate.

# HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

## NOTES TO COMBINED FINANCIAL STATEMENTS - JUNE 30, 2021 AND 2020

### **Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

#### Cash, restricted cash and cash equivalents:

Cash is defined as cash in demand deposit accounts as well as cash on hand. Not included as cash are funds restricted as to their use, regardless of liquidity, such as the New Markets Tax Credit reserve.

Cash equivalents are highly liquid investments that are readily convertible to known amounts of cash. Generally, only investments with original maturities of three months or less qualify as cash equivalents.

#### Mortgages and notes receivable:

Mortgages receivable bear no interest and are discounted to reflect imputed interest over the lives of the mortgages. The discount rate used to impute interest of the first liens and second/third liens is 2.50% and 6.26%, respectively. Mortgages are reported net of unamortized discount and amortization is recognized on a straight-line basis. Management estimates that the difference between amortization calculated using the straight-line method and the effective interest method is not material.

Notes receivable are secured by the properties, bear no interest and are due upon sale of the home.

Management may sell a portion of the first lien mortgages originated by HEBSV and subsidiaries. Due to the uncertainty of the timing and amount of each sale of those mortgage receivables, any loss resulting from such transactions will be recorded when the transactions are settled or when amounts can be reasonably estimated.

#### Investments:

Investments are presented in the combined financial statements at fair value based on quoted prices in active markets. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of HEBSV. Unobservable inputs, if any, reflects HEBSV’s assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:



# HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

## NOTES TO COMBINED FINANCIAL STATEMENTS - JUNE 30, 2021 AND 2020

### **Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

#### Investments (continued):

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that HEBSV has the ability to access at the measurement date. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 – Valuations based on significant inputs that are observable, either directly or indirectly or quoted prices in markets that are not active, that is, markets in which there are few transactions, the prices are not current or price quotations vary substantially either over time or among market makers.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors, including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed, and the differences could be material.

#### Inventory:

Inventory is stated at the lesser of cost or net realizable value. Donated inventory is recorded at fair market value at the date of receipt, determined based on retail prices at ReStore. Inventory of ReStore is held for sale at HEBSV's retail outlets. ReStore sales are included in in-kind donations, since the majority of ReStore sales are from donated inventory.

The specific identification method is used to charge inventory to cost of homes sold. When a home is sold, the specific costs to build the home are charged to cost of homes sold. Any known amounts which are estimated to be non-recoverable from the ultimate sales price of the homes will also be recognized in cost of homes sold as a loss reserve for homes in progress in the combined financial statements, recognized ratably over the period in which construction activity is expected to occur.

Any funds expended on a project that do not pass beyond the pre-construction stage are recorded as expenses when further activity on the project ceases.

# HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

## NOTES TO COMBINED FINANCIAL STATEMENTS - JUNE 30, 2021 AND 2020

### **Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

#### Capitalized interest:

HEBSV capitalizes interest incurred during construction as a component of costs of homes. During the years ended June 30, 2021 and June 30, 2020, HEBSV capitalized interest of \$123,283 and \$156,056, respectively.

#### Property and equipment:

Property and equipment are stated at cost of acquisition, or fair market value if donated. The costs of maintenance and repairs are charged to expense as incurred. Depreciation is computed based on the straight-line method over the estimated useful lives of the assets.

The useful lives of the assets are estimated as follows:

Leasehold improvements	4 to 5 years
Furniture and equipment	3 to 5 years

#### Deferred costs:

Deferred costs are incurred in the process of acquiring mortgages and are amortized on a straight-line basis over the term of the acquired mortgage.

#### Permanent loan costs:

Costs incurred in order to obtain permanent financing are stated at cost and amortized on a straight-line basis into interest expense over the term of the loan. Permanent loan costs are reported as a direct deduction from the face amount of the related debt.

#### Notes payable:

GAAP requires that notes payable bearing no interest are discounted to reflect imputed interest using the effective interest method over the lives of the loan, if the financial statement impact is material. Notes payable to governmental entities are exempt from the requirement to impute interest.

#### In-kind contributions:

In-kind contributions consist of donated land, building materials, labor, and use of facilities. Donated land, building materials, and use of facilities are valued at market values on the date of donation. Donated labor consisting of sweat equity (i.e., family homebuyer voluntary labor) and/or volunteer labor is not considered to be contribution revenue to HEBSV.

#### Allocation to cost of homes in progress:

Allocations to costs of homes in progress consist of various program service expenses that are capitalized and recorded as costs of homes in progress for various projects, based on time incurred as estimated by management.

#### Income taxes:

HEBSV is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and related California code sections. Contributions to HEBSV qualify for the charitable contribution deduction and HEBSV is not classified as a private foundation.

# HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

## NOTES TO COMBINED FINANCIAL STATEMENTS - JUNE 30, 2021 AND 2020

### **Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

#### Income taxes (continued):

No income tax provision has been included in the combined financial statements for the single member limited liability companies (LLCs) which are generally considered disregarded entities. The income and loss of the LLCs is included in the tax returns of HEBSV. Only the annual California limited liability company minimum tax and the annual fee appear as expense in the combined financial statements.

HEBSV believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the combined financial statements. HEBSV's federal and state information returns for the years 2016 through 2019 are subject to examination by regulatory agencies, generally for three years and four years after they were filed federal and state, respectively.

#### Functional expenses allocation:

The costs of providing program services and supporting services are summarized on a functional basis in the combined statements of activities. The combined statements of functional expenses present the natural classification detail of expenses by function. Certain categories of expenses are attributed to more than one program or supporting function that require consistent allocation on a reasonable basis. Expenses that are allocated include personnel costs, professional services, facility and office expenses, travel, public relations, supplies, and miscellaneous expenses. Accordingly, certain costs are allocated among program services and supporting services based on estimates of employees' time incurred and on usage of resources.

#### Subsequent events:

Management has evaluated subsequent events through December 17, 2021, the date on which the combined financial statements were available to be issued.

### **Note 3. USE OF ESTIMATES:**

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the reserves for costs in excess of projected sales price on homes in progress, value of the donated material and facilities, and expenses allocated to cost of homes.

### **Note 4. CONCENTRATIONS OF CREDIT RISK:**

Financial instruments that potentially subject HEBSV to concentrations of credit risk consist primarily of cash and investments. HEBSV places its cash and investments with high credit quality financial institutions. HEBSV occasionally maintains cash on deposit at a bank in excess of the Federal Deposit Insurance limit or Security Investor Protection Corporation Coverage. The uninsured cash balance, including restricted accounts, was approximately \$4,925,000 and \$3,593,000 as of June 30, 2021 and June 30, 2020, respectively. HEBSV and subsidiaries has not experienced any losses in such accounts.

## HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

### NOTES TO COMBINED FINANCIAL STATEMENTS - JUNE 30, 2021 AND 2020

**Note 5. LIQUIDTY AND AVAILABILITY:**

Financial assets available for general expenditure, that is without donor or other restriction limiting their use, within one year of the statement of financial position date, comprise the following:

	2021	2020
Financial assets at end of year available within one year:		
Cash and cash equivalents	\$ 5,589,251	\$ 4,096,211
Investments	2,642,615	2,510,407
Restricted cash	29,826	29,826
Grants and contributions receivable	5,708,034	10,655,250
Contracts receivable	592,962	580,295
	14,562,688	17,871,989
Less: financial assets not available for general expenditure due to:		
Restricted cash	(29,826)	(29,826)
Operating reserve	(2,000,000)	(2,000,000)
Retained mortgage cash reserve	(2,642,615)	(2,510,407)
Donor-restricted net assets	(311,809)	(2,083,324)
Board designations	(48,118)	(37,194)
	(5,032,368)	(6,660,751)
Financial assets available for general expenditures within one year	\$ 9,530,320	\$ 11,211,238

HEBSV is supported by restricted contributions. Donor restrictions require resources to be used in a particular manner or in a future period. HEBSV must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of HEBSV'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.

HEBSV has \$9,530,320 and \$11,211,238 of the total financial assets available for general expenditure within one year of the statements of financial position date as of June 30, 2021 and June 30, 2020, respectively. The contributions receivable are subject to time restrictions, but will be collected within one year. As part of its liquidity management, HEBSV invests cash in excess of daily requirements in various short-term investments including certificates of deposit and short-term treasury instruments. HEBSV maintains financial assets on hand, which consist of cash and short-term investments, to meet 3 times the amount of average monthly operating expenses.

## HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

### NOTES TO COMBINED FINANCIAL STATEMENTS - JUNE 30, 2021 AND 2020

**Note 6. INVESTMENTS:**

HEBSV's investments can be liquidated at any time. The following tables present information about HEBSV's investments measured at fair value on a recurring basis as of June 30, 2021 and 2020, and indicates the fair value hierarchy of the valuation techniques utilized by HEBSV to determine the fair values:

	Cost as of June 30, 2021	Quoted Prices in Active Markets for identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value as of June 30, 2021
Common stocks	\$ 211,870	\$ 450,330	\$ -	\$ -	\$ 450,330
Fixed income securities	2,136,820	2,192,285	-	-	2,192,285
<b>Total</b>	<b>\$ 2,348,690</b>	<b>\$ 2,642,615</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,642,615</b>

	Cost as of June 30, 2020	Quoted Prices in Active Markets for identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value as of June 30, 2020
Common stocks	\$ 218,065	\$ 344,593	\$ -	\$ -	\$ 344,593
Fixed income securities	2,076,931	2,165,814	-	-	2,165,814
<b>Total</b>	<b>\$ 2,294,996</b>	<b>\$ 2,510,407</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,510,407</b>

Investment return consists of the following items and is included in Other Income on the combined statements of activities:

	2021	2020
Realized and unrealized gain from investments	\$ 100,038	\$ 96,832
Interest and dividend income	59,101	78,146
Investment expenses	(4,991)	(17,216)
<b>Net investment return</b>	<b>\$ 154,148</b>	<b>\$ 157,762</b>

**HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY  
AND SUBSIDIARIES**

**NOTES TO COMBINED FINANCIAL STATEMENTS - JUNE 30, 2021 AND 2020**

**Note 7. RESTRICTED CASH:**

Restricted cash consists of the following at June 30:

	2021	2020
New Markets Tax Credits reserve	\$ 279,224	\$ 169,438
Stormwater reserve	28,025	28,025
	307,249	197,463
Less: current portion	(29,826)	(29,826)
Long-term portion	\$ 277,423	\$ 167,637

New markets tax credit reserve:

As a result of the New Markets Tax Credits transactions, HEBSV is required to maintain funds in separate accounts to fund guaranteed obligations and lender fees of this separate portion of business throughout the New Markets Tax Credits compliance period. The current portion will be paid in the next twelve months.

Stormwater reserve:

HEBSV is required to maintain a replacement fund for certain planters located in a housing project built by HEBSV. The requirement expires in 2027, which is 15 years after the homes were sold.

**Note 8. GRANTS, CONTRACTS AND CONTRIBUTIONS RECEIVABLE:**

Grants, contracts and contributions receivable consist of the following at June 30:

	2021	2020
Private contributions	\$ 200,000	\$ 2,555,000
Multi-year pledges	159,899	26,456
Grants and contracts, including general contracting receivable of \$ 4,948,102 and \$7,715,826 as of June 30, 2021 and 2020, respectively.	5,505,492	8,153,140
	5,865,391	10,734,596
Less: allowance for uncollectible pledges	(4,699)	(14,248)
Grants, contracts and contributions receivable, net	\$ 5,860,692	\$ 10,720,348
Amounts due in:		
Less than one year	\$ 5,708,034	\$ 10,467,690
One to five years	\$ 152,658	\$ 252,658

## HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

### NOTES TO COMBINED FINANCIAL STATEMENTS - JUNE 30, 2021 AND 2020

**Note 8. GRANTS, CONTRACTS AND CONTRIBUTIONS RECEIVABLE (Continued):**

HEBSV receives multi-year pledges from donors ranging from one to five years. Discounts to net present value for the multi-year pledges are not recorded since the amount of such discounts is not significant.

**Note 9. MORTGAGES AND NOTES RECEIVABLE:**

All homes are sold to qualifying buyers under mortgage arrangements. A home is considered sold when a final closing transaction has been finalized.

Mortgages and notes receivable is summarized as follows at June 30:

	2021	2020
Mortgages and notes receivable, gross	\$ 23,210,149	\$ 23,723,717
Less: unamortized discount	(8,562,310)	(8,763,650)
	14,647,839	14,960,067
Less: current portion	(592,962)	(580,295)
Long-term portion	\$ 14,054,877	\$ 14,379,772

HEBSV considers a homeowner's payment made more than 30 days past the due date to be delinquent. For the years ended June 30, 2021 and 2020, the aged mortgages receivable is summarized as follows:

	Mortgages with Past Due Balances	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Mortgages Receivable
2021	\$ 1,119,221	\$ 17,728	\$ 5,361	\$ 95,532	\$ 118,621	\$ 22,090,928	\$ 23,210,149
2020	\$ 1,511,982	\$ 17,728	\$ 8,807	\$ 96,059	\$ 122,594	\$ 22,211,735	\$ 23,723,717

There were 16 and 20 mortgages with past due balances as of June 30, 2021 and 2020, respectively. HEBSV had 191 and 196 mortgages outstanding at June 30, 2021 and June 30, 2020, respectively.

In August 2013, HEBSV entered into a loan origination agreement with Patelco Credit Union, where by Patelco Credit Union committed to originate thirty (30) first lien mortgage loans at a fixed interest rate of 2.85%. Both interest and principal are amortized similar to a conventional mortgage. HEBSV agreed to either purchase any defective mortgage loans or provide Substitute Mortgage Loans for such defective mortgage loans. Patelco Credit Union's obligation to originate mortgage loans expired on December 31, 2016. The agreement was amended to reflect change in interest rate from 2.25% to 2.85% and now expires on December 31, 2021.

## HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

### NOTES TO COMBINED FINANCIAL STATEMENTS - JUNE 30, 2021 AND 2020

**Note 9. MORTGAGES AND NOTES RECEIVABLE (Continued):**

HEBSV elected to institute a self-imposed requirement to retain a minimum of 50% of the cash proceeds from the ZEM sales in a Retained Mortgage Cash Reserve. The retention is based on HEBSV's desire to retain a strong asset base and liquidity consistent with the strategic objective to maintain sustainability.

HEBSV evaluates notes receivable based on the following credit quality indicators: collateral and lien position. These credit quality indicators are updated at least annually. Details about the non-interest bearing mortgages and notes receivable, as of June 30, 2021 and 2020 as follows:

	2021		
	Non-interest Bearing	Discount	Total
1st liens	\$ 15,857,829	\$ (4,778,725)	\$ 11,079,104
2nd and 3rd liens	7,352,320	(3,783,585)	3,568,735
Total	\$ 23,210,149	\$ (8,562,310)	\$ 14,647,839
	2020		
	Non-interest Bearing	Discount	Total
1st liens	\$ 16,371,397	\$ (4,891,095)	\$ 11,480,302
2nd and 3rd liens	7,352,320	(3,872,555)	3,479,765
Total	\$ 23,723,717	\$ (8,763,650)	\$ 14,960,067



## HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

### NOTES TO COMBINED FINANCIAL STATEMENTS - JUNE 30, 2021 AND 2020

**Note 10. COST OF HOMES IN PROGRESS AND PROPERTY HELD FOR SALE:**

Costs of homes in progress and property held for sale are summarized as follows:

	June 30, 2021										
	S. Jackson San Jose	Las Juntas Walnut Creek	589 Pacifica Baypoint	Manilla Ave** Oakland	Sequoia Grove	Byron Ave.	De La Cruz	4th & Reed**	Rehab Programs	Other Projects	Totals
Costs since inception:											
Land	\$ 2,248,671	\$ 3,026,080	\$ 219,604	\$ 1,900,000	\$ 20,539	\$ 386,550	\$ 25,012	\$ 909,000	\$ 108,942	\$ 100,000	\$ 8,944,398
Materials & subcontractors	210,605	1,608,865	627,109	155,633	393,048	90,169	35,431	354,211	76,853	353,489	3,905,413
Administration	187,988	1,289,484	362,416	183,533	309,791	87,287	63,579	50,437	113,488	340,321	2,988,324
Costs of homes (Acct 1500)	2,647,264	5,924,429	1,209,129	2,239,166	723,378	564,006	124,022	1,313,648	299,283	793,810	15,838,135
Costs of finished homes not yet sold (Acct 1260)	-	-	-	-	-	-	-	-	(299,283)	-	(299,283)
Loss reserve	-	-	-	(1,020,375)	-	-	-	-	-	-	(1,020,375)
Costs of homes sold/program expense	-	-	-	-	-	-	-	-	-	-	-
Cost of homes in progress at June 30, 2021	<u>\$ 2,647,264</u>	<u>\$ 5,924,429</u>	<u>\$ 1,209,129</u>	<u>\$ 1,218,791</u>	<u>\$ 723,378</u>	<u>\$ 564,006</u>	<u>\$ 124,022</u>	<u>\$ 1,313,648</u>	<u>\$ -</u>	<u>\$ 793,810</u>	<u>\$ 14,518,477</u>
No. of finished houses	-	-	-	-	-	-	-	-	1	-	1
Unfinished homes planned or in progress	14	42	29	2	10	8	15	4	3	164	291
No of homes sold in prior Fys	-	-	-	-	-	-	-	-	7	-	7
No of homes sold in 2021	-	-	-	-	-	-	-	-	1	-	1
Total no. of homes	<u>14</u>	<u>42</u>	<u>29</u>	<u>2</u>	<u>10</u>	<u>8</u>	<u>15</u>	<u>4</u>	<u>12</u>	<u>164</u>	<u>300</u>

\*\* Buildings in these projects were donated.

## HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

### NOTES TO COMBINED FINANCIAL STATEMENTS - JUNE 30, 2021 AND 2020

**Note 10. COST OF HOMES IN PROGRESS AND PROPERTY HELD FOR SALE (Continued):**

Costs of homes in progress and property held for sale are summarized as follows:

	June 30, 2020									
	Fremont Central	Las Juntas Walnut Creek	589 Pacifica Baypoint	Muir Ridge	Sequoia Grove	Byron Ave.	De La Cruz	Rehab Programs	Other Projects	Totals
Costs since inception:										
Land	\$ 555,696	\$ 3,026,080	\$ 219,604	\$ 1,564,748	\$ 20,539	\$ 386,550	\$ 25,012	\$ 1,184,015	\$ 2,261,850	\$ 9,244,094
Materials & subcontractors	13,858,420	864,627	501,862	7,546,389	387,280	79,819	213	451,524	9,769,646	33,459,780
Administration	2,693,368	680,084	310,061	1,364,248	302,144	85,107	9,843	212,203	1,739,610	7,396,668
Costs of homes (Acct 1500)	17,107,484	4,570,791	1,031,527	10,475,385	709,963	551,476	35,068	1,847,742	13,771,106	50,100,542
Costs of finished homes not yet sold (Acct 1260)	(4,806,959)	-	-	-	-	-	-	(386,051)	(308,055)	(5,501,065)
Loss reserve	(1,162,579)	-	-	-	-	-	-	-	-	(1,162,579)
Costs of homes sold/program expense	(8,674,293)	-	-	(10,475,385)	-	-	-	(1,353,979)	(11,797,193)	(32,300,850)
Cost of homes in progress at June 30, 2020	<u>\$ 2,463,653</u>	<u>\$ 4,570,791</u>	<u>\$ 1,031,527</u>	<u>\$ -</u>	<u>\$ 709,963</u>	<u>\$ 551,476</u>	<u>\$ 35,068</u>	<u>\$ 106,740</u>	<u>\$ 1,665,858</u>	<u>\$ 11,135,076</u>
No. of finished houses	11	-	-	-	-	-	-	1	1	13
Unfinished homes planned or in progress	8	42	29	-	10	8	-	4	202	303
No of homes sold in prior FYs	11	-	-	16	-	-	-	6	6	39
No of homes sold in 2020	-	-	-	-	-	-	-	1	1	2
Total no. of homes	<u>30</u>	<u>42</u>	<u>29</u>	<u>16</u>	<u>10</u>	<u>8</u>	<u>-</u>	<u>12</u>	<u>210</u>	<u>357</u>

Other projects includes \$712,707 in general contract services such as Tiny Homes project.

**HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY  
AND SUBSIDIARIES**

**NOTES TO COMBINED FINANCIAL STATEMENTS - JUNE 30, 2021 AND 2020**

**Note 11. PROPERTY AND EQUIPMENT:**

Property and equipment are summarized as follows at June 30:

	2021	2020
Office equipment	\$ 294,526	\$ 287,218
Site equipment	122,635	122,635
ReStore leasehold improvements	364,765	364,765
ReStore equipment	154,090	154,090
	936,016	928,708
Less: accumulated depreciation	(865,973)	(800,462)
Total property and equipment	\$ 70,043	\$ 128,246

**Note 12. RELATED-PARTY TRANSACTIONS:**

Tithe to HFHI:

HEBSV contributes a portion of its annual unrestricted cash contribution income and net event income to the international work of HFHI. The costs of tithes to HFHI were \$125,000 and \$103,561 for the years ended June 30, 2021 and 2020, respectively.

U.S Stewardship and Organizational Sustainability Initiative (US-SOSI):

Effective November 2013, to create sustainable revenue stream to help finance a portion of the operational costs incurred by HFHI to support the work of U.S. affiliates, HEBSV is required to pay an annual US-SOSI fee. The amount of the annual fee is determined by the population within the approved geographic service area with a minimum payment of \$1,500. The US-SOSI fees are \$25,000 per year. The 2021 fees were prepaid during 2020.

**Note 13. LINE OF CREDIT:**

HEBSV has a revolving line of credit of \$3,250,000 with First Republic Bank, of which \$508,150 and \$1,637,150 was outstanding at June 30, 2021 and June 30, 2020, respectively. The line requires monthly interest-only payments equal to the prime rate, subject to a floor. The effective interest rate at June 30, 2021 and June 30, 2020 was 3.25% and 4.25%, respectively. The bank advances on the credit line are payable in full by March 2021. Certain financial covenants are required to be maintained, including a current ratio of 1.5 to 1.0, a debt/net worth ratio not greater than 1.0 to 1.0, and a minimum tangible net worth of not less than \$18,000,000, as defined in the agreement. The line is also secured by property as described in the Commercial Security Agreement. Interest expense was \$49,325 and \$82,567 for the years ended June 30, 2021 and June 30, 2020, respectively. Interest payable on the line of credit was \$0 as of June 30, 2021 and June 30, 2020.

## HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

### NOTES TO COMBINED FINANCIAL STATEMENTS - JUNE 30, 2021 AND 2020

**Note 14. NOTES PAYABLE:**

Notes payable are secured by the projects unless otherwise noted and consist of the following:

	June 30,	
	2021	2020
<b>HEBSV:</b>		
Heritage Bank of Commerce:		
Guidance lines of credit for various properties in the maximum amount of \$7,603,020 subject to each property's approval by lenders, bears variable interest at the lender's prime rate plus 0.375% (3.625% at June 30, 2020), due at varying dates through May 2021. Capitalized interest was \$ 123,283 and \$155,759 at June 30, 2021 and 2020, respectively.	\$ -	\$ 5,423,509
<b>Governmental Agencies:</b>		
County of Santa Clara, CDBG loan, in the maximum amount of \$400,000, bears no interest, monthly payments of \$555, due in full June 2032. (Victor Avenue, Campbell)	77,222	83,888
City of Richmond, in the maximum amount of \$250,000, bears no interest, payable in 300 monthly payments upon the sale of final home. (Spender Court, Richmond)	244,302	244,302
Habitat for Humanity International:		
Self-help Homeownership Opportunity Program (SHOP) loans, in original amounts aggregating \$187,500, bears no interest, payable in monthly installments aggregating \$4,216, maturing on various dates through July 2020.	-	4,710
<b>HFHEB Funding Co:</b>		
Heritage Bank, in original amount of \$868,606, bears no interest, with monthly installments of \$2,570, payable in full in January 2024 with the option to extend until January 2034.	513,961	544,801
<b>HFHEB Funding Co II:</b>		
Umpqua Bank, in original amount of \$2,181,455, bears no interest, with monthly installments of \$7,995, payable in full in November 2035.	1,226,007	1,318,300
Northern Trust, in original amount of \$1,383, 612 bears no interest, with monthly installments of \$4,817, payable in full in May 2045.	1,354,712	-
Totals	3,416,204	7,619,510
Less: discount on notes payable	(99,376)	(99,376)
Net present value of notes payable	3,316,828	7,520,134
Less: portion due in one year	(187,598)	(5,571,438)
Long-term portion notes payable	\$ 3,129,230	\$ 1,948,696

**HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY  
AND SUBSIDIARIES**

**NOTES TO COMBINED FINANCIAL STATEMENTS - JUNE 30, 2021 AND 2020**

**Note 14. NOTES PAYABLE (Continued):**

Scheduled principal payments on the notes payable for the next five years are estimated as follows:

Year Ending June 30,	
2022	\$ 187,598
2023	187,598
2024	187,598
2025	187,598
2026	187,598
Thereafter	<u>2,478,214</u>
Total	<u>\$ 3,416,204</u>

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## HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

### NOTES TO COMBINED FINANCIAL STATEMENTS - JUNE 30, 2021 AND 2020

**Note 14. NOTES PAYABLE:**

Notes payable are secured by the projects unless otherwise noted and consist of the following:

	June 30,	
	2021	2020
<b>HEBSV:</b>		
Heritage Bank of Commerce:		
Guidance lines of credit for various properties in the maximum amount of \$7,603,020 subject to each property's approval by lenders, bears variable interest at the lender's prime rate plus 0.375% (3.625% at June 30, 2020), due at varying dates through May 2021. Capitalized interest was \$ 123,283 and \$155,759 at June 30, 2021 and 2020, respectively.	\$ -	\$ 5,423,509
Governmental Agencies:		
County of Santa Clara, CDBG loan, in the maximum amount of \$400,000, bears no interest, monthly payments of \$555, due in full June 2032. (Victor Avenue, Campbell)	77,222	83,888
City of Richmond, in the maximum amount of \$250,000, bears no interest, payable in 300 monthly payments upon the sale of final home. (Spender Court, Richmond)	244,302	244,302
Habitat for Humanity International:		
Self-help Homeownership Opportunity Program (SHOP) loans, in original amounts aggregating \$187,500, bears no interest, payable in monthly installments aggregating \$4,216, maturing on various dates through July 2020.	-	4,710
<b>HFHEB Funding Co:</b>		
Heritage Bank, in original amount of \$868,606, bears no interest, with monthly installments of \$2,570, payable in full in January 2024 with the option to extend until January 2034.	513,961	544,801
<b>HFHEB Funding Co II:</b>		
Umpqua Bank, in original amount of \$2,181,455, bears no interest, with monthly installments of \$7,995, payable in full in November 2035.	1,226,007	1,318,300
Northern Trust, in original amount of \$1,383, 612 bears no interest, with monthly installments of \$4,817, payable in full in May 2045.	1,354,712	-
Totals	3,416,204	7,619,510
Less: discount on notes payable	(99,376)	(99,376)
Net present value of notes payable	3,316,828	7,520,134
Less: portion due in one year	(187,598)	(5,571,438)
Long-term portion notes payable	\$ 3,129,230	\$ 1,948,696

**HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY  
AND SUBSIDIARIES**

**NOTES TO COMBINED FINANCIAL STATEMENTS - JUNE 30, 2021 AND 2020**

**Note 15. RECONVEYABLE NOTES PAYABLE (Continued):**

Scheduled principal payments on the notes payable for the next five years are estimated as follows:

Year Ending June 30,	
2022	\$ 655,595
2023	21,582
2024	3,153,465
2025	-
2026	-
Thereafter	<u>2,200,000</u>
Total	<u>\$ 6,030,642</u>

**Note 16. DEFERRED REVENUE:**

Deferred revenue is summarized as follows:

	<u>2021</u>	<u>2020</u>
New Markets Tax Credits:		
Investments in leverage lenders	\$ (3,999,586)	\$ (3,999,586)
Notes payable from CDEs	5,913,775	5,913,775
Transaction costs	<u>(317,877)</u>	<u>(317,877)</u>
	1,596,312	1,596,312
Less: accumulated amortization	<u>(686,224)</u>	<u>(526,979)</u>
New Markets Tax Credits, net	910,088	1,069,333
Advance funding of grant from City of Berkeley	-	208,670
Other	<u>-</u>	<u>10,000</u>
	910,088	1,288,003
Less: current portion	<u>(254,343)</u>	<u>(436,714)</u>
Long-term portion	<u>\$ 655,745</u>	<u>\$ 851,289</u>

# HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

## NOTES TO COMBINED FINANCIAL STATEMENTS - JUNE 30, 2021 AND 2020

### **Note 16. DEFERRED REVENUE (Continued):**

#### New Markets Tax Credits:

HEBSV entered into New Markets Tax Credit (“NMTC”) transactions involving U.S. Bancorp Community Development Corporation (“USBCDC”), its related entities and agents. The NMTC program was established as part of the Community Renewal Tax Relief Act of 2000. The goal of the NMTC program is to spur revitalization efforts of low-income and impoverished communities across the United States and its Territories by providing tax credit incentives to investors in a certified community development entity. The tax credit for investors equals 39% of the investment, which is credited over a seven-year period. A community development entity is required to participate and has a primary mission of providing financing for revitalization projects in low-income communities.

NMTC financing allows organizations such as affiliates of Habitat International to receive low-interest loans or investment capital from community development entities, primarily financial institutions, which allow their investors to receive tax credits to be applied against their federal tax liability.

The following is a summary of the NMTC Transactions:

#### *New Markets Tax Credit Transaction – LCD*

##### LCD NMF Leverage Lender XI, L.L.C.:

In January 2012 HHEB acquired a 99.00% membership interest in LCD NMF Leverage Lender XI, LLC (the “LLC”) in exchange for investing a combination of cash and construction in progress totaling \$7,458,091. The LLC was formed by USBCDC to provide financing for the borrower’s equity investment in a community development entity – LCD New Markets Fund XI, LLC (“CDE”) and is solely managed by a third party. Accordingly, the LLC entered into a Loan Agreement to lend \$7,458,091 to LCD NMF XI Investment Fund, LLC. (“Borrower”). The Borrower used the loan proceeds as its equity investment in the CDE which, in turn, used the proceeds of the Borrower’s equity investment to fund the loans to the members of the LLC set forth below.

The loan receivable bears interest at a rate of 2.70%, with 1.00% being interest currently payable and 1.70% being accrual interest. The loan receivable matures on January 23, 2027 and requires semi-annual accrued interest payments until January 23, 2019 and semi-annual principal payments commencing on January 24, 2019 sufficient to fully amortize the loan. Simultaneous with these transactions, the LLC entered into an Option Agreement with USBCDC to put the ownership interest in the Fund for \$1,000 commencing on January 23, 2019 and continuing for 3 months, or call the ownership interest for a 12-month period following the expiration of the Put Option at fair market value.



# HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

## NOTES TO COMBINED FINANCIAL STATEMENTS - JUNE 30, 2021 AND 2020

### **Note 16. DEFERRED REVENUE (Continued):**

New Markets Tax Credits (Continued):

The following is a summary of the NMTC Transactions (Continued):

*New Markets Tax Credit Transaction – LCD (Continued)*

Loan payable – LCD New Markets Fund XI, LLC:

As a component of the NMTC transaction, HHEB received loans of \$7,680,000 and \$1,920,000 from the CDE and entered into Loan and Security Agreements (“Agreements”) dated January 24, 2012. HHEB is obligated under the Agreements and related Promissory Notes to pay interest on the borrowings at a rate of 0.78% per annum with a maturity date of January 23, 2027. Commencing on May 5, 2012 and semi-annually until November 5, 2018, HHEB is required to make payments of accrued interest. Commencing on May 5, 2019 and semi-annually thereafter, HHEB is required to make equal principal and interest payments in an amount to fully amortize the loan by its maturity date. Pursuant to the Agreement, HHEB is required to comply with the NMTC requirements as generally set forth in the Internal Revenue Code (“IRC”) Section 45D, including that HHEB maintain a Separate Business such that the Separate Business will qualify as a qualified active low-income community business as defined in IRC Section 45D. Only the Separate Business assets of HHEB were pledged as security under the Agreement to the CDE.

*New Market Tax Credit Transaction – HFHI:*

HFHI NMTC Leverage Lender 2016-1, LLC:

July 2017 HFHI acquired a 99.00% membership interest in HFHI NMTC Leverage Lender 2016-1, LLC (the “LLC”) in exchange for investing a combination of cash and construction in progress totaling \$12,292,681. The LLC was formed by USBCDC to provide financing for the borrower’s equity investment in a community development entity – HFHI NMTC Sub-CDE II, LLC (“CDE”) and is solely managed by a third party. Accordingly, the LLC entered into a Loan Agreement to lend \$12,292,681 to Twain Investment Fund 250, LLC. (“Borrower”). The Borrower used the loan proceeds as its equity investment in the CDE which, in turn, used the proceeds of the Borrower’s equity investment to fund the loans to the members of the LLC set forth below.

The loan receivable bears interest at a rate of 3.00%, with 1.00% being interest currently payable and 2% being accrual interest. The loan receivable matures on July 19, 2040 and requires semi-annual accrued interest payments until November 10, 2024 and semi-annual principal payments commencing on November 10, 2017 sufficient to fully amortize the loan. Simultaneous with these transactions, the LLC entered into an Option Agreement with USBCDC to put the ownership interest in the Fund for \$1,000 commencing on July 19, 2017 and continuing for 3 months, or call the ownership interest for a 12-month period following the expiration of the Put Option at fair market value.

# HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

## NOTES TO COMBINED FINANCIAL STATEMENTS - JUNE 30, 2021 AND 2020

### **Note 16. DEFERRED REVENUE (Continued):**

New Markets Tax Credits (Continued):

The following is a summary of the NMTC Transactions (Continued):

*New Market Tax Credit Transaction – HFHI (Continued):*

Loan payable – HFHI NMTC Sub-CDE II, LLC:

As a component of the NMTC transaction, HFHI secured a loan of \$5,913,775 from the CDE and entered into Loan and Security Agreements (“Agreements”) dated July 19, 2017. The loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low income residents. HFHI is obligated under the Agreements and related Promissory Notes to pay interest on the borrowings at a rate of 0.676% per annum with a maturity date of July 19, 2047. Commencing on November 5, 2017 and semi-annually until July 19, 2024, HFHI is required to make payments of accrued interest. Commencing on July 20, 2024 and semi-annually thereafter, HFHI is required to make equal principal and interest payments in an amount to fully amortize the loan by its maturity date. Pursuant to the Agreement, HFHI is required to comply with the NMTC requirements as generally set forth in the IRC Section 45D, including that HFHI maintain a Separate Business such that the Separate Business will qualify as a qualified active low-income community business as defined in IRC Section 45D. Only the Separate Business assets of HFHI were pledged as security under the Agreement to the CDE.

*Financial Statement Presentation of New Markets Tax Credit Transactions:*

HEBSV’s investments in the LLCs are accounted for on the cost basis since HEBSV is not able to influence the operating and financial policies of the LLCs. Accordingly, distributions received from the LLCs are reported as revenue on the statement of activities.

HEBSV has imputed a fair value rates of interest of 3.4% – 3.8% on the notes payable to the CDEs, resulting in discounts totaling \$1,914,189 on the notes payable. This discount, net of the NMTC transaction costs of \$317,877, results in a net amortizable benefit of \$1,596,312, equal to approximately the cash flow received by HEBSV. As a result, HEBSV has recorded net deferred revenue of \$1,596,312 to reflect the net revenue HEBSV will effectively receive from the NMTC transaction over their term.

The NMTC transactions, as set forth above, provide HEBSV, from an economic perspective, a right of offset of the loans payable to the CDE versus the investment in the Borrower. The right of offset arises in part due to the related party nature and flow of funds in the NMTC transactions, and in part, as a result of the Option Agreements effectively providing a legal right of offset. Exercise of these options will effectively extinguish HEBSV’s outstanding debt owed to the CDEs. Upon execution, the investment and debt will then have a balance of zero. All entities related to the NMTC transactions will be dissolved, ending the NMTC structures. Accordingly, HEBSV’s financial statements report only the net deferred benefit of the NMTC transaction, after offsetting the investments in LLCs, discounted notes payable CDEs, and transaction costs.

# HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

## NOTES TO COMBINED FINANCIAL STATEMENTS - JUNE 30, 2021 AND 2020

### **Note 16. DEFERRED REVENUE (Continued):**

New Markets Tax Credits (Continued):

The following is a summary of the NMTC Transactions (Continued):

*Financial Statement Presentation of New Markets Tax Credit Transactions (Continued):*

HEBSV is amortizing the net deferred revenue from the NMTC transaction over seven years. Amortization of the net deferred revenue totaled \$ 185,544 and \$185,544 for the years ended June 30, 2021 and 2020, respectively. Interest expense on the notes payable to the CDE's totaled \$40,004 and \$40,004 for the years ended June 30, 2021 and June 30, 2020, respectively. The interest expense on the notes payable is effectively returned to HEBSV through distributions received from the investments in the LLC's totaling \$39,997 and \$39,997 for the years ended June 30, 2021 and 2020, respectively. HEBSV also paid and expensed \$0 of annual new markets tax credit fees related to the asset management, compliance and facilitation fees for the years ended June 30, 2021 and June 30, 2020. These annual expenses are paid from the new markets tax credit restricted cash reserves.

### **Note 17. PAYCHECK PROTECTION PROGRAM:**

On April 14, 2020, HEBSV received loan proceeds of \$1,444,600 from a promissory note issued by CFR SmallBusiness Loan Company, LLC, under the Paycheck Protection Program ("PPP") which was established under the CARES Act and is administered by the U.S. Small Business Administration (SBA). The term of the loan is two years and the annual interest rate is 1%. Payments of principal and interest are deferred for the first six months of the loan. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loans granted under PPP. Such forgiveness will be determined based on the use of the loan proceeds for payroll costs and compensation levels with certain limitations. HEBSV met the PPP's eligibility criteria and has concluded that the PPP loan represents, in substance, a grant that will be forgiven, and accordingly has accounted for the PPP loan as a grant. Proceeds received under the PPP are recognized as grant revenue when the HEBSV has incurred expenditures in compliance with the promissory note provisions. For the year ended June 30, 2020, HEBSV recognized \$765,633 in Paycheck Protection Program grant revenue based on qualifying expenditures under the PPP program. The remaining amount of \$688,967, is reported as the deferred revenue - Paycheck Protection because qualifying expenditures had not yet been incurred as of June 30, 2020. This balance is presented as part of current liabilities at June 30, 2020 and was recognized as revenue in the year ended June 30, 2021. Interest expense of \$3,010 was incurred in 2020 and included as interest payable as of June 30, 2020.

HEBSV submitted the PPP loan forgiveness application to First Republic Bank on October 6, 2020 and the forgiveness was approved by First Republic Bank in November 2020 and received forgiveness from the SBA on January 7, 2021.

On February 10, 2021 HEBSV received a second PPP loan in the amount of \$ 1,463,900. For the year ended June 30, 2021, HEBSV recognized \$1,463,900 in Paycheck Protection Program grant revenue based on qualifying expenditures under the PPP program that are expected to be forgiven. HBSEV received forgiveness approval from the SBA on October 5, 2021.

In June 2016, EBSV entered into a subordinated equity note agreement with Heritage Bank of Commerce. The agreement provides for Heritage Bank of Commerce to purchase from EBSV a subordinated equity note at a purchase price of \$350,000 which is structured as a subordinated unsecured equity equivalent investment (EQ). The EQ requires quarterly interest-only payments at a rate of 2.50% per annum. The original maturity date of the EQ was April 1, 2021, which is expected to be extended annually through April 2041.

# HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

## NOTES TO COMBINED FINANCIAL STATEMENTS - JUNE 30, 2021 AND 2020

**Note 18. OTHER SUBORDINATE DEBT:**

Currently, the extended maturity date is April 1, 2025. The EQ was made subordinate to all other obligations of HEBSV. The interest expense was \$0 and \$6,689 for 2021 and 2020, respectively.

A second EQ, in the amount of \$2,000,000 was obtained by EBSV from City National Bank in November 2016. The EQ bears quarterly interest-only payments at a rate of 2.50% per annum. The loan was originally due in full on January 1, 2022, which may be extended annually through January 1, 2042. Currently, the extended maturity date is January 1, 2025. The interest was \$50,000 for the year ended June 30, 2021 and June 30, 2020.

Costs incurred in order to obtain permanent financing were \$146,875 and are amortized on a straight-line basis into interest expense over the term of the subordinate debts. The unamortized permanent loan costs balance as of June 30, 2021 and June 30, 2020 was \$118,956 and \$124,847, respectively. Interest expense for amortization of permanent loan costs for June 30, 2021 and June 30, 2020 was \$5,891.

**Note 19. BOARD DESIGNATED AND DONOR-RESTRICTED NET ASSETS:**

Board designated net assets are summarized as follows:

HEBSV established a charitable fund with the Lutheran Community Foundation to encourage and procure legacy gifts. It intends to use income from the fund as an operating source for future housing and other Habitat projects. Included in unrestricted net assets are designated net assets of \$ 48,118 and \$37,194 as of June 30, 2021 and 2020, respectively, relating to the cause.

Net assets with donor restrictions for June 30, 2021 are summarized as follows:

	2021			
	June 30, 2020	Contributions	Released from Restrictions	June 30, 2021
Contributions restricted for specific programs:				
Sequoia Grove	\$ 25,605	\$ -	\$ (9,881)	\$ 15,724
Repairs Program Contribution	67,719	28,000	(95,719)	-
Rehab Program - San Jose	10,000	690,733	(404,648)	296,085
Evans Lane GC Project - San Jose	1,980,000	79,029	(2,059,029)	-
	\$ 2,083,324	\$ 797,762	\$ (2,569,277)	\$ 311,809
	2020			
	June 30, 2019	Contributions	Released from Restrictions	June 30, 2020
Contributions restricted for specific programs:				
Sequoia Grove	\$ 76,526	\$ -	\$ (50,921)	\$ 25,605
Repairs Program Contribution	-	1,025,529	(957,810)	67,719
Rehab Program - San Jose	-	10,000	-	10,000
Evans Lane GC Project - San Jose	-	1,980,000	-	1,980,000
	\$ 76,526	\$ 3,015,529	\$ (1,008,731)	\$ 2,083,324

**HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY  
AND SUBSIDIARIES**

**NOTES TO COMBINED FINANCIAL STATEMENTS - JUNE 30, 2021 AND 2020**

**Note 20. IN-KIND CONTRIBUTIONS:**

In-kind contributions are summarized as follows at June 30:

	2021	2020
Donated use of facilities	\$ 140,304	\$ 117,837
Donated equipment and building materials	6,183,636	5,207,710
	\$ 6,323,940	\$ 5,325,547

Donated equipment and building materials include inventory received and sold at ReStore, plus building supplies and materials used for construction purposes.

**Note 21. EMPLOYEE BENEFIT PLAN:**

HEBSV maintains a 403(b) retirement plan of which the employer contribution is 100% of the employee's contribution, up to 4% of gross salary. Eligible employees include full-time and part-time employees who have completed one year of service and who have worked at least 1,000 hours. Employee contributions are vested 100% after three years of service. HEBSV contributed \$201,147 and \$175,625 to the Plan for the years ended June 30, 2021 and June 30, 2020, respectively.

**Note 22. OPERATING LEASES:**

HEBSV leases its Oakland ReStore site and a warehouse under operating lease agreements expiring in January 31, 2022. HEBSV leases its San Jose ReStore site under an operating lease agreement that expires in June 2024. HEBSV opened two ReStores during the year ended June 30, 2016 in Santa Clara and Concord. The lease agreement for Santa Clara was early terminated in February 2019 while the Concord lease agreement expired in May 2020 and was renewed through May 2023.

# HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

## NOTES TO COMBINED FINANCIAL STATEMENTS - JUNE 30, 2021 AND 2020

### **Note 22. OPERATING LEASES (Continued):**

HEBSV also has an operating lease for the use of office facilities in Oakland expiring in February 2023. HEBSV also operates an office facility in Milpitas consisting of donated office space valued at \$140,340 and \$117,837 for the years ended June 30, 2021 and 2020, respectively. HEBSV is required to reimburse the lessors for common area maintenance and related charges for the use of both facilities.

Rental expenses, including common area maintenance charges and reimbursements for taxes, maintenance and utilities totaled \$ 1,070,733 and \$1,055,454 for the years ended June 30, 2021 and 2020, respectively.

The following represents the future minimum lease payments at June 30:

Year Ending June 30,	
2022	\$ 648,384
2023	323,683
2024	92,109
2025	<u>15,402</u>
Total	<u>\$ 1,079,578</u>

### **Note 23. COMMITMENT AND CONTINGENCIES:**

During the normal course of business, HEBSV entered into various contracts relating to its ongoing construction projects.

HEBSV is named in certain claims and legal actions in the normal course of its activities. Based upon counsel and management's opinion, the outcome of such matters is not expected to have a material adverse effect on HEBSV's financial position or changes in net assets.

### **Note 24. COVID-19 IMPACT:**

The emergence and spread of the coronavirus (COVID-19) during the first quarter of 2020 has affected businesses and economic activities in the U.S. and beyond. The extent of the impact of COVID-19 on HEBSV's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, the effects on residents, supply chains, service providers, business partners, and changes in business practices, all of which are uncertain and cannot be determined at this time.

**HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY  
AND SUBSIDIARIES**

**SUPPLEMENTAL INFORMATION**

# HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2021

Federal Grantor/CFDA Program Title	Federal CFDA Number	Grantor Contract Number	Federal Expenditures Amount
<b>U.S. Department of Housing &amp; Urban Development - HUD</b>			
<b>Pass-Through - Community Development Block Grants (CDBG)</b>			
<i>Passed through The City of City of Berkeley</i> Housing Rehabilitation Grant Program	14.218		\$ 182,371
<i>Passed through The City of City of Concord</i> Housing Rehabilitation Loan and Grant Program	14.218		60,302
<i>Passed through The City of City of Concord</i> Housing Rehabilitation Loan and Grant Program	14.218		279,720
<i>Passed through The City of Contra Costa County</i> Neighborhood Preservation Program	14.218		134,204
<i>Passed through The City of City of Fremont</i> Housing Emergency and Minor Home Repair	14.218	B-20-MC-06-0012	113,679
<i>Passed through The City of City of Hayward</i> Home Repair & Rehabilitation Services	14.218		119,025
<i>Passed through The City of City of Hayward</i> Home Repair & Rehabilitation Services	14.218		25,022
<i>Passed through The City of City of Hayward</i> Housing Rehabilitation Program	14.218		65,059
<i>Passed through The City of City of San Jose</i> Emergency, Minor and Limited Home Repair Services	14.218	B-20-MC-06-0021	488,420
<i>Passed through The City of City of Walnut Creek</i> Home Rehabilitation Loan and Emergency Grant Program	14.218	B-20-MC-06-0030	115,724
<i>Passed through from the County of Santa Clara</i> Loan for which continuing compliance is required	14.218		83,888
<b>Subtotal Pass-Through - HUD CDBG Programs</b>			<b>1,667,414</b>
<b>Pass-Through - Home Investment Partnerships Program (HOME)</b>			
<i>Passed through The City of City of Pleasanton</i> Housing Rehabilitation Program	14.239		47,744
<b>Subtotal Pass-Through - HUD HOME Programs</b>			<b>47,744</b>
<b>Total U.S. Department of Housing &amp; Urban Development (HUD)</b>			<b>1,715,158</b>
<b>Total Expenditures of Federal Financial Assistance</b>			<b>\$ 1,715,158</b>

See notes to schedule of expenditures of federal awards.



**HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY  
AND SUBSIDIARIES**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2021**

**Note 1. BASIS OF PRESENTATION:**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant and loan activity of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries and is presented on the accrual basis of accounting. 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). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The purpose of the Schedule is to present a summary of those activities of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries for the year ended June 30, 2021, which have been financed by the U.S. Government. For purposes of the Schedule, federal awards include all federal assistance entered into directly and indirectly between Habitat for Humanity East Bay/Silicon Valley and Subsidiaries and the federal government. Habitat for Humanity East Bay/Silicon Valley and Subsidiaries did not elect to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

**Note 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 are limited as to reimbursement.

**Note 3. YEAR END LOAN BALANCES:**

The loan balances outstanding at year-end are summarized as follows:

Community Development Block Grant Program	<u>\$ 77,222</u>
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**HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY  
AND SUBSIDIARIES**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2021**

**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? \_\_\_\_\_ Yes      X   No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes      X   None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes      X   No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_ Yes      X   No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes      X   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 Section 200.516 of the Uniform Guidance? \_\_\_\_\_ Yes      X   No

Identification of major programs: Name of Federal Program or Cluster

CFDA #14.218 U.S. Department of Housing and Urban Development – Community Development Block

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?   X   Yes    \_\_\_\_\_ No

**Section II – Financial Statement Findings**

None noted.

**Section III – Federal Award Findings and Questioned Costs**

None noted.



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**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**

Board of Directors  
Habitat for Humanity East Bay/Silicon Valley  
and Subsidiaries  
Oakland, 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 combined financial statements of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries, which comprise the combined statements of financial position as of June 30, 2021, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated December 17, 2021.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the combined financial statements, we considered Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' 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 combined 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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weakness may exist that have not been identified.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' combined 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 determination of financial statement amounts. 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 Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*RINA Accountancy LLP*

Certified Public Accountants

San Francisco, California  
December 17, 2021



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors  
Habitat for Humanity East Bay/Silicon Valley  
and Subsidiaries  
Oakland, California

***Report on Compliance for Each Major Federal Program***

We have audited Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' major federal programs for the year ended June 30, 2021. Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' major federal programs based on our audit of the types of compliance requirements referred to above. 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' compliance.

***Opinion on Each Major Federal Program***

In our opinion, Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' 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, 2021.

***Report on Internal Control Over Compliance***

Management of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' 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 a 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***Purpose of This Report***

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 "RINA Accountancy LLP". The signature is written in a cursive, flowing style.

Certified Public Accountants

San Francisco, California  
December 17, 2021