HABITAT FOR HUMANITY
EAST BAY/SILICON VALLEY
AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

COMBINED FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Aprio

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HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

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Independent Auditors' Report

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

Opinion
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, 2022, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements
The financial statements as of June 30, 2021, were audited by RINA Accountancy LLP, who merged with Aprio LLP as of August 1, 2022, and whose report dated December 17, 2021, expressed an unmodified opinion on those statements.

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

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

Auditor's Responsibilities for the Audit of the Combined Financial Statements
Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an

audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Habitat for Humanity East Bay/Silicon Valley's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Habitat for Humanity East Bay/Silicon Valley's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Armanino, LLP

San Francisco, California
December 27, 2022

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

COMBINED STATEMENTS OF FINANCIAL POSITION

ASSETS	June 30, 2022	June 30, 2021
CURRENT:		
Cash and cash equivalents	$ 7,551,987	$ 5,589,251
Investments	2,540,738	2,642,615
Current portion of restricted cash	27,937	29,826
Current portion of grants, contracts and contributions, net	4,397,204	5,708,034
Current portion of mortgages and notes receivable	615,786	592,962
Inventory:		
Property held for sale	1,884,000	299,283
Cost of homes in progress - current	1,512,590	286,323
ReStore inventory	539,965	522,121
Other	396,882	345,000
Current portion of prepaid expenses and deposits	419,112	123,632
TOTAL CURRENT ASSETS	19,886,201	16,139,047
OTHER:		
Restricted cash, net of current portion	88,693	167,637
Receivables, net:		
Grants, contracts and contributions - net of current portion	286,909	152,658
Mortgages and notes - net of current portion	13,489,643	14,054,877
Cost of homes in progress - net of current portion	19,312,896	14,232,154
Prepaid expenses and deposits, net of current portion	131,407	143,909
Property and equipment, net	295,232	70,043
Deferred costs, net of amortization of $25,039 (2022) and $9,095 (2021)	96,311	67,103
TOTAL ASSETS	$ 53,587,292	$ 45,027,428

See notes to combined financial statements.

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

COMBINED STATEMENTS OF FINANCIAL POSITION

LIABILITIES AND NET ASSETS	June 30, 2022	June 30, 2021
CURRENT LIABILITIES:		
Line of credit	$ 500,000	$ 508,150
Accounts payable and accrued expenses	3,648,358	4,593,933
Interest payable	3,546	3,546
Notes payable - current portion	187,598	187,598
Reconveyable notes payable - current portion	677,177	655,595
Deferred revenue - current portion	320,631	254,343
TOTAL CURRENT LIABILITIES	5,337,310	6,203,165
LONG-TERM LIABILITIES:		
Notes payable - net of current portion	4,823,310	3,129,230
Reconveyable notes payable - net of current portion	7,353,465	5,375,047
Other subordinate debt	4,060,463	2,225,153
Deferred revenue - net of current portion	389,366	655,745
TOTAL LIABILITIES	21,963,914	17,588,340
NET ASSETS:		
Without donor restrictions:		
Board designated	42,003	48,118
Undesignated	31,579,692	27,079,161
Total unrestricted	31,621,695	27,127,279
With donor restrictions	1,683	311,809
TOTAL NET ASSETS	31,623,378	27,439,088
TOTAL LIABILITIES AND NET ASSETS	$ 53,587,292	$ 45,027,428

See notes to combined financial statements.

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

COMBINED STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE:			
Sales of homes	$ 1,073,018	$ -	$ 1,073,018
Grants and contributions including general contracting	11,176,246	1,689,655	12,865,901
In-kind contributions	2,547,251	-	2,547,251
Inventory donations to ReStore	3,644,841	-	3,644,841
Fundraising event contributions	364,275	-	364,275
Less: fundraising event costs	(127,012)	-	(127,012)
Other income	1,208,734	-	1,208,734
Paycheck Protection Program grant	-	-	-
Net assets released from restrictions	1,999,781	(1,999,781)	-
TOTAL SUPPORT AND REVENUE	21,887,134	(310,126)	21,577,008
EXPENSES:			
Program services:			
Housing	8,185,837	-	8,185,837
Home preservation	2,695,122	-	2,695,122
ReStore	3,305,483	-	3,305,483
Supporting services			
Management and general	2,542,730	-	2,542,730
Fundraising	1,794,575	-	1,794,575
TOTAL EXPENSES	18,523,747	-	18,523,747
CHANGE IN NET ASSETS BEFORE OTHER REVENUE AND EXPENSES	3,363,387	(310,126)	3,053,261
OTHER REVENUE AND EXPENSES:			
Mortgage discount amortization	515,717	-	515,717
Mortgage discount expenses	(315,889)	-	(315,889)
Settlement of contingent expense	745,664		745,664
Investment income - NMTC	39,997	-	39,997
Interest expense - NMTC	(40,004)	-	(40,004)
Amortization of deferred revenue - NMTC	185,544	-	185,544
TOTAL OTHER REVENUE AND EXPENSES	1,131,029	-	1,131,029
CHANGE IN NET ASSETS	4,494,416	(310,126)	4,184,290
NET ASSETS, beginning of year	27,127,279	311,809	27,439,088
NET ASSETS, end of year	$ 31,621,695	$ 1,683	$ 31,623,378

See notes to combined financial statements.

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

COMBINED STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30, 2021

	Donor Restrictions	Donor Restrictions	Total
SUPPORT AND REVENUE:			
Sales of homes	$ 9,260,380	$ -	$ 9,260,380
Grants and contributions including general contracting	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)	-
TOTAL SUPPORT AND REVENUE	46,048,964	(1,771,515)	44,277,449
EXPENSES:			
Program services:			
Housing	33,133,288	-	33,133,288
Home preservation	2,747,494	-	2,747,494
ReStore	3,266,231	-	3,266,231
Supporting services			
Management and general	2,325,300	-	2,325,300
Fundraising	1,657,830	-	1,657,830
TOTAL EXPENSES	43,130,143	-	43,130,143
CHANGE IN NET ASSETS BEFORE OTHER REVENUE AND EXPENSES	2,918,821	(1,771,515)	1,147,306
OTHER REVENUE AND EXPENSES:			
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
TOTAL OTHER REVENUE AND EXPENSES	550,955	-	550,955
CHANGE IN NET ASSETS	3,469,776	(1,771,515)	1,698,261
NET ASSETS, beginning of year	23,657,503	2,083,324	25,740,827
NET ASSETS, end of year	$ 27,127,279	$ 311,809	$ 27,439,088

See notes to combined financial statements.

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

COMBINED STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2022

	Program Services				Supporting Services [1]		
	Housing	Home Preservation	ReStore	Total Program Services	Management and General	Fundraising	Totals
Cost of homes sold and reserve for homes in progress	$ 3,936,716	$ -	$ -	$ 3,936,716	$ -	$ -	$ 3,936,716
Cost of general contractor services	184,934	-	-	184,934	-	-	184,934
Cost of miscellaneous projects	361,409	-	-	361,409	-	-	361,409
Cost of homes repaired	-	2,671,836	-	2,671,836	-	-	2,671,836
Personnel	3,498,662	1,091,966	1,547,353	6,137,981	1,706,099	1,166,106	9,010,186
Homeowner relations	72,134	-	-	72,134	-	-	72,134
Office	145,881	6,389	119,607	271,877	17,030	266,173	555,080
Professional services	310,498	46,191	277,527	634,216	503,460	77,042	1,214,718
Travel	26,109	5,036	3,426	34,571	(11)	1,346	35,906
Tithe to international projects	633,762	-	-	633,762	-	-	633,762
Property management	85	-	-	85	-	-	85
Public relations	160,583	-	192,993	353,576	-	4,130	357,706
Rent	298,523	-	619,319	917,842	12,167	28,021	958,030
Warehouse lease	72,554	-	47,363	119,917	-	-	119,917
Equipment	165,025	27,519	85,247	277,791	1,400	3,023	282,214
Education	33,982	5,629	1,114	40,725	6,672	4,972	52,369
Insurance	55,471	16,303	24,098	95,872	11,300	-	107,172
Depreciation	-	-	25,010	25,010	90,447	-	115,457
Interest	-	-	-	-	115,188	-	115,188
ReStore cost of sales	-	-	286,662	286,662	-	-	286,662
Bad debt	741,500	-	-	741,500	-	-	741,500
Miscellaneous	93,177	13,302	75,764	182,243	78,978	243,762	504,983
Allocation to cost of homes in progress	(2,605,168)	(1,189,049)	-	(3,794,217)	-	-	(3,794,217)
Total expenses as shown in the consolidated statement of activities	8,185,837	2,695,122	3,305,483	14,186,442	2,542,730	1,794,575	18,523,747
Interest expenses NMTC	40,004	-	-	40,004	-	-	40,004
Mortgage discount expenses	315,889	-	-	315,889	-	-	315,889
Fundraising event costs	-	-	-	-	-	127,012	127,012
TOTAL EXPENSES	$ 8,541,730	$ 2,695,122	$ 3,305,483	$ 14,542,335	$ 2,542,730	$ 1,921,587	$ 19,006,652

(1) For the three fiscal period ended 2020 through 2022, supporting services expenses have averaged 16.3% 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, 2021

	Program Services				Supporting Services (1)		
	Housing	Home Preservation	ReStore	Total Program Services	Management and General	Fundraising	Totals
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	-	-	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	33,133,288	2,747,494	3,266,231	39,147,013	2,325,300	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	-	-	-	-	-	127,392	127,392
TOTAL EXPENSES	$ 33,206,315	$ 2,747,494	$ 3,266,231	$ 39,220,040	$ 2,325,300	$ 1,785,222	$ 43,330,562

(1) For the three fiscal periods ended 2019 through 2021, supporting services expenses have averaged 13.7% 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 CASH FLOWS

	Year Ended June 30, 2022	Year Ended June 30, 2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 4,184,290	$ 1,698,261
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Amortization of deferred revenue - NMTC	(185,544)	(185,544)
Mortgage discount amortization	(515,717)	(398,441)
Mortgage discount expense	315,889	33,023
Forgiveness of debt	(244,302)	-
Depreciation	115,457	65,511
Interest - amortization of loan costs	88,261	-
Discount on purchased mortgages	235,647	197,463
Realized and unrealized gain on investments	200,403	(100,038)
Decrease (increase) in assets:		
Grants, contracts and contributions receivable	1,176,579	5,047,216
Property held for sale	(1,584,717)	5,201,782
Cost of homes in progress	(6,307,009)	(3,382,429)
ReStore inventory	(17,844)	18,835
Other inventory	(51,882)	(113,928)
Prepaid expenses and deposits	(282,978)	359
Decrease in liabilities:		
Accounts payable and accrued expenses	(945,575)	(2,742,163)
Interest payable	44,341	(3,010)
Deferred revenue	(14,547)	(377,915)
Deferred revenue - Paycheck Protection Program	-	(688,967)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(3,789,248)	4,270,015
CASH FLOWS FROM INVESTING ACTIVITIES:		
Issuance of mortgages receivable	(654,200)	(392,675)
Collection of mortgages receivable	972,671	704,903
Payment of deferred costs	-	(72,301)
Purchase of property and equipment	(340,646)	(7,308)
(Purchase) sale of investments - net	(98,526)	(32,170)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(120,701)	200,449
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of line of credit	(8,150)	(1,129,000)
Proceeds from notes payable	6,322,670	6,071,896
Loan fees	(182,300)	-
Payment of notes payable	(340,368)	(7,920,320)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	5,791,852	(2,977,424)

See notes to combined financial statements.

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

COMBINED STATEMENTS OF CASH FLOWS

	Year Ended June 30, 2022	Year Ended June 30, 2021
NET INCREASE IN CASH	$ 1,881,903	$ 1,493,040
CASH AND CASH EQUIVALENTS, beginning of year	5,786,714	4,293,674
CASH AND CASH EQUIVALENTS, end of year	$ 7,668,617	$ 5,786,714
Cash and cash equivalents	$ 7,551,987	$ 5,589,251
Restricted cash:		
New Markets Tax Credits reserve	88,605	169,438
Stormwater reserve	28,025	28,025
Total cash, restricted cash and cash equivalents shown in the statements of cash flows	$ 7,668,617	$ 5,786,714
SUPPLEMENTATAL DISCOLUSRE OF CASH FLOW INFORMATION:		
Cash paid for interest - net of capitalized portion	$ 155,192	$ 148,255

See notes to combined financial statements.

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

NOTES TO COMBINED FINANCIAL STATEMENTS - JUNE 30, 2022 AND 2021

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, 2022 and June 30, 2021, HEBSV has been selling homes at a rate of three and twenty-one 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.

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

HEBSV is the sole member of HEBSV Pacific Landing, HEBSV 4th and Reed LLC and HEBSV Esperanza Place LLC, California limited liability companies. These entities were created for the sole purpose of acquiring and developing properties.

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 $2,500,000 and $2,000,000 at June 30, 2022 and June 30, 2021, respectively.

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.

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

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.

- 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, 2022 and June 30, 2021, contributions of approximately $0 and $1,892,000, 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.

Support and revenue consisted of $21,600 and $16,212,532 of general contracting revenues for the years ended June 30, 2022 and June 30, 2021, respectively.

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.

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:

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.

Capitalized interest:

HEBSV capitalizes interest incurred during construction as a component of costs of homes. During the years ended June 30, 2022 and June 30, 2021, HEBSV capitalized interest of $201,958 and $123,283, respectively.

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

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.

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.

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

Income taxes (continued):

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 27, 2022, 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 $6,875,000 and $4,925,000 as of June 30, 2022 and June 30, 2021, respectively. HEBSV and subsidiaries has not experienced any losses in such accounts.

Note 5. LIQUIDITY 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:

	2022	2021
Financial assets at end of year available within one year:		
Cash and cash equivalents	$ 7,551,987	$ 5,589,251
Investments	2,540,738	2,642,615
Restricted cash	27,937	29,826
Grants and contributions receivable	4,397,204	5,708,034
Contracts receivable	615,786	592,962
	15,133,652	14,562,688
Less: financial assets not available for general expenditure due to:		
Restricted cash	(27,937)	(29,826)
Operating reserve	(2,580,499)	(2,000,000)
Retained mortgage cash reserve	(2,540,738)	(2,642,615)
Donor-restricted net assets	(1,683)	(311,809)
Board designations	(42,003)	(48,118)
	(5,192,860)	(5,032,368)
Financial assets available for general expenditures within one year	$ 9,940,792	$ 9,530,320

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 $9,940,792 and $9,530,320 of the total financial assets available for general expenditure within one year of the statements of financial position date as of June 30, 2022 and June 30, 2021, 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.

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, 2022 and 2021, and indicates the fair value hierarchy of the valuation techniques utilized by HEBSV to determine the fair values:

	Cost as of June 30, 2022	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, 2022
Common stocks	$ 197,696	$ 337,358	$ -	$ -	$ 337,358
Fixed income securities	2,263,747	2,203,380	-	-	2,203,380
Totals	$ 2,461,443	$ 2,540,738	$ -	$ -	$ 2,540,738

	Cost as of June 30, 2021	Active Markets for identical Assets (Level 1)	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
Totals	$ 2,348,690	$ 2,642,615	$ -	$ -	$ 2,642,615

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

	2022	2021
Realized and unrealized gain from investments	$ (200,403)	$ 100,038
Interest and dividend income	69,837	59,101
Investment expenses	(19,570)	(4,991)
Net investment return	$ (150,136)	$ 154,148

Note 7. RESTRICTED CASH:

Restricted cash consists of the following at June 30:

	2022	2021
New Markets Tax Credits reserve	88,605	$ 169,338
Stormwater reserve	28,025	28,125
	116,630	197,463
Less: current portion	(27,937)	(29,826)
Long-term portion	$ 88,693	$ 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 MarketsTax 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:

	2022	2021
Private contributions	$ 152,500	$ 200,000
Multi-year pledges	325,859	159,899
Grants and contracts, including general contracting receivable of $ 4,477,749 and $4,948,102 as of June 30, 2022 and 2021, respectively.	4,244,704	5,505,492
	4,723,063	5,865,391
Less: allowance for uncollectible pledges	(38,950)	(4,699)
Grants, contracts and contributions receivable, net	$ 4,684,113	$ 5,860,692
Amounts due in:		
Less than one year	$ 4,397,204	$ 5,708,034
One to five years	$ 286,909	$ 152,658

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:

	2022	2021
Mortgages and notes receivable, gross	$ 22,708,375	$ 23,210,149
Less: unamortized discount	(8,602,946)	(8,562,310)
	14,105,429	14,647,839
Less: current portion	(615,786)	(592,962)
Long-term portion	$ 13,489,643	$ 14,054,877

HEBSV considers a homeowner's payment made more than 30 days past the due date to be delinquent. For the years ended June 30, 2022 and 2021, 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
2022	$ 2,291,314	$ 11,167	$ 8,285	$ 67,659	$ 87,111	$ 20,417,061	$ 22,708,375
2021	$ 1,119,221	$ 17,728	$ 5,361	$ 95,532	$ 118,621	$ 22,090,928	$ 23,210,149

There were 12 and 16 mortgages with past due balances as of June 30, 2022 and 2021, respectively. HEBSV had 200 and 191 mortgages outstanding at June 30, 2022 and June 30, 2021, 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.

Note 9. MORTGAGES AND NOTES RECEIVABLE (Continued)

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, 2022 and 2021 as follows:

	2022		
	Non-interest Bearing	Discount	Total
1st liens	$ 15,196,055	$ (4,804,361)	$ 10,391,694
2nd and 3rd liens	7,512,320	(3,798,585)	3,713,735
Total	$ 22,708,375	$ (8,602,946)	$ 14,105,429

	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

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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, 2022

	S. Jackson San Jose	Las Juntas Walnut Creek	589 Pacifica Baypoint	Manilla Ave** Oakland	Sequoia Grove	Byron Ave.	De La Cruz	4th & Reed**	North Housing Alameda	98 Castro St	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	$ -	$ 500,000	$ 202,422	$ 1,984,000	$ 11,421,878
Materials & subcontractors	331,978	6,248,286	739,134	395,587	393,489	100,550	118,964	534,055	313,153	7,856	60,603	104,020	9,347,675
Administration	280,523	2,164,902	510,283	508,267	336,887	90,265	130,137	291,850	182,109	49,106	54,437	359,805	4,958,571
Costs of homes (Acct 1500)	2,861,172	11,439,268	1,469,021	2,803,854	750,915	577,365	274,113	1,734,905	495,262	556,962	317,462	2,447,825	25,728,124
Costs of finished homes not yet sold (Acct 1260)	-	-	-	-	-	-	-	-	-	-	-	(1,884,000)	(1,884,000)
Loss reserve	-	(718,476)	-	(691,446)	-	-	-	-	-	-	-	-	(1,409,922)
Costs of homes sold/program expense	-	-	-	(1,291,254)	-	-	-	-	-	-	(317,462)	-	(1,608,716)
Cost of homes in progress at June 30, 2022	$ 2,861,172	$ 10,720,792	$ 1,469,021	$ 821,154	$ 750,915	$ 577,365	$ 274,113	$ 1,734,905	$ 495,262	$ 556,962	$ -	$ 563,825	$ 20,825,486
No. of finished houses	-	-	-	-	-	-	-	-	-	-	1	2	3
Unfinished homes planned or in progress	14	42	29	1	10	8	15	4	68	3	-	96	290
No of homes sold in prior Fys	-	-	-	-	-	-	-	-	-	-	8	-	8
No of homes sold in 2022	-	-	-	1	-	-	-	-	-	-	3	-	4
Total no. of homes	14	42	29	2	10	8	15	4	68	3	12	98	305

** Buildings in these projects were donated.

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, 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	$ 2,647,264	$ 5,924,429	$ 1,209,129	$ 1,218,791	$ 723,378	$ 564,006	$ 124,022	$ 1,313,648	$ -	$ 793,810	$ 14,518,477
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	14	42	29	2	10	8	15	4	12	164	300

** Buildings in these projects were donated.

Note 11. PROPERTY AND EQUIPMENT:

Property and equipment are summarized as follows at June 30:

	2022	2021
Office equipment	$ 295,089	$ 294,526
Site equipment	122,635	122,635
ReStore leasehold improvements	364,765	364,765
ReStore equipment	494,173	154,090
	1,276,662	936,016
Less: accumulated depreciation	(981,430)	(865,973)
Total property and equipment	$ 295,232	$ 70,043

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 $633,762 and $125,000 for the years ended June 30, 2022 and 2021, 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.

Note 13. LINE OF CREDIT:

HEBSV has a revolving line of credit of $3,250,000 with First Republic Bank, of which $500,000 and $508,150 was outstanding at June 30, 2022 and June 30, 2021, respectively. The line requires monthly interest-only payments equal to the prime rate, subject to a floor. The effective interest rate at June 30, 2022 and June 30, 2021 was 4.75% and 3.25%, 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 $25,072 and $49,325 for the years ended June 30, 2022 and June 30, 2021, respectively. Interest payable on the line of credit was $0 as of June 30, 2022 and June 30, 2021.

Note 14. NOTES PAYABLE:

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

	June 30, 2022	June 30, 2021
HEBSV:		
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)	$ 70,555	$ 77,222
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
HEBSV Esperanza Place, LLC:		
Heritage Bank of Commerce:		
Heritage Bank, in the maximum amount of $7,414,934, bears interest at prime plus 0.375%. Currently 5.125%, Due in full in October 2023. Capitalized interest was $26,212 and $0 at June 30, 2022 and 2021, respectively.	2,214,241	-
HFHEB Funding Co:		
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.	386,440	513,961
HFHEB Funding Co II:		
Umpqua Bank, in original amount of $2,181,455, bears no interest, with monthly installments of $7,995, payable in full in November 2035.	1,133,714	1,226,007
Northern Trust, in original amount of $1,383, 612 bears no interest, with monthly installments of $4,817, payable in full in May 2045.	1,296,913	1,354,712
Totals	5,101,863	3,416,204
Less: discount on notes payable	(90,955)	(99,376)
Net present value of notes payable	5,010,908	3,316,828
Less: portion due in one year	(187,598)	(187,598)
Long-term portion notes payable	$ 4,823,310	$ 3,129,230

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,		
2023	$	187,598
2024		2,726,601
2025		156,759
2026		156,759
2027		156,759
Thereafter		1,717,387
Total	$	5,101,863

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Note 15. RECONVEYABLE NOTES PAYABLE:

Reconveyable notes payable generally shall be reconveyed to an eligible purchaser of the property subject to terms outlined in the original loan documents. These notes payable are secured by the projects unless otherwise noted and consist of the following

	June 30, 2022	June 30, 2021
Byron Avenue, Oakland		
City of Oakland, in the original amount of $386,550, bears no interest, payable in full by the earlier of the date the property is sold or refinanced in March 2020.	$ 386,550	$ 386,550
City of Oakland, in the maximum amount of $29,200, bears interest at 6%, payable in full with accrued interest upon receiving construction or permanent financing sufficient to repay the loan. Capitalized interest was $0 and $297 for 2021 and 2020, respectively. Interest payable at June 30, 2020 was $3,546.	4,938	4,938
Las Juntas:		
City of Walnut Creek, in the maximum amount of $5,150,000, bears no interest, payable in full on the earlier of December 9, 2023 or upon the sale of final home.	5,153,465	3,153,465
Sequoia Grove:		
City of Hayward, in the maximum amount of $600,000, bears no interest, payable in full on the earlier of May 31, 2022 or upon the sale of final home.	285,689	285,689
South Jackson:		
City of San Jose, in the maximum amount of $2,000,000 bears no interest, payable in full on the earlier of April 30, 2029 or upon the sale of final home.	2,200,000	2,200,000
Totals	8,030,642	6,030,642
Less: portion due in one year	(677,177)	(655,595)
Long-term portion notes payable	$ 7,353,465	$ 5,375,047

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,		
2023	$	677,177
2024		-
2025		5,153,465
2026		-
2027		-
Thereafter		2,200,000
Total	$	8,030,642

Note 16. DEFERRED REVENUE:

Deferred revenue is summarized as follows at June 30:

		2022		2021
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		(317,877)		(317,877)
		1,596,312		1,596,312
Less: accumulated amortization		(886,315)		(686,224)
New Markets Tax Credits, net		709,997		910,088
Less: current portion		(320,631)		(254,343)
Long-term portion	$	389,366	$	655,745

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.

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.

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.

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, 2022 and 2021, respectively. Interest expense on the notes payable to the CDE's totaled $40,004 and $40,004 for the years ended June 30, 2022 and June 30, 2021, 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, 2022 and 2021, 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, 2022 and June 30, 2021. 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 Small Business 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.

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.

Note 18. OTHER SUBORDINATE DEBT:

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. Currently, the extended maturity date is April 1, 2025. The EQ was made subordinate to all other obligations of HEBSV The interest expense for 2022 and 2021 was $7,506 and $11,137, 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 expense was $50,000 for the year ended June 30, 2022 and June 30, 2021.

A third EQ, in the amount $2,000,000 was obtained by EBSV from Western Bank Alliance in October 2021. The EQ bears quarterly interest-only payments at a rate of 1.50% per annum and has a maturity date of January 1, 2027. The interest expense was $15,000 for 2022.

Costs incurred in order to obtain permanent financing were $337,301 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, 2022 and 2021 was $289,537and $124,847, respectively. Interest expense for amortization of permanent loan costs for 2022 and 2021 was $17,610 and $5,891, respectively.

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 $42,003 and $48,118 as of June 30, 2022 and 2021, respectively, relating to the cause.

Net assets with donor restrictions for the years ended June 30 are summarized as follows:

	2022			
	June 30, 2021	Contributions	Released from Restrictions	June 30, 2022
Contributions restricted for specific programs:				
Sequoia Grove	$ 15,724	$ -	$ (15,724)	$ -
Repairs Program Contribution	-	32,000	(32,000)	-
Rehab Program - San Jose	296,085	19,200	(315,285)	-
Manila Project	-	97,010	(97,010)	-
Disaster Relief	-	541,445	(539,762)	1,683
Esperanza Project	-	1,000,000	(1,000,000)	-
	$ 311,809	$ 1,689,655	$ (1,999,781)	$ 1,683

	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

Note 20. IN-KIND CONTRIBUTIONS:

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

	2022	2021
Donated use of facilities	$ 85,081	$ 140,304
Donated equipment and building materials	6,107,011	6,183,636
	$ 6,192,092	$ 6,323,940

Note 20. IN-KIND CONTRIBUTIONS (Continued):

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 $212,596 and $201,147 to the Plan for the years ended June 30, 2022 and June 30, 2021, 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.

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 $85,081 and $140,340 for the years ended June 30, 2022 and 2021, 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 $1,073,733 and $1,070,733 for the years ended June 30, 2022 and 2021, respectively.

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

Year Ending June 30,	
2023	$ 831,333
2024	577,632
2025	513,040
2026	510,056
2027	301,590
Total	$ 2,733,651

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.

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, 2022

Federal Grantor/CFDA Program Title	Federal CFDA Number	Grantor Contract Number	Federal Expenditures Amount
U.S. Department of Housing & Urban Development - HUD			
Pass-Through - Community Development Block Grants (CDBG)			
Passed through The City of Berkeley			
Housing Rehabilitation Grant Program	14.218		$ 183,712
Passed through The City of Concord			
Housing Rehabilitation Loan and Grant Program	14.218		120,409
Passed through The City of Concord			
Housing Rehabilitation Loan and Grant Program	14.218		129,818
Passed through Contra Costa County			
Neighborhood Preservation Program	14.218		120,477
Passed through The City of Fremont			
Housing Emergency and Minor Home Repair	14.218	B-20-MC-06-0012	181,373
Passed through The City of Hayward			
Home Repair & Rehabilitation Services	14.218		144,771
Passed through The City of San Jose			
Emergency, Minor and Limited Home Repair Services	14.218	B-20-MC-06-0021	545,091
Passed through The City of City of Walnut Creek			
Home Rehabilitation Loan and Emergency Grant Program	14.218	B-20-MC-06-0030	105,535
Passed through from the County of Santa Clara			
Loan for which continuing compliance is required	14.218		-
Subtotal Pass-Through - HUD CDBG Programs			**1,531,184**
Pass-Through - Home Investment Partnerships Program (HOME)			
Passed through The City of City of Pleasanton			
Housing Rehabilitation Program	14.239		65,366
Subtotal Pass-Through - HUD HOME Programs			**65,366**
Total U.S. Department of Housing & Urban Development (HUD)			**1,596,550**
Community Development Financial Institutions Rapid Response Program (DEFI RRP)			
CDFI RRP	21.024		960,553
Total Community Development Financial Institutions (CDFI)			**960,553**
Total Expenditures of Federal Financial Assistance			**$ 2,557,103**

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, 2022

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	$ 77,222

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2022

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ____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
CFDA #21.024	U.S. Department of Community Development Financial Institutions - Rapid Response Program

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.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVERFINANCIAL 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, 2022, 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 27, 2022.

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.

Armanino, LLP

San Francisco, California
December 27, 2022

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

Opinion on 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 endedJune 30, 2022. 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.

In our opinion, Habitat for Humanity East Bay/Silicon Valley and Subsidiaries complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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

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

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

Armanino, LLP

San Francisco, California
December 27, 2022