

**HABITAT FOR HUMANITY
MONTEREY BAY
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
JUNE 30, 2019**

HABITAT FOR HUMANITY MONTEREY BAY

JUNE 30, 2019

TABLE OF CONTENTS

Independent Auditor's Report	Page 1 - 2
Statement of Financial Position	Exhibit A
Statement of Activities	Exhibit B
Statement of Cash Flows	Exhibit C
Notes to Financial Statements	Exhibit D Pages 1 - 14
<u>Supplementary Information</u>	
Schedule of Functional Expenses	Schedule I

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Habitat For Humanity Monterey Bay

We have audited the accompanying financial statements of Habitat For Humanity Monterey Bay (a California nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

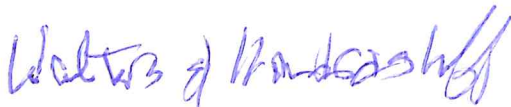
INDEPENDENT AUDITOR'S REPORT (Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat For Humanity Monterey Bay as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on Schedule I is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Walters & Kondrasheff
Certified Public Accountants

Scotts Valley, California
January 16, 2020

HABITAT FOR HUMANITY MONTEREY BAY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

Exhibit A

ASSETS

Current Assets	
Cash and Cash Equivalents	\$ 204,779
Restricted Cash - Impounds	82,053
Grants Receivable	31,067
Other Receivables	3,295
Costs and Earnings in Excess of Billings - My House My Home	13,924
ReStore Inventory	152,629
Prepaid Expenses	1,701
Current Portion of Notes Receivable	<u>260,939</u>
Total Current Assets	<u>750,387</u>
Long Term Mortgage Notes and Leases Receivable	
Non-Interest Bearing Mortgage Notes Receivable, Net of Current Portion	4,041,773
Less Discount on Non-Interest Bearing Mortgage Loans	<u>(2,501,231)</u>
Total Long-Term Notes Receivable	<u>1,540,542</u>
Property & Equipment, Net of Accumulated Depreciation	<u>69,631</u>
Other Assets	
Construction in Progress (Including Land Held for Development)	965,737
Finished Homes Available for Sale (Including Land)	446,290
Security Deposits	17,822
Other Assets	<u>19,024</u>
Total Other Assets	<u>1,448,873</u>
Total Assets	<u>\$ 3,809,433</u>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts Payable	\$ 50,950
Accrued Payroll	49,832
Accrued Vacation	26,779
Accrued Interest	20,345
Impound Liability	82,179
Line of Credit	<u>50,000</u>
Total Current Liabilities	<u>280,085</u>
Non-Current Liabilities	
City of Scotts Valley RDA Loan	150,000
CA Housing & Community Development	240,000
City of Santa Cruz	248,250
County of Santa Cruz	<u>844,006</u>
Total Non Current Liabilities	<u>1,482,256</u>
Total Liabilities	<u>1,762,340</u>
Net Assets	
Without Donor Restrictions or Board Designations	1,740,353
Without Donor Restrictions, Board Designated - Loan Reserve	7,500
With Donor Restrictions	<u>299,239</u>
Total Net Assets	<u>2,047,092</u>
Total Liabilities and Net Assets	<u>\$ 3,809,433</u>

See Independent Auditor's Report and accompanying notes to financial statements.

HABITAT FOR HUMANITY MONTEREY BAY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Exhibit B

	Without Donor Restrictions	With Donor Restrictions	Total
<u>PUBLIC SUPPORT</u>			
Contributions	\$ 152,966	\$ 17,978	\$ 170,944
Grants	229,882		229,882
Fundraising	12,840		12,840
Rental Income	3,438	-	3,438
In-Kind Donations	145,281	-	145,281
Mortgage Loan Discount Amortization	165,272	-	165,272
In-Kind Donations - Construction Materials	103,408	-	103,408
ReStore Sales	913,920	-	913,920
ReStore Donations	918,079	-	918,079
Home Transfers	505,056	-	505,056
Debt Converted to Grant	53,615	-	53,615
Homeowner Funding	108,824		108,824
Releases from Restriction	53,739	(53,739)	-
	<u>3,366,320</u>	<u>(35,761)</u>	<u>3,330,559</u>
Total Public Support			
 <u>EXPENSES</u>			
Program Services			
Program Support	748,374	-	748,374
Cost of Homes Transferred	186,236	-	186,236
ReStore	1,921,034	-	1,921,034
Management and General	401,396	-	401,396
Fundraising	121,747	-	121,747
	<u>3,378,787</u>	<u>-</u>	<u>3,378,787</u>
Total Expenses			
 CHANGE IN NET ASSETS	<u>(12,467)</u>	<u>(35,761)</u>	<u>(48,228)</u>
NET ASSETS, BEGINNING OF YEAR	1,788,125	335,000	2,123,125
PRIOR PERIOD ADJUSTMENT (NOTE 16)	<u>(27,805)</u>	<u>-</u>	<u>(27,805)</u>
NET ASSETS, BEGINNING OF YEAR AS ADJUSTED	<u>1,760,320</u>	<u>-</u>	<u>2,095,320</u>
NET ASSETS, END OF YEAR	<u>\$ 1,747,853</u>	<u>\$ 299,239</u>	<u>\$ 2,047,092</u>

See Independent Auditor's Report and accompanying notes to financial statements.

**HABITAT FOR HUMANITY MONTEREY BAY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019**

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ (48,228)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:	
Depreciation	19,116
Loss on Asset Disposal	1,013
Mortgage Loan Discount Amortization	(165,272)
In-Kind Donation Construction Materials Capitalized	(98,276)
In-Kind Donations - ReStore (change in inventory)	(4,450)
Transfer of Homes	(505,056)
Debt Converted to Grant	(53,615)
Cost of Homes Transferred	186,236
Mortgage Discounts on Loans Issued	295,902
New MHMH ADU Loan Issued	(94,900)
(Increase) Decrease in Operating Assets:	
Accounts Receivable	(31,067)
Other Receivables	11,344
Costs and Earnings in Excess of Billings - My House My Home	(13,924)
Prepaid Expense	(1,701)
Security Deposit	(400)
Increase (Decrease) in Operating Liabilities:	
Accounts Payable	464
Accrued Payroll and Vacation	(83)
Accrued Interest	(9,416)
Impound Liability	2,740
Total Adjustments	(461,345)
NET CASH USED BY OPERATING ACTIVITIES	(509,573)

CASH FLOWS FROM INVESTING ACTIVITIES

Mortgage Payments Received	275,794
Proceeds from Sales of Assets	4,900
Purchase of Fixed Assets & CIP	(474,020)
NET CASH USED BY INVESTING ACTIVITIES	(193,326)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from Construction Loans	358,449
Payments on Loan Principal	(150,000)
Proceeds from Line of Credit	50,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	258,449

NET DECREASE IN CASH AND CASH EQUIVALENTS (444,450)

CASH AND CASH EQUIVALENTS, beginning of year 731,282

CASH AND CASH EQUIVALENTS, end of year \$ 286,832

Supplemental Data:

Cash Basis Interest Paid	\$ 8,783
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See Independent Auditor's Report and accompanying notes to financial statements.

**HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE 1 - ORGANIZATION AND PURPOSE:

Habitat for Humanity Monterey Bay ("Habitat MB", "the Organization"), a nonprofit corporation, was incorporated in April 1989. Formerly known as Habitat for Humanity Santa Cruz County, the Organization changed its name to Habitat for Humanity Monterey Bay after acquiring the net assets of Monterey County Habitat for Humanity via contribution upon Monterey County Habitat for Humanity's dissolution (see Note 15). Habitat MB is an affiliate of Habitat for Humanity International, Inc. ("Habitat International"), 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 Habitat International assists with information resources, training, publications, prayer support and in other ways, Habitat MB is primarily and directly responsible for its own operations.

The Organization works in several areas, briefly described below:

New Construction: Our approach to providing affordable homeownership is unique in several ways. Our homes are built with mostly volunteer labor, donated funds and materials. Then the homes are sold to qualifying families. Qualified families, selected on an equal opportunity basis, buy these homes, through no-interest mortgages or with third party conventional mortgage lending. Each family also contributes 500 hours of volunteer labor or "sweat equity" to the construction of their own home. Mortgage payments received by Habitat MB are then reinvested to help fund the construction of future Habitat homes in our community.

Volunteers are critical to the success of our program. Volunteers are involved in construction, fundraising, advocacy, administration committee work and more. We have a volunteer support base of 300. Without them we could not have built 54 homes over the past 30 years. Our funding sources are well balanced between corporate, individuals, foundations, civic and faith-based organizations. Habitat MB uses government funds for land acquisition, project infrastructure, and other project costs.

ReStore: Habitat MB operates a ReStore in Santa Cruz and in Monterey. Habitat ReStore is a program of Habitat MB established to be a self-sustaining funding source for the Organization and to provide quality materials at affordable prices, and to foster good stewardship of sustainable and reusable resources within the communities of Santa Cruz and Monterey. As revenue earned by each ReStore is from donations of items, ReStore revenue is classified as public support.

My House My Home: My House My Home is a partnership between senior homeowners, Habitat for Humanity, the City of Santa Cruz and Senior Network Services. The program goal is to build Accessory Dwelling Units (ADUs) on the existing properties of senior homeowners to provide additional income and adjustable living accommodations to help them age in place.

HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with initial maturities of three months or less as cash equivalents. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Restricted Cash - Homeowners' Impounds

Habitat MB currently services the mortgages on the homes it sells unless the home is purchased with third party financing. Included in restricted cash are amounts received for HOA dues, insurance and property taxes on such homes. The Organization has a related liability as an offset to these impound accounts.

Inventory - ReStores

Inventory consists of donated items held for sale at each ReStore location. Inventory is reported at estimated selling price.

Mortgage Notes Receivable/Transfers to Homeowners

Mortgage notes receivable consist of non-interest bearing residential home loans made to qualified borrowers that are secured by a deed of trust, payable in monthly installments, in general over 15 to 30 years. Non-interest bearing mortgages are discounted based upon prevailing market rates for low income housing at the inception of the mortgages. Utilizing a straight-line basis, this discount is recognized as interest income over the term of the mortgage. No allowance for doubtful accounts is considered necessary as past experience and management's estimates indicate that an adequate allowance for such accounts is immaterial.

HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Construction in Progress and Finished Homes Held For Sale

Construction in Progress (including land held for development) represents costs incurred to build homes for qualified families. Salaries and wages related to construction staff employed by the Organization are not allocated to construction in progress but are expensed annually as program costs in the statement of functional expenses as management believes these to be an ongoing cost of maintaining the Organization's exempt purpose/programs. Because the purpose of the Organization is to build affordable housing, the Organization does not write down the value of construction in progress to estimated sales value, since any excess cost over sales value is a component of program services. Projects are classified as construction in progress until the project is substantially completed, at which time they are reclassified as finished homes held for sale.

Revenue - Homes Constructed and Sold

Revenue is recognized on the sale of homes when title passes to eligible purchasers. The amount of home sale revenue is the total of the non-interest bearing mortgage receivable, cash down payments, and the value of any government funding, such as notes payable forgiven and/or transferred to the homeowner at the time of sale.

Revenue and Costs - My House My Home Project

For My House My Home projects, Habitat MB does not own the land or structure but serves as a construction contractor. Habitat MB enters into an agreement with the homeowner for a fixed price to construct an Accessory Dwelling Unit (ADU) which is then rented to qualifying families. Revenues from such contracts are recognized on the percentage of completion method, measured on the basis of incurred costs to estimated total costs for each contract. Contract costs include all direct labor and material cost, including those received in kind. The asset 'costs and estimated earnings in excess of billings on uncompleted contracts' represents revenues recognized in excess of amounts billed. The liability 'billings in excess of costs and estimated earnings on uncompleted contracts' represents billings in excess of revenues recognized.

Repurchased Home Held for Sale

In order to help ensure that the homes that the Organization constructs remain occupied as affordable housing to qualified individuals, the Organization enters into an agreement with the occupant(s) that gives Habitat MB the right to repurchase each home it constructs. If the homeowner still has a mortgage balance due to Habitat at the time of repurchase, it is the Organization's policy to write off the remaining outstanding mortgage balance. The Organization will repurchase a home for an amount equal to what the homeowner has paid on their mortgage, whether the mortgage was held by the Organization or a third party lender.

HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Repurchased Home Held for Sale (Continued)

During the year ended June 30, 2019 one home was repurchased for \$24,068 and resold in the same year for \$183,797. The home had an outstanding mortgage balance of \$59,792 which was written off and is included in cost of homes transferred. As of June 30, 2019 there were no repurchased homes held for sale.

Public Support and Revenue

Contributions of cash and other assets are reported as support with or without donor restrictions depending on the existence and/or nature of any donor restrictions.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions with donor restrictions whose restrictions are met in the same reporting period are reported as support without donor restrictions.

Government Grants

Habitat MB receives funds from various governmental agencies for land acquisition, development, and construction costs. Government grant revenue is recognized when the qualifying costs are incurred for cost-reimbursement grants or contracts or when a unit of service is provided for performance grants. Management feels all grants receivable to be collectible, based on historical experience and the written agreements in place. Therefore, there is no allowance for doubtful accounts at June 30, 2019.

Habitat MB enters into various funding agreements that result in receiving funds to acquire and develop qualified properties, where funding received is converted to a grant, typically after homes have been sold to qualified borrowers and/or to ensure that such homes remain low-income housing for certain periods of time. Certain loans are transferred to the qualified home buyer at the time of purchase and the loans with the borrowers require the homeowner to continue to comply with certain provisions for specified periods of time. The Organization records these such loans as notes payable until they are converted to grants or transferred to the homeowner.

Contributed Services

Contributed services are not recorded unless such services create or enhance non-financial assets or require specialized skills and are so essential that they would be purchased if not provided by donation. However, a substantial number of volunteers have made significant contributions of their time to Habitat MB's program and supporting services.

HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Contributions - In-Kind Construction Materials

Contributed materials donated for use in an Organization build are recorded at their estimated fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions and as a part of construction in progress if related to home construction and as expenses if related to a My House My Home project where the land an existing structure is not owned by Habitat MB.

ReStore Donations and Sales Revenue and Related Cost of Goods Sold

Restore revenue includes (a) the point of sale price, and (b) the estimated fair market value at time of donation. The estimated fair value at time of donation for goods sold during the year is estimated at the point of sale price and is recorded as both ReStore donation revenue and ReStore cost of goods sold.

Income taxes

The Organization has received notification from the Internal Revenue Service and the state of California that it qualifies for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 27301(d) of the California Revenue and Taxation Code. The Organization's federal returns for the tax years 2015 and beyond remain subject to examination by the Internal Revenue Service. The Organization's California returns for the tax years 2014 and beyond remain subject to examination by the Franchise Tax Board

The Organization recognizes the effect of income tax positions only if those positions are more likely than not of being sustained, and changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Organization has evaluated its current tax positions and has concluded the Organization does not have any significant uncertain tax positions for which a reserve would be necessary.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization. All expenses except for insurance are charged directly to the program or business unit that they benefit. Insurance expenses are allocated as follows:

HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Expense Allocation (Continued)

Auto Liability Insurance:

Each ReStore has its own box truck. The insurance premium for the Santa Cruz ReStore box truck is charged 100% to the Santa Cruz ReStore. The insurance premium for the Monterey ReStore box truck is charged 100% to the Monterey ReStore. A single dump truck is used by both the construction team and the Santa Cruz ReStore. The liability insurance premium for the dump truck is allocated 50% to Santa Cruz ReStore and 50% to Program Support. We have 2 vehicles that are used solely by the construction team. The liability insurance premium for those 2 vehicles is charged 100% to Program Support.

Commercial Liability Insurance:

ReStore Santa Cruz: 16.58%, ReStore Monterey 5.53%, Management 20.68%, Program Support 57.21%

Property Insurance allocation:

ReStore Santa Cruz: 8.47%, ReStore Monterey 57.54%, Management 9.1%, Program Support 24.88%

Workers Compensation Insurance:

Expenses are allocated to programs and management based on the employee's default program assignment.

Property, Equipment and Depreciation

Purchased property and equipment are stated at cost. Donated assets and materials are recorded at their fair market value at the date of the gift.

Depreciation is computed using the straight-line method of accounting over the assets' estimated useful lives ranging from 5 to 40 years. Maintenance and repairs are charged to expense in the period they are incurred. Major improvements are capitalized and depreciated over their useful lives. The Organization's capitalization threshold is \$5,000.

Advertising

Advertising is expensed as incurred and totaled \$51,236 for the fiscal year ended June 30, 2019.

HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Donated Property and Equipment

Donated noncash items to the Organization are recorded as contributions at their estimated fair market values at the date of donation. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as contributions with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. Property and equipment are depreciated using the straight-line method.

NOTE 3 - CONSTRUCTION IN PROGRESS:

Construction in progress includes land cost, out of pocket costs, and donated construction materials. The following projects were in progress as of June 30, 2019:

	<u>Los Esteros</u>	<u>Harper St.</u>	<u>Total</u>
Beginning balance	\$ 787,842	\$ 100,392	\$ 888,234
Costs incurred	388,952	134,841	523,793
Costs transferred to finished homes	<u>(446,290)</u>	<u>-</u>	<u>(446,290)</u>
Ending Balance	<u>\$ 730,504</u>	<u>\$ 235,233</u>	<u>\$ 965,737</u>

Los Esteros -

This project consists of 7 single family homes, one of which will be ADA accessible. The infra-structure stage of this project was completed in June 2014. Construction of the first unit began in June of 2014, and construction of the second unit began in August of 2014. It is anticipated that the 7 units will be complete by March of 2020. The project has funding from the County of Santa Cruz for \$1,530,000 in the form of a forgivable loan. The loan will be forgiven ratably as homes close escrow for an affordable sales price. As of June 30, 2019 Habitat MB has drawn down a total of \$1,530,000 and has sold 4 of the 7 units, resulting in \$874,286 of debt converted to revenue on transfers and a remaining forgivable loan balance of \$655,715. During the year ended June 30, 2019 the Organization obtained additional funding from the California Department of Community Development in the amount of \$240,000 in the form of a forgivable loan. The loan will be forgiven at a rate of \$80,000 per lot as home close escrow for an affordable sales price. See Note 16.

HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 3 - CONSTRUCTION IN PROGRESS (Continued):

Harper Street Development -

This project consists of 11 housing units incorporated into five duplex buildings and one single family home. The project was in the infrastructure phase as of June 30, 2019. The infrastructure phase of the project has funding from the Housing Authority of Santa Cruz County for \$300,000 in the form of a forgivable predevelopment loan. As of June 30, 2019 the Organization had drawn down a total of \$188,291. The loan will eventually be forgiven ratably upon the sale of the units. An Affordable Housing and Property Disposition Agreement (AHPDA) with the County of Santa Cruz was executed on February 12, 2019. The AHPDA provides additional financial assistance in the amount of \$1,100,000, in the form of a forgivable loan, for the purchase of the Harper Street property from the County of Santa Cruz.

NOTE 4 - FINISHED HOMES HELD FOR SALE:

The following represent finished homes held for sale as of June 30, 2019:

	<u>Number of Homes</u>	<u>Total</u>
Beginning balance	1	\$ 83,772
Costs transferred from construction in progress	1	446,290
Reacquisition of previously sold homes	-	
Homes sold to new qualified owners	<u>(1)</u>	<u>(83,772)</u>
Ending balance	<u><u>1</u></u>	<u>\$ 446,290</u>

NOTE 5 - MY HOUSE MY HOME ADU CONTRACTS IN PROGRESS:

Following is a summary of My House My Home contracts in progress for which the percentage of completion method is utilized:

Costs incurred, uncompleted contracts	\$ 67,862
Estimated earnings	<u>7,159</u>
Subtotal	75,021
Less billings to date (including related contributions)	<u>(61,097)</u>
	<u><u>\$13,924</u></u>

These amounts are included in the accompanying balance sheet under the following captions:

Costs and estimated earnings in excess of billings	<u>\$ 13,924</u>
Billings in excess of costs and estimated earnings	<u><u>\$ 0</u></u>

HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 5 - MY HOUSE MY HOME ADU CONTRACTS IN PROGRESS (Continued):

As described in Note 2, Habitat MB builds Accessory Dwelling Units (ADUs) on land owned by a homeowner. That homeowner enters into a contract with Habitat MB to construct the ADU for a fixed price to be financed via their home's equity. In order to ensure the ADU is rented to low income families, Habitat MB attaches a 20 year affordability restriction to the homeowner's loan in the form of a \$50,000 lien on each ADU build representing the estimated in-kind labor and materials used to build the unit. However, the homeowner can repay the loan at any time and release the restriction.

NOTE 6 - MORTGAGE NOTES RECEIVABLE AND RELATED DISCOUNTS:

Mortgage notes receivable consists of non-interest-bearing notes secured by deeds of trust. Transfers or sales, of homes to homeowners are recorded at gross mortgage amounts. Non-interest bearing mortgages are discounted based upon the prevailing market rates at the inception of the mortgage. The discount rates utilized by Habitat MB are provided by Habitat International, and range from 7.48% to 8.78%. The mortgage discount is recorded as a program service cost in the year of inception. Utilizing a straight-line basis, this discount is recognized as revenue each year over the term of the mortgage.

The value of a Habitat house given in exchange for the mortgage note is deemed to be the present value of all future mortgage principal payments using an imputed rate of interest. The difference between the face amount of the note and its present value is accounted for as a discount, recorded on the balance sheet as a contra account to notes and leases receivable, and amortized over the life of the note by the straight-line method. The effect is to increase program expense in the year in which a mortgage is created, and amortize this expense over the life of the note. The straight-line method recognizes an equal amount of amortization as interest income each period. At June 30, 2019 the unamortized discount on mortgages was \$2,501,231. Amortization revenue recognized for the year then ended was \$165,272.

Scheduled mortgage notes receivable collections subsequent to June 30, 2019 are as follows:

6/30/2020	260,939
6/30/2021	242,677
6/30/2022	238,393
6/30/2023	235,274
6/30/2024	230,916
Thereafter	<u>3,094,515</u>
TOTAL	<u>\$ 4,302,714</u>

HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 7 - TRANSACTIONS WITH HABITAT INTERNATIONAL

Habitat MB annually remits a portion of its contributions (excluding in-kind contributions) to Habitat International. These funds are used to construct homes in economically depressed areas around the world. For the year ended June 30, 2019, Habitat SCC contributed \$3,942 to Habitat International. Habitat MB is also required to pay an annual fee of \$15,000 in connection with Habitat International's U.S. Stewardship and Organizational Sustainability Initiative. These funds are used to create a sustainable revenue stream to help finance a portion of operational costs incurred by Habitat International to support the work of its U.S. affiliates. Such amounts are included in program services expense in the statement of functional expenses.

NOTE 8 - NOTES PAYABLE

City of Scotts Valley RDA \$150,000

In an agreement dated March 2, 2011, Habitat MB received a forgivable loan from the City of Scotts Valley RDA in the amount of \$300,000, and a repayable loan in the amount of \$300,000. The Assisted Units must remain as Assisted Units for fifty-five years for the loan to remain forgivable. The units were transferred to qualified owners during the fiscal year ended June 30, 2014, and at the date of transfer (October 2013) the \$300,000 forgivable loan was treated as being converted to a grant and is shown as grant income on the June 30, 2014 financial statements. The repayable loan bears interest at the LAIF rate (0.754% as of June 2017) and is due five years after the final unit closes escrow. The Units (Blake Lane) were sold October 2013 which sets the payment date for the \$300,000 note at October 2018. In January 2018 the loan was amended to stipulate that if the Organization pays \$150,000 towards the loan principal plus all accrued interest by September 26, 2018 the maturity of the remaining balance of the loan will be extended. The Organization paid \$150,000 on July 27, 2018 therefore the new maturity date for the remaining \$150,000 principal balance is September 26, 2023.

City of Santa Cruz \$98,250

Habitat MB had previously entered into agreements with the City of Santa Cruz related to a site on Harbor Drive Project for the purpose of constructing a low income housing unit. The original agreements were for \$106,000 and \$25,000. On January 15, 2014, the two agreements were consolidated into one, with a total obligation amount of \$131,000. The note is secured by a deed of trust. The note bears 3% simple interest. Upon every fifth anniversary of the close of escrow of the HOME-Assisted Units, twenty-five percent (25%) of the original principal amount and all interest accrued as of each five year anniversary date shall be converted to a grant, assuming no event of default. Habitat MB was eligible for grant conversion of the first 25% on August 3, 2018 therefore \$53,615 is shown as debt converted to grant revenue on the Statement of Activities. Of this amount, \$32,750 is loan principal and \$20,865 is accrued interest. Accrued interest on this loan totaled \$0 as of June 30, 2019 due to the fact that all accrued interest was forgiven during the year.

HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 8 - NOTES PAYABLE (Continued):

City of Santa Cruz \$45,000

On September 29, 2010 the Organization entered an agreement with the City of Santa Cruz for \$60,000 for construction of a low income housing unit on Frederick Street. The note is secured by the HOME Deed of Trust on the property and bears simple interest of 3%. Upon every fifth anniversary of the note 25% of the original principal is eligible to be converted to a grant, assuming no event of default. In fiscal year 2016-17 the first 25%, or \$15,000, was converted. Accrued interest on this loan totaled \$4,173 as of June 30, 2019.

City of Santa Cruz \$105,000

On August 19, 2016 the Organization entered an agreement with the City of Santa Cruz for \$105,000 for construction of a low income accessory dwelling unit on Frederick Street. The note is secured by a deed of trust. The note bears 3% simple interest. Upon every fifth anniversary of the close of escrow of the HOME-Assisted Units, twenty-five percent (25%) of the original principal amount and all interest accrued as of each five year anniversary date shall be converted to a grant, assuming no event of default. Habitat MB will be eligible for grant conversion of the first 25% in 2021. Accrued interest on this loan totaled \$9,736 as of June 30, 2019.

County of Santa Cruz \$655,715

The Organization entered into agreement with the County of Santa Cruz on June 20, 2011 for the purchase of property on Rodriguez Street in Santa Cruz and construction of low income housing thereon. The total amount of the agreement is \$1,530,000 for the construction and sale of 7 homes, or \$218,571 per home. Assuming no event of default the \$1,530,000 amount is converted into grant revenue as the constructed units are sold. As of June 30, 2019, all of the funds had been drawn and 4 of the 7 units had been sold. Construction on 2 remaining units were in progress as of June 30, 2019 and one unit was available for sale. Also see Note 4 and Note 16.

Housing Authority Santa Cruz County \$188,291

The Organization entered into an agreement with the Housing Authority of Santa Cruz County on September 14, 2017 for a \$300,000 predevelopment loan for Harper Street in Santa Cruz. As of June 30, 2019 the Organization had drawn down a total of \$188,291. The loan will be converted to grant revenue, ratably, upon the sale of the Harper Street units. Also see Note 3 and Note 16.

HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 8 - NOTES PAYABLE (Continued):

California Department of Housing and Community Development \$240,000

The Organization entered into an agreement with the California Department of Housing and Community Development (CA HCD) on November 28, 2017 for a \$240,000 loan for the completion of the last three units in the Los Esteros project. (See Note 3). The loan will be converted to grant revenue, ratably, upon the sale of each unit. Also see Note 16.

NOTE 9 - LINE OF CREDIT:

The Organization has available a \$100,000 line of credit with a local bank secured by substantially all assets of the Organization. Interest only payments are due in monthly installments. Bank advances on the line of credit carry an interest rate of 1.5% over the prime rate. The amount drawn and outstanding on the line of credit at June 30, 2019 was \$50,000 and the interest rate was 7.0%.

NOTE 10 - PROPERTY LEASES:

The Organization currently leases its Santa Cruz ReStore location and its main office space. The Santa Cruz ReStore lease expires June 30, 2020 and the office space lease expires November 30, 2022. The related amounts are included in minimum future lease payments presented below. Total rent expense incurred for the fiscal year for these two spaces was \$184,530.

Minimum future lease payments subsequent to June 30, 2019 are as follows:

<u>Year Ended</u>	<u>Lease Payments</u>
6/30/2020	189,376
6/30/2021	33,120
6/30/2022	33,120
6/30/2023	13,800
Thereafter	-
TOTAL	<u>\$ 269,416</u>

NOTE 11 - IN-KIND CONTRIBUTIONS:

Habitat MB received in-kind contributions amounting to \$128,689 of architectural, engineering, legal and computer services, and construction materials. Beginning in October 2016 the Organization also received free use of a 16,000 square foot building used for its Monterey ReStore. As the free use of this facility can be revoked at any time with thirty days-notice by the contributor, the fair value of the rent is recorded each period the free space is occupied. Management estimates the value of in-kind rent to be \$10,000 per month, or \$120,000 per year. Management estimates the value of ReStore donated goods to be \$918,079. The value of these contributed services, materials and rent has been recognized as revenues for the year ended June 30, 2019.

HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 12 - NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions at June 30, 2019, are available for the following purposes or periods:

Monterey County	\$ 290,500
Solar Panel/Installation	<u>8,739</u>
Total	<u>\$ 299,239</u>

NOTE 13 CONCENTRATION OF CREDIT RISK:

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist of cash and cash equivalents and mortgages receivable.

Deposits with the banks and certain financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor. Cash and cash equivalents exceeding federally insured limits totaled \$0 at June 30, 2019.

Credit risk with respect to mortgages receivable is considered low based on collection history and that each is secured by the related home which has a fair value in excess of the mortgage.

NOTE 14 - AVAILABILITY OF FINANCIAL ASSETS & LIQUIDITY MANAGEMENT:

The Organization's financial assets available for general expenditures within one year of the balance sheet date include the following:

Cash and Cash Equivalents	\$ 204,779
Accounts Receivable	48,286
Mortgages Receivable - Current	<u>260,939</u>
	514,004
Less: Donor Restricted	<u>(299,239)</u>
Available for Use One Year From Balance Sheet Date	\$ <u>214,765</u>

The Organization has a goal to maintain financial assets on hand to meet 60 days of normal operating expenses, which are, on average, approximately \$309,000. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization has a line of credit available to meet liquidity needs. See Note 9 for Line of Credit terms.

HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization has a line of credit available to meet liquidity needs. See Note 9 for Line of Credit terms.

NOTE 15 - ACQUISITION OF MONTEREY COUNTY HABITAT FOR HUMANITY:

In August 2016, Habitat for Humanity Santa Cruz County changed its name to Habitat for Humanity Monterey Bay after acquiring the assets and liabilities of Monterey County Habitat for Humanity via contribution upon that corporation's dissolution. Both Organizations determined that this transaction would achieve operational efficiency and better serve their common charitable and educational tax exempt purposes.

NOTE 16 - PRIOR PERIOD ADJUSTMENT:

During the year the Organization discovered an error in the amount reported as cost of homes transferred in previous years. As such a prior period adjustment was recorded in order to properly expense out construction costs of homes previously sold.

NOTE 17 - EVALUATION OF SUBSEQUENT EVENTS:

In July 2019 the Organization contracted with Earthworks to complete the infrastructure work for the Harper Street Development in the amount of \$800,000.

In August 2019 the Organization was approved for an infrastructure construction loan in the amount of \$1,000,000 from the Housing Trust Silicon Valley. The loan proceeds will be used for the Harper Street development.

In August of 2019 The Organization obtained funding from the Community Foundation Santa Cruz County for \$500,000 for the Harper Street Development.

In July of 2019 the Organization sold a newly build home in the Los Esteros Development. As a result of the sale, the Organization was able to convert \$298,571 of long term debt into grant revenue.

NOTE 18 - DATE OF MANAGEMENT'S REVIEW:

The Organization has evaluated events subsequent to June 30, 2019, to assess the need for potential recognition or disclosures in the financial statements. Such events were evaluated through January 16, 2020, the date these financial statements were available to be issued. Based upon this evaluation, it was determined that no other subsequent events occurred that require recognition or additional disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

**HABITAT FOR HUMANITY MONTEREY BAY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019**

Schedule I

	Cost of Homes Transferred & Program Support	Santa Cruz ReStore	Monterey ReStore	Management and General	Fund- Raising	Total Expenses
Salaries and Wages	\$ 277,765	\$ 299,447	\$ 194,605	\$ 206,792	\$ 91,336	\$ 1,069,945
Payroll Taxes	11,312	26,662	16,418	27,150	6,350	87,892
Employee Benefits	10,912	25,129	10,053	2,563	786	49,443
Cost of Homes Transferred	186,236	-	-	-	-	186,236
ReStore Cost of Goods Sold	-	634,955	289,271	-	-	924,226
Rent	-	152,600	120,000	31,780	150	304,530
Liability & Property Insurance	5,217	4,167	13,753	4,579	-	27,716
My House My Home Construction	80,251	-	-	-	-	80,251
Promotion	1,073	28,945	11,788	6,902	6,228	54,936
Bank Charges and Credit Card Fees	33	17,420	6,785	1,029	837	26,104
Truck Expenses	390	10,624	6,952	-	-	17,966
Outside Services	1,755	651	4,604	12,935	-	19,945
Business Systems Management	-	523	524	15,974	1,168	18,189
Supplies	102	5,968	3,784	7,081	573	17,508
In Kind Expenses	1,528	-	-	20,483	-	22,011
Program Sustainability	15,000	-	-	-	-	15,000
Warehouse Expense	-	1,102	985	-	-	2,087
Staffing Expense	-	651	402	1,024	-	2,077
Directors Expense	-	-	116	21,522	-	21,638
Professional Services	-	-	-	12,000	-	12,000
Tithe to Habitat for Humanity Intl	3,942	-	-	-	-	3,942
Small Tools	9,486	-	-	31	-	9,517
Telecommunications	1,799	3,991	5,341	5,053	600	16,784
Depreciation	2,621	2,546	1,451	12,498	-	19,116
Event Expense	-	-	-	-	3,559	3,559
Disposal	151	3,275	5,603	-	-	9,029
Conferences and Training	850	-	-	834	487	2,171
Miscellaneous	7,807	939	717	988	2,853	13,304
Utilities	289	5,928	542	2,897	-	9,656
Publications	-	130	503	3,984	-	4,617
Travel & Parking	50	-	90	2,234	610	2,984
Printing	163	406	-	-	4,130	4,699
Interest Expense	19,778	-	-	-	-	19,778
Volunteer Expense and Recognition	135	8	212	-	1,271	1,626
Postage and Shipping	63	-	-	1,063	809	1,935
Repairs and Maintenance	-	468	-	-	-	468
Discount on Mortgages Issued	295,902	-	-	-	-	295,902
Total	\$ 934,610	\$ 1,226,535	\$ 694,499	\$ 401,396	\$ 121,747	\$ 3,378,787

See Independent Auditor's Report