

**HABITAT FOR HUMANITY
MONTEREY BAY**

FINANCIAL STATEMENTS

JUNE 30, 2020

HABITAT FOR HUMANITY MONTEREY BAY

JUNE 30, 2020

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
Statement of Functional Expenses	Exhibit D
Notes to Financial Statements	Exhibit E Pages 1 - 17

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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, 2020, 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, 2020, 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.

Walters & Kondrasheff

Walters & Kondrasheff
Certified Public Accountants

Scotts Valley, California
December 22, 2020

HABITAT FOR HUMANITY MONTEREY BAY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020

Exhibit A

ASSETS

Current Assets	
Cash and Cash Equivalents	\$ 709,668
Restricted Cash - Impounds (Note 2)	87,471
Grants Receivable	35,745
ReStore Inventory	161,376
Prepaid Expenses	6,807
Current Portion of Notes Receivable	<u>242,922</u>
Total Current Assets	<u>1,243,989</u>
Long Term Mortgage Notes and Leases Receivable (Note 5)	
Non-Interest Bearing Mortgage Notes Receivable, Net of Current Portion	3,821,794
Less Discount on Non-Interest Bearing Mortgage Loans	<u>(2,369,259)</u>
Total Long-Term Notes Receivable	<u>1,452,535</u>
Property & Equipment, Net of Accumulated Depreciation	<u>56,699</u>
Other Assets	
Construction in Progress (Including Land Held for Development; Note 7)	1,695,372
Restricted Cash - Construction (Note 2)	719,161
Security Deposits	17,867
Other Assets	<u>11,263</u>
Total Other Assets	<u>2,443,663</u>
Total Assets	<u><u>\$ 5,196,886</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts Payable	\$ 34,396
Accrued Expenses (Note 11)	108,163
Impound Liability	87,464
Line of Credit (Note 10)	<u>100,000</u>
Total Current Liabilities	<u>330,023</u>
Non-Current Liabilities	
Forgivable Notes (Note 9)	1,851,963
Repayable Notes (Note 9)	<u>688,873</u>
Total Non Current Liabilities	<u>2,540,836</u>
Total Liabilities	<u>2,870,859</u>
Net Assets	
Without Donor Restrictions or Board Designations	1,932,199
Without Donor Restrictions, Board Designated - Loan Reserve	50,000
Without Donor Restrictions, Board Designated - Home Repurchase Reserve	53,328
With Donor Restrictions (Note 12)	<u>290,500</u>
Total Net Assets	<u>2,326,027</u>
Total Liabilities and Net Assets	<u><u>\$ 5,196,886</u></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, 2020**

Exhibit B

	Without Donor Restrictions	With Donor Restrictions	Total
<u>PUBLIC SUPPORT</u>			
Contributions	\$ 305,406	\$ -	\$ 305,406
Grants	104,843	-	104,843
Fundraising	29,174	-	29,174
Rental Income	2,496	-	2,496
In-Kind Donations	132,976	-	132,976
Imputed Interest from Discounted Mortgages	150,443	-	150,443
In-Kind Donations - Construction Materials	35,627	-	35,627
ReStore Sales	801,542	-	801,542
ReStore Donations	810,289	-	810,289
Home Transfers	1,050,000	-	1,050,000
Debt Converted to Grant	895,713	-	895,713
Homeowner Funding	17,691	-	17,691
Releases from Restriction	8,739	(8,739)	-
	4,344,939	(8,739)	4,336,200
Total Public Support			
 <u>EXPENSES</u>			
Program Services			
Program Support	515,420	-	515,420
Cost of Homes Transferred	1,421,618	-	1,421,618
ReStore	1,657,401	-	1,657,401
Management and General	316,753	-	316,753
Fundraising	146,074	-	146,074
	4,057,266	-	4,057,266
Total Expenses			
 CHANGE IN NET ASSETS	287,673	(8,739)	278,934
 NET ASSETS, BEGINNING OF YEAR	1,747,854	299,239	2,047,093
 NET ASSETS, END OF YEAR	\$ 2,035,527	\$ 290,500	\$ 2,326,027

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, 2020**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ 278,934
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:	
Depreciation	15,245
Mortgage Loan Discount Amortization	(150,443)
In-Kind Donations - ReStore (change in inventory)	(8,747)
Transfer of Homes	(1,050,000)
Debt Converted to Grant	(895,713)
Cost of Homes Transferred	1,421,618
Mortgage Discounts on Loans Issued	18,471
New MHMH ADU Loan Issued	(31,247)
(Increase) Decrease in Operating Assets:	
Accounts Receivable	(1,383)
Costs and Earnings in Excess of Billings - My House My Home	13,924
Prepaid Expense	(5,106)
Security Deposit	(45)
Increase (Decrease) in Operating Liabilities:	
Accounts Payable	(16,554)
Accrued Expenses	11,206
Impound Liability	5,285
Total Adjustments	(673,489)
NET CASH USED BY OPERATING ACTIVITIES	(394,555)

CASH FLOWS FROM INVESTING ACTIVITIES

Mortgage Payments Received	269,611
Proceeds from Home Sales	1,036,404
Purchase of Fixed Assets & CIP	(557,415)
NET CASH PROVIDED BY INVESTING ACTIVITIES	748,600

CASH FLOWS FROM FINANCING ACTIVITIES

Loan Proceeds	825,423
Proceeds from Line of Credit	50,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	875,423

NET INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

1,229,468

CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, beginning of year

286,832

CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, end of year

\$ 1,516,300

Supplemental Data:

Cash Basis Interest Paid	\$ 2,523
Noncash investing and financing transaction:	
Rodeo Creek Court Land Purchase	\$ 1,100,000
Forgivable Loan Obligation	\$ 1,100,000

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

**HABITAT FOR HUMANITY MONTEREY BAY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020**

EXHIBIT D

	Cost of Homes Transferred & Program Support	Santa Cruz ReStore	Monterey ReStore	Management and General	Fund- Raising	Total Expenses
Salaries and Wages	\$ 311,806	\$ 244,254	\$ 164,074	\$ 189,950	\$ 114,134	\$ 1,024,218
Payroll Taxes	23,264	21,983	14,767	17,096	10,272	87,381
Employee Benefits	7,392	18,519	14,128	4,693	2,359	47,091
Cost of Homes Transferred	1,421,618	-	-	-	-	1,421,618
ReStore Cost of Goods Sold	-	539,667	278,010	-	-	817,677
Rent	11,685	157,176	120,000	28,658	3,542	321,061
Liability & Property Insurance	14,410	2,243	12,890	2,084	-	31,627
My House My Home Construction	36,540	-	-	-	-	36,540
Promotion	-	7,065	7,552	2,368	450	17,435
Bank Charges and Credit Card Fees	1,773	13,166	8,006	858	-	23,803
Truck Expenses	12,843	-	-	-	-	12,843
Outside Services	-	1,054	4,438	26,606	540	32,638
Business Systems Management	-	-	-	3,845	-	3,845
Supplies	9,454	-	-	-	-	9,454
Program Sustainability	15,000	-	-	-	-	15,000
Staffing Expense	-	-	-	8,035	-	8,035
Directors Expense	-	-	-	4,944	-	4,944
Tithe to Habitat for Humanity Intl	4,164	-	-	-	-	4,164
Small Tools	6,379	-	-	-	-	6,379
Telecommunications	1,800	3,862	5,065	4,701	550	15,978
Depreciation	3,752	-	-	11,493	-	15,245
Fundraising and Events	-	-	-	-	12,649	12,649
Facility and Property Maintenance	23,725	3,510	7,143	-	-	34,378
Miscellaneous	2,756	-	-	-	-	2,756
Utilities	-	5,948	2,367	2,164	-	10,479
Dues and Fees	5,778	-	-	-	-	5,778
Interest Expense	3,515	-	-	4,190	-	7,705
Volunteer Expense and Recognition	696	-	-	-	-	696
Postage and Printing	218	345	169	5,068	1,578	7,378
Discount on Mortgages Issued	18,471	-	-	-	-	18,471
Total	\$ 1,937,038	\$ 1,018,792	\$ 638,609	\$ 316,753	\$ 146,074	\$ 4,057,266

See Independent Auditor's Report

HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

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 19). 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, 2020

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.

Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net assets with donor restrictions are resources that are subject to donor-imposed restrictions. Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature; such as those that are restricted by a donor that the resources be maintained in perpetuity.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without 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.

HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

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

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.

Restricted Cash - Rodeo Creek Project Funds

The terms of the Rodeo Creek Court development loan from the County of Santa Cruz (see Note 9) required the Organization to deposit \$400,000 from the sale of the last three Los Esteros lots (see Note 7) and the \$500,000 proceeds from the Community Foundation loan (see Note 9) into a restricted account. In order to make disbursements from this account the Organization must submit documentation evidencing the development costs incurred to the County's Planning Director.

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.

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.

HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

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

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 the cumulative principal that the homeowner has paid on their mortgage, whether the mortgage was held by the Organization or a third party lender.

As of June 30, 2020 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

HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

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

Public Support and Revenue (Continued)

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, 2020.

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.

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

HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

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

ReStore Donations and Sales Revenue and Related Cost of Goods Sold (Continued)

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:

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. The Organization has 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%

HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

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

Expense Allocation (Continued)

Property Insurance allocation:

ReStore Santa Cruz: 8.47%, ReStore Monterey 57.54%, Management 9.1%,
Program Support 24.89%

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 \$17,435 for the fiscal year ended June 30, 2020.

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.

HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 3 - CASH AND CASH EQUIVALENTS:

Cash, cash equivalents and restricted cash as of June 30, 2020 consist of the following:

Cash and Cash Equivalents	\$ 709,668
Restricted Cash – Impound	87,471
Restricted Cash – Construction	<u>719,161</u>
Cash, cash equivalents and restricted cash shown in the statement of cash flows	<u>\$ 1,516,300</u>

NOTE 4 - MY HOUSE MY HOME ADU CONTRACTS IN PROGRESS:

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.

There were no ADU's in process as of June 30, 2020 therefore this was no related asset or liability.

NOTE 5 - 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 7.38% 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, 2020 the unamortized discount on mortgages was \$2,369,259. Amortization revenue recognized for the year then ended was \$150,443.

**HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE 5 - MORTGAGE NOTES RECEIVABLE AND RELATED DISCOUNTS (Continued):

Scheduled mortgage notes receivable collections subsequent to June 30, 2020 are as follows:

6/30/2021	\$	242,922
6/30/2022		238,537
6/30/2023		236,378
6/30/2024		231,827
6/30/2025		226,415
Thereafter		<u>2,888,637</u>
TOTAL	\$	<u>4,064,716</u>

NOTE 6 - PROPERTY AND EQUIPMENT:

At June 30, 2020, property and equipment and related accumulated depreciation balances are as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Leasehold Improvements	\$ 46,269	\$ (18,164)	\$ 28,105
Furniture & Equip	45,338	(29,221)	16,117
Vehicles	<u>39,451</u>	<u>(26,974)</u>	<u>12,477</u>
	<u>\$ 131,058</u>	<u>\$ (74,359)</u>	<u>\$ 56,699</u>

NOTE 7 - 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, 2020:

	Los Esteros	Rodeo Creek Court	Airport Blvd	Total
Beginning Balance	\$ 730,504	\$ 235,233	\$ -	\$ 965,737
Costs Incurred	175,308	1,453,614	6,525	1,635,447
Costs Transferred to Finished Homes	<u>(905,812)</u>	<u>-</u>	<u>-</u>	<u>(905,812)</u>
Ending Balance	<u>\$ -</u>	<u>\$ 1,688,847</u>	<u>\$ 6,525</u>	<u>\$ 1,695,372</u>

HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 7 - CONSTRUCTION IN PROGRESS (Continued):

Los Esteros

This project consists of 7 single family homes, including one ADA accessible unit. The project received funding from the County of Santa Cruz for \$1,530,000 in the form of a forgivable loan. The loan was forgiven ratably as homes closed escrow for an affordable sales price. The infrastructure stage of this project was completed in June 2014. Construction of the first unit began in June of 2014 and the last three units were completed and sold during the year ended June 30, 2020 resulting in the conversion of debt into grants totaling \$655,713. 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. During the year ended June 30, 2020 the loan was converted to grant revenue at a rate of \$80,000 per lot as home close escrow for an affordable sales price. Also See Note 9.

Rodeo Creek Court (formerly referred to as Harper St. 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, 2020. The project has funding from Santa Cruz County for \$1,400,000 in the form of a forgivable predevelopment loan. As of June 30, 2020 the Organization had drawn down a total of \$300,000 for preconstruction costs and \$1,100,000 to purchase the land from the County. The loan will eventually be forgiven ratably upon the sale of the units.

NOTE 8 - FINISHED HOMES HELD FOR SALE:

The following represent finished homes held for sale as of June 30, 2020:

	<u>Number of Homes</u>	<u>Total</u>
Beginning balance	1	\$ 446,290
Costs transferred from construction in progress	-	905,812
Reacquisition of previously sold homes	-	
Homes sold to new qualified owners	<u>(1)</u>	<u>(1,352,102)</u>
Ending balance	<u>-0-</u>	<u>\$ -0-</u>

HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 9 - NOTES PAYABLE:

Forgivable Notes

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 and all accrued interest 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 \$5,648 as of June 30, 2020.

County of Santa Cruz \$0

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. During the year ended June 30, 2020, the remaining 3 units were sold and the remaining principle balance of \$655,713 was converted to grant revenue.

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 principal totaling \$32,750 was converted to grant in fiscal year 2018-19. Accrued interest on this loan totaled \$2,948 as of June 30, 2020.

HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 9 - NOTES PAYABLE (Continued):

Forgivable Notes (Continued)

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, 2020.

California Department of Housing and Community Development \$0

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 7). The loan was converted to grant revenue during the year ended June 30, 2020, upon the sale of each unit.

County of Santa Cruz \$1,400,000

The Organization entered into an agreement with Santa Cruz County on September 14, 2017 for a \$300,000 predevelopment loan for Rodeo Creek Court Santa Cruz. On March 12, 2020 the previous note was superseded when the Organization entered an agreement with Santa Cruz County for a new \$1,400,000 note for the purchase of the property at Rodeo Creek Court for \$1,100,000. The note is secured by a deed of trust. Assuming no event of default the loan will convert to grant revenue, ratably, as the constructed units at Rodeo Creek Court are sold. Also see Note 3 and Note 16.

Santa Cruz County Bank \$203,714 Forgivable/\$10,000 Repayable

On April 21, 2020 the Organization received funding from the federal government's Paycheck Protection Program (PPP) in the amount of \$213,714. The loan is forgivable if the funds are spent in compliance with the terms of the program. The loan accrues interest at 1% with interest and principal payments deferred for six months. Any remaining principal is due in equal payments beginning in November of 2020 and maturing in April 2022. Accrued interest on this loan totaled \$467 as of June 30, 2020. The Organization also received a \$10,000 grant from the Economic Injury Disaster Loan program that does not have to be repaid, however, it reduces the amount of the PPP loan that can be forgiven by \$10,000.

HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 9 - NOTES PAYABLE (Continued):

Repayable Notes

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. Accrued interest on this loan totaled \$9,486 as of June 30, 2020.

Community Foundation Santa Cruz County \$500,000

On March 13, 2020 the Organization entered an agreement with the Community Foundation Santa Cruz County for a \$500,000 loan for preconstruction costs for the Rodeo Creek Court development. The note bears interest at 4.0% and requires quarterly interest payments beginning on June 1, 2020. Principal payments of \$45,455 are due upon the sale of each Rodeo Creek Court unit. Upon the maturity date of March 13, 2024, all unpaid principal and accrued interest will be come due and payable. Accrued interest as of June 30, 2020 was \$1,667.

Housing Trust Silicon Valley \$28,873

On June 1, 2020 the Organization entered into an agreement with Housing Trust Silicon Valley for a \$1,000,000 loan for construction of the 11-unit affordable townhouse project at Rodeo Creek Court in Santa Cruz County. The note is secured by a deed of trust. Interest accrues at 5.0%. Principal payments of \$90,910 are payable upon the sale of each unit. As of June 30, 2020 the Organization had not taken any draws and the loan balance included loan fees only. Loan fees for construction loans are included in construction in progress.

HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 9 - NOTES PAYABLE (Continued):

Repayable Notes (Continued)

Future Maturities of Repayable Debt:

The future maturities of repayable debt are as follows:

Year Ending June 30,	
2021	\$ 4,398
2022	5,602
2023	28,873
2024	650,000
2025	-
Thereafter	-
Total	<u>\$ 688,873</u>

NOTE 10 - LINE OF CREDIT:

The Organization has available a \$300,000 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, 2020 was \$100,000 and the interest rate was 7.0%.

NOTE 11 - ACCRUED VACATION:

Employees earn from 10 to 20 days per year depending on length of service. Maximum leave accrual is equivalent to 1.5 times the total number of annual leave days earned per year, with no further accrual until the balance is reduced. Accrued vacation liability as of June 30, 2020 was \$26,486.

NOTE 12 - NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions at June 30, 2020, are available for the following purposes or periods:

Monterey County Housing Development	<u>\$ 290,500</u>
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HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 13 - IN-KIND CONTRIBUTIONS:

Habitat MB received in-kind contributions amounting to \$54,590 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 \$801,542. The value of these contributed services, materials and rent has been recognized as revenues for the year ended June 30, 2020.

NOTE 14 - 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, 2020, Habitat SCC contributed \$4,164 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 15 - PROPERTY LEASES:

The Organization currently leases its Santa Cruz ReStore location and its main office space. The Santa Cruz ReStore lease expires June 30, 2021 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 \$201,061.

Minimum future lease payments subsequent to June 30, 2020 are as follows:

<u>Year Ended</u>	<u>Lease Payments</u>
6/30/2021	195,014
6/30/2022	33,120
6/30/2023	13,800
6/30/2024	-
6/30/2025	-
Thereafter	-
TOTAL	<u>\$ 241,934</u>

HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 16 - 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 \$1,137,791 at June 30, 2020.

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 17 - COMMITMENTS:

In January 2020 the Organization signed a construction contract in the amount of \$824,800 for development of the Rodeo Creek Court property (see Note 7). The work on this contract had not begun as of June 30, 2020 therefore there were no amounts disbursed during the year and there were no accrued liabilities resulting from this contract as of June 30, 2020.

NOTE 18 - 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	\$ 709,668
Grants Receivable	35,745
Mortgages Receivable - Current	<u>242,922</u>
	988,335
Less: Donor Restricted	<u>(290,500)</u>
Available for Use One Year From Balance Sheet Date	\$ <u>697,835</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, 2020**

NOTE 19 - 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 20 - ADOPTION OF NEW ACCOUNTING STANDARDS:

On July 1, 2019, the Organization adopted ASU 2014-09 Revenue from Contracts with Customers and all subsequent amendments to the ASU (collectively, "ASC 606"), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets. As of June 30, 2019 and during the year ended June 30, 2020 all of the Organization's revenues came from contributions, grants, and contracts that are outside the scope of ASC 606 therefore the adoption had no effect on the financial statements for the year ended June 30, 2020. If the Organization enters into any contracts with customers that are deemed to be exchange transactions ASC 606 will apply.

NOTE 21 - SUBSEQUENT EVENTS:

In July 2020 the Organization received notification that it was awarded funding in the amount of \$2,210,000 from The California Department of Housing and Community Development for the First Time Homebuyer Program and Accessory Dwelling Unit/Junior Accessory Dwelling Unit Program. As of the date that these financial statements were available to be issued (Note 22) the Organization had not yet signed an agreement for this funding.

NOTE 22 - DATE OF MANAGEMENT'S REVIEW:

The Organization has evaluated events subsequent to June 30, 2020, to assess the need for potential recognition or disclosures in the financial statements. Such events were evaluated through December 22, 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