

**HABITAT FOR HUMANITY
MONTEREY BAY**

FINANCIAL STATEMENTS

JUNE 30, 2022

HABITAT FOR HUMANITY MONTEREY BAY

JUNE 30, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Habitat For Humanity Monterey Bay

Opinion

We have audited the accompanying financial statements of Habitat for Humanity Monterey Bay (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, 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.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an

INDEPENDENT AUDITOR'S REPORT (Continued)

auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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



Walters & Kondrasheff
Certified Public Accountants

Scotts Valley, California
December 15, 2022

HABITAT FOR HUMANITY MONTEREY BAY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2022

Exhibit A

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 568,525
Restricted Cash - Impounds (Note 2)	48,979
Grants Receivable	207,692
ReStore Inventory	193,721
Prepaid Expenses	6,956
Current Portion of Notes Receivable	219,024
Current Portion of Right-to-Use-Asset Operating Leases	154,490

Total Current Assets	<u>1,399,387</u>
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Long Term Mortgage Notes and Leases Receivable (Note 5)

Non-Interest Bearing Mortgage Notes Receivable, Net of Current Portion	1,121,702
Cal-Home Mortgages Receivable	51,350

Total Long-Term Notes Receivable	<u>1,173,052</u>
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Property & Equipment, Net of Accumulated Depreciation (Note 6)	<u>34,444</u>
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Other Assets

Construction in Progress (Including Land Held for Development; Note 7)	2,478,640
Restricted Cash - Construction (Note 2)	100
Finished Homs Held for Sale (Repurchased Homes)	122,030
Right-to-Use-Asset Operating Leases	661,579
Board Designated Cash - Monterey County ADU	290,500
Security Deposits	13,495
Other Assets	11,263

Total Other Assets	<u>3,577,607</u>
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Total Assets	<u><u>\$ 6,184,490</u></u>
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable	\$ 66,585
Accrued Expenses (Note 11)	161,179
Current Portion of Operating Lease Liability	144,567
Impound Liability	48,980

Total Current Liabilities	<u>421,311</u>
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Non-Current Liabilities

Forgivable Notes (Note 9)	1,097,909
Repayable Notes (Note 9)	942,058
Right-to-Use-Asset Operating Lease Liability	794,702

Total Non Current Liabilities	<u>2,834,669</u>
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Total Liabilities	<u>3,255,980</u>
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Net Assets

Without Donor Restrictions or Board Designations	2,002,010
Without Donor Restrictions, Board Designated - Loan Reserve	150,000
Without Donor Restrictions, Board Designated - Home Repurchase Reserve	28,000
With Donor Restrictions (Note 12)	748,500

Total Net Assets	<u>2,928,510</u>
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Total Liabilities and Net Assets	<u><u>\$ 6,184,490</u></u>
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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, 2022

Exhibit B

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>PUBLIC SUPPORT</u>			
Contributions	\$ 478,313	\$ 30,000	\$ 508,313
Grants	398,000	-	398,000
Fundraising	31,193	-	31,193
Rental Income	2,496	-	2,496
Gifts-in-Kind	1,115,149	-	1,115,149
Imputed Interest from Discounted Mortgages	138,194	-	138,194
ReStore Sales	830,739	-	830,739
Home Transfers	1,265,000	398,000	1,663,000
Debt Converted to Grants	766,003	-	766,003
Releases from Restriction	-	-	-
Total Public Support	<u>5,025,087</u>	<u>428,000</u>	<u>5,453,087</u>
<u>EXPENSES</u>			
Program Services			
Program Support	1,097,585	-	1,097,585
Cost of Homes Transferred	1,730,368	-	1,730,368
ReStore	<u>1,740,971</u>	<u>-</u>	<u>1,740,971</u>
Total Program	4,568,924	-	4,568,924
Management and General	395,168	-	395,168
Fundraising	<u>185,732</u>	<u>-</u>	<u>185,732</u>
Total Expenses	<u>5,149,824</u>	<u>-</u>	<u>5,149,824</u>
CHANGE IN NET ASSETS	<u>(124,737)</u>	<u>428,000</u>	<u>303,263</u>
NET ASSETS, BEGINNING OF YEAR	<u>2,304,747</u>	<u>320,500</u>	<u>2,625,247</u>
NET ASSETS, END OF YEAR	<u><u>\$ 2,180,010</u></u>	<u><u>\$ 748,500</u></u>	<u><u>\$ 2,928,510</u></u>

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, 2022

EXHIBIT C

	Cost of Homes Transferred & Program Support	Watsonville ReStore	Monterey ReStore	Management and General	Fund- Raising	Total Expenses
Salaries and Wages	\$ 367,315	\$ 178,100	\$ 201,395	\$ 236,701	\$ 135,578	\$ 1,119,089
Payroll Taxes	30,571	11,430	20,225	23,367	6,680	92,273
Employee Benefits	25,041	20,383	9,122	2,522	5,960	63,028
Cost of Homes Transferred	1,730,368	-	-	-	-	1,730,368
ReStore FMV of Donated Goods Sold	-	364,828	465,911	-	-	830,739
Repurchased Home Mortgage Write Offs	124,744	-	-	-	-	124,744
Restore Cost of Purchased Goods Sold	-	7,249	7,505	-	-	14,754
Rent	0	206,886	120,000	42,366	-	369,252
Liability & Property Insurance	10,947	10,549	12,257	1,914	-	35,667
My House My Home Construction	117,359	-	-	-	-	117,359
Promotion	0	4,894	599	375	3,141	9,009
Bank Charges and Credit Card Fees	111	10,710	14,200	675	2,590	28,286
Truck Expenses	2,242	10,756	7,329	-	-	20,327
Outside Services	24,485	4,274	5,030	44,878	1,129	79,796
Business Systems Management	-	-	-	-	265	265
Supplies	144	899	1,885	4,123	382	7,433
Tithe to Habitat for Humanity Intl	-	-	-	15,000	-	15,000
Staffing Expense	1,606	1,035	828	3,638	3,075	10,182
Directors Expense	(0)	-	-	688	-	688
Tithe	9,952	4,197	-	-	15,435	29,584
Small Tools	14,176	-	-	-	-	14,176
Telecommunications	150	1,406	3,512	3,564	-	8,632
Depreciation	4,343	-	-	4,503	-	8,846
Fundraising and Events	1,013	-	277	-	8,738	10,028
Facility and Property Maintenance	424	7,165	10,906	-	-	18,495
Miscellaneous	1,183	1,594	(414)	543	-	2,906
Utilities	(0)	6,725	2,552	2,518	-	11,796
Dues and Fees	1,781	1,314	1,357	6,548	-	10,999
Interest Expense	7,174	-	-	489	-	7,663
Volunteer Expense and Recognition	371	20	373	-	814	1,578
Postage and Printing	41	854	854	755	1,944	4,449
Discount on Mortgages Issued	352,413	-	-	-	-	352,413
Total	\$ 2,827,953	\$ 855,268	\$ 885,703	\$ 395,168	\$ 185,732	\$ 5,149,824

See Independent Auditor's Report

**HABITAT FOR HUMANITY MONTEREY BAY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ 303,263
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:	
Depreciation	8,846
Loss on Repurchase of Previously Sold Homes	124,744
Mortgage Loan Discount Amortization	(138,194)
In-Kind Donation Construction Materials Capitalized	(129,899)
In-Kind Donations - ReStore (change in inventory)	(36,703)
Transfer of Homes	(1,663,000)
Debt Converted to Grant	(766,003)
Cost of Homes Transferred	1,730,368
Mortgage Discounts on Loans Issued	352,413
 (Increase) Decrease in Operating Assets:	
Accounts Receivable	(171,900)
Prepaid Expense	688
Security Deposit	11,588
 Increase (Decrease) in Operating Liabilities:	
Accounts Payable	(282,573)
Accrued Expenses	8,986
Operating Lease Liability	123,200
Impound Liability	(4,819)
 Total Adjustments	<u>(832,258)</u>
 NET CASH USED BY OPERATING ACTIVITIES	<u>(528,995)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Mortgage Payments Received	250,786
Repurchase of Previously Built Homes	(122,030)
Proceeds from Home Sales	1,258,285
Purchase of Fixed Assets & CIP	<u>(590,913)</u>
 NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>796,128</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Loan Proceeds	219,475
Payments on Loan Principal	<u>(563,640)</u>
 NET CASH USED BY FINANCING ACTIVITIES	<u>(344,165)</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH (77,032)

CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, beginning of year 985,136

CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, end of year (Note 3) \$ 908,104

Supplemental Data:

Cash Basis Interest Paid	<u><u>\$ (17,667)</u></u>
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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, 2022

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 Watsonville 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 Watsonville 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, 2022

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, 2022

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 all proceeds from the sale of Harper Street Development Lots (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. All funds received during the year were spent during the year ended June 30, 2022. See Note 20.

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, 2022

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 mortgages receivable, whether payable to Habitat or a third party financier, 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 lender. 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.. As of June 30, 2022 there was one ADU in process.

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.

During the year ended June 30, 2022, the Organization purchased two previously built homes for a total of \$122,030. The balance of the mortgages written-off, net of the unamortized discount of \$229,962, was \$124,744.

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, 2022

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, 2022.

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, 2022

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 2016 and beyond remain subject to examination by the Internal Revenue Service. The Organization's California returns for the tax years 2015 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 Watsonville ReStore box truck is charged 100% to the Watsonville 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 Watsonville ReStore. The liability insurance premium for the dump truck is allocated 50% to Watsonville 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.

HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

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

Expense Allocation (Continued)

Commercial Liability Insurance:

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

Property Insurance allocation:

ReStore Watsonville: 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 \$9,008 for the fiscal year ended June 30, 2022.

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, 2022

NOTE 3 - CASH AND CASH EQUIVALENTS:

Cash, cash equivalents and restricted cash as of June 30, 2022 consist of the following:

Cash and Cash Equivalents	\$ 568,525
Board Designated – Monterey County	290,500
Restricted Cash – Impound	48,979
Restricted Cash – Construction	<u>100</u>
Cash, cash equivalents and restricted cash shown in the statement of cash flows	<u>\$ 908,104</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.

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, 2022 the unamortized discount on mortgages was \$1,868,790. Amortization revenue recognized for the year then ended was \$132,431.

HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

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

Scheduled mortgage notes receivable collections subsequent to June 30, 2022 are as follows:

6/30/2023	\$	219,024
6/30/2024		217,991
6/30/2025		213,123
6/30/2026		204,816
6/30/2027		199,357
Thereafter		<u>2,155,205</u>
TOTAL	\$	<u>3,209,516</u>

Cal-Home Mortgage Assistance Program: During the fiscal year ended June 30, 2022, the Organization began use of the State of California, Department of Housing and Community Development, Cal-Home Mortgage Assistance Program. This program provides qualified first-time homebuyers with mortgage assistance funding. The notes are non-interest bearing, require no monthly payments and are due in full thirty years from the date of the note. The Cal-Home notes require immediate repayment under certain circumstances, and, if a home is subsequently sold, funds from the payoff are restricted for future first-time qualified homebuyers (Cal-Home ReUse funds).

At June 30, 2022, the Organization had \$398,000 of Cal-Home mortgage receivables and the unamortized discount was \$346,650.

Habitat discounts the Cal-Home mortgage notes to present value based on an estimated expected repayment term of 30 years. The discount rates was 7.49% during the year ended June 30, 2022. Discounts recorded for Cal-Home mortgages granted during the year amounted to \$352,413 and accretion of discounts amounted to \$5,763.

NOTE 6 - PROPERTY AND EQUIPMENT:

At June 30, 2022, 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	\$ (31,733)	\$ 14,536
Furniture & Equip	45,338	(33,263)	12,075
Vehicles	<u>39,451</u>	<u>(31,618)</u>	<u>7,833</u>
	<u>\$ 131,058</u>	<u>\$ (96,614)</u>	<u>\$ 34,444</u>

**HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022**

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, 2022:

	Rodeo Creek Court	Airport Blvd	Total
Beginning Balance	\$ 2,613,450	\$ 7,995	\$ 2,621,445
Costs Incurred	754,567	525	755,092
Costs of Homes Transferred	<u>(897,897)</u>	<u>-</u>	<u>(897,897)</u>
Ending Balance	<u>\$ 2,470,120</u>	<u>\$ 8,520</u>	<u>\$ 2,478,640</u>

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 is in process as of June 30, 2022. The project has funding from Santa Cruz County for \$1,400,000 in the form of a forgivable predevelopment loan. As of June 30, 2022 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 be forgiven ratably upon the sale of the units. During the year ended June 30, 2022, four homes were sold and \$509,091 was forgiven. Also see Note 9 and Note 19.

NOTE 8 - FINISHED HOMES HELD FOR SALE:

The following represent finished homes held for sale as of June 30, 2022:

	<u>Number of Homes</u>	<u>Total</u>
Beginning balance	2	\$ 826,134
Costs transferred from construction in progress	2	897,896
Reacquisition of previously sold homes	2	122,030
Homes sold to new qualified owners	<u>(4)</u>	<u>(1,724,030)</u>
Ending balance	<u>2</u>	<u>\$ 122,030</u>

HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 9 - NOTES PAYABLE:

Forgivable Notes

City of Santa Cruz \$30,000

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 each of fiscal years 16/17 and 20/21, 25%, or \$15,000, was converted. As of June 30, 2022, accrued interest on this loan totaled \$900.

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 \$8,843 as of June 30, 2022.

City of Santa Cruz \$78,750

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. During the year ended June 30, 2022, principal totaling \$26,250 and interest totaling \$15,750 were converted to grant. Accrued interest on this loan totaled \$0 as of June 30, 2022.

County of Santa Cruz \$890,909

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

HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 9 - NOTES PAYABLE (Continued):

Forgivable Notes (Continued)

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. During the year ended June 30, 2022, four Rodeo Creek Court homes were sold and \$509,091 was converted to grant. Also see Notes 7 and 20.

Santa Cruz County Bank \$0

On January 27, 2021 the Organization received funding from the federal government's Paycheck Protection Program (PPP) in the amount of \$213,710. The loan principal plus interest totaling \$1,202 was forgiven in September 2021.

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 \$10,479 as of June 30, 2022.

Community Foundation Santa Cruz County \$300,00

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 \$50,000 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. During the year ended June 30, 2022, four Rodeo Creek Court units were sold and principal payments totaling \$200,000 were paid. Interest paid during the year totaled \$16,000 and is included in

HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 9 - NOTES PAYABLE (Continued):

Repayable Notes (Continued)

construction in progress. Accrued interest as of June 30, 2022 was \$0. Also see Notes 7 and 20.

Housing Trust Silicon Valley \$492,058

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. During the year ended June 30, 2022, four Rodeo Creek Court units were sold and principal payments totaling \$363,640 were paid. Loan fees totaling \$28,873 are included in construction in progress. Accrued interest on this loan totaled \$49,146 as of June 30, 2022 and the interest expense of \$35,419 is included in construction in progress. Also see Notes 7 and 20.

Future Maturities of Repayable Debt:

The future maturities of repayable debt are as follows:

Year Ending	
June 30,	
2022	\$ -
2023	492,058
2024	450,000
2025	-
2026	-
Thereafter	-
Total	<u>\$ 942,058</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, 2022 was \$0 and the interest rate was 7.0%.

**HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022**

NOTE 11 - ACCRUED EXPENSES:

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, 2022 was \$33,414.

The following table summarizes the accrued expenses as of June 30, 2022:

Accrued Vacation	\$ 33,414
Accrued Payroll	58,400
Accrued Interest (Note 9)	<u>69,365</u>
Total Accrued Expenses	<u>\$ 161,179</u>

NOTE 12 - NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions at June 30, 2022, are available for the following purposes or periods:

Cal-Home Mortgage Assistance	\$ 398,000
Monterey County	345,500
Strategic Planning	<u>5,000</u>
Total	<u>\$ 748,500</u>

NOTE 13 - IN-KIND CONTRIBUTIONS:

The Organization received gifts-in-kind for the year ended June 30, 2022:

Store Facilities	\$ 120,000
Inventory	865,250
Construction Materials	113,414
Vendor Discounts	<u>16,485</u>
	<u>\$ 1,115,149</u>

The Organization's policy related to gifts-in-kind is to utilize the assets given to carry out the mission of the Organization. If an asset is provided that does not allow the Organization to utilize it in its normal course of business, the asset will be sold at its fair market value as determined by appraisal or specialist depending on the type of asset.

Beginning in October 2016 the Organization 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

**HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022**

NOTE 13 - IN-KIND CONTRIBUTIONS (Continued):

any time with thirty day's 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.

The Organization received donated inventory with an estimated fair market value of \$865,250. Inventory with an estimated fair market value of \$830,739 was sold during the year ended June 30, 2022.

The Organization received donated construction materials with an estimated fair market value of \$113,414. Of this amount, \$110,746 is included in construction in progress, related to the Rodeo Creek Court development, and \$2,668 is included in My House My Home expenses.

The Organization received vendor discounts with an estimated fair market value of \$16,485. Included in this amount are donated accounting services totaling \$7,954 and other miscellaneous office supplies, software discounts, and small tools.

All gifts-in-kind received by the Organization for the year ended June 30, 2022, were considered without donor restrictions and able to be used by the Organization as determined by the board of directors and management.

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, 2022, Habitat SCC contributed \$29,584 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 has operating leases of buildings for its Watsonville ReStore location and its main office space. The Watsonville ReStore lease expires September 30, 2026 and the office space lease expires November 30, 2027. The weighted average remaining lease term for the two operating leases is six years. The discount rate used to compute the present value of both leases was 10%. Total operating lease costs incurred for the fiscal year for these two spaces was \$249,252.

**HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022**

NOTE 15 - PROPERTY LEASES (Continued):

Minimum future lease payments subsequent to June 30, 2022 are as follows:

<u>Year Ended</u>	<u>Lease Payments</u>
6/30/2023	\$ 238,494
6/30/2024	264,490
6/30/2025	288,640
6/30/2026	304,860
6/30/2027	110,160
Thereafter	<u>18,400</u>
Total Lease Payments	1,225,044
Less: Interest	<u>(285,774)</u>
Present Value of Lease Liabilities	<u>\$ 939,270</u>

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 \$380,275 at June 30, 2022.

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 - 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	\$ 568,525
Board Designated Cash – Monterey County	290,500
Grants Receivable	207,692
Mortgages Receivable - Current	219,024
Less: Donor Restricted – Monterey County	(340,500)
Less: Donor Restricted – Strategic Planning	<u>(5,000)</u>
Available for Use One Year From Balance Sheet Date	<u>\$ 940,241</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 10 for Line of Credit terms.

**HABITAT FOR HUMANITY MONTEREY BAY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022**

NOTE 18 - CHANGE IN ACCOUNTING PRINCIPLE:

Effective July 1, 2021, the Organization adopted FASB ASC 842, *Leases*. The Organization determines if an arrangement contains a lease at inception based on whether the Organization has the right to control the asset during the contract period and other facts and circumstances. The Organization elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed it to carry forward the historical lease classification.

The adoption of FASB ASC 842 resulted in the recognition of right-of-use-assets, net of prepaid lease payments and lease incentives, of \$816,069 and operating lease liabilities of \$939,269 as of June 30, 2022. The adoption of FASB ASC 842 increased rent expense for the year ended June 30, 2022 by \$123,200.

NOTE 19 - SUBSEQUENT EVENTS:

During October of 2022 the Organization sold two lots from the Rodeo Creek Court Development. The Proceeds from the sale were used to reduce the Housing Trust of Silicon Valley loan by \$181,820 and the Community Foundation Loan by \$100,000. See Note 9. Additionally, the Santa Cruz County development loan was partially converted to grant in the amount of \$254,546. The Organization was required to deposit the remaining proceeds of \$187,080 into the restricted construction escrow bank account. See Note 2 Restricted Cash – Rodeo Creek Project Funds.

NOTE 20 - DATE OF MANAGEMENT’S REVIEW:

The Organization has evaluated events subsequent to June 30, 2022, to assess the need for potential recognition or disclosures in the financial statements. Such events were evaluated through December 15, 2022, 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.