Habitat For Humanity Greater San Francisco, Inc.

Consolidated Financial Statements

June 30, 2019
(With Comparative Totals for 2018)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Habitat For Humanity Greater San Francisco, Inc.
San Francisco, California

We have audited the accompanying consolidated financial statements of Habitat For Humanity Greater San Francisco, Inc. (a California nonprofit corporation) (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

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

Change in Accounting Principle

As described in Note 2 to the financial statements, the Organization has adopted ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Correction of Errors

As discussed in Note 3 to the financial statements, during the year ended June 30, 2019, certain errors resulting in overstatement of amounts previously reported for mortgage notes receivable, net of unamortized discount and mortgage discount amortization were discovered by the Organization. Accordingly, amounts reported for mortgage notes receivable, net of unamortized discount and mortgage discount amortization have been restated in the 2018 financial statements now presented, and an adjustment has been made to net assets as of June 30, 2018 to correct the errors. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited Habitat For Humanity Greater San Francisco, Inc.'s 2018 financial statements, and our report dated November 27, 2018 expressed an unmodified opinion on those audited financial statements. As part of our audit of the 2019 financial statements, we also audited the adjustments to the 2018 financial statements to apply the change in accounting principle and to correct certain errors, both of which are discussed above. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, adjusted for the change in accounting principle and the correction of errors discussed above, is consistent, in all material respects, with the audited financial statements from which it has been derived. Also, in our opinion, such adjustments are appropriate and have been properly applied.

Armanino LLP

Armanino LLP
San Jose, California

November 6, 2019

Habitat For Humanity Greater San Francisco, Inc.
Consolidated Statement of Financial Position
June 30, 2019
(With Comparative Totals for 2018)

	2019	(Restated) 2018
ASSETS		
Current assets		
Cash and cash equivalents	$ 10,622,858	$ 7,511,568
Accounts receivable	62,151	147,916
Impound receivable	-	10,207
Current portion of mortgage notes receivables	1,182,604	1,169,100
Current portion of contributions receivable	1,621,811	1,117,947
Inventory of homes	342,732	2,062,163
Prepaid and other current assets	94,193	82,866
Total current assets	13,926,349	12,101,767
Property and equipment, net	177,004	257,285
Other assets		
Restricted cash	28,054	312,294
Mortgage notes receivable, net of unamortized discount	8,854,594	8,650,945
Grants receivable	137,734	67,500
Contributions receivable, net of current portion	2,045,825	517,761
Construction in progress	6,585,310	6,146,962
Deposits	102,110	87,110
Intangibles, net	-	19,018
NMTC Investment - 2, HFHGSF Leverage Lender, LLC	-	8,712,803
Total other assets	17,753,627	24,514,393
Total assets	$ 31,856,980	$ 36,873,445

The accompanying notes are an integral part of these consolidated financial statements.

Habitat For Humanity Greater San Francisco, Inc.
Consolidated Statement of Financial Position
June 30, 2019
(With Comparative Totals for 2018)

	2019	(Restated) 2018
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable, operating	$ 159,831	$ 300,117
Accounts payable, ReStore	-	67,189
Accrued liabilities	310,280	150,995
Accrued interest	-	13,205
Unearned revenue	10,000	-
Accrued wages	70,081	13,809
Current portion of notes payable	65,897	43,680
Impound liability	-	895
Total current liabilities	616,089	589,890
Long-term liabilities		
Notes payable, net of current portion	1,536,087	628,519
Refundable advances	1,334,000	1,334,000
Loan payable, NMTC financing - 2	-	10,239,356
Deferred lease obligation	71,103	107,995
Total long-term liabilities	2,941,190	12,309,870
Total liabilities	3,557,279	12,899,760
Net assets		
Without donor restrictions		
Undesignated	22,182,134	18,924,642
Board designated operating reserve	2,931,943	2,455,741
Total without donor restrictions	25,114,077	21,380,383
With donor restrictions	3,185,624	2,593,302
Total net assets	28,299,701	23,973,685
Total liabilities and net assets	$ 31,856,980	$ 36,873,445

The accompanying notes are an integral part of these consolidated financial statements.

Habitat For Humanity Greater San Francisco, Inc.
Consolidated Statement of Activities
For the Year Ended June 30, 2019
(With Comparative Totals for 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	(Restated) 2018 Total
Support, revenues, and gains				
Support				
Grants and contributions	$ 5,722,026	$ 2,224,880	$ 7,946,906	$ 3,533,826
Special events, net	279,356	-	279,356	615,712
Donated services	118,771	-	118,771	162,749
Donated materials	59,671	-	59,671	25,459
Donated land	-	-	-	1,900,000
Total support	6,179,824	2,224,880	8,404,704	6,237,746
ReStore revenue	1,627,918	-	1,627,918	1,715,279
Mortgage discount amortization	471,198	-	471,198	698,879
Sale of homes	1,763,381	-	1,763,381	6,659,693
NMTC investment income	216,204	-	216,204	216,204
Gain on cancellation of NMTC financing	1,455,650	-	1,455,650	1,225,305
Other income	43,016	1,032,778	1,075,794	52,487
Net assets released from restriction	2,665,336	(2,665,336)	-	-
Total support, revenues, and gains	14,422,527	592,322	15,014,849	16,805,593
Functional expenses				
Program services				
Housing Development	3,756,528	-	3,756,528	11,047,737
Homeowner Dev., Volunteers, NR	1,758,679	-	1,758,679	1,357,202
ReStore	1,418,269	-	1,418,269	1,542,279
Total program services	6,933,476	-	6,933,476	13,947,218
Support services				
General and administrative	2,380,862	-	2,380,862	1,939,563
Fundraising	1,374,495	-	1,374,495	1,451,394
Total support services	3,755,357	-	3,755,357	3,390,957
Total functional expenses	10,688,833	-	10,688,833	17,338,175
Change in net assets	3,733,694	592,322	4,326,016	(532,582)
Net assets, beginning of year	21,380,383	2,593,302	23,973,685	24,506,267
Net assets, end of year	$ 25,114,077	$ 3,185,624	$ 28,299,701	$ 23,973,685

The accompanying notes are an integral part of these consolidated financial statements.

Habitat For Humanity Greater San Francisco, Inc.
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2019
(With Comparative Totals for 2018)

	Housing Development	Homeowner Dev., Volunteers, NR	ReStore	Total Program Services	General and Administrative	Fundraising	Total Support Services	2019 Total	(Restated) 2018 Total
Expenses									
Direct housing expenses									
Cost of sales - homes	$ 1,514,223	$ -	$ -	$ 1,514,223	$ -	$ -	$ -	$ 1,514,223	$ 6,659,693
Loss on Sale of Home	230,184	-	-	230,184	-	-	-	230,184	300,201
Total direct housing expenses	1,744,407	-	-	1,744,407	-	-	-	1,744,407	6,959,894
Salaries and benefits									
Salaries and wages	390,830	1,060,397	589,219	2,040,446	828,181	864,953	1,693,134	3,733,580	3,365,197
Employee benefits	42,146	131,080	85,292	258,518	64,516	93,562	158,078	416,596	303,674
Payroll taxes	29,217	83,987	45,139	158,343	54,333	63,248	117,581	275,924	255,301
Stipend - Vista/AmeriCorp	-	11,442	-	11,442	592	11,241	11,833	23,275	76,234
Workers' compensation insurance	6,629	11,081	3,843	21,553	4,915	5,375	10,290	31,843	92,623
Total salaries and benefits	468,822	1,297,987	723,493	2,490,302	952,537	1,038,379	1,990,916	4,481,218	4,093,029
Professional services	56,236	45,195	20,230	121,661	340,516	58,409	398,925	520,586	809,997
Rent	44,057	77,790	454,133	575,980	136,735	78,285	215,020	791,000	782,411
Donated services and goods	-	4,949	-	4,949	67,479	-	67,479	72,428	50,956
Promotions and supplies	792	35,417	2,293	38,502	3,432	7,245	10,677	49,179	88,679
Interest	58,489	-	-	58,489	5,382	-	5,382	63,871	181,558
NMTC annual fees	-	-	-	-	181,121	-	181,121	181,121	101,317
Tithe	100,853	-	-	100,853	-	-	-	100,853	132,012
Communications	8,614	22,503	5,622	36,739	26,368	13,502	39,870	76,609	108,110
Office expenses	6,980	11,499	64,592	83,071	69,425	22,941	92,366	175,437	169,452
Postage and printing	1,927	4,070	-	5,997	38,724	97,319	136,043	142,040	121,405
Depreciation	-	-	-	-	122,213	-	122,213	122,213	90,899
Amortization	-	-	-	-	19,018	-	19,018	19,018	39,614
Bad debt	-	-	-	-	325,508	-	325,508	325,508	122,664
Taxes and licenses	-	-	-	-	17,970	-	17,970	17,970	6,942
Travel and training	3,382	16,112	2,983	22,477	39,705	11,664	51,369	73,846	124,216
Neighborhood revitalization project expense	-	215,870	-	215,870	-	-	-	215,870	237,812
Computer software/hardware	2,407	3,435	3,885	9,727	(1,255)	4,895	3,640	13,367	66,646
Bank fees	114	468	30,794	31,376	7,117	21,102	28,219	59,595	64,617
Insurance	20,341	16,290	14,214	50,845	16,931	13,499	30,430	81,275	75,006
Employee engagement	399	1,613	-	2,012	9,099	1,137	10,236	12,248	13,214
Equipment rental and maintenance	2,753	5,481	18,828	27,062	2,837	3,623	6,460	33,522	35,865
Miscellaneous construction	438,653	-	-	438,653	-	-	-	438,653	155,010
Discount on mortgage issued	797,302	-	-	797,302	-	-	-	797,302	2,672,792
Marketing	-	-	77,119	77,119	-	2,495	2,495	79,614	32,112
Other expenses	-	-	83	83	-	-	-	83	1,946
	$ 3,756,528	$ 1,758,679	$ 1,418,269	$ 6,933,476	$ 2,380,862	$ 1,374,495	$ 3,755,357	$ 10,688,833	$ 17,338,175

The accompanying notes are an integral part of these consolidated financial statements.

Habitat For Humanity Greater San Francisco, Inc.
Consolidated Statement of Cash Flows
For the Year Ended June 30, 2019
(With Comparative Totals for 2018)

	2019	(Restated) 2018
Cash flows from operating activities		
Change in net assets	$ 4,326,016	$ (532,582)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	141,231	130,513
(Gain)/Loss on disposal of fixed assets	(20,407)	11
Sales of homes recognized through issuance of mortgage notes	(1,763,381)	(4,520,300)
Amortization of mortgage notes receivable discount	(471,198)	(698,879)
Discount on notes payable issued	(1,032,778)	-
Discount on mortgages issued	797,302	2,672,792
Amortization of notes payable discount	17,332	50,145
Amortization of debt issuance costs	91,489	46,155
Gain on cancellation of NMTC financing	(1,455,650)	(1,225,305)
Bad debt write off	325,508	-
Changes in operating assets and liabilities		
Accounts receivable	(239,743)	305,911
Grants and contributions receivable	(2,102,162)	937,194
Impounds receivable	10,207	2,495
Inventory of homes	1,719,431	(351,946)
Construction in progress	(438,348)	3,254,637
Prepaid expenses and other current assets	(11,327)	(31,177)
Deposits	(15,000)	8,509
Accounts payable	(207,475)	118,710
Accrued expenses and other liabilities	174,565	(69,962)
Net cash provided by (used in) operating activities	(154,388)	96,921
Cash flows from investing activities		
Purchase of property and equipment	(21,525)	-
Payments received on mortgage notes receivable	1,220,123	1,189,939
Investment in new markets tax credit venture	(162,392)	(126,605)
Net cash provided by investing activities	1,036,206	1,063,334
Cash flows from financing activities		
Proceeds from refundable advances	-	809,000
Refundable advances converted to home sale revenue	-	(2,036,438)
Payments on notes payable	(65,566)	(82,906)
Proceeds from issuance of notes payable	2,010,798	-
Net cash provided by (used in) financing activities	1,945,232	(1,310,344)
Net increase (decrease) in cash	2,827,050	(150,089)
Cash, cash equivalents and restricted cash, beginning of year	7,823,862	7,973,951
Cash, cash equivalents and restricted cash, end of year	$ 10,650,912	$ 7,823,862

The accompanying notes are an integral part of these consolidated financial statements.

Habitat For Humanity Greater San Francisco, Inc.
Consolidated Statement of Cash Flows
For the Year Ended June 30, 2019
(With Comparative Totals for 2018)

	2019	(Restated) 2018
Cash, cash equivalents and restricted cash consisted of the following:		
Cash	$ 10,622,858	$ 7,511,568
Restricted cash	28,054	312,294
	$ 10,650,912	$ 7,823,862

Supplemental disclosure of cash flow information

	2019	2018
Cash paid during the year for interest	$ 71,693	$ 90,400

Supplemental schedule of noncash investing and financing activities

	2019	2018
Inventory of homes acquired through cancellation of mortgage notes	$ -	$ 78,606
Cancellation of NMTC financing	$ 8,875,195	$ 8,328,107

The accompanying notes are an integral part of these consolidated financial statements.

1. ORGANIZATION

Habitat for Humanity Greater San Francisco, Inc., (the "Organization"), is a nonprofit public benefit corporation incorporated in California in 1988 (originally as Peninsula Habitat for Humanity). Effective August 1, 2008, Habitat for Humanity San Francisco merged into Peninsula Habitat for Humanity and the combined entities were renamed Habitat for Humanity Greater San Francisco, Inc. The new Organization serves San Francisco, San Mateo, and Marin Counties. The Organization is affiliated with Habitat for Humanity International, Inc.

HFHGSF Funding Company, LLC (the "Company"), a limited liability company incorporated in California in 2019, is a wholly-owned subsidiary of the Organization. The Company acquired from the Organization all of its rights, title and interest in nine mortgage notes. The Company pledged the nine mortgage notes as collateral to acquire a secured note from the Northern Trust Company.

The Organization partners with working families and the community to develop affordable homes for first-time home ownership. The Organization builds homes by engaging volunteers to work alongside carefully selected candidate families. Nearly 90% of the construction labor is done by volunteers and the qualified families selected. The candidate families invest approximately 500 hours of "sweat equity" in the home in lieu of a down payment. The Organization provides financing for the homes at zero percent interest.

The following is a brief description of the Organization's program services:

<u>Housing development</u>

- *Land acquisition* - Fosters relationships with Marin, San Francisco and San Mateo Counties and their municipalities; locates and acquires land for home construction; obtains funding from multiple affordable housing sources.
- *Construction* - Builds and rehabilitates homes; trains, organizes and supervises on-site volunteers.
- *Tithe* - Contributes a portion of undesignated donated funds annually to Habitat for Humanity International, Inc. for the construction of homes outside the United States.

<u>Programs</u>

- *Homeowner development* - Selects, qualifies, and mentors candidate families, and provides them financial and home ownership education; manages long-term homeowner relationships.
- *Volunteer services* - Recruits, trains, schedules, and supports volunteers for work at the construction sites, NR projects, in the office, and on committees.

1. ORGANIZATION (continued)

Programs (continued)

- *Neighborhood revitalization (NR)* - Habitat Greater San Francisco's Neighborhood Revitalization program aims to extend the work of Habitat for Humanity into the neighborhoods where we build – beautifying parks and gardens, renovating community assets like schools and community centers and delivering critical home repairs to improve the health, safety and well-being of residents in our two focus neighborhoods: the Bayview and East Palo Alto.
- *ReStore* - In September 2012, the Organization opened its first ReStore. Habitat for Humanity Greater San Francisco ReStore is a volunteer-driven home improvement resale outlet that accepts and resells new and gently used building materials, appliances and furniture to the public at a fraction of their retail price. The ReStore keeps materials out of landfills through reuse. Funds raised help build homes for families in need in San Francisco, Marin, and on the Peninsula.

New Markets Tax Credit Financing

In July 2010, the Organization invested in a New Markets Tax Credit (NMTC) financing joint venture, HFHI-SA Leverage VI, LLC, along with three other Habitat affiliates, to take advantage of tax credit equity financing (see Notes 10 and 13).

In December 2011, the Organization invested in its second New Markets Tax Credit (NMTC) financing venture, HFHGSF Leverage Lender, LLC, as the sole Habitat affiliate, to take advantage of tax credit equity financing (see Notes 10, 13, 21).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The Organization's financial statements are presented in accordance with accounting principles generally accepted in the United States of America on an accrual basis. Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

The Organization follows standards of accounting and financial reporting for voluntary health and welfare organizations as prescribed by the American Institute of Certified Public Accountants, reporting its financial position and operating activities in two classes of net assets:

- *Net assets without donor restrictions* - include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization.
- *Net assets with donor restrictions* - include those assets which are subject to donor restriction and for which the applicable restriction was not met as of the year end of the current reporting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements include the accounts of the Organization and its wholly-owned subsidiary. All significant intercompany balances and transactions have been eliminated.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments and investments with an original maturity of three months or less, and exclude donor restricted receipts and amounts designated for long-term purposes.

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Mortgage notes receivable

The Organization records home sale mortgages at the gross amount of payments to be received over the lives of the mortgages. These mortgage payments do not include interest and, accordingly, the notes have been discounted at a rate of 3.86% for mortgages issued during the year ended June 30, 2019 and at rates ranging from 4% to 10% for mortgages issued prior to July 1, 2018. The rates are based on prevailing market rates at the inception of the mortgage. During the year ended June 30, 2019, the rates were based on the Freddie Mac 30 year fixed-rate mortgage rates and prior to July 1, 2018, rates were provided by Habitat for Humanity International and were based on market rate data for low-income housing.

For the year ended June 30, 2018, discounts were amortized using the effective interest method. For the year ended June 30, 2019, the Organization determined its discount amortization based on a straight line method. Management considers the difference between amortization calculated using the straight line method and amortization using the effective interest method to be immaterial to the financial statements. Discount amortization is recognized as revenue on the statement of activities.

Management does not believe an allowance for doubtful accounts is necessary because the mortgage notes receivables are secured by the properties.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions

Contributions are recorded at their fair value and are recognized as revenue when the donor makes an unconditional promise to give to the Organization. Donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the same year in which the contributions are recognized. Net assets released from restrictions represent the satisfaction of donor restrictions or the passage of time. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. There were no conditional promises as of June 30, 2019.

Property and equipment

Furniture, equipment, leasehold improvements, and vehicles are carried at cost or, if donated, at the approximate fair value at the date of donation. The Organization capitalizes all acquisitions of property and equipment in excess of $3,000. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets, which range from three to seven years.

Impairment of long-lived assets

The Organization reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of the property and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. For the years ended June 30, 2019 and 2018, there were no events or changes in circumstances indicating that the carrying amount of the property and equipment may not be recoverable.

Restricted cash

Restricted cash is comprised of the following:

- *Restricted cash - New Market Tax Credit Investment Housing Funds* - New Market Tax Credit restricted cash are funds set aside to cover transaction and management fees. The balance of the New Market Tax Credit Investment Housing Funds totaled $0 and $283,346 as of June 30, 2019 and 2018, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted cash (continued)

- *Restricted cash - homeowners impound funds* - The Organization services the mortgages on the homes it sells. Included in restricted cash are amounts received for insurance and property taxes on such homes. The Organization records a related liability as an offset to these impound amounts. The balance of the homeowners impound funds totaled $0 and $895 as of June 30, 2019 and 2018, respectively.
- *Restricted cash - construction in progress performance deposit* - In lieu of posting a performance bond on active construction projects, the Organization pledges a certificate of deposit. The money is released once the project is completed. The balance of the construction in progress performance deposit totaled $28,054 and $28,053 as of June 30, 2019 and 2018, respectively.

Grants, donations and contributions receivables

The Organization considers all grants, donations and contributions receivable to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary.

Inventory of homes

The Organization classifies as inventory the following: completed new construction homes; homes purchased under the NR program in which rehabilitation is substantially complete; and Habitat built homes that are bought back from the homeowner (resale homes). Completed new construction homes and NR homes are stated at the lower of cost or market using the specific identification method. Habitat resale homes are stated at buy back cost (the original sales price plus appreciation).

Construction in progress

Construction in progress is stated at the lower of cost or market using the specific identification method. Construction in progress consists of new home building projects under construction, NR homes undergoing rehabilitation, and pre-development costs of future projects (see Note 9).

Advertising

The Organization's policy is to expense advertising costs as the costs are incurred. Advertising expenses (included as "Marketing" in the accompanying statement of functional expenses) for the years ended June 30, 2019 and 2018, were $79,614 and $32,112, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comparative financial statements

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional expense categories. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Expense allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses and Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on a time study analysis and other reasonable methods.

Income taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). The Organization is also exempt from state income tax under Section 23701(d) of the California Revenue and Taxation Code.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Organization in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

Subsequent events

The Organization has evaluated subsequent events through November 6, 2019, the date the financial statements were available to be issued. See Note 24 for subsequent events that have a material impact on the presentation of the Organization's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 requires significant changes to the financial reporting model of organizations who follow the not-for-profit reporting model. The changes include reducing the classes of net assets from three classes to two: net assets with donor restrictions and net assets without donor restrictions. The ASU also requires changes in the way certain information is aggregated and reported by the Organization, including required disclosures about liquidity and availability of resources and increased disclosures on functional expenses.

The amendment in this ASU is effective for the Organization's year ending June 30, 2019 and thereafter and must be applied on a retrospective basis. The Organization adopted the ASU effective July 1, 2018. The adoption of the ASU did not result in any reclassifications or restatements to net assets or changes in net assets.

3. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

During the fiscal year ended June 30, 2019, the Organization discovered errors between the balances of unamortized discount of mortgage note receivables and the mortgage discount amortization, which resulted in misstatements in the previously issued financial statement for the year ended June 30, 2018. The Organization has restated the financial statements for the year ended June 30, 2018, in accordance with ASC 250, Accounting Changes and Error Corrections.

The effects of the restatement to fiscal year 2018, are presented as follows:

	As Previously Reported	Adjustments	As Restated
Noncurrent mortgage notes receivable, net of unamortized discount	$ 9,644,384	$ (993,439)	$ 8,650,945
Mortgage discount amortization	1,475,576	(776,697)	698,879
Change in net assets	244,115	(776,697)	(532,582)
Net assets, beginning of year	24,723,009	(216,742)	24,506,267
Net assets, end of year - without donor restriction	$ 22,373,822	$ (993,439)	$ 21,380,383

4. MORTGAGE NOTES RECEIVABLE

As of June 30, 2019, the Organization holds 135 mortgage notes receivable, totaling $19,541,219 at gross value with maturities of 1 to 40 years. The notes are non-interest bearing mortgages, payable in equal monthly installments, and are secured by deeds of trust on the properties. According to an agreement with Habitat for Humanity International, Inc., the collections on these notes receivable are to be used to construct additional homes. The notes have been discounted at various interest rates ranging from 3.86% to 10.0% using the effective interest method prior to July 1, 2018, and the straight line method for the year ended June 30, 2019 (see Note 2) over the lives of the mortgages. Mortgages are reported net of amortized cost.

Principal payments due on mortgage notes receivable are as follows:

Year ending June 30,	
2020	$ 1,182,604
2021	1,151,509
2022	1,116,258
2023	1,096,739
2024	1,072,045
Thereafter	13,922,064
	19,541,219
Less: unamortized discount	(9,504,021)
Net present value of mortgages	10,037,198
Less current portion	(1,182,604)
	$ 8,854,594

5. GRANTS RECEIVABLE

Grants receivable consisted of the following:

	2019	2018
Other non-government grants - various projects	$ 137,734	$ 67,500

6. CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following:

	2019	2018
Receivable in less than one year	$ 1,621,811	$ 1,117,947
Receivable in one to five years	2,143,566	553,804
	3,765,377	1,671,751
Less discounts to net present value	(97,741)	(36,043)
Less current portion	(1,621,811)	(1,117,947)
	$ 2,045,825	$ 517,761

7. INVENTORY OF HOMES

Inventory of homes consisted of the following:

	2019	2018
Habitat resale homes	$ 342,732	$ 2,062,163

8. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2019	2018
Furniture and equipment	$ 164,432	$ 234,505
Vehicles	151,111	152,431
Leasehold improvements	380,352	380,352
	695,895	767,288
Accumulated depreciation	(518,891)	(510,003)
	$ 177,004	$ 257,285

Depreciation expense for the years ended June 30, 2019 and 2018, was $122,213 and $90,899, respectively.

9. CONSTRUCTION IN PROGRESS

Construction in progress consisted of the following:

	2019	2018
New construction		
Redwood City: Jefferson Ave. (20 homes)	$ 3,054,637	$ 2,717,602
Daly City: Geneva (6 Homes)	1,023,225	871,427
San Francisco: Amber Dr. (6 Homes)	2,318,603	2,118,988
	6,396,465	5,708,017
Pre-development		
North Bay development	188,845	31,865
San Francisco: Hunter's View (30 homes estimated)	-	407,080
	188,845	438,945
	$ 6,585,310	$ 6,146,962

10. NMTC INVESTMENT

In July 2010, the Organization invested, along with three other Habitat affiliates, in a joint venture (HFHI-SA Leverage VI, LLC) to take advantage of New Markets Tax Credit (NMTC) financing. NMTC financing allows an entity to receive a loan or investment capital from outside investors, who will receive new markets tax credits to be applied against their federal tax liability. The Organization invested a combination of cash and construction in progress totaling $6,381,480 for a 33.9% ownership stake and securing a loan in the amount of $8,328,107 payable to Clearinghouse NMTC (Sub 21), LLC (a community development entity). The net proceeds resulting from the joint venture totaled $1,646,171 and was used solely for the purpose of constructing and selling qualified housing properties to low-income residents.

In August 2017, HFHI-SA Leverage VI, LLC purchased the ownership interest of the investment as a result of the exercise of the put option on the related loan

In December 2011, the Organization entered into its second NMTC financing venture, investing in a sole venture (HFHGSF Leverage Lender, LLC). The Organization contributed a combination of cash, construction in progress, and NR inventory homes totaling $7,922,319 for a 100% ownership stake and securing a loan in the amount of $10,330,845 payable to Northern California Community Loan Fund NMTC Sub-CDE V, LLC (a community development entity).

In January 2019, HFHGSF Leverage Lender, LLC purchased the ownership interest of the investment as a result of the exercise of the put option on the related loan (see Note 13).

10. NMTC INVESTMENT (continued)

The investment was accounted for using the equity method and the carrying amount of the investment was increased for the Organization's proportionate share of the joint venture's earnings and decreased for the Organization's proportionate share of the joint venture's losses and distributions.

The balance of the investment in HFHGSF Leverage Lender, LLC is as follows:

	2019	2018
Balance, beginning of year	$ 8,712,803	$ 8,575,030
Share of income	216,204	216,204
Distributions received	(53,812)	(78,431)
Gain on cancellation of NMTC financing	1,455,650	-
Capital withdrawal	(10,330,845)	-
Balance, end of year	$ -	$ 8,712,803

11. INTANGIBLE ASSETS

The Organization incurred costs for qualified active low-income business guarantor fees related to its NMTC financing to be amortized over 7 years.

Intangible assets consisted of the following:

	2019	2018
Qualified active low income community business (QALICB) guarantor fees	$ -	$ 266,259
Accumulated amortization	-	(247,241)
	$ -	$ 19,018

Amortization expense for the years ended June 30, 2019 and 2018 was $19,018 and $39,614 respectively.

12. NOTES PAYABLE

Notes payable are detailed as follows:

	2019	2018
Payable to the County of San Mateo - Home Program federal funds used for site construction costs of two housing units, secured by individual deeds of trust on property located in Brisbane, CA, due in semi-annual non-interest bearing payments of $698 through June 2037.	$ 24,655	$ 26,050
Payable to the County of San Mateo - Home Program federal funds used for site construction costs of five housing units, secured by individual deeds of trust on property located in Brisbane, CA, due in semi-annual non-interest bearing payments of $2,111 through June 2032.	53,548	57,771
Payable to the County of San Mateo - Home Program federal funds used for site construction of four housing units, secured by individual deeds of trust on property located in South San Francisco, CA, due in semi-annual non-interest bearing payments of $7,261 through December 2025.	90,258	104,783
Payable to the County of San Mateo - CDBG Program federal funds used for the purchase of land and pre-development costs for 24 housing units, secured by individual deeds of trust on property located in East Palo Alto, due in semi-annual non-interest bearing payments of $13,617 through November 2033.	-	28,722
Payable to Habitat for Humanity International, Inc. - 0% interest, federal funds used for housing construction costs, payable in 47 monthly installments of $581.	13,956	20,928
Payable to the Housing Authority of the County of San Mateo, 0% interest, used for the purpose of acquiring the property located at Jefferson Avenue in Redwood City, secured by individual deeds of trust on the property. Should all requirements of the agreement be met, loan is to be forgiven in five equal, $100,000, installments over the last 5 years of the term of the loan, from July 2042 to June 2047.	500,000	500,000

12. NOTES PAYABLE (continued)

	2019	2018
Payable to the Community Development Agency of the City of Menlo Park, 0% interest, used for the purchase of land for housing units in Menlo Park, CA, secured by deeds of trust on the units. Due in semi-annual installments of $1,625 through December 2018.	-	1,625
Payable to the Northern Trust Company, 0% interest, secured by deeds of nine mortgage loans. Due in various monthly installments through July 2047.	2,002,691	-
	2,685,108	739,879
Less discount on notes payable	(1,083,124)	(67,680)
	1,601,984	672,199
Current portion	(65,897)	(43,680)
	$ 1,536,087	$ 628,519

The discount rates on the notes payable range from 7.5% to 8.4% based on an annual simple average using rates published by Habitat for Humanity International, Inc and the Federal Home Loan Mortgage Corporation. Amortization of these discounts on the notes for the years ended June 30, 2019 and 2018 was $17,332 and $20,843, respectively.

The discounted principal payments due on the notes payable are as follows:

Year ending June 30,	
2020	$ 65,897
2021	67,269
2022	61,606
2023	62,640
2024	62,097
Thereafter	1,282,475
	$ 1,601,984

13. LOANS PAYABLE

Loan Payable, NMTC Financing - 1

The Organization recorded a loan payable to Clearinghouse NMTC Sub 21, LLC (a NMTC community development entity) dated July 28, 2010 as part of the NMTC financing transaction. It was a 15-year loan bearing interest at 0.766% interest with semi-annual interest-only payments for 7 years from December 5, 2010 until December 5, 2017. Principal payments were scheduled to begin on December 5, 2017. The loan had a put option feature, defined in an option agreement between the joint venture's related parties that was exercised in August 2017. Exercise of the option extinguished the Organization's outstanding debt balance of $8,328,107 and resulted in a gain of $1,225,305 for the year ended June 30, 2018.

Interest expense on the loan for the years ended June 30, 2019 and 2018 was $0 and $45,409, respectively. Interest expense includes $0 and $39,382 of amortization of the debt issuance costs for the years ended June 30, 2019 and 2018, respectively.

Loan Payable, NMTC Financing - 2

The Organization recorded a loan payable to Northern California Community Loan Fund NMTC Sub-CDE V, LLC (a NMTC community development entity) dated December 23, 2011 as part of the NMTC financing transaction. It was a 15-year loan bearing interest at 0.767% interest with semi-annual interest-only payments for 7 years from May 5, 2012 until May 5, 2019. Principal payments were scheduled to begin on May 5, 2019. The loan had a put option feature defined by an option agreement that was exercised in January 2019 between the related parties (see Note 21). Exercise of the option extinguished the Organization's outstanding debt balance of $10,330,844 and resulted in a gain of $1,455,650 for the year ended June 30, 2019.

Interest expense on the loan for the years ended June 30, 2019 and 2018 was $46,538 and $89,994. Interest expense includes $5,382 and $10,763 of amortization of the debt issuance costs for the years ended June 30, 2019 and 2018.

14. REFUNDABLE ADVANCES

The Organization receives funds from governmental agencies for the purpose of constructing homes, and ultimately lowering the mortgage of the prospective homeowners. There are no payments or interest due by the Organization. At the time of home sale, the loans are transferred to the buyers and forgiven over varying time periods. The Organization recognizes revenue from the sale of homes upon the transfer of their liabilities to the homeowners.

14. REFUNDABLE ADVANCES (continued)

Refundable advances are detailed as follows:

	2019	2018
Department of Housing and Community Development (CalHome Program) - various projects	$ 25,000	$ 25,000
Housing Endowment and Regional Trust of San Mateo County (HEART): used for the acquisition of real property at 612 Jefferson Avenue, Redwood City, CA.	500,000	500,000
Daly City Housing Development - Geneva	809,000	809,000
	$ 1,334,000	$ 1,334,000

15. LINE OF CREDIT

In February 2014, the Organization entered into a revolving line of credit agreement with City National Bank. The line of credit is for a maximum amount of $2,000,000, and is secured by the Organization's assets. The original term of the line was for twelve months from the effective date and is automatically renewed unless the Organization gives prior notice. Interest accrues monthly at an annual rate of 3.5%. Interest is due monthly on the fifteenth calendar day of the following month. Any unpaid interest will be added to principal amount due. As of June 30, 2018, there was no outstanding balance due on the line of credit. The agreement expired as of April 1, 2019.

In July 2019, the Organization entered into a revolving line of credit agreement with the Bank of San Francisco. The line of credit is for a maximum amount of $2,000,000, and is secured by the Organization's assets. The term of the line is for two years from the effective date and is automatically renewed unless the Organization gives prior notice. Interest accrues monthly at an annual variable rate. Interest is due monthly on the fifteenth calendar day of the following month. Any unpaid interest will be added to principal amount due.

In July 2019, the Organization entered into a non-revolving line of credit agreement with the Bank of San Francisco. The line of credit is for a maximum amount of $3,000,000, and is secured by the Organization's assets. The term of the line is for five years from the effective date. Interest accrues monthly at an annual rate of 5.5%. Interest is due monthly on the fifteenth calendar day of the following month. Any unpaid interest will be added to principal amount due.

16. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	2019	2018
Growth campaign - time restriction	$ -	$ 1,611,776
Low-income housing acquisition and construction	2,157,451	981,526
Contribution from discount on note payable issued	1,028,173	-
	$ 3,185,624	$ 2,593,302

Net assets with donor restrictions released from restriction during the years were as follows:

	2019	2018
Time restriction	$ 1,611,776	$ 565,460
Low-income housing acquisition and construction	761,583	2,971,153
Homeowner development and neighborhood revitalization	287,372	104,618
Contribution from discount on note payable issued	4,605	-
	$ 2,665,336	$ 3,641,231

17. SALE OF HOMES

During the fiscal year ending June 30, 2019 the Organization sold six repurchased construction homes, comprised of Habitat homes. The loss from the sale of these homes totaled $230,184 and is comprised of revenue from sale of homes of $1,303,381 less cost of homes sold of $1,533,565. During the fiscal year ending June 30, 2018 there was a total loss of $300,201 from sales of 12 new construction homes, comprised of 10 Habitat homes and 2 below market rate homes.

18. SPECIAL EVENT REVENUE, NET

Special events revenue is presented on the statement of activities net of event related expense. For the years ended June 30, 2019 and 2018, revenue from special events was $547,937 and $796,742 and the related expense was $268,581 and $181,030, respectively.

19. DONATED MATERIALS AND SERVICES

Donated materials

The value of donated office supplies and construction materials for the years ended June 30, 2019 and 2018, was $59,671 and $25,459, respectively.

19. DONATED MATERIALS AND SERVICES (continued)

Donated services

Donated services which require a specialized skill and which the Organization would have paid for if not donated, are recorded in the financial statements as in-kind contribution revenue at the estimated fair value at the time the services are rendered.

Donated services of a specialized or professional nature consisted of the following:

	2019	2018
Legal services	$ 114,890	$ 162,749

The Organization also receives significant donated services of an unskilled nature, primarily volunteers who work on the construction and rehabilitation of homes, as well as in the office. During the years ended June 30, 2019 and 2018, volunteers donated approximately 24,520 and 34,322 hours, respectively, whose value management has estimated at $578,524 and $754,323, respectively.

20. RETIREMENT PLAN

The Organization has a 403(b) retirement plan in which the employer matches employee contributions up to 5% of gross salary. The plan covers all employees with one year of service or more and who are at least 21 years of age. Employer contributions to the employee accounts for the years ended June 30, 2019 and 2018, were $71,030 and $95,441, respectively.

21. RELATED PARTY TRANSACTIONS

HFHI Tithe

The Organization donates to Habitat for Humanity International, Inc. (HFHI) annually for the construction of homes outside of the United States, as determined by the Organization's Board of Directors. These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2019 and 2018, the amount contributed was $100,853 and $132,012, respectively, and is included in housing development expense under program services in the Statement of Functional Expenses.

Insurance policy

The Organization has a blanket policy for auto, general and builder's risk insurance through Habitat for Humanity International, Inc. For the years ended June 30, 2019 and 2018, the insurance expense was $81,275 and $75,006, respectively.

21. RELATED PARTY TRANSACTIONS (continued)

SHOP loans

The Organization has received a SHOP (Self-Help Ownership Program) loan from Habitat for Humanity International, Inc. The balance of the loan as of June 30, 2019 and 2018, was $13,956, and $20,928 respectively.

New Markets Tax Credit Investment - 2

As a component of the NMTC financing transaction, the Organization recorded debt of $10,330,844 (see Note 13) payable to Northern California Community Loan Fund NMTC Sub-CDE, LLC, a community development entity (CDE) and an affiliate of the joint venture. Simultaneous with these transactions, the LLC entered into an option agreement with U.S. Bancorp Community Development Corporation (USBCDC), the federal tax credit investor, who is the sole-member of NCCLF NMTC V Investment Fund, LLC (the "Fund"), an affiliate of the joint venture, and the upstream effective owner of Northern California Community Loan Fund NMTC Sub-CDE, LLC. In January 2019, USBCDC exercised its put option which effectively extinguished the Organization's outstanding debt owed to the Fund. The Organization recognized income on the forgiveness of debt in an amount of $1,455,650, the difference in the book value of the investment and the debt. The investment and debt have a balance of zero at June 30, 2019. All entities related to the joint venture including HFHI-SA LeverageVI, LLC were dissolved, ending the NMTC structured financing deal.

22. COMMITMENTS

Right of first purchase

Upon the acquisition of land granted to the Organization for construction, various agreements require the Organization to maintain the properties as affordable housing for a certain period of time. These affordability restrictions vary from 45 to 55 years. A right of first purchase is recorded at the time of sale giving the Organization the right to purchase the property should the homeowner decide to sell. The Organization resells purchased Habitat built homes to newly qualified families at an updated but below market value price, at which time the required affordability term continues.

Office lease

The Organization leases commercial office space in the city of San Francisco under a non-cancelable lease expiring in December 2021, and leases retail space under a non-cancelable lease for its ReStore in the city of San Carlos which expired in September 2019 (see Note 24).

22. COMMITMENTS (continued)

Office lease (continued)

The scheduled minimum lease payments under the lease terms are as follows:

Year ending June 30,		
2020	$	444,762
2021		338,431
2022		171,840
	$	955,033

The rent expense for the years ended June 30, 2019 and 2018, was $791,000 and $782,411, respectively.

23. LIQUIDITY

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.

To meet liquidity needs, the Organization maintains adequate levels of cash and cash equivalents available. Accounts receivable, current portion of mortgage notes receivable and unrestricted contribution receivables will be collected within one year to support general operations of the Organization.

The Board requires that the Organization maintains a minimum of six months of operating reserve at all time. As of June 30, 2019, the balance of the reserve was $2,931,943. However, the Board can undesignate the funds for operational needs at any time.

23. LIQUIDITY (continued)

The following is a quantitative disclosure which describes financial assets that are available as of June 30, 2019 to fund general expenditures and other obligations when they become due for one year:

Financial assets	
Cash and cash equivalents	$ 10,622,858
Accounts receivable	62,151
Current portion of contributions receivable	1,621,811
Current portion of mortgage notes receivable	1,182,604
	13,489,424
Less: Amounts unavailable for general expenditure within one year:	
Net assets with purpose restrictions	(2,157,451)
	(2,157,451)
	$ 11,331,973

24. SUBSEQUENT EVENTS

In July 2019, the Organization entered into a revolving line and a non-revolving line of credit agreement with the Bank of San Francisco (see Note 15).

The Organization's ReStore in San Carlos closed its doors to the public on September 1, 2019 ahead of the termination of the lease on the store property on September 30, 2019.

On August 20, 2019, the Organization reacquired one home partially in exchange for the cancellation of the outstanding balance on the related mortgage note receivable. The total principal balance of the mortgage repurchased was $21,148 and the gain from the repurchase was $3,867.