HABITAT FOR HUMANITY
EAST BAY/SILICON VALLEY
AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

COMBINED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED JUNE 30, 2020 AND 2019

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

COMBINED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

TABLE OF CONTENTS

* * * *

LINDQUIST
VON HUSEN
& JOYCE LLP

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying combined financial statements of Habitat for Humanity East Bay/Silicon Valley, a California nonprofit public benefit corporation, and Subsidiaries, which comprise the combined statements of financial position as of June 30, 2020 and 2019, and the related combined statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

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

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

BKR INTERNATIONAL
CERTIFIED PUBLIC ACCOUNTANTS, 301 Howard Street, Suite 850, San Francisco, California 94105
Telephone 415 957 9999 Facsimile 415 957 1629 http://www.lvhj.com

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, Habitat for Humanity East Bay/Silicon Valley and adopted the new accounting guidance required by accounting principles generally accepted in the United States of America on contributions and presentation of the combined statement of cash flows. The change in accounting principle on the combined statement of cash flows has been applied retrospectively to the prior period presented. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying schedule of expenditures of federal awards on page 35, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is also presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued a report dated November 17, 2020 on our consideration of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' internal control over financial reporting and compliance.

Lindquist, von Husen and Joyce LLP

November 17, 2020

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

COMBINED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2020 AND 2019

	2020	2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,096,211	$ 5,147,033
Investments (Note 3)	2,510,407	2,399,160
Restricted cash – current (Note 4)	29,826	29,727
Receivables, net:		
Grants, contracts and contributions – current (Note 5)	10,467,690	2,046,767
Mortgages and notes – current (Note 6)	580,295	599,284
Other	187,560	260,327
Inventory:		
Property held for sale (Note 7)	5,501,065	-
Cost of homes in progress – current (Note 7)	4,263,769	133,958
ReStore inventory	540,956	382,283
Other	231,072	-
Prepaid expenses and deposits – current	123,662	109,104
Total current assets	28,532,513	11,107,643
Restricted cash – net of current portion (Note 4)	167,637	207,108
Receivables, net:		
Grants, contracts and contributions – net of current portion (Note 5)	252,658	21,636
Mortgages and notes – net of current portion (Note 6)	14,379,772	14,468,611
Cost of homes in progress – net of current portion (Note 7)	6,872,279	8,998,408
Prepaid expenses and deposits – net of current portion	144,238	152,355
Property and equipment, net (Note 8)	128,246	198,202
Deferred costs – net	67,103	-
Total assets	$ 50,544,446	$ 35,153,963

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

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

COMBINED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2020 AND 2019

	2020	2019
LIABILITIES AND NET ASSETS		
Current liabilities:		
Line of credit (Note 10)	$ 1,637,150	$ 1,800,000
Accounts payable and accrued expenses	7,336,096	1,484,752
Interest payable (Note 10, 11, 12, and 14)	6,556	15,477
Notes payable – current portion (Note 11)	5,571,438	523,932
Reconveyable notes payable – current portion (Note 12)	727,162	391,488
Deferred revenue – current portion (Note 13)	436,714	228,044
Paycheck protection program forgivable loan (Note 14)	688,967	-
Total current liabilities	16,404,083	4,443,693
Notes payable – net of current portion (Note 11)	1,948,696	2,947,903
Reconveyable notes payable – net of current portion (Note 12)	3,374,398	3,710,072
Other subordinate debt (Note 15)	2,225,153	2,350,000
Deferred revenue – net of current portion (Note 13)	851,289	1,076,305
Total liabilities	24,803,619	14,527,973
Net assets:		
Without donor restrictions:		
Board designated (Note 16)	37,194	37,736
Undesignated	23,620,309	20,511,728
Total unrestricted	23,657,503	20,549,464
With donor restrictions (Note 16)	2,083,324	76,526
Total net assets	25,740,827	20,625,990
Total liabilities and net assets	$ 50,544,446	$ 35,153,963

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

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

COMBINED STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2020 AND 2019

	2020		
	Without Donor Restrictions	*With Donor Restrictions*	*Total*
Support and revenue:			
Sales of homes	$ 412,530	$ -	$ 412,530
Grants and contributions including general contracting revenue of $10,268,076 and $1,037,636 in 2020 and 2019, respectively	15,009,090	3,015,529	18,024,619
In-kind contributions (Note 17)	2,347,301	-	2,347,301
Inventory donations to ReStore	2,978,246	-	2,978,246
Fundraising event contributions	420,301	-	420,301
Less: fundraising event costs	(205,086)	-	(205,086)
Other income including general contracting revenue of $-0- and $352,448 in 2020 and 2019, respectively	332,535	-	332,535
Paycheck protection program grant (Note 14)	765,633	-	765,633
Net assets released from restrictions (Note 16)	1,008,731	(1,008,731)	-
Total support and revenue	23,069,281	2,006,798	25,076,079
Expenses:			
Program services:			
Housing	11,893,845	-	11,893,845
Home preservation	2,461,501	-	2,461,501
ReStore	3,067,068	-	3,067,068
Supporting services:			
Management and general	1,838,387	-	1,838,387
Fundraising	1,249,920	-	1,249,920
Total expenses	20,510,721	-	20,510,721
Change in net assets before other revenue and expenses:	2,558,560	2,006,798	4,565,358
Other revenue and expenses:			
Mortgage discount amortization	469,432	-	469,432
Mortgage discount expenses	(105,490)	-	(105,490)
Investment income – NMTC (Note 13)	39,997	-	39,997
Interest expense – NMTC (Note 13)	(40,004)	-	(40,004)
Amortization of deferred revenue – NMTC (Note 13)	185,544	-	185,544
Total other revenue and expenses	549,479	-	549,479
Change in net assets	3,108,039	2,006,798	5,114,837
Net assets, beginning of year	20,549,464	76,526	20,625,990
Net assets, end of year	$ 23,657,503	$ 2,083,324	$ 25,740,827

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

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

COMBINED STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2020 AND 2019

	2019		
	Without Donor Restrictions	*With Donor Restrictions*	*Total*
Support and revenue:			
Sales of homes	$ 5,035,105	$ -	$ 5,035,105
Grants and contributions including general contracting revenue of $10,268,076 and $1,037,636 in 2020 and 2019, respectively	11,809,212	200,000	12,009,212
In-kind contributions (Note 17)	149,588	-	149,588
Inventory donations to ReStore	3,319,114	-	3,319,114
Fundraising event contributions	378,753	-	378,753
Less: fundraising event costs	(204,104)	-	(204,104)
Other income including general contracting revenue of $-0- and $352,448 in 2020 and 2019, respectively	788,949	-	788,949
Paycheck protection program grant (Note 14)	-	-	-
Net assets released from restrictions (Note 16)	513,108	(513,108)	-
Total support and revenue	21,789,725	(313,108)	21,476,617
Expenses:			
Program services:			
Housing	13,644,688	-	13,644,688
Home preservation	2,003,045	-	2,003,045
ReStore	3,884,006	-	3,884,006
Supporting services:			
Management and general	1,938,329	-	1,938,329
Fundraising	1,597,004	-	1,597,004
Total expenses	23,067,072	-	23,067,072
Change in net assets before other revenue and expenses:	(1,277,347)	(313,108)	(1,590,455)
Other revenue and expenses:			
Mortgage discount amortization	417,045	-	417,045
Mortgage discount expenses	(405,726)	-	(405,726)
Investment income – NMTC (Note 13)	96,914	-	96,914
Interest expense – NMTC (Note 13)	(86,000)	-	(86,000)
Amortization of deferred revenue – NMTC (Note 13)	206,718	-	206,718
Total other revenue and expenses	228,951	-	228,951
Change in net assets	(1,048,396)	(313,108)	(1,361,504)
Net assets, beginning of year	21,597,860	389,634	21,987,494
Net assets, end of year	$ 20,549,464	$ 76,526	$ 20,625,990

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

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

COMBINED STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2020 AND 2019

	2020						
	Program Services				*Supporting Services* (1)		
	Housing	*Home Preservation*	*ReStore*	*Program Services Total*	*Management and General*	*Fundraising*	*Total*
Cost of homes sold and reserve for homes in progress	$ 733,454	$ -	$ -	$ 733,454	$ -	$ -	$ 733,454
Cost of general contractor services	8,509,253	-	-	8,509,253	-	-	8,509,253
Cost of miscellaneous projects	220,982	-	-	220,982	-	-	220,982
Cost of homes repaired	-	2,467,602	-	2,467,602	-	-	2,467,602
Personnel	3,429,466	1,118,939	1,585,282	6,133,687	1,460,197	983,458	8,577,342
Homeowner relations	(18,609)	-	-	(18,609)	(147)	-	(18,756)
Office	114,294	17,554	97,370	229,218	7,244	8,963	245,425
Professional services	248,875	1,237	197,635	447,747	74,230	17,944	539,921
Travel	14,365	1,951	12,653	28,969	3,780	4,159	36,908
Tithe to international projects (Note 9)	103,561	-	-	103,561	-	-	103,561
Property management	69	-	-	69	-	-	69
Public relations	153,902	-	97,090	250,992	-	3,824	254,816
Rent (Note 19)	392,712	-	551,057	943,769	13,454	30,977	988,200
Warehouse lease (Note 19)	20,837	-	46,417	67,254	-	-	67,254
Equipment	126,503	3,134	8,007	137,644	1,298	2,829	141,771
Education	8,013	1,404	3,371	12,788	2,326	644	15,758
Insurance	24,774	20,837	27,020	72,631	65,947	-	138,578
Depreciation	-	-	41,417	41,417	37,915	-	79,332
Interest	-	-	-	-	154,047	-	154,047
ReStore cost of sales	-	-	309,703	309,703	-	-	309,703
Miscellaneous	522,315	30,227	90,046	642,588	18,096	197,122	857,806
Allocation to cost of homes in progress	(2,710,921)	(1,201,384)	-	(3,912,305)	-	-	(3,912,305)
Total expenses as shown in the consolidated statements of activities	11,893,845	2,461,501	3,067,068	17,422,414	1,838,387	1,249,920	20,510,721
Interest expense – NMTC (Note 13)	40,004	-	-	40,004	-	-	40,004
Mortgage discount expenses	105,490	-	-	105,490	-	-	105,490
Fundraising event costs	-	-	-	-	-	205,086	205,086
Total expenses	$ 12,039,339	$ 2,461,501	$ 3,067,068	$ 17,567,908	$ 1,838,387	$ 1,455,006	$ 20,861,301

(1) For the last three fiscal periods ended 2018 through 2020, supporting services expenses have averaged 16.2% of total expenses. The supporting services expense percentage fluctuates by year depending on the number of homes sold.

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

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

COMBINED STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2020 AND 2019

	2019						
	Program Services				*Supporting Services* (2)		
	Housing	*Home Preservation*	*ReStore*	*Program Services Total*	*Management and General*	*Fundraising*	*Total*
Cost of homes sold and reserve for homes in progress	$ 9,562,486	$ -	$ -	$ 9,562,486	$ -	$ -	$ 9,562,486
Cost of general contractor services	1,125,596	-	-	1,125,596	-	-	1,125,596
Cost of miscellaneous projects	884,420	-	-	884,420	-	-	884,420
Cost of homes repaired	-	1,987,866	-	1,987,866	-	-	1,987,866
Personnel	2,984,980	907,248	1,872,915	5,765,143	1,458,667	1,164,443	8,388,253
Homeowner relations	27,760	-	-	27,760	638	-	28,398
Office	98,985	6,016	124,014	229,015	10,883	12,016	251,914
Professional services	268,369	39,734	235,350	543,453	142,981	29,546	715,980
Travel	30,467	3,388	8,890	42,745	12,262	3,510	58,517
Tithe to international projects (Note 9)	100,000	-	-	100,000	-	-	100,000
Property management	9,999	-	-	9,999	-	-	9,999
Public relations	156,078	-	65,381	221,459	-	3,588	225,047
Rent (Note 19)	365,850	-	672,102	1,037,952	29,294	43,276	1,110,522
Warehouse lease (Note 19)	19,378	-	43,800	63,178	-	-	63,178
Equipment	186,523	1,186	15,303	203,012	3,811	5,303	212,126
Education	15,659	1,932	895	18,486	3,231	411	22,128
Insurance	39,377	7,992	23,373	70,742	46,230	-	116,972
Depreciation	-	-	45,169	45,169	54,018	-	99,187
Interest	-	-	-	-	118,364	-	118,364
Asset management, compliance and facilitation fees – NMTC (Note 13)	87,438	-	-	87,438	-	-	87,438
ReStore cost of sales	-	-	505,196	505,196	-	-	505,196
Miscellaneous	297,839	11,825	271,618	581,282	57,950	334,911	974,143
Allocation to cost of homes in progress	(2,616,516)	(964,142)	-	(3,580,658)	-	-	(3,580,658)
Total expenses as shown in the consolidated statements of activities	13,644,688	2,003,045	3,884,006	19,531,739	1,938,329	1,597,004	23,067,072
Interest expense – NMTC (Note 13)	86,000	-	-	86,000	-	-	86,000
Mortgage discount expenses	405,726	-	-	405,726	-	-	405,726
Fundraising event costs	-	-	-	-	-	204,104	204,104
Total expenses	$ 14,136,414	$ 2,003,045	$ 3,884,006	$ 20,023,465	$ 1,938,329	$ 1,801,108	$ 23,762,902

(1) For the last three fiscal periods ended 2017 through 2019, supporting services expenses have averaged 16.8% of total expenses. The supporting services expense percentage fluctuates by year depending on the number of homes sold.

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

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

COMBINED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	$ 5,114,837	$ (1,361,504)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Amortization of deferred revenue – NMTC	(185,544)	(206,718)
Mortgage discount amortization	(469,432)	(417,045)
Mortgage discount expenses	105,490	405,726
Depreciation	75,434	99,187
Interest - amortization of loan costs	11,781	-
Amortization of deferred costs	5,198	-
Realized and unrealized gain on investments	(96,832)	(96,650)
(Increase) decrease in assets:		
Grants, contracts and contributions receivable	(8,651,945)	(424,952)
Other receivables	72,767	(10,862)
Property held for sale	(5,501,065)	1,886,468
Cost of homes in progress	(2,003,682)	2,316,808
ReStore inventory	(158,673)	305,913
Other inventory	(231,072)	-
Prepaid expenses and deposits	(6,441)	(28,015)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	5,851,344	111,499
Interest payable	(8,921)	93
Deferred revenue	169,198	(1,103,967)
Paycheck protection program forgivable loan	688,967	-
Net cash provided by (used in) operating activities	(5,218,591)	1,475,981
Cash flows from investing activities:		
Issuance of mortgages receivable	(442,673)	(1,187,167)
Collection of mortgages receivable	914,443	1,290,875
Payment of deferred costs	(72,301)	-
Purchase of property and equipment	(5,478)	(55,824)
(Purchase) sale of investments - net	(14,415)	74,655
Net cash provided by investing activities	379,576	122,539
Cash flows from financing activities:		
Proceeds from line of credit	579,000	1,954,012
Payment of line of credit	(741,850)	(964,580)
Proceeds from notes payable	6,012,590	1,228,020
Payment of loan costs	(136,628)	-
Payment of notes payable	(1,964,291)	(4,707,714)
Net cash provided by (used in) financing activities	3,748,821	(2,490,262)
Decrease in cash, restricted cash and cash equivalents	(1,090,194)	(891,742)
Cash, restricted cash and cash equivalents, beginning of year	5,383,868	6,275,610
Cash, restricted cash and cash equivalents, end of year	$ 4,293,674	$ 5,383,868
Supplementary information:		
Cash paid for interest – net of capitalized portion	$ 94,498	$ 82,667

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

	2020	2019
Cash and cash equivalents	$ 4,096,211	$ 5,147,033
Restricted cash:		
New Markets Tax Credits reserve	169,438	208,810
Stormwater reserve	28,025	28,025
Total cash, restricted cash and cash equivalents shown in the statements of cash flows	$ 4,293,674	$ 5,383,868

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

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Habitat for Humanity East Bay/Silicon Valley (HEBSV) is a California nonprofit public benefit corporation which is the surviving corporation from a merger, effective July 1, 2012, between Habitat for Humanity East Bay (HHEB) and Habitat for Humanity Silicon Valley (HHSV), California nonprofit public benefit corporations incorporated in 1987 and 1986, respectively. Seeking to put God's love into action, Habitat for Humanity brings people together to build homes, communities, and hope. HEBSV pursues its mission of building affordable housing by utilizing volunteer labor and donated materials and funds.

The following programs are included in the accompanying combined financial statements:

Building Affordable Homes

Finished affordable homes are sold to qualified families who have been approved by the board of directors based upon the recommendation of the Family Selection Committee. The families are selected based upon income, current housing need, and a willingness to partner with HEBSV. HEBSV's policy is that each family is generally required to complete a minimum of 500 hours of "sweat equity" (voluntary labor). The mortgages for all homes are generally no profit, have terms of no more than 30 years, and generally have monthly payments no greater than 30% of the family's monthly income. In recent years, HEBSV has been selling homes at a rate of approximately 5-35 homes per year. Due to the unpredictable nature of final home sales and the timing relative to the accounting fiscal year, revenue from home sales can fluctuate significantly from year to year.

Home Preservation Program

HEBSV helps low-income homeowners restore and maintain their homes through its Home Preservation Program. All repairs impact the safety of residents and/or the preservation of the home. Qualified and selected homeowners receive a variety of home repair services including but not limited to exterior painting, landscaping, ramps, exterior carpentry, roofing, window and door replacements. Homeowners participate in their repairs by contributing sweat equity volunteer hours if physically able. Home repairs are led by trained crew leaders and completed by volunteers. The cost of the repairs are generally funded by loans and grants.

ReStores

ReStores are stores that accepts donations of new and gently used items from individuals and businesses in the community, and sells those items to the public at a reduced cost. All proceeds go directly to HEBSV to build affordable homes for families with limited incomes in the Bay Area.

HEBSV is the sole member of Habitat for Humanity East Bay Funding Company, LLC (HEBFC) and Habitat for Humanity East Bay Funding Company II, LLC (HEBFCII), California limited liability companies formed in December 2009 and April 2011, respectively. HEBFC and HEBFCII were created for the sole purpose of acquiring and holding mortgage loans originated by HEBSV.

HEBSV is affiliated with and has majority board control of EBSV Community Development, Inc. (EBSV), a California nonprofit public benefit corporation, which was formed on May 25, 2016 as an instrument to further HEBSV's organizational objectives. EBSV's purposes are the attraction of long-term capital in order to finance a portion of the community development activities of HEBSV, and to provide development services to participants in the programs of that entity. EBSV obtained Community Development Financial Institution certification of the CDFI Fund of the U.S. Department of Treasury on May 5, 2017. HEBSV obtained a 25-year note in the total amount of $1,164,555 from EBSV on July 1, 2016. HEBSV subsequently contributed this $1,164,555 to EBSV under terms of the other subordinate debt.

HEBSV is an affiliate of Habitat for Humanity International, Inc. (HFHI), a nondenominational Christian nonprofit organization whose purpose is to create decent, affordable housing for those in need, and to make decent shelter a matter of conscience with people everywhere. Although HFHI assists with information resources, training, publications, prayer support and other ways, HEBSV is directly responsible for its own operations.

HEBSV is especially vulnerable to the inherent risks associated with voluntary labor and with revenue that is substantially dependent on public support and contributions. The continued growth and well-being of HEBSV are contingent upon successful achievement of its long-term revenue-raising goals. In response to these risks, HEBSV has established a self-imposed Operating Reserve of $2,000,000 to bridge any fundamental changes in the funding source structure that might take place over an intermediate term.

Various agreements dictate the maximum income level and other qualifications of eligible homebuyers for various extended periods.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Combination

The combined financial statements include the accounts of subsidiaries HEBFC and HEBFCII. The combined financial statements also include the accounts of EBSV, a nonprofit organization majority controlled by HEBSV's officers or board of directors. All significant intercompany transactions and balances have been eliminated in the combination.

Accounting Methods

HEBSV uses the accrual method of accounting, which recognizes income in the period earned and expenses when incurred, regardless of the timing of payments.

Estimates

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the reserves for costs in excess of projected sales price on homes in progress, value of the donated material and facilities, and expenses allocated to cost of homes.

Basis of Presentation

HEBSV and subsidiaries reports information regarding its combined financial position and activities according to two classes of net assets, as applicable: net assets without donor restrictions and net assets with donor restrictions.

- Net assets without donor restrictions include those assets over which the Board of Directors has discretionary control in carrying out the operations of the HEBSV and subsidiaries.

- Net assets with donor restrictions include those assets subject to donor restrictions and for which the applicable restrictions were not met as of the end of the current reporting period. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. When a donor restriction expires – that is, when a stipulated time restrictions ends or purpose restriction is accomplished – net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates the resources be maintained in perpetuity.

Revenue Recognition

Contributions are recognized as revenue when they are unconditionally communicated. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. Contributions are recognized when the donor makes a promise to give; that is, in substance, an unconditional promise. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Consequently, at June 30, 2020, contributions of approximately $1,892,000 were not recognized in the accompanying combined statements of activities because the conditions on which they depend have not been met. Contributions are recorded at their fair value as support without donor restrictions or support with donor restrictions, depending on the absence or existence of donor-imposed restrictions as applicable. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. If donors' restrictions are satisfied in the same period that the contribution is received, the contribution is reported as support without donor restrictions. Contributions restricted for the purchase of long-lived assets are reported as without donor restriction when the assets are placed in service.

Contributed services are stated at their estimated fair value, if they are ordinarily purchased and are of a specialized nature.

Income from sale of property is recognized only upon the sale of the property. Rental income received during the rehabilitation period and prior to sale is recognized as deferred income, and such income is used to defray the costs of the improvement to the property.

Forgiveness of debt is comprised of forgivable loans that are recognized upon the sale of the home to which they relate.

Cash, Restricted Cash and Cash Equivalents

Cash is defined as cash in demand deposit accounts as well as cash on hand. Not included as cash are funds restricted as to their use, regardless of liquidity, such as the New Markets Tax Credit reserve. HEBSV occasionally maintains cash on deposit at a bank in excess of the Federal Deposit Insurance limit or Security Investor Protection Corporation Coverage. The uninsured cash balance, including restricted accounts, was approximately $3,593,000 as of June 30, 2020. HEBSV and subsidiaries has not experienced any losses in such accounts.

Cash equivalents are highly liquid investments that are readily convertible to known amounts of cash. Generally, only investments with original maturities of three months or less qualify as cash equivalents.

HEBSV and subsidiaries adopted the new accounting guidance required by accounting principles generally accepted in the United States of America and changed its presentation of the statement of cash flows. As a result, the 2019 statement of cash flows has been restated to include cash and restricted cash.

Mortgages and Notes Receivable

Mortgages receivable bear no interest and are discounted to reflect imputed interest over the lives of the mortgages. The discount rate used to impute interest of the first liens and second/third liens is 2.50% and 6.26%, respectively. Mortgages are reported net of unamortized discount and amortization is recognized on a straight-line basis. Management estimates that the difference between amortization calculated using the straight-line method and the effective interest method is not material.

Notes receivable are secured by the properties, bear no interest and are due upon sale of the home.

Management may sell a portion of the first-lien mortgages originated by HEBSV and subsidiaries. Due to the uncertainty of the timing and amount of each sale of those mortgage receivables, any loss resulting from such transactions will be recorded when the transactions are settled or when amounts can be reasonably estimated.

Investments

Investments are presented in the combined financial statements at fair value based on quoted prices in active markets. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of HEBSV. Unobservable inputs, if any, reflects the HEBSV's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the HEBSV has the ability to access at the measurement date. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 – Valuations based on significant inputs that are observable, either directly or indirectly or quoted prices in markets that are not active, that is, markets in which there are few transactions, the prices are not current or price quotations vary substantially either over time or among market makers.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors, including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed, and the differences could be material.

Inventory

Inventory is stated at the lesser of cost or net realizable value. Donated inventory is recorded at fair market value at the date of receipt, determined based on retail prices at ReStore. Inventory of ReStore is held for sale at HEBSV's retail outlets. ReStore sales are included in in-kind donations, since the majority of ReStore sales are from donated inventory.

The specific identification method is used to charge inventory to cost of homes sold. When a home is sold, the specific costs to build the home are charged to cost of homes sold. Any known amounts which are estimated to be non-recoverable from the ultimate sales price of the homes will also be recognized in cost of homes sold as a loss reserve for homes in progress in the combined financial statements, recognized ratably over the period in which construction activity is expected to occur.

Any funds expended on a project that do not pass beyond the pre-construction stage are recorded as expenses when further activity on the project ceases.

Capitalized Interest

HEBSV capitalizes interest incurred during construction as a component of costs of homes. During the years ended 2020 and 2019, HEBSV capitalized interest of $156,056 and $192,904, respectively.

Property and Equipment

Property and equipment are stated at cost of acquisition, or fair market value if donated. The costs of maintenance and repairs are charged to expense as incurred. Depreciation is computed based on the straight-line method over the estimated useful lives of the assets.

The useful lives of the assets are estimated as follows:

Leasehold Improvements	4 to 5 years
Furniture and Equipment	3 to 5 years

Deferred Costs

Deferred costs were incurred in order to acquire mortgages. Deferred costs are amortized on a straight-line basis over the term of the acquired mortgages.

Permanent Loan Costs

Costs incurred in order to obtain permanent financing are stated at cost and amortized on a straight-line basis into interest expense over the term of the loan. Permanent loan costs are reported as a direct deduction from the face amount of the related debt.

Notes Payable

GAAP requires that notes payable bearing no interest are discounted to reflect imputed interest using the effective interest method over the lives of the loan, if the financial statement impact is material. Notes payable to governmental entities are exempt from the requirement to impute interest.

In-Kind Contributions

In-kind contributions consist of donated land, building materials, labor, and use of facilities. Donated land, building materials, and use of facilities are valued at market values on the date of donation. Donated labor consisting of sweat equity (i.e., family homebuyer voluntary labor) and/or volunteer labor is not considered to be contribution revenue to HEBSV.

Allocation to Cost of Homes in Progress

Allocations to costs of homes in progress consist of various program service expenses that are capitalized and recorded as costs of homes in progress for various projects, based on time incurred as estimated by management.

Income Taxes

HEBSV is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and related California code sections. Contributions to HEBSV qualify for the charitable contribution deduction and HEBSV is not classified as a private foundation.

EBSV has applied for exemption from federal income taxes under section 501(c)(3) of the Internal Revenue Code and related California code sections and the tax exemption was approved on January 23, 2020 retroactive to 2019.

No income tax provision has been included in the combined financial statements for the single member limited liability companies (LLCs) which are generally considered disregarded entities. The income and loss of the LLCs is included in the tax returns of HEBSV. Only the annual California limited liability company minimum tax and the annual fee appear as expense in the combined financial statements.

HEBSV believes that it has appropriate support for any tax positions taken, and as such, do not have any uncertain tax positions that are material to the combined financial statements. HEBSV's federal and state information returns for the years 2016 through 2019 are subject to examination by regulatory agencies, generally for three years and four years after they were filed federal and state, respectively.

Functional Expenses Allocation

The costs of providing program services and supporting services are summarized on a functional basis in the combined statements of activities. The combined statements of functional expenses present the natural classification detail of expenses by function. Certain categories of expenses are attributed to more than one program or supporting function that require consistent allocation on a reasonable basis. Expenses that are allocated include personnel costs, professional services, facility and office expenses, travel, public relations, supplies, and miscellaneous expenses. Accordingly, certain costs are allocated among program services and supporting services based on estimates of employees' time incurred and on usage of resources.

Subsequent Events

Management has evaluated subsequent events through November 17, 2020, the date on which the combined financial statements were available to be issued.

NOTE 3 – INVESTMENTS

HEBSV's investments can be liquidated at any time. The following table presents information about HEBSV's investments measured at fair value on a recurring basis as of June 30, 2020 and 2019, and indicates the fair value hierarchy of the valuation techniques utilized by HEBSV to determine the fair values:

	Cost as of June 30, 2020	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*	*Fair Value as of June 30, 2020*
Common stocks	$ 218,065	$ 344,593	$ -	$ -	$ 344,593
Fixed income securities	2,076,931	2,165,814	-	-	2,165,814
Total	$ 2,294,996	$ 2,510,407	$ -	$ -	$ 2,510,407

	Cost as of June 30, 2019	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*	*Fair Value as of June 30, 2019*
Common stocks	$ 237,793	$ 353,122	$ -	$ -	$ 353,122
Fixed income securities	2,044,565	2,046,038	-	-	2,046,038
Total	$ 2,282,358	$ 2,399,160	$ -	$ -	$ 2,399,160

Investment return consists of the following items and is included in Other Income on the combined Statement of Activities:

	2020	2019
Realized and unrealized gain from investments	$ 96,832	$ 96,650
Interest and dividend income	78,146	80,765
Investment expenses	(17,216)	(12,469)
Net investment return	$ 157,762	$ 164,856

NOTE 4 – RESTRICTED CASH

Restricted cash consists of the following:

	2020	2019
New Markets Tax Credits reserve	$ 169,438	$ 208,810
Stormwater reserve	28,025	28,025
	197,463	236,835
Less: current portion	(29,826)	(29,727)
Long-term portion	$ 167,637	$ 207,108

New Markets Tax Credits Reserve

As a result of the New Markets Tax Credits transactions, HEBSV is required to maintain funds in separate accounts to fund guaranteed obligations and lender fees of this separate portion of business throughout the New Markets Tax Credits compliance period.

Stormwater Reserve

HEBSV is required to maintain a replacement fund for certain planters located in a housing project built by HEBSV. The requirement expires in 2027, which is 15 years after the homes were sold.

NOTE 5 – GRANTS, CONTRACTS AND CONTRIBUTIONS RECEIVABLE

Grants, contracts and contributions receivable consist of the following:

	2020	2019
Private contributions	$ 2,555,000	$ 115,758
Multi-year pledges	26,456	86,786
Grants and contracts including general contracting receivable of $7,715,826 and $1,037,636 as of June 30, 2020 and 2019, respectively	8,153,140	1,909,752
	10,734,596	2,112,296
Less: allowance for uncollectible pledges	(14,248)	(43,893)
Grants, contracts and contributions receivable, net	$ 10,720,348	$ 2,068,403
Amounts due in:		
Less than one year	$ 10,467,690	$ 2,046,767
One to five years	$ 252,658	$ 21,636

HEBSV receives multi-year pledges from donors ranging from one to five years. Discounts to net present value for the multi-year pledges are not recorded since the amount of such discounts is not significant.

NOTE 6 – MORTGAGES AND NOTES RECEIVABLE

All homes are sold to qualifying buyers under mortgage arrangements. A home is considered sold when a formal closing transaction has been finalized.

Mortgages and notes receivable is summarized as follows:

	2020	2019
Mortgages and notes receivable, gross	$ 23,723,717	$ 24,137,959
Less: unamortized discount	(8,763,650)	(9,070,064)
	14,960,067	15,067,895
Less: current portion	(580,295)	(599,284)
Long-term portion	$ 14,379,772	$ 14,468,611

HEBSV considers the homeowners' payment of the mortgage receivable due more than 30 days as delinquent. For the years ended June 30, 2020 and 2019, the aged mortgages receivable is summarized as follows:

	Mortgages with Past Due Balances	*30-59 Days Past Due*	*60-89 Days Past Due*	*Greater Than 90 Days*	*Total Past Due*	*Current*	*Total Mortgage Receivable*
2020	$ 1,511,982	$ 17,728	$ 8,807	$ 96,059	$ 122,594	$ 22,211,735	$ 23,723,717
2019	$ 2,030,778	$ 18,114	$ 11,079	$ 170,456	$ 199,649	$ 22,107,181	$ 24,137,959

There were 20 and 21 mortgages with past due balances as of June 30, 2020 and 2019, respectively. HEBSV had 196 and 198 mortgages outstanding in 2020 and 2019, respectively.

In August 2013, HEBSV entered into a loan origination agreement with Patelco Credit Union, whereby Patelco Credit Union committed to originate thirty (30) first lien mortgage loans at a fixed interest rate of 2.85%. Both interest and principal are amortized similar to a conventional mortgage. HEBSV agreed to either purchase any defective mortgage loans or provide Substitute Mortgage Loans for such defective mortgage loans. Patelco Credit Union's obligation to originate mortgage loans expired on December 31, 2016. The agreement was amended to reflect change in interest rate from 2.85% to 3.85% and now expires on December 31, 2020.

HEBSV elected to institute a self-imposed requirement to retain a minimum of 50% of the cash proceeds from the ZEM sales in a Retained Mortgage Cash Reserve. The retention is based on HEBSV's desire to retain a strong asset base and liquidity consistent with the strategic objective to maintain sustainability.

HEBSV evaluates notes receivable based on the following credit quality indicators: collateral and lien position. These credit quality indicators are updated at least annually. Details about the non-interest bearing mortgages and notes receivable, as of June 30, 2020 and 2019 as follows:

	2020			2019		
	Non-interest bearing	*Discount*	*Total*	*Non-interest bearing*	*Discount*	*Total*
1st liens	$ 16,371,397	$ (4,891,095)	$ 11,480,302	$ 16,808,984	$ (5,001,880)	$ 11,807,104
2nd and 3rd liens	7,352,320	(3,872,555)	3,479,765	7,328,975	(4,068,184)	3,260,791
Total	$ 23,723,717	$ (8,763,650)	$ 14,960,067	$ 24,137,959	$ (9,070,064)	$ 15,067,895

NOTE 7 – COSTS OF HOMES IN PROGRESS AND PROPERTY HELD FOR SALE

Costs of homes in progress and property held for sale are summarized as follows:

	2020									
	Fremont-Central	*Las Juntas, Walnut Creek*	*589 Pacifica Baypoint*	*Muir Ridge*	*Sequoia Grove*	*Byron Ave.*	*De La Cruz*	*Rehab Programs*	*Other Projects*	*Total*
Costs since inception										
Land	$ 555,696	$ 3,026,080	$ 219,604	$ 1,564,748	$ 20,539	$ 386,550	$ 25,012	$ 1,184,015	$ 2,261,850	$ 9,244,094
Materials & subcontractors	13,858,420	864,627	501,862	7,546,389	387,280	79,819	213	451,524	9,769,646	33,459,780
Administration	2,693,368	680,084	310,061	1,364,248	302,144	85,107	9,843	212,203	1,739,610	7,396,668
Costs of homes (Acct. 1500)	17,107,484	4,570,791	1,031,527	10,475,385	709,963	551,476	35,068	1,847,742	13,771,106	50,100,542
Costs of finished homes not yet sold (Acct. 1260)	(4,806,959)	-	-	-	-	-	-	(386,051)	(308,055)	(5,501,065)
Loss reserve	(1,162,579)	-	-	-	-	-	-	-	-	(1,162,579)
Costs of homes sold/program expense	(8,674,293)	-	-	(10,475,385)	-	-	-	(1,353,979)	(11,797,193)	(32,300,850)
Costs of homes in progress at June 30, 2020	$ 2,463,653	$ 4,570,791	$ 1,031,527	$ -	$ 709,963	$ 551,476	$ 35,068	$ 106,740	$ 1,665,858	$ 11,135,076
No. of finished houses	11	-	-	-	-	-	-	1	1	13
Unfinished homes planned or in progress	8	42	29	-	10	8	-	4	202	303
No. of homes sold in prior FYs	11	-	-	16	-	-	-	6	6	39
No. of homes sold in 2020	-	-	-	-	-	-	-	1	1	2
Total no. of homes	30	42	29	16	10	8	-	12	210	357

Other projects includes $712,707 in general contract services such as the Tiny Homes project.

	2019									
	Fremont-Central	*Las Juntas, Walnut Creek*	*589 Pacifica Baypoint*	*Muir Ridge*	*Delmas*	*Sequoia Grove*	*Byron Ave.*	*Rehab Programs*	*Other Projects*	*Total*
Costs since inception										
Land	$ 555,696	$ 3,026,080	$ 215,295	$ 1,564,748	$ 624	$ 20,455	$ 386,550	$ 851,653	$ 1,904,906	$ 8,526,007
Materials & subcontractors	7,833,009	339,011	253,680	7,545,905	710,748	357,990	67,042	421,779	3,141,489	20,670,653
Administration	3,585,306	524,012	314,439	1,364,248	247,083	280,596	85,019	146,087	1,833,419	8,380,209
Costs of homes (Acct. 1500)	11,974,011	3,889,103	783,414	10,474,901	958,455	659,041	538,611	1,419,519	6,879,814	37,576,869
Costs of finished homes not yet sold (Acct. 1260)	-	-	-	-	-	-	-	-	-	-
Loss reserve	(765,604)	-	-	-	-	-	-	-	-	(765,604)
Costs of homes sold/program expense	(8,477,743)	-	-	(10,474,901)	(958,455)	-	-	(1,354,920)	(6,412,880)	(27,678,899)
Costs of homes in progress at June 30, 2019	$ 2,730,664	$ 3,889,103	$ 783,414	$ -	$ -	$ 659,041	$ 538,611	$ 64,599	$ 466,934	$ 9,132,366
No. of finished houses	-	-	-	-	-	-	-	1	-	1
Unfinished homes planned or in progress	19	42	29	-	-	10	8	4	103	215
No. of homes sold in prior FYs	-	-	-	16	1	-	-	6	6	29
No. of homes sold in 2019	11	-	-	4	-	-	-	1	-	16
Total no. of homes	30	42	29	20	1	10	8	12	109	261

NOTE 8 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	2020	2019
Office equipment	$ 287,218	$ 283,230
Site equipment	122,635	122,635
ReStore leasehold improvements	364,765	363,275
ReStore equipment	154,090	154,090
	928,708	923,230
Less: accumulated depreciation	(800,462)	(725,028)
Total property and equipment	$ 128,246	$ 198,202

NOTE 9 – RELATED-PARTY TRANSACTIONS

Tithe to HFHI

HEBSV contributes a portion of its annual unrestricted cash contribution income and net event income to the international work of HFHI. The costs of tithes to HFHI were $103,561 and $100,000 for the years ended June 30, 2020 and 2019, respectively.

U.S. Stewardship and Organizational Sustainability Initiative (US-SOSI)

Effective November 2013, to create a sustainable revenue stream to help finance a portion of the operational costs incurred by HFHI to support the work of U.S. affiliates, HEBSV is required to pay an annual US-SOSI fee. The amount of the annual fee is determined by the population within the approved geographic service area with a minimum payment of $1,500. The US-SOSI fees are $25,000 per year. The 2020 fees were prepaid during 2019.

NOTE 10 – LINE OF CREDIT

HEBSV has a revolving line of credit of $2,750,000 with First Republic Bank, of which $1,637,150 and $1,800,000 was outstanding at June 30, 2020 and 2019, respectively. The line requires monthly interest-only payments equal to the prime rate, subject to a floor. The effective interest rate at June 30, 2020 and 2019 was 4.25% and 5.50%, respectively. The bank advances on the credit line are payable in full by March 2021. Certain financial covenants are required to be maintained, including a current ratio of 1.5 to 1.0, a debt/worth ratio not greater than 1.0 to 1.0, and a minimum tangible net worth of not less than $18,000,000, as defined in the agreement. The line is also secured by property as described in the Commercial Security Agreement. Interest expense was $82,567 and $57,308 for the years ended June 30, 2020 and 2019, respectively. Interest payable on the line of credit was $-0- and $9,479 as of June 30, 2020 and 2019, respectively.

Scheduled principal payments on the lines of credit for the next five years are estimated as follows:

2021	$ 1,637,150
2022	-
2023	-
2024	-
2025	-
Thereafter	-
Total	$ 1,637,150

NOTE 11 – NOTES PAYABLE

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

	2020		2019	
	Interest Payable	*Principal*	*Interest Payable*	*Principal*
HEBSV:				
<u>*Heritage Bank of Commerce*</u>				
Guidance lines of credit for various properties in the maximum amount of $7,603,020 subject to each property's approval by lenders, bears variable interest at the lender's prime rate plus 0.375% (3.625% at June 30, 2020), due at varying dates through May 2021. Capitalized interest was $155,759 and $192,608 for 2020 and 2019, respectively.	$ -	$ 5,423,509	$ 2,749	$ 1,228,020
<u>*Governmental Agencies*</u>				
County of Santa Clara, CDBG loan, in the maximum amount of $400,000, bears no interest, monthly payments of $555, due in full June 2032. (Victor Avenue, Campbell)	-	83,888	-	90,555
City of Richmond, in the maximum amount of $250,000, bears no interest, payable in 300 monthly payments upon the sale of final home. (Spencer Court, Richmond)	-	244,302	-	244,302
<u>*Habitat for Humanity International*</u>				
Self-Help Homeownership Opportunity Program (SHOP) loans, in original amounts aggregating $187,500, bears no interest, payable in monthly installments aggregating $4,216, maturing on various dates through July 2020.	-	4,710	-	18,768

	2020		2019	
	Interest Payable	*Principal*	*Interest Payable*	*Principal*
HFHEB Funding Co.:				
Presidio Bank, in the original amount of $868,606, bears no interest, with monthly installments of $2,570, payable in full in January 2024 with the option to extend until January 2034. (1)	-	544,801	-	575,638
HFHEB Funding Co. II:				
Umpqua Bank, in the original amount of $2,181,455, bears no interest, with monthly installments of $7,995, payable in full in November 2035.	-	1,318,300	-	1,413,928
Total	-	7,619,510	2,749	3,571,211
Less: discount on notes payable	-	(99,376)	-	(99,376)
Net present value of notes payable	-	7,520,134	2,749	3,471,835
Less: portion due in one year	-	(5,571,438)	(2,749)	(523,932)
Long-term portion	$ -	$ 1,948,696	$ -	$ 2,947,903

Scheduled principal payments on the notes payable for the next five years are estimated as follows:

2021	$ 5,571,438
2022	143,219
2023	143,219
2024	564,664
2025	112,380
Thereafter	1,084,590
Total	$ 7,619,510

NOTE 12 – RECONVEYABLE NOTES PAYABLE

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

	2020		2019	
	Interest Payable	*Principal*	*Interest Payable*	*Principal*
Byron Avenue, Oakland				
City of Oakland, in the original amount of $386,550, bears no interest, payable in full by the earlier of the date the property is sold or refinanced in March 2020.	$ -	$ 386,550	$ -	$ 386,550
City of Oakland, in the maximum amount of $29,200, bears interest at 6%, payable in full with accrued interest upon receiving construction or permanent financing sufficient to repay the loan. Capitalized interest was $297 and $296 for 2020 and 2019, respectively.	3,546	4,938	3,249	4,938
Fremont-Central				
City of Fremont, (CDBG loan until the City of Fremont replaced CDBG funding in March 2017), in the original amount of $530,000, bears no interest, reconveyable to eligible purchasers with any remaining balance payable in full the earlier of the final unit sale or August 2020. (4369 Central Avenue)	-	335,674	-	335,674
Las Juntas				
City of Walnut Creek, in the maximum amount of $3,150,000, bears no interest, payable in full on the earlier of December 9, 2023 or upon the sale of final home.	-	3,153,465	-	3,153,465
Sequoia Grove				
City of Hayward, in the maximum amount of $600,000, bears no interest, payable in full on the earlier of May 31, 2022 or upon the sale of final home.	-	220,933	-	220,933
Total	3,546	4,101,560	3,249	4,101,560
Less: portion due in one year	(3,546)	(727,162)	(3,249)	(391,488)
Long-term portion	$ -	$ 3,374,398	$ -	$ 3,710,072

Interest payable also includes interest related to NMTC loans of $-0- and $12,431 as of June 30, 2020 and 2019, respectively (see Note 13).

Scheduled principal payments on the notes payable for the next five years are estimated as follows:

2021	$ 727,162
2022	199,351
2023	21,582
2024	3,153,465
2025	-
Thereafter	-
Total	$ 4,101,560

NOTE 13 – DEFERRED REVENUE

Deferred revenue is summarized as follows:

	2020	2019
New Markets Tax credits:		
Investments in leverage lenders	$ (3,999,586)	$ (3,999,586)
Notes payable from CDEs	5,913,775	5,913,775
Transaction costs	(317,877)	(317,877)
Net amortizable benefit	1,596,312	1,596,312
Less accumulated amortization	(526,979)	(301,963)
New Markets Tax credits, net	1,069,333	1,294,349
Advance funding of grant from City of Berkeley	208,670	-
Other	10,000	10,000
	1,288,003	1,304,349
Less: current portion	(436,714)	(228,044)
Long-term portion	$ 851,289	$ 1,076,305

New Markets Tax Credits

HEBSV entered into New Markets Tax Credit ("NMTC") transactions involving U.S. Bancorp Community Development Corporation ("USBCDC"), its related entities and agents. The NMTC program was established as part of the Community Renewal Tax Relief Act of 2000. The goal of the NMTC program is to spur revitalization efforts of low-income and impoverished communities across the United States and its Territories by providing tax credit incentives to investors in a certified community development entity. The tax credit for investors equals 39% of the investment, which is credited over a seven-year period. A community development entity is required to participate and has a primary mission of providing financing for revitalization projects in low-income communities.

NMTC financing allows organizations such as affiliates of Habitat International to receive low-interest loans or investment capital from community development entities, primarily financial institutions, which allow their investors to receive tax credits to be applied against their federal tax liability.

The following is a summary of the NMTC Transactions:

<u>*New Markets Tax Credit Transaction – LCD*</u>

LCD NMF Leverage Lender XI, L.L.C.:

In January 2012 HHEB acquired a 99.00% membership, interest in LCD NMF Leverage Lender XI, LLC (the "LLC") in exchange investing a combination of cash and construction in progress totaling $7,458,091. The LLC was formed by USBCDC to provide financing for the borrower's equity investment in a community development entity – LCD New Markets Fund XI, LLC ("CDE") and is solely managed by a third party. Accordingly, the LLC entered into a Loan Agreement to lend $7,458,091 to LCD NMF XI Investment Fund, LLC. ("Borrower"). The Borrower used the loan proceeds as its equity investment in the CDE which, in turn, used the proceeds of the Borrower's equity investment to fund the loans to the members of the LLC set forth below.

The loan receivable bears interest at a rate of 2.70%, with 1.00% being interest currently payable and 1.70% being accrual interest. The loan receivable matures on January 23, 2027 and requires semi-annual accrued interest payments until January 23, 2019 and semi-annual principal payments commencing on January 24, 2019 sufficient to fully amortize the loan. Simultaneous with these transactions, the LLC entered into an Option Agreement with USBCDC to put the ownership interest in the Fund for $1,000 commencing on January 23, 2019 and continuing for 3 months, or call the ownership interest for a 12-month period following the expiration of the Put Option at fair market value.

Loan payable – LCD New Markets Fund XI, LLC:

As a component of the NMTC transaction, HHEB received loans of $7,680,000 and $1,920,000 from the CDE and entered into Loan and Security Agreements ("Agreements") dated January 24, 2012. HHEB is obligated under the Agreements and related Promissory Notes to pay interest on the borrowings at a rate of 0.78% per annum with a maturity date of January 23, 2027. Commencing on May 5, 2012 and semi-annually until November 5, 2018, HHEB is required to make payments of accrued interest. Commencing on May 5, 2019 and semi-annually thereafter, HHEB is required to make equal principal and interest payments in an amount to fully amortize the loan by its maturity date. Pursuant to the Agreement, HHEB is required to comply with the NMTC requirements as generally set forth in the Internal Revenue Code ("IRC") Section 45D, including that HHEB maintain a Separate Business such that the Separate Business will qualify as a qualified active low-income community business as defined in IRC Section 45D. Only the Separate Business assets of HHEB were pledged as security under the Agreement to the CDE.

<u>*New Market Tax Credit Transaction – HFHI:*</u>

HFHI NMTC Leverage Lender 2016-1, LLC:

In July 2017 HFHI acquired a 99.00% membership, interest in HFHI NMTC Leverage Lender 2016-1, LLC (the "LLC") in exchange investing a combination of cash and construction in progress totaling $12,292,681. The LLC was formed by USBCDC to provide financing for the borrower's equity investment in a community development entity – HFHI NMTC Sub-CDE II, LLC ("CDE") and is solely managed by a third party. Accordingly, the LLC entered into a Loan Agreement to lend $12,292,681 to Twain Investment Fund 250, LLC. ("Borrower"). The Borrower used the loan proceeds as its equity investment in the CDE which, in turn, used the proceeds of the Borrower's equity investment to fund the loans to the members of the LLC set forth below.

The loan receivable bears interest at a rate of 3.00%, with 1.00% being interest currently payable and 0% being accrual interest. The loan receivable matures on July 19, 2040 and requires semi-annual accrued interest payments until November 10, 2024 and semi-annual principal payments commencing on November 10, 2017 sufficient to fully amortize the loan. Simultaneous with these transactions, the LLC entered into an Option Agreement with USBCDC to put the ownership interest in the Fund for $1,000 commencing on July 19, 2017 and continuing for 3 months, or call the ownership interest for a 12-month period following the expiration of the Put Option at fair market value.

Loan payable – HFHI NMTC Sub-CDE II, LLC:

As a component of the NMTC transaction, HFHI secured a loan of $5,913,775 from the CDE and entered into Loan and Security Agreements ("Agreements") dated July 19, 2017. The loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low income residents. HFHI is obligated under the Agreements and related Promissory Notes to pay interest on the borrowings at a rate of 0.676% per annum with a maturity date of July 19, 2047. Commencing on November 5, 2017 and semi-annually until July 19, 2024, HFHI is required to make payments of accrued interest. Commencing on July 20, 2024 and semi-annually thereafter, HFHI is required to make equal principal and interest payments in an amount to fully amortize the loan by its maturity date. Pursuant to the Agreement, HFHI is required to comply with the NMTC requirements as generally set forth in the Internal Revenue Code ("IRC") Section 45D, including that HFHI maintain a Separate Business such that the Separate Business will qualify as a qualified active low-income community business as defined in IRC Section 45D. Only the Separate Business assets of HFHI were pledged as security under the Agreement to the CDE.

Financial Statement Presentation of New Markets Tax Credit Transactions:

HEBSV's investments in the LLCs are accounted for on the cost basis since HEBSV is not able to influence the operating and financial policies of the LLCs. Accordingly, distributions received from the LLCs are reported as revenue on the statement of activities.

HEBSV has imputed a fair value rates of interest of 3.4% – 3.8% on the notes payable to the CDEs, resulting in discounts totaling $1,914,189 on the notes payable. This discount, net of the NMTC transaction costs of $317,877, results in a net amortizable benefit of $1,596,312, equal to approximately the cash flow received by HEBSV. As a result, HEBSV has recorded net deferred revenue of $1,596,312 to reflect the net revenue HEBSV will effectively receive from the NMTC transaction over their term.

The NMTC transactions, as set forth above, provide HEBSV, from an economic perspective, a right of offset of the loans payable to the CDE versus the investment in the Borrower. The right of offset arises in part due to the related party nature and flow of funds in the NMTC transactions, and in part, as a result of the Option Agreements effectively providing a legal right of offset. Exercise of these options will effectively extinguish HEBSV's outstanding debt owed to the CDEs. Upon execution, the investment and debt will then have a balance of zero. All entities related to the NMTC transactions will be dissolved, ending the NMTC structures. Accordingly, HEBSV's financial statements report only the net deferred benefit of the NMTC transaction, after offsetting the investments in LLCs, discounted notes payable CDEs, and transaction costs.

HEBSV is amortizing the net deferred revenue from the NMTC transaction over seven years. Amortization of the net deferred revenue totaled $185,544 and $206,718 for the years ended June 30, 2020 and 2019, respectively. Interest expense on the notes payable to the CDE's totaled $40,004 and $86,000 for the years ended June 30, 2020 and 2019, respectively. The interest expense on the notes payable is effectively returned to HEBSV through distributions received from the investments in the LLC's totaling $39,997 and $96,914 for the years ended June 30, 2020 and 2019, respectively. HEBSV also paid and expensed $-0- and $87,438 of annual new markets tax credit fees related to the asset management, compliance and facilitation fees for the years ended June 30, 2020 and 2019, respectively. These annual expenses are paid from the new markets tax credit restricted cash reserves (see Note 4).

NOTE 14 – PAYCHECK PROTECTION PROGRAM

On April 14, 2020 HEBSV received loan proceeds of $1,444,600 from a promissory note issued by CFR Small Business Loan Company, LLC, under the Paycheck Protection Program ("PPP") which was established under the CARES Act and is administered by the U.S. Small Business Administration (SBA). The term of the loan is two years and the annual interest rate is 1%. Payments of principal and interest are deferred for the first six months of the loan. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loans granted under PPP. Such forgiveness will be determined based on the use of the loan proceeds for payroll costs and compensation levels with certain limitations. HEBSV expects to meet the PPP's eligibility criteria and has concluded that the PPP loan represents, in substance, a grant that is expected to be forgiven, and accordingly has accounted for the PPP loan as a conditional contribution. The PPP forgivable loan is considered to be conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Proceeds received under the PPP are recognized as revenue when the HEBSV has incurred expenditures in compliance with the promissory note provisions. For the year ended June 30, 2020, HEBSV recognized $765,633 in Paycheck Protection Program grant revenue based on qualifying expenditures under the PPP program that are expected to be forgiven. The proceeds from PPP have not been recognized as revenue as of June 30, 2020 because qualifying expenditures have not yet been incurred amounting to $688,967, are reported as the Paycheck Protection Program forgivable loan and are presented as part of current liabilities with anticipation of forgiveness during the next fiscal year. Interest expense of $3,010 was incurred in 2020 and included as interest payable as of June 30, 2020.

HEBSV submitted the PPP loan forgiveness application to First Republic Bank on October 6, 2020 and the forgiveness was approved by First Republic Bank in November 2020. Management expects the forgiveness to be approved by the SBA by January 2021.

NOTE 15 – OTHER SUBORDINATE DEBT

In June 2016, EBSV entered into a subordinated equity note agreement with Heritage Bank of Commerce. The agreement provides for Heritage Bank of Commerce to purchase from EBSV a subordinated equity note at a purchase price of $350,000 which is structured as a subordinated unsecured equity equivalent investment (EQ). The EQ requires quarterly interest-only payments at a rate of 2.50% per annum. The original maturity date of the EQ was April 1, 2021, which is expected to be extended annually through April 2041. Currently, the extended maturity date is April 1, 2025. The EQ was made subordinate to all other obligations of HEBSV. The interest expense was $6,689 and $11,056 for 2020 and 2019, respectively.

A second EQ, in the amount of $2,000,000 was obtained by EBSV from City National Bank in November 2016. The EQ bears quarterly interest-only payments at a rate of 2.50% per annum. The loan was originally due in full on January 1, 2022, which may be extended annually through January 1, 2042. Currently, the extended maturity date is January 1, 2025. The interest was $50,000 in both 2020 and 2019.

Costs incurred in order to obtain permanent financing were $146,875 and are amortized on a straight-line basis into interest expense over the term of the subordinate debts. The unamortized permanent loan costs balance as of June 30, 2020 and 2019 was $124,847 and $130,738, respectively. Interest expense for amortization of permanent loan costs for 2020 and 2019 was $5,891 and $5,890, respectively.

NOTE 16 – BOARD DESIGNATED AND DONOR-RESTRICTED NET ASSETS

Board Designated Funds

HEBSV established a charitable fund with the Lutheran Community Foundation to encourage and procure legacy gifts. It intends to use income from the fund as an operating source for future housing and other Habitat projects. Included in unrestricted net assets are designated net assets of $37,194 and $37,736 as of June 30, 2020 and 2019, respectively, relating to the cause.

Net Assets with donor restrictions

Net assets with donor restrictions are summarized as follows:

	2020			
	June 30, 2019	*Contributions*	*Released from Restrictions*	*June 30, 2020*
Contributions restricted for specific programs:				
Sequoia Grove	$ 76,526	$ -	$ (50,921)	$ 25,605
Repairs Program Contribution	-	1,025,529	(957,810)	67,719
Rehab Program – San Jose	-	10,000	-	10,000
Evans Lane GC Project – San Jose	-	1,980,000	-	1,980,000
	$ 76,526	$ 3,015,529	$ (1,008,731)	$ 2,083,324

	2019			
	June 30, 2018	*Contributions*	*Released from Restrictions*	*June 30, 2019*
Contributions restricted for specific programs:				
Sequoia Grove	$ 126,416	$ -	$ (49,890)	$ 76,526
Repairs – Manufactured, General	254,676	200,000	(454,676)	-
Repairs – Emergency & Minor, Pleasanton	8,542	-	(8,542)	-
	$ 389,634	$ 200,000	$ (513,108)	$ 76,526

NOTE 17 – IN-KIND CONTRIBUTIONS

In-kind contributions are summarized as follows:

	2020	2019
Donated use of facilities	$ 117,837	$ 126,814
Donated equipment and building materials	5,207,710	3,341,888
Total in-kind donations	$ 5,325,547	$ 3,468,702

Donated equipment and building materials include inventory received and sold at ReStore, plus building supplies and materials used for construction purposes.

NOTE 18 – EMPLOYEE BENEFIT PLAN

HEBSV maintains a 403(b) retirement plan of which the employer contribution is 100% of the employee's contribution, up to 4% of gross salary. Eligible employees include full-time and part-time employees who have completed one year of service and who have worked at least 1,000 hours. Employee contributions are vested 100% after three years of service. HEBSV contributed $175,625 and $152,948 to the plan in 2020 and 2019, respectively.

NOTE 19 – OPERATING LEASES

HEBSV leases its Oakland ReStore site and a warehouse under operating lease agreements expiring in January 31, 2022. HEBSV leases its San Jose ReStore site under an operating lease agreement that expires in June 2024. HEBSV opened two ReStores during the year ended June 30, 2016 in Santa Clara and Concord. The lease agreement for Santa Clara was early terminated in February 2019 while the Concord lease agreement expired in May 2020 and was renewed through May 2023.

HEBSV also has an operating lease for the use of office facilities in Oakland expiring in February 2023. HEBSV also operates an office facility in Milpitas consisting of donated office space valued at $117,837 and $126,814 for the years ended June 30, 2020 and 2019, respectively. HEBSV is required to reimburse the lessors for common area maintenance and related charges for the use of both facilities.

Rental expenses, including common area maintenance charges and reimbursements for taxes, maintenance and utilities totaled $1,055,454 and $1,173,700 for the years ended June 30, 2020 and 2019, respectively.

The following represents the future minimum lease payments:

Year Ending June 30,	
2021	$ 869,959
2022	685,498
2023	417,693
2024	90,027
2025	-
Thereafter	-
	$ 2,063,177

NOTE 20 – COMMITMENT AND CONTINGENCIES

During the normal course of business, HEBSV entered into various contracts relating to its ongoing construction projects.

HEBSV is named in certain claims and legal actions in the normal course of its activities. Based upon counsel and management's opinion, the outcome of such matters is not expected to have a material adverse effect on HEBSV's financial position or changes in net assets.

COVID-19 Pandemic

The emergence and spread of the coronavirus (COVID-19) during the first quarter of 2020 has affected businesses and economic activities in the U.S. and beyond. The extent of the impact of COVID-19 on HEBSV's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, the effects on residents, supply chains, service providers, business partners, and changes in business practices, all of which are uncertain and cannot be determined at this time.

NOTE 21 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is without donor or other restriction limiting their use, within one year of the statement of financial position date, comprise the following:

	2020	2019
Financial assets at end of year available within one year:		
Cash and cash equivalents	$ 4,096,211	$ 5,147,033
Investments	2,510,407	2,399,160
Restricted cash	29,826	29,727
Grants and contributions receivable	10,467,690	2,046,767
Contracts receivable	580,295	599,284
Other receivable	187,560	260,327
	17,871,989	10,482,298
Less financial assets not available for general expenditures, due to:		
Restricted cash (Note 4)	(29,826)	(29,727)
Operating reserve (Note 1)	(2,000,000)	(2,000,000)
Retained mortgage cash reserve (Note 6)	(2,510,407)	(2,413,168)
Donor-restricted net assets (Note 15)	(2,083,324)	(76,526)
Board designations (Note 15)	(37,194)	(37,736)
Financial assets available for general expenditures within one year	$ 11,211,238	$ 5,925,141

HEBSV is supported by restricted contributions. Donor restrictions require resources to be used in a particular manner or in a future period. HEBSV must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of HEBSV's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

HEBSV has $17,871,989 and $10,482,298 of total financial assets and $11,211,238 and $5,925,141 of the total is available within one year of the statement of financial position date as of June 30, 2020 and 2019, respectively. The contributions receivable are subject to time restrictions, but will be collected within one year. As part of its liquidity management, HEBSV invests cash in excess of daily requirements in various short-term investments including certificates of deposit and short-term treasury instruments. HEBSV maintain financial assets, which consist of cash and short-term investments, on hand to meet 5 times the amount of average monthly operating expenses.

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2020

Federal Grantor/Pass-Through Grantor/Program Title	*Federal CFDA Number*	*Agency or Pass-Through Number*	*Federal Expenditures*	*Expenditures to Subrecipients*
U.S. Department of Housing and Urban Development				
Community Development Block Grants Program Cluster:				
Pass-through grant from the City of Hayward	14.218	N/A	$ 72,240	$ -
Pass-through grant from the City of Fremont	14.218	B-16-MC-06-0012	155,777	-
Pass-through grant from the City of San Jose	14.218	B-16-MC-06-0021	451,357	-
Pass-through grant from the City of Livermore	14.218	N/A	128,559	-
Pass-through grant from the City of Walnut Creek	14.218	B-16-MC-06-0030	108,936	-
Pass-through grant from the City of Contra Costa County	14.218	N/A	147,655	-
Pass-through grant from the City of Berkeley	14.218	N/A	41,330	
Pass-through grant from the City of Concord	14.218	N/A	119,411	
Pass-through loan from the County of Santa Clara in prior years for which continuing compliance is required	14.218	N/A	90,555	-
			1,315,820	-
Home Investment Partnership Program:				
Pass-through grant from the City of Pleasanton	14.239	N/A	32,312	-
			32,312	-
Self-Help Ownership Opportunity Program:				
Pass-through loans from Habitat for Humanity International in prior years for which continuing compliance is required	14.247	N/A	18,768	-
			18,768	-
TOTAL FEDERAL AWARDS			$ 1,366,900	$ -

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant and loan activity of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The purpose of the Schedule is to present a summary of those activities of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries for the year ended June 30, 2020, which have been financed by the U.S. Government. For purposes of the Schedule, federal awards include all federal assistance entered into directly and indirectly between Habitat for Humanity East Bay/Silicon Valley and Subsidiaries and the federal government. Habitat for Humanity East Bay/Silicon Valley and Subsidiaries did not elect to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 – PRIOR YEARS' EXPENDITURES

The accompanying schedule of expenditures of federal awards includes $109,323 in expenditures from prior years for which continuing compliance is required.

NOTE 4 – YEAR-END LOAN BALANCES

The loan balances outstanding at year-end are summarized as follows:

Community Development Block Grant Program	$ 83,888
Self-Help Ownership Opportunity Program	4,710
Total	$ 88,598

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	____ Yes	X No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	____ Yes	X None reported
Noncompliance material to financial statements noted?	____ Yes	X No

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	____ Yes	X No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	____ Yes	X None reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Section 200.516 of the Uniform Guidance?	____ Yes	X No
Identification of major programs:	*Name of Federal Program or Cluster*	
CFDA #14.218	U.S. Department of Housing and Urban Development – Community Development Block Grants/Program Cluster	
Dollar threshold used to distinguish between Type A and Type B programs:	$750,000	
Auditee qualified as low-risk auditee?	X Yes	____ No

Section II – Financial Statement Findings

None noted.

Section III – Federal Award Findings and Questioned Costs

None noted.

LINDQUIST
VON HUSEN
& JOYCE LLP

JAMES M. KRAFT
S. SCOTT SEAMANDS
ALEXIS H. WONG
CHARLOTTE SIEW-KUN TAY
CATHY L. HWANG
RITA B. DELA CRUZ
STANLEY WOO
SCOTT K. SMITH

CRISANTO S. FRANCISCO
JOE F. HUIE

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries, which comprise the combined statement of financial position as of June 30, 2020, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated November 17, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's combined financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weakness may exist that have not been identified.

BKR INTERNATIONAL
CERTIFIED PUBLIC ACCOUNTANTS, 301 Howard Street, Suite 850, San Francisco, California 94105
Telephone 415 957 9999 Facsimile 415 957 1629 http://www.lvhj.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lindquist, von Husen and Joyce LLP

November 17, 2020

LINDQUIST VON HUSEN & JOYCE LLP

James M. Kraft
S. Scott Seamands
Alexis H. Wong
Charlotte Siew-Kun Tay
Cathy L. Hwang
Rita B. Dela Cruz
Stanley Woo
Scott K. Smith

Crisanto S. Francisco
Joe F. Huie

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Report on Compliance for Each Major Federal Program

We have audited Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' major federal programs for the year ended June 30, 2020. Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' compliance.

BKR INTERNATIONAL Certified Public Accountants, 301 Howard Street, Suite 850, San Francisco, California 94105
Telephone 415 957 9999 Facsimile 415 957 1629 http://www.lvhj.com

Opinion on Each Major Federal Program

In our opinion, Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control Over Compliance

Management of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly we do not express an opinion on the effectiveness of the Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of This Report

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

Lindquist, von Husen and Joyce LLP

November 17, 2020