

**HABITAT FOR HUMANITY  
EAST BAY/SILICON VALLEY  
AND SUBSIDIARIES**

*(A California Nonprofit Public Benefit Corporation)*

**COMBINED FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT**

**YEAR ENDED JUNE 30, 2023**

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

COMBINED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

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Habitat for Humanity East Bay/Silicon Valley  
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## INDEPENDENT AUDITOR'S REPORT

### Report on the Audit of the Combined Financial Statements

#### Opinion

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 statement of financial position as of June 30, 2023, 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.

In our opinion, the combined financial statements present fairly, in all material respects, the combined financial position of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries as of June 30, 2023, 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.

#### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (*Government Auditing Standards*), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Combined Financial Statements section of our report. We are required to be independent of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### Emphasis of Matter – New Accounting Standard

As discussed in Note 2 to the combined financial statements, Habitat for Humanity East Bay/Silicon Valley and Subsidiaries adopted the new accounting guidance required by accounting principles generally accepted in the United States of America on leases. Our opinion is not modified with respect to this matter.

### Responsibilities of Management for the Combined Financial Statements

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

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

### Auditor's Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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

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

Supplementary Information

Our audit was 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 30, 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 presented for purposes of additional analysis and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2023 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 solely 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 the effectiveness of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' 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 28, 2023

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

*(A California Nonprofit Public Benefit Corporation)*

COMBINED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2023

ASSETS

Current assets:	
Cash and cash equivalents	\$ 6,179,862
Investments (Note 3)	2,559,849
Restricted cash – current (Note 4)	24,927
Receivables, net:	
Grants, contracts and contributions – current portion (Note 5)	5,665,517
Mortgages and notes – current portion (Note 6)	667,521
Inventory:	
Property held for sale (Note 7)	125,000
Cost of homes in progress – current portion (Note 7)	12,281,688
ReStore inventory	356,542
Other	287,400
Prepaid expenses and deposits – current portion	42,517
Total current assets	<u>28,190,823</u>
Restricted cash – net of current portion (Note 4)	49,221
Receivables, net:	
Grants, contracts and contributions – net of current portion (Note 5)	28,249
Mortgages and notes – net of current portion (Note 6)	13,586,589
Cost of homes in progress – net of current portion (Note 7)	14,418,056
Prepaid expenses and deposits – net of current portion	128,608
Property and equipment – net (Note 8)	423,155
Right-of-use assets – operating leases (Note 18)	3,286,797
Deferred costs – net	<u>124,401</u>
Total assets	<u><u>\$ 60,235,899</u></u>

*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 STATEMENT OF FINANCIAL POSITION

JUNE 30, 2023

LIABILITIES AND NET ASSETS

Current liabilities:

Line of credit (Note 10)	\$ 419,934
Accounts payable and accrued expenses	2,629,516
Interest payable (Note 12)	4,435
Notes payable – current portion (Note 11)	6,241,280
Reconveyable notes payable – current portion (Note 12)	4,750,965
Operating lease liabilities - current portion (Note 18)	952,347
Deferred revenue – current portion (Note 13)	228,045
Total current liabilities	<u>15,226,522</u>

Notes payable – net of current portion (Note 11)	2,127,513
Reconveyable notes payable – net of current portion (Note 12)	4,531,329
Other subordinate debt (Note 14)	3,871,714
Operating lease liabilities - net of current portion (Note 18)	2,516,126
Deferred revenue – net of current portion (Note 13)	<u>161,338</u>

Total liabilities	<u>28,434,542</u>
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Net assets:

Without donor restrictions:	
Board designated (Note 15)	46,000
Undesignated	<u>31,627,554</u>
Total unrestricted	31,673,554

With donor restrictions (Note 15)	<u>127,803</u>
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Total net assets	<u>31,801,357</u>
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Total liabilities and net assets	<u><u>\$ 60,235,899</u></u>
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*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 STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2023

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Support and revenue:			
Sales of homes	\$ 1,121,976	\$ -	\$ 1,121,976
Grants and contributions, including general contracting revenue	10,491,485	526,120	11,017,605
In-kind contributions (Note 16)	189,390	-	189,390
Inventory donations to ReStore (Note 16)	4,034,128	-	4,034,128
Planned giving fundraising	797,094	-	797,094
Fundraising event contributions	426,211	-	426,211
Less: fundraising event costs	(231,390)	-	(231,390)
Other income	2,088,941	-	2,088,941
Net assets released from restrictions (Note 15)	400,000	(400,000)	-
Total support and revenue	<u>19,317,835</u>	<u>126,120</u>	<u>19,443,955</u>
Expenses:			
Program services:			
Housing	6,982,249	-	6,982,249
Home preservation	3,906,916	-	3,906,916
ReStore	4,523,485	-	4,523,485
Supporting services:			
Management and general	2,873,571	-	2,873,571
Fundraising	1,636,942	-	1,636,942
Total expenses	<u>19,923,163</u>	<u>-</u>	<u>19,923,163</u>
Change in net assets before other revenue and expenses:	<u>(605,328)</u>	<u>126,120</u>	<u>(479,208)</u>
Other revenue and expenses:			
Mortgage discount amortization	502,772	-	502,772
Mortgage discount expenses	(23,432)	-	(23,432)
Investment income – NMTC (Note 13)	39,997	-	39,997
Interest expense – NMTC (Note 13)	(40,004)	-	(40,004)
Other expense	(50,172)	-	(50,172)
Amortization of deferred revenue – NMTC (Note 13)	228,026	-	228,026
Total other revenue and expenses	<u>657,187</u>	<u>-</u>	<u>657,187</u>
Change in net assets	51,859	126,120	177,979
Net assets, beginning of year	<u>31,621,695</u>	<u>1,683</u>	<u>31,623,378</u>
Net assets, end of year	<u>\$ 31,673,554</u>	<u>\$ 127,803</u>	<u>\$ 31,801,357</u>

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 STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2023

	Program Services			Program Services Total	Supporting Services <sup>(1)</sup>		Total
	Housing	Home Preservation	ReStore		Management and General	Fundraising	
Cost of homes sold and reserve for homes in progress	\$ 3,164,797	\$ -	\$ -	\$ 3,164,797	\$ -	\$ -	\$ 3,164,797
Cost of miscellaneous projects	195,513	-	-	195,513	-	-	195,513
Cost of homes repaired	-	4,122,284	-	4,122,284	-	-	4,122,284
Personnel	4,067,641	1,436,103	1,863,420	7,367,164	2,008,721	1,065,581	10,441,466
Homeowner relations	55,345	-	-	55,345	2,854	-	58,199
Office	126,312	4,272	161,479	292,063	25,922	242,178	560,163
Professional services	645,798	75,182	519,896	1,240,876	339,465	-	1,580,341
Travel	21,287	46	8,590	29,923	7,942	5,287	43,152
Tithe to international projects (Note 9)	400,000	-	-	400,000	-	-	400,000
Property management	101	-	-	101	-	-	101
Public relations	161,782	-	114,847	276,629	-	19	276,648
Rent (Note 18)	379,541	-	828,868	1,208,409	14,452	33,283	1,256,144
Warehouse lease (Note 18)	71,749	-	48,513	120,262	-	-	120,262
Equipment	200,463	13,119	90,537	304,119	2,331	4,649	311,099
Education	13,149	12,420	572	26,141	9,464	1,779	37,384
Insurance	192,939	-	12,862	205,801	16,328	-	222,129
Depreciation and amortization	2,372	-	85,103	87,475	7,242	-	94,717
Interest	-	-	-	-	378,935	-	378,935
ReStore cost of sales	-	-	504,853	504,853	-	-	504,853
Bad debt (recovery)	(31,162)	-	-	(31,162)	-	-	(31,162)
Miscellaneous	151,868	36,793	283,945	472,606	59,915	284,166	816,687
Allocation to cost of homes in progress	(2,837,246)	(1,793,303)	-	(4,630,549)	-	-	(4,630,549)
Total expenses as shown in the consolidated statements of activities	6,982,249	3,906,916	4,523,485	15,412,650	2,873,571	1,636,942	19,923,163
Interest expense – NMTC (Note 13)	40,004	-	-	40,004	-	-	40,004
Mortgage discount expenses	23,432	-	-	23,432	-	-	23,432
Other expenses	50,172	-	-	50,172	-	-	50,172
Fundraising event costs	-	-	-	-	-	231,390	231,390
Total expenses	\$ 7,095,857	\$ 3,906,916	\$ 4,523,485	\$ 15,526,258	\$ 2,873,571	\$ 1,868,332	\$ 20,268,161

<sup>(1)</sup> For the last three fiscal periods ended 2021 through 2023, supporting services expenses have averaged 18.8% of total expenses.

The supporting services expense percentage fluctuates by year depending on the number of homes sold (23.4%, 23.5% and 9.5% in 2023, 2022, and 2021, respectively).

*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 STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2023

Cash flows from operating activities:	
Change in net assets	\$ 177,979
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Amortization of deferred revenue – NMTC	(228,026)
Mortgage discount amortization	(502,772)
Mortgage discount expenses	23,432
Forgiveness of debt	80,128
Notes payable discount amortization	30,804
Depreciation and amortization	94,717
Loss on disposal of property and equipment	4,388
Interest - amortization of loan costs	135,752
Lease expense – amortization of right-of-use assets – operating lease	948,880
Realized and unrealized gain on investments	(16,801)
(Increase) decrease in assets:	
Grants, contracts and contributions receivable	(1,009,653)
Property held for sale	1,759,000
Cost of homes in progress	(5,873,369)
ReStore inventory	183,423
Other inventory	109,482
Prepaid expenses and deposits	379,394
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	(985,087)
Deferred revenue	(92,588)
Operating lease liabilities	(767,204)
	<hr/>
Net cash used in operating activities	(5,548,121)
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Cash flows from investing activities:	
Issuance of mortgages receivable	(1,228,973)
Collection of mortgages receivable	1,559,632
Payment of deferred costs	(30,398)
Purchase of property and equipment	(224,720)
(Purchase) sale of investments – net	(2,310)
	<hr/>
Net cash provided by investing activities	73,231
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*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 STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2023

Cash flows from financing activities:	
Proceeds from line of credit	2,724,432
Payment of line of credit	(2,804,498)
Proceeds from notes payable	4,686,202
Payment of loan costs	(324,501)
Payment of notes payable	<u>(221,352)</u>
Net cash provided by financing activities	<u>4,060,283</u>
Decrease in cash, restricted cash and cash equivalents	(1,414,607)
Cash, restricted cash and cash equivalents, beginning of year	<u>7,668,617</u>
Cash, restricted cash and cash equivalents, end of year	<u><u>\$ 6,254,010</u></u>
Supplementary information:	
Cash paid for interest – net of capitalized portion	<u>\$ 146,834</u>
Lease assets obtained in exchange for lease obligations – operating lease	<u><u>\$ 4,235,677</u></u>
Cash and cash equivalents	\$ 6,179,862
Restricted cash:	
New Markets Tax Credits reserve	46,123
Stormwater reserve	<u>28,025</u>
Total cash, restricted cash and cash equivalents shown in the combined statement of cash flows	<u><u>\$ 6,254,010</u></u>

*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)*

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

**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 3-21 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 accept donations of new and gently used items from individuals and businesses in the community, and sell 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), Habitat for Humanity East Bay Funding Company II, LLC (HEBFCII) and EBSVCD Funding Company, LLC (EBSVFC), California limited liability companies formed in December 2009, April 2011 and November 2020, respectively. HEBFC, HEBFCII and EBSVFC 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.

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

*(A California Nonprofit Public Benefit Corporation)*

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

HEBSV is the sole member of HEBSV Pacific Landing, HEBSV 4th and Reed LLC, HEBSV 3778 Manila LLC and HEBSV Esperanza Place LLC, California limited liability companies formed in October 2021. These entities were created for the sole purpose of acquiring and developing properties.

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. The intent of the reserve is to bridge any fundamental changes that might come about in the intermediate term. The reserve is meant to cover losses that cannot be managed in normal business management and control processes. The goal is to maintain reserves at 3 times or more the monthly operating expenses. The reserve balance was \$2,148,000 at June 30, 2023.

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

In July 2023, EBSV subsequently changed the name of the corporation to Habitat Community Capital.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Principles of Combination*

The combined financial statements include the accounts of EBSV, a nonprofit organization majority controlled by HEBSV's officers or board of directors, and the accounts of HEBFC, HEBFCII, EBSVCD, HEBSV Pacific Landing, HEBSV 4th and Reed LLC, HEBSV 3778 Manila LLC and HEBSV Esperanza Place LLC (collectively, the "subsidiaries"). All significant intercompany transactions and balances have been eliminated in the combination.

*Accounting Methods*

HEBSV and subsidiaries use 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.

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

*(A California Nonprofit Public Benefit Corporation)*

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

*Basis of Presentation*

HEBSV and subsidiaries report 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 combined 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. HEBSV and subsidiaries have no assets with non-expiring donor restrictions as of June 30, 2023.

*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 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 combined 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, unless continuing use restrictions apply.

Conditional promises to give with a measurable performance or other barrier and a right of return are not recognized until the conditions on which they depend have been met. HEBSV receives certain contributions on a reimbursement basis. Such contributions are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when HEBSV has incurred expenditures in compliance with specific donor provisions. An amount of approximately \$439,000 of contributions has not been recognized as of June 30, 2023, and will be recognized when HEBSV incurs expenditures in compliance with the donor provisions. Amounts received prior to incurring qualifying expenditures, if any, are reported as deferred revenue in the combined statement of financial position. No such amounts were received and included in deferred revenue as of June 30, 2023.

Government contracts, which are funded on a reimbursement basis, are shown as revenue without donor restriction. General contracting revenue earned is measured based on consideration specified in the contracts. The revenue is recognized as work is completed and the performance obligation is satisfied.

Contributed services are stated at their estimated fair value, if ordinarily purchased and 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.

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

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 and subsidiaries occasionally maintain 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 \$3,388,000 as of June 30, 2023. HEBSV and subsidiaries have 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.

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.

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(A California Nonprofit Public Benefit Corporation)

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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 year ended 2023, HEBSV capitalized interest of \$294,584.

Property and Equipment

Property and equipment are stated at cost of acquisition, or fair market value if donated. The costs of maintenance and repairs below \$3,000 that neither significantly add to the permanent value of property and equipment nor prolong its intended useful life 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.



HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

*(A California Nonprofit Public Benefit Corporation)*

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

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.

New Accounting Standard on Leases

New accounting standard on leases, required by GAAP, amends both lessor and lessee accounting with the most significant change being the requirement for lessees to account for leases as either finance leases or operating leases and to recognize right-of-use (ROU) assets and corresponding lease liabilities on the statement of financial position for all leases other than leases with terms of 12 months or less. For finance leases, lessees would recognize interest expense and amortization of the ROU asset, and for operating leases, lessees would recognize straight-line total rent expense. The accounting standard also requires additional disclosures about the amount, timing, and uncertainty of cash flows arising from leases.

HEBSV and subsidiaries adopted the leasing standard effective July 1, 2022, using the modified retrospective approach with July 1, 2022 as the initial date of application. HEBSV and subsidiaries elected to use all available practical expedients provided in the transition guidance. These practical expedients allow entities to not reassess the identification, classification and initial direct costs of lease agreements, to not separate lease and non-lease components for underlying equipment assets, and to use hindsight in lease agreements for determining lease term and ROU asset impairment, as applicable.

HEBSV and subsidiaries account for the existing office leases, equipment, site and warehouse as operating leases. As of July 1, 2022, adoption of the new leasing standard resulted in a recognition of ROU assets of \$4,235,677 and an increase in operating lease liabilities of \$4,235,677.

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 and EBSV are 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.

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 and subsidiaries believe 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 and subsidiaries' federal and state information returns for the years 2019 through 2022 are subject to examination by regulatory agencies, generally for three years and four years after they were filed federal and state, respectively.

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NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

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 28, 2023, 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, 2023, and indicates the fair value hierarchy of the valuation techniques utilized by HEBSV to determine the fair values:

	<i>Cost as of June 30, 2023</i>	<i>Quoted Prices in Active Markets for Identical Assets (Level 1)</i>	<i>Significant Other Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>	<i>Fair Value as of June 30, 2023</i>
Common stocks	\$ 199,193	\$ 385,740	\$ -	\$ -	\$ 385,740
Mutual funds	46,000	46,000	-	-	46,000
Fixed income securities	2,245,002	2,128,109	-	-	2,128,109
<b>Total</b>	<b>\$ 2,490,195</b>	<b>\$ 2,559,849</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,559,849</b>

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

Realized and unrealized gain from investments	\$ 16,801
Interest and dividend income	133,172
Investment expenses	<u>(17,764)</u>
<b>Net investment return</b>	<b><u>\$ 132,209</u></b>

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NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

**NOTE 4 – RESTRICTED CASH**

Restricted cash consists of the following:

New Markets Tax Credits reserve	\$ 46,123
Stormwater reserve	28,025
	<u>74,148</u>
Less: current portion	<u>(24,927)</u>
Long-term portion	<u>\$ 49,221</u>

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:

Grants and contracts	\$ 6,311,414
Private contributions	490,000
Multi-year pledges	<u>38,078</u>
	6,839,492
Less: allowance for uncollectible receivable	<u>(1,145,726)</u>
Grants, contracts and contributions receivable, net	<u>\$ 5,693,766</u>
Amounts due in:	
Less than one year	<u>\$ 5,665,517</u>
One to five years	<u>\$ 28,249</u>

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.

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

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YEAR ENDED JUNE 30, 2023

**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:

Mortgages and notes receivable, gross	\$ 22,650,890
Less: unamortized discount	<u>(8,396,780)</u>
	14,254,110
Less: current portion	<u>(667,521)</u>
Long-term portion	<u>\$ 13,586,589</u>

HEBSV and subsidiaries consider the homeowners' payment of the mortgage receivable due more than 30 days as delinquent. For the year ended June 30, 2023, the aged mortgages receivable is summarized as follows:

	<i>Mortgages with Past Due Balances</i>	<i>30-59 Days Past Due</i>	<i>60-89 Days Past Due</i>	<i>Greater Than 90 Days</i>	<i>Total Past Due</i>	<i>Current</i>	<i>Total Mortgage Receivable</i>
2023	\$ 2,090,641	\$ 13,919	\$ 9,384	\$ 57,157	\$ 80,460	\$ 20,560,249	\$ 22,650,890

There were 13 mortgages with past due balances as of June 30, 2023. HEBSV and subsidiaries had over 250 mortgages outstanding in 2023.

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%.

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, 2023 follows:

	<i>Non-interest- bearing</i>	<i>Discount</i>	<i>Total</i>
1 <sup>st</sup> liens	\$ 15,203,907	\$ (4,874,451)	\$ 10,329,456
2 <sup>nd</sup> and 3 <sup>rd</sup> liens	7,446,983	(3,522,329)	3,924,654
Total	<u>\$ 22,650,890</u>	<u>\$ (8,396,780)</u>	<u>\$ 14,254,110</u>

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YEAR ENDED JUNE 30, 2023

**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:

	<i>S. Jackson San Jose</i>	<i>Las Juntas Walnut Creek</i>	<i>589 Pacifica Bay Point</i>	<i>Manila Ave ** Oakland</i>	<i>Sequoia Grove</i>	<i>Byron Ave.</i>	<i>De La Cruz</i>	<i>4th &amp; Reed**</i>	<i>North Housing Alameda</i>	<i>98 Castro St.</i>	<i>Rehab Programs</i>	<i>Other Projects**</i>	<i>Totals</i>
Costs since inception													
Land	\$ 2,248,671	\$ 3,026,080	\$ 219,604	\$ 1,000,000	\$ 20,539	\$ 386,550	\$ 25,012	\$ 909,000	\$ -	\$ 500,000	\$ 499,000	\$ 100,000	\$ 8,934,456
Materials	405,649	11,491,893	833,882	244,240	509,605	119,877	396,869	796,753	394,087	59,528	15,539	143,590	15,411,512
Administration	376,051	3,006,412	688,806	268,360	459,217	95,467	212,400	512,518	219,750	191,083	78,394	532,786	6,641,244
Cost of homes in progress	3,030,371	17,524,385	1,742,292	1,512,600	989,361	601,894	634,281	2,218,271	613,837	750,611	592,933	776,376	30,987,212
Costs of finished homes not yet sold	-	-	-	-	-	-	-	-	-	-	-	-	-
Loss reserve	-	(2,181,935)	-	-	-	-	-	-	-	-	-	-	(2,181,935)
Cost of homes sold/program expense	-	-	-	(1,512,600)	-	-	-	-	-	-	(592,933)	-	(2,105,533)
Cost of homes in progress at June 30, 2023	<u>\$ 3,030,371</u>	<u>\$ 15,342,450</u>	<u>\$ 1,742,292</u>	<u>\$ -</u>	<u>\$ 989,361</u>	<u>\$ 601,894</u>	<u>\$ 634,281</u>	<u>\$ 2,218,271</u>	<u>\$ 613,837</u>	<u>\$ 750,611</u>	<u>\$ -</u>	<u>\$ 776,376</u>	<u>\$ 26,699,744</u>
No. of finished houses	-	-	-	-	-	-	-	-	-	-	-	-	-
Unfinished homes planned or in progress	14	42	29	-	10	8	15	4	68	3	-	96	289
No. of homes sold in prior FYs	-	-	-	1	-	-	-	-	-	-	11	-	12
No. of homes sold in FY 2023	-	-	-	1	-	-	-	-	-	-	1	-	2
Total no. of homes	<u>14</u>	<u>42</u>	<u>29</u>	<u>2</u>	<u>10</u>	<u>8</u>	<u>15</u>	<u>4</u>	<u>68</u>	<u>3</u>	<u>12</u>	<u>96</u>	<u>303</u>

\*\* Buildings in these projects were donated.

Property held for sale was donated land of \$125,000 as of June 30, 2023. In October 2023, the land was subsequently sold under the Planned Giving Fundraiser program.

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

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NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

**NOTE 8 – PROPERTY AND EQUIPMENT**

Property and equipment is summarized as follows:

Office equipment	\$ 207,342
Site equipment	70,410
ReStore leasehold improvements	391,716
ReStore equipment	445,618
	<hr/>
	1,115,086
Less: accumulated depreciation	(691,931)
	<hr/>
Total property and equipment	<u>\$ 423,155</u>

**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 cost of tithes to HFHI was \$400,000 for the year ended June 30, 2023.

*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.

**NOTE 10 – LINE OF CREDIT**

HEBSV has a revolving line of credit of \$3,250,000 with First Republic Bank, of which \$419,934 was outstanding at June 30, 2023. The line requires monthly interest-only payments equal to the prime rate, subject to a floor. The effective interest rate at June 30, 2023 was 8.25%. 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 \$146,834 for the year ended June 30, 2023. Interest payable on the line of credit was \$-0- as of June 30, 2023.

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

2024	\$ 419,934
2025	-
2026	-
2027	-
2028	-
Thereafter	-
	<hr/>
Total	<u>\$ 419,934</u>

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

**NOTE 11 – NOTES PAYABLE**

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

	<i>Interest Payable</i>	<i>Principal</i>
<b><i>HEBSV:</i></b>		
<b><i>Governmental Agencies</i></b>		
County of Santa Clara, CDBG loan, in the maximum amount of \$400,000, bears no interest, monthly payments of \$555, due in full in June 2032. (Victor Avenue, Campbell)	\$ -	\$ 63,888
<b><i>HEBSV Esperanza Place:</i></b>		
Heritage Bank of Commerce, in the maximum amount of \$7,414,934, bears interest at prime plus 0.375% (currently 8.875%), due in full in October 2023. Capitalized interest was \$294,584 at June 30, 2023.	-	5,728,919
<b><i>HFHEB Funding Co.:</i></b>		
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.	-	355,602
<b><i>HFHEB Funding Co. II:</i></b>		
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.	-	1,041,421
<b><i>EBSVFC:</i></b>		
The Northern Trust Company, in original amount of \$1,383,612 bears no interest, with monthly installments of \$4,817, payable in full in May 2045.	-	1,239,114
Total	-	8,428,944
Less: discount on notes payable	-	(60,151)
Net present value of notes payable	-	8,368,793
Less: portion due in one year	-	(6,241,280)
Long-term portion	\$ -	\$ 2,127,513

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

2024	\$ 6,241,280
2025	156,759
2026	156,759
2027	156,759
2028	156,759
Thereafter	<u>1,560,628</u>
Total	<u>\$ 8,428,944</u>

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NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

**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:

	<i>Interest Payable</i>	<i>Principal</i>
<u><i>Byron Avenue, Oakland</i></u>		
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. HEBSV is currently in negotiations with the City for an extension on the note.	\$ -	\$ 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 \$296 for 2023.	4,435	4,938
<u><i>Las Juntas</i></u>		
City of Walnut Creek, in the maximum amount of \$5,150,000 (increased from \$3,150,000), bears no interest, payable in full on the earlier of December 9, 2023 or upon the sale of final home.	-	5,153,465
<u><i>Sequoia Grove</i></u>		
City of Hayward, in the maximum amount of \$600,000, bears no interest, payable in full on the earlier of January 31, 2024 or upon the sale of final home.	-	344,235
<u><i>South Jackson</i></u>		
City of San Jose, in the maximum amount of \$2,000,000 bears no interest, payable in full on the earlier of April 30, 2029 or upon the sale of final home.	-	2,200,000
<u><i>Esperanza</i></u>		
County of Contra Costa, HOME loan, in the maximum amount of \$1,605,000 bears no interest, payable in full on the earlier of April 30, 2024 or upon the sale of final home.	-	1,171,524
<u><i>West Harder</i></u>		
City of Hayward, in the maximum amount of \$24,500 bears no interest, payable in full on the earlier of September 5, 2022 or upon the sale of final home. HEBSV is currently in negotiations with the City for an extension on the note.	-	21,582
Total	4,435	9,282,294
Less: portion due in one year	(4,435)	(4,750,965)
Long-term portion	\$ -	\$ 4,531,329



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YEAR ENDED JUNE 30, 2023

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

2024	\$ 4,750,965
2025	2,331,329
2026	-
2027	-
2028	-
Thereafter	<u>2,200,000</u>
Total	<u>\$ 9,282,294</u>

**NOTE 13 – DEFERRED REVENUE**

Deferred revenue is summarized as follows:

New Markets Tax credits:	
Investments in leverage lenders	\$ (3,999,586)
Notes payable from CDEs	5,913,775
Transaction costs	<u>(317,877)</u>
Net amortizable benefit	1,596,312
Less accumulated amortization	<u>(1,206,929)</u>
New Markets Tax credits, net	389,383
Less: current portion	<u>(228,045)</u>
Long-term portion	<u>\$ 161,338</u>

*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.

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

The following is a summary of the NMTC Transactions:

New Markets Tax Credit Transaction – LCD

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.

New Market Tax Credit Transaction – HFHI:

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.

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YEAR ENDED JUNE 30, 2023

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 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 \$228,026 for the year ended June 30, 2023. Interest expense on the notes payable to the CDE’s totaled \$40,004 for the year ended June 30, 2023. 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 for the year ended June 30, 2023. There were no annual new markets tax credit fees related to the asset management, compliance and facilitation fees for the year ended June 30, 2023. Any annual expenses are to be paid from the new markets tax credit restricted cash reserves (see Note 4).

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

**NOTE 14 – 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, 2028. The EQ was made subordinate to all other obligations of HEBSV. The interest expense was \$8,849 for 2023.

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, 2028. The interest was \$50,000 in 2023.

A third EQ, in the amount of \$2,000,000 was obtained by EBSV from Western Bank Alliance in October 2021. The EQ bears quarterly interest-only payments at a rate of 1.50% per annum and has a maturity date of January 1, 2027. Currently, the extended maturity is January 1, 2028. The interest expense was \$37,500 for 2023.

Costs incurred in order to obtain permanent financing were \$661,801 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, 2023 was \$478,286. Interest expense for amortization of permanent loan costs for 2023 was \$135,752.

**NOTE 15 – 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 \$46,000 as of June 30, 2023, relating to the cause.

Net Assets with Donor Restrictions

Net assets with donor restrictions are summarized as follows:

	<u>June 30, 2022</u>	<u>Contributions</u>	<u>Released from Restrictions</u>	<u>June 30, 2023</u>
Contributions restricted for specific programs:				
Disaster Relief	\$ 1,683	\$ 401,000	\$ (400,000)	\$ 2,683
East 22nd St	-	125,000	-	125,000
Global Village	-	120	-	120
	<u>\$ 1,683</u>	<u>\$ 526,120</u>	<u>\$ (400,000)</u>	<u>\$ 127,803</u>

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

**NOTE 16 – IN-KIND CONTRIBUTIONS**

In-kind contributions are summarized as follows:

Donated inventory	\$ 4,034,128
Donated use of facilities	110,206
Donated property, equipment and building materials	<u>79,184</u>
Total in-kind donations	<u>\$ 4,223,518</u>

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

**NOTE 17 – 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 \$208,030 to the plan in 2023.

**NOTE 18 – LEASES**

HEBSV leases office facilities, equipment, ReStore site and warehouse under operating leases. The leases have remaining lease terms of 1 to 5 years, some of which include options to extend the leases for up to 5 years. Certain facility leases provide for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index, subject to certain minimum increases. Additionally, the agreements generally require HEBSV to pay for common area maintenance and repairs. These expenses are included as operating expenses under rent and warehouse lease expense of \$1,256,144 and \$120,262, respectively, in 2023. Cash paid for amounts included in the measurement of lease liabilities was \$871,746 in 2023, as part of operating cash flows from operating leases.

As of June 30, 2023, the weighted average remaining lease term and discount rate for the operating leases was 2 years and 2.85%, respectively. The lease asset and liability were calculated utilizing the risk-free discount rate (2.79% to 2.88%), according to HEBSV's elected policy. The options to renew the operating lease were not considered when assessing the value of the ROU assets because HEBSV is not reasonably certain that it will exercise its option to renew the leases.

The line items in the combined statement of financial position which include amounts for the operating lease as of June 30, 2023 are summarized as follows:

Right-of-use assets – operating lease	<u>\$ 3,286,797</u>
Total operating lease liabilities	3,468,473
Less: current portion	<u>(952,347)</u>
Long-term portion	<u>\$ 2,516,126</u>

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

The maturities of lease liabilities are estimated as follows:

2024	\$ 1,039,121
2025	840,898
2026	867,088
2027	673,550
2028	254,712
Total lease payments	<u>3,675,369</u>
Less amount representing interest	<u>(206,896)</u>
Present value of lease liabilities	<u><u>\$ 3,468,473</u></u>

**NOTE 19 – 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:

Financial assets at end of year available within one year:

Cash and cash equivalents	\$ 6,179,862
Investments	2,559,849
Restricted cash	24,927
Grants and contributions receivable	5,665,517
Mortgage and note receivable	667,521
	<u>15,097,676</u>

Less financial assets not available for general expenditures, due to:

Restricted cash (Note 4)	(24,927)
Operating reserve (Note 1)	(2,148,000)
Retained mortgage cash reserve (Note 6)	(2,559,849)
Donor-restricted net assets (Note 15)	(127,803)
Board designations (Note 15)	(46,000)
	<u>(46,000)</u>

Financial assets available for general expenditures within one year \$ 10,191,097

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 \$15,097,676 of total financial assets and \$10,191,097 of the total is available within one year of the statement of financial position date as of June 30, 2023. 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 maintains financial assets, which consist of cash and short-term investments, on hand to meet 3 times the amount of average monthly operating expenses.

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

**NOTE 20 – COMMITMENT AND CONTINGENCIES**

Construction Contracts

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

Legal

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.

Employee Retention Credit

HEBSV is eligible for the Employee Retention Credit (“ERC”) under the CARES Act. With the new laws enacted in later 2020 and during 2021, HEBSV retroactively applied during the fiscal year ended June 30, 2023 for the ERC based on wages incurred during the quarters ended September 30, 2021 by filing the 2021 Form 941-X Adjusted Employer’s Quarterly Federal Tax Return or Claim for Refund for those quarters. The qualifying amount of \$1,152,266 for the total of the 1st and 2nd quarters of 2021 was submitted to the Department of the Treasury Internal Revenue Service (IRS). HEBSV expects to meet the eligibility criteria and has concluded that the ERC represents a grant, and accordingly has accounted for the ERC amount as a conditional contribution. The ERC amount is considered to be conditioned upon certain eligibility requirements and/or the incurrence of allowable qualifying expenses. For the year ended June 30, 2023, HEBSV recognized \$1,152,266 in grants and contributions revenue in the combined statement of activities based on qualifying expenditures under the ERC program that are expected to be received. Although HEBSV believes the occurrence of qualifying expenditures will result in such reimbursement, the expenditures are subject to review and/or audit under applicable administrative provisions by the IRS. The ERC amount may be subject to change based on the final approval from the IRS.

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, 2023

<i>Federal Grantor/Pass-Through Grantor/Program Title</i>	<i>Assistance Listing Number</i>	<i>Agency or Pass-Through Number</i>	<i>Federal Expenditures</i>	<i>Expenditures to Subrecipients</i>
<u>U.S. Department of Housing and Urban Development:</u>				
Community Development Block Grants Program Cluster:				
Pass-through grant from the City of Alameda	14.218	N/A	\$ 2,156	\$ -
Pass-through grant from the City of Berkeley	14.218	N/A	342,587	-
Pass-through grant from the City of Concord	14.218	N/A	116,098	-
Pass-through grant from the City of Concord	14.218	N/A	297,492	-
Pass-through grant from the County of Contra Costa	14.218	N/A	166,917	-
Pass-through grant from the City of Fremont	14.218	B-20-MC-06-0012	250,000	-
Pass-through grant from the City of Hayward	14.218	N/A	187,419	-
Pass-through grant from the City of San Jose	14.218	B-20-MC-06-0021	550,000	-
Pass-through grant from the City of Walnut Creek	14.218	B-20-MC-06-0030	117,857	-
Total CDBG Cluster			2,030,526	-
HOME Investment Partnerships Program:				
Pass-through loan from the County of Contra Costa	14.239	N/A	1,171,524	-
Pass-through grant from the City of Pleasanton	14.239	N/A	91,315	-
Total HOME			1,262,839	-
<b>TOTAL FEDERAL AWARDS</b>			<b>\$ 3,293,365</b>	<b>\$ -</b>



HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2023

**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, 2023, 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 elected 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 \$70,555 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	\$ 63,888
HOME Investment Partnerships Program	<u>1,171,524</u>
Total	<u>\$ 1,235,412</u>

HABITAT FOR HUMANITY EAST BAY/SILICON VALLEY AND SUBSIDIARIES

(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2023

**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

AL #14.218 U.S. Department of Housing and Urban Development – Community Development Block Grants/Program Cluster

AL #14.239 U.S. Department of Housing and Urban Development – HOME Investment Partnerships Program

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.



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CATHY L. HWANG  
RITA B. DELA CRUZ  
SCOTT K. SMITH  
CRISANTO S. FRANCISCO  
JOE F. HUIE  
\_\_\_\_\_  
SHERMAN G. LEONG  
KYLE F. GANLEY

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, 2023, 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 28, 2023.

Report on 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) as a basis for designing 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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' 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 combined financial statements. 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 28, 2023



CHARLOTTE SIEW-KUN TAY  
CATHY L. HWANG  
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SCOTT K. SMITH  
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\_\_\_\_\_  
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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**

**Opinion on 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 program for the year ended June 30, 2023. Habitat for Humanity East Bay/Silicon Valley and Subsidiaries’ major federal program is identified in the summary of auditor’s results section of the accompanying Schedule of Findings and Questioned Costs.

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 program for the year ended June 30, 2023.

**Basis for Opinion on Each Major Federal Program**

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries’ compliance with the compliance requirements referred to above.

### Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provision of contracts or grant agreements applicable to Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' federal programs.

### Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Habitat for Humanity East Bay/Silicon Valley and Subsidiaries' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

**Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

*Sindquist, von Husen and Joyce LLP*

November 28, 2023