

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.
(A NON-PROFIT ORGANIZATION)

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT

June 30, 2019 and 2018

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

June 30, 2019 and 2018

TABLE OF CONTENTS

	<u>Page Number</u>
INDEPENDENT AUDITORS' REPORT	1 – 2
FINANCIAL STATEMENTS	
Statements of financial position	3 – 4
Statements of activities	5
Statements of functional expenses	6
Statements of cash flows	7 – 8
Notes to financial statements	9 – 24

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Habitat for Humanity of Orange County, Inc.
Santa Ana, California

We have audited the accompanying financial statements of Habitat for Humanity of Orange County, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the financial statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Board of Directors
Habitat for Humanity of Orange County, Inc.
Santa Ana, California

Opinion

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

Report on Summarized Comparative Information

We have previously audited Habitat for Humanity of Orange County, Inc.'s June 30, 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 17, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Ronald Blue & Co.
CPAs and Consultants, LLP*

Santa Ana, California
November 1, 2019

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,980,338	\$ 1,444,424
Cash and cash equivalents - restricted	<u>772,607</u>	<u>1,066,794</u>
Total cash and cash equivalents	3,752,945	2,511,218
Promises to give - current	132,287	201,106
Other receivables	9,569	25,526
Inventory - Homes for sale	474,159	856,114
Inventory - ReStores	253,292	323,132
Prepaid expenses	9,212	6,084
Deposits	172,704	122,169
Housing assets, at net realizable value	<u>1,978,803</u>	<u>5,207,904</u>
Total current assets	<u>6,782,971</u>	<u>9,253,253</u>
Noncurrent assets:		
Promises to give - noncurrent	299,526	340,685
Mortgages receivable, net of unamortized discount	5,720,121	5,927,152
Property and equipment, net	<u>47,464</u>	<u>54,152</u>
Total noncurrent assets	<u>6,067,111</u>	<u>6,321,989</u>
Total assets	<u><u>\$ 12,850,082</u></u>	<u><u>\$ 15,575,242</u></u>

See accompanying notes and independent auditors' report

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

June 30, 2019 and 2018

	2019	2018
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 427,993	\$ 411,109
Property tax and insurance impounds	120,994	132,524
Deferred mortgage receipts	15,955	39,362
Security deposits	22,601	324,332
Notes payable - current portion	<u>1,472,016</u>	<u>2,247,665</u>
Total current liabilities	<u>2,059,559</u>	<u>3,154,992</u>
Noncurrent liabilities:		
Lines of credit - noncurrent portion	304,444	-
Notes payable - noncurrent portion	<u>632,243</u>	<u>1,654,923</u>
Total noncurrent liabilities	<u>936,687</u>	<u>1,654,923</u>
Total liabilities	<u>2,996,246</u>	<u>4,809,915</u>
Net assets:		
Without donor restrictions	9,240,350	9,841,920
With donor restrictions	<u>613,486</u>	<u>923,407</u>
Total net assets	<u>9,853,836</u>	<u>10,765,327</u>
Total liabilities and net assets	<u>\$ 12,850,082</u>	<u>\$ 15,575,242</u>

See accompanying notes and independent auditors' report

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2019 and 2018

	2019			2018		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Support and revenue:						
Contributions	\$ 1,640,125	\$ 456,850	\$ 2,096,975	\$ 974,449	\$ 839,443	\$ 1,813,892
Donated materials and services	113,175	233,403	346,578	104,342	283,048	387,390
Interest income	177,289	-	177,289	163,433	-	163,433
Rehab income	340,983	-	340,983	131,007	-	131,007
Rental income	58,102	-	58,102	43,508	-	43,508
ReStore revenues	2,422,800	-	2,422,800	2,291,840	-	2,291,840
Sale of homes	5,127,000	-	5,127,000	1,465,500	-	1,465,500
Special events revenues	743,809	-	743,809	819,513	-	819,513
Other income	24,011	-	24,011	2,291,277	-	2,291,277
Net assets released from restrictions	<u>1,000,174</u>	<u>(1,000,174)</u>	<u>-</u>	<u>1,407,626</u>	<u>(1,407,626)</u>	<u>-</u>
Total support and revenue	11,647,468	(309,921)	11,337,547	9,692,495	(285,135)	9,407,360
Expenses:						
Program activities:						
Restore	2,099,097	-	2,099,097	2,083,597	-	2,083,597
Special events	204,840	-	204,840	168,492	-	168,492
Rental	16,584	-	16,584	26,160	-	26,160
Program	<u>9,213,244</u>	<u>-</u>	<u>9,213,244</u>	<u>5,016,888</u>	<u>-</u>	<u>5,016,888</u>
Total program activities	<u>11,533,765</u>	<u>-</u>	<u>11,533,765</u>	<u>7,295,137</u>	<u>-</u>	<u>7,295,137</u>
Supporting activities:						
Management and general	235,066	-	235,066	252,056	-	252,056
Fund development	<u>480,207</u>	<u>-</u>	<u>480,207</u>	<u>423,817</u>	<u>-</u>	<u>423,817</u>
Total supporting activities	<u>715,273</u>	<u>-</u>	<u>715,273</u>	<u>675,873</u>	<u>-</u>	<u>675,873</u>
Total expenses	<u>12,249,038</u>	<u>-</u>	<u>12,249,038</u>	<u>7,971,010</u>	<u>-</u>	<u>7,971,010</u>
Change in net assets	(601,570)	(309,921)	(911,491)	1,721,485	(285,135)	1,436,350
Net assets, beginning of year	<u>9,841,920</u>	<u>923,407</u>	<u>10,765,327</u>	<u>8,120,435</u>	<u>1,208,542</u>	<u>9,328,977</u>
Net assets, end of year	<u>\$ 9,240,350</u>	<u>\$ 613,486</u>	<u>\$ 9,853,836</u>	<u>\$ 9,841,920</u>	<u>\$ 923,407</u>	<u>\$ 10,765,327</u>

See accompanying notes and independent auditors' report

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2019

(with summarized information for the year ended June 30, 2018)

	Program activities				Supporting activities		2019 Total	2018 Total
	Restore	Special events	Rental	Program	Management and general	Fund development		
Expenses:								
Accounting	\$ -	\$ -	\$ -	\$ 41,158	\$ -	\$ -	\$ 41,158	\$ 44,089
Advertising and promotion	3,325	152,995	-	53,907	445	21,498	232,170	255,926
Conference	2,453	4,878	-	60,918	8,594	24,590	101,433	78,877
Cost of home sales	-	33,348	-	6,561,862	37,634	6,096	6,638,940	2,693,991
Cost of rehabs	-	-	16,584	713,071	-	-	729,655	551,505
Depreciation	-	-	-	-	6,688	-	6,688	10,364
Discount on sales	-	-	-	266,729	-	-	266,729	118,871
Grants	-	-	-	66,927	-	-	66,927	13,125
Information technology	6,624	-	-	104,464	-	2,745	113,833	117,768
Insurance	141,462	-	-	121,387	41,445	11,766	316,060	318,190
Interest	-	-	-	39,730	1,661	-	41,391	57,210
Interest - loan fees	-	-	-	-	-	-	-	8,048
NMTC costs	-	-	-	-	-	-	-	1,506
Occupancy	531,277	-	-	150,944	44,078	1,669	727,968	742,022
Office expense	68,751	2,303	-	24,556	25,159	15,478	136,247	125,465
Officer compensation	-	-	-	670,523	36,386	20,820	727,729	671,136
Other expenses	210,187	-	-	-	-	-	210,187	173,275
Other salaries and wages	964,006	11,316	-	225,143	10,652	337,228	1,548,345	1,647,450
Payroll taxes	69,938	-	-	111,925	22,324	38,317	242,504	258,402
Travel	101,074	-	-	-	-	-	101,074	83,790
Total expenses	<u>\$ 2,099,097</u>	<u>\$ 204,840</u>	<u>\$ 16,584</u>	<u>\$ 9,213,244</u>	<u>\$ 235,066</u>	<u>\$ 480,207</u>	<u>\$ 12,249,038</u>	<u>\$ 7,971,010</u>

See accompanying notes and independent auditors' report

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ (911,491)	\$ 1,436,350
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation expense	6,688	10,364
Interest expense - loan costs	-	8,048
Cancellation of debt less related closing costs and fees	-	(2,225,305)
Changes in:		
Promises to give	109,978	79,516
Other receivables	15,957	(23,158)
Inventory - Homes for sale	381,955	174,887
Inventory - ReStores	69,840	(2,942)
Prepaid expenses and deposits	(53,663)	(10,063)
Housing assets	3,229,101	(392,167)
Acquisition of mortgages receivable	(1,284,392)	(478,573)
Payments on mortgages receivable	503,934	525,028
Discounts on mortgage receivable	903,335	85,336
Buybacks of mortgages	84,154	-
Accounts payable and accrued expenses	16,884	(476,701)
Property tax and insurance impounds	(11,530)	(7,456)
Deferred mortgage receipts	(23,407)	(136,800)
Security deposits	(301,731)	(163,225)
	<u>2,735,612</u>	<u>(1,596,861)</u>
Net cash from operating activities	<u>2,735,612</u>	<u>(1,596,861)</u>

See accompanying notes and independent auditors' report

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

STATEMENTS OF CASH FLOWS (CONTINUED)

For the Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from financing activities		
Line of credit payments	-	(500)
Line of credit draws	304,444	-
Notes payable principal payments	(3,130,329)	(120,163)
Acquisition of notes payable	<u>1,332,000</u>	<u>-</u>
Net cash from financing activities	<u>(1,493,885)</u>	<u>(120,663)</u>
Net change in cash and cash equivalents	1,241,727	(1,717,524)
Total cash and cash equivalents, beginning of year	<u>2,511,218</u>	<u>4,228,742</u>
Total cash and cash equivalents, end of year	<u>\$ 3,752,945</u>	<u>\$ 2,511,218</u>

See accompanying notes and independent auditors' report

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

Note 1 – Summary of significant accounting policies

This summary of significant accounting policies is presented to assist in understanding the accompanying financial statements. The financial statements and notes are the representations of Habitat for Humanity of Orange County, Inc.'s management, which is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting policies and have been consistently applied in the preparation of the financial statements.

Nature of activities

Habitat for Humanity of Orange County, Inc. (the Organization) is a non-profit corporation under Section 501(c)(3) of the Internal Revenue Code and was incorporated on January 26, 1988, under the laws of the State of California. The Organization is an ecumenical grass-roots Christian ministry whose purpose is to transform lives and communities by helping families in need build and purchase or renovate their own homes. The Organization aims to accomplish its purpose through privately operated and financed programs to sell such housing to low- and moderate-income families at cost, utilizing non-interest bearing instruments.

The Organization builds new homes and rehabilitates properties repurchased by the Organization to ready them for resale; homes owned by qualifying families; and buildings owned by other non-profits to help them accomplish their mission in a more cost effective manner.

Prior to the dissolution of the Redevelopment Agencies in California in 2012, public land was donated to the Organization. Generally land is secured by debt payable to the purveyor of the land. In many cases, this debt is non-interest bearing and no principal payments are required. The debt is then reconveyed to the Organization upon the successful sale of the home to a qualified buyer as defined in the Disposition and Development Agreement with the purveyor. June 2014 was the first time the Organization had to purchase land.

Debt is also incurred to meet construction commitments, but only to the extent these can be repaid via mortgages from the sales of homes.

Four (4) homes are under construction as of the year ended June 30, 2019. During the year ended June 30, 2019, the Organization sold fourteen (14) homes (Twelve new construction and two resales of homes purchased from the prior Habitat family), and has sold 219 newly constructed homes since inception. Additionally, two homes were repurchased and have been prepared for resale to another qualifying family. By serving families, the Organization has changed 3,970 lives since inception. Sixteen homes (16) were repaired in the year ended June 30, 2019. Five (5) of these were for Veterans as part of a Veteran Home Repair Program. The Organization has also funded the building of 458 homes worldwide as of June 30, 2019 and it currently tithes to the Habitat affiliates in Nicaragua and Ethiopia.

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

Note 1 – Summary of significant accounting policies (continued)

The Organization also operates two ReStore retail outlets that sell predominantly donated materials to the public. ReStore revenue comprises approximately 21.00% and 24.00% of total revenue for the years ended June 30, 2019 and 2018, respectively. Purchased product represents approximately 6.00% and 7.00% of total retail sales for the years ended June 30, 2019 and 2018, respectively.

Basis of accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Comparative financial information

The accompanying financial statements include certain 2018 comparative information. With respect to the accompanying statements of activities, information for 2018 is presented in the aggregate and not displayed by category. Accordingly, such information should be read in conjunction with the Organization's fiscal 2018 financial statements from which summarized information was derived.

Concentration of credit risk

The Organization maintains its cash deposit accounts at various commercial banks located in Southern California. Cash accounts at banks are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The balances in these accounts may, at times, exceed federally insured limits. Management believes the Organization is not exposed to any significant risk in connection with cash accounts.

Cash and cash equivalents

All cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

Cash and cash equivalents - restricted

Restricted cash consists of amounts held for legal or contract compliance and amounts reserved for homeowner impounds and delinquencies. The Organization also routinely receives contributions that are subject to donor-imposed restrictions. Restricted cash consists of those amounts set aside to comply with such restrictions.

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

Note 1 – Summary of significant accounting policies (continued)

Promises to give

Unconditional promises to give are recognized as support and revenues or gains in the period promised and as assets, decreases of liabilities, or expenses depending on the form of the benefits to be received.

Other receivables

Other receivables consists of miscellaneous items related to properties. As of June 30, 2019 and 2018, other receivables totaled \$9,569 and \$25,526, respectively.

Inventory – Homes for sale

The Organization constructs housing for sale to low- and moderate-income families. Homes for sale inventories are valued at net realizable value.

Inventory - ReStores

The Organization operates two ReStore retail outlets, which are located in Santa Ana and Anaheim, that sell predominantly donated materials to the public. Donated inventories on hand at year end are valued at estimated fair market value. Purchased inventories are valued at the lower of cost or market.

Housing assets

Housing assets represent amounts expended for the construction of new or refurbished homes and include costs of construction, donated materials and donated land. Housing assets are recorded at cost if materials are purchased, and at estimated fair market value if donated.

The Organization constructs housing for sale to low- and moderate-income families. In furtherance of this purpose a substantial amount of the cost of housing assets is not passed on to the homeowners but absorbed by the Organization. Completed new construction homes are stated at the lower of cost or market using the specific identification method and reserving for a loss when appropriate. As of June 30, 2019 and 2018, the reserve for loss was \$880,000 and \$1,233,427, respectively.

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

Note 1 – Summary of significant accounting policies (continued)

Mortgages receivable

Mortgages receivable are non-interest bearing and exchanged for homes to low- and moderate-income families, fulfilling the Organization's exempt purposes. The notes are recorded at their present value based on the prevailing market rate of interest at the time the mortgage was originated. Prevailing market rates are determined annually based on current mortgage interest rates offered by our banking partners. The difference between the face amount of the note and its present value is accounted for as a discount and recorded as a reduction in the receivable. The resulting discount is amortized over the life of the mortgage using the interest method. Amortization of the discount is recognized as interest income in the statements of activities. Also see Note 4.

Property and equipment

Capital expenditures over \$2,500 for property and equipment are capitalized, and presented at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, which range from three to thirty-nine years. Donated assets are capitalized at their approximate fair value at the date of the gift. Depreciation expense for the years ended June 30, 2019 and 2018, was \$6,688 and \$10,364, respectively.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. During 2019 and 2018, there were no events or changes in circumstances indicating that the carrying amount of long-lived assets may not be recoverable.

Deferred mortgage receipts / rental income

At various times approved homeowners reside in homes which have not closed escrow. From the rental payments received from these homeowners, the Organization designates a portion of these rents to be applied to the homeowners' mortgages once escrow closes.

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

Note 1 – Summary of significant accounting policies (continued)

Net assets

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as net assets with donor restrictions, depending on the nature of restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. At June 30, 2019 and 2018, net assets with donor restrictions consisted of \$613,486 and \$923,407, respectively.

Revenue recognition

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a benefit interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. Revenue is recognized when earned.

Donated services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Numerous volunteers provided many services throughout the year that are not recognized as contributions in the financial statements since the criteria for recognition are not met. Donated services are recognized as revenues in the period received and as assets or expenses depending on the services performed.

Donated materials

Donated materials and other non-monetary items are reflected as contributions in the accompanying statements at their estimated fair market values as of the date of receipt.

Functional allocation of expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Certain significant expenses are allocated on a basis of square footage, such as depreciation and interest; while others are allocated on a basis of time and effort estimates, such as salaries and payroll tax expense.

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

Note 1 – Summary of significant accounting policies (continued)

Income taxes

The Organization is exempt from Federal and California income tax under Internal Revenue Code Section 501(c)(3). The Organization is subject, however, to Federal and California income tax on unrelated business income as stipulated in Internal Revenue Code Section 511 and Regulation Section 1.511. During the years ended June 30, 2019 and 2018, the Organization had revenue from the sale of purchased goods in the ReStores, which constitutes unrelated business income. However, since purchased product represents approximately 6% and 7% of total retail sales for the years ended June 30, 2019 and 2018, respectively, and the applicable expenses of the activity exceeded the income from the activity, the Organization did not have unrelated business taxable income, and therefore incurred no tax liability due to unrelated business income. The Organization does not believe its financial statements include (or reflect) any uncertain tax positions.

Advertising expense

For the years ended June 30, 2019 and 2018, advertising expense totaled \$24,432 and \$22,975, respectively.

Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

Note 2 – Liquidity and availability

As part of liquidity management, the Organization has put a policy in place to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Financial assets available for general expenditure within one year consisted of the following at June 30, 2019:

Total cash and cash equivalents	\$ 3,752,945
Other receivables	<u>9,569</u>
Total financial assets	3,762,514
Contractual or donor-imposed restrictions:	
Cash restricted for legal or contractual compliance	159,121
Donor contributions with specific purpose restrictions (Note 8)	<u>613,486</u>
Total contractual or donor-imposed restrictions	<u>772,607</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 2,989,907</u></u>

Note 3 – Promises to give

Promises to give may include restricted and unrestricted pledges. Restricted pledges are generally restricted to payment for the costs of construction for several projects.

Since March 2012, the Organization held an annual five year unrestricted pledge program. Based on six years of collection history, the unrestricted promises to give receivable has been discounted by 10.00%. The unrestricted promises to give as of June 30, 2019 and 2018 include current portions of \$132,277 and \$201,106, respectively and long-term portions of \$299,536 and \$340,685, respectively.

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

Note 4 – Mortgages receivable

In general, mortgages receivable carry imputed interest rates between 4.50% and 8.00% and are presented in the accompanying statements of financial position net of unamortized discount. The face amount and unamortized discount of mortgages receivable as of June 30, 2019 and 2018, were \$12,328,489 and \$11,548,034, respectively. Imputed interest rates for June 30, 2019 and 2018, ranged from 4.00% to 5.00%. Interest income resulting from the amortization of discounted notes for the years ended June 30, 2019 and 2018 totaled \$177,196 and \$163,399, respectively.

Certain mortgages have been pledged as collateral under financing agreements California Bank and Trust (See Note 6). As of June 30, 2019 and 2018, the amount of receivables pledged (at face value) in connection with specific loan agreements are shown in the table below. On the statements of financial position, these same non-interest bearing mortgages are included net of discounts. In the table below, the payment streams represent cash paid out by the Organization to the specified lenders and cash received by the Organization from mortgage payments from homeowners related to the collateralized Habitat mortgages.

Lender	Loan name	Payment streams		Balance of mortgages receivable pledged	
		Paid out	Receipts	2019	2018
California Bank & Trust	2011 - 15 yr	\$ 41,819	\$ 63,284	\$ 1,686,148	\$ 1,749,431
California Bank & Trust	2014 - 7 yr	37,589	39,152	280,022	319,174
California Bank & Trust	2014 - 15 yr	20,873	37,760	<u>533,288</u>	<u>571,048</u>
Total mortgages receivable pledged				<u>\$ 2,499,458</u>	<u>\$ 2,639,653</u>

These agreements are also subject to certain guarantees and may contain substitution requirements or options. See Note 11.

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

Note 5 – Property and equipment

Property and equipment consisted of the following at June 30:

	2019	2018
Equipment	\$ 308,099	308,099
Automobiles	145,224	145,224
Improvements	<u>80,743</u>	<u>80,743</u>
Total property and equipment	534,066	534,066
Less: accumulated depreciation	<u>(486,602)</u>	<u>(479,914)</u>
Property and equipment, net	<u>\$ 47,464</u>	<u>\$ 54,152</u>

Note 6 – Notes payable

Notes payable consisted of the following at June 30:

	2019	2018
Loan payable dated December 1, 2011, to California Bank and Trust, collateralized by mortgages receivable, with principal and interest at an annual rate of 4.75% payable in monthly installments of \$5,145 through December 20, 2026.	\$ 391,210	\$ 433,028
Loan payable dated August 11, 2014 to California Bank & Trust, collateralized by mortgages receivable with principal and interest at an annual rate of 4.00% payable in monthly installments of \$3,501 through August 20, 2021.	88,817	126,407

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

Note 6 – Notes payable (continued)

	2019	2018
Loan payable dated August 11, 2014 to California Bank & Trust, collateralized by mortgages receivable with principal and interest at an annual rate of 5.00% payable in monthly installments of \$3,021 through August 20, 2029.	292,232	313,105
Loan payable dated May 19, 2016, to the City of Santa Ana. The loan is transferred to a new owner upon the sale of the identified property to an eligible purchaser. The note was transferred in 2018.	-	1,015,285
Loan payable dated September 8, 2015, to the City of Fullerton. The loan is transferred to a new owner upon the sale of the identified property to an eligible purchaser. The note was transferred in 2019.	-	315,000
Loan payable dated November 8, 2016 to California Bank & Trust, collateralized by the property under construction in Santa Ana, and donations. The loan term is for 24 months from the date of the loan with principal and interest at an annual variable rate of 0.50% over the index (Prime Rate). The loan was paid in full in 2018.	-	777,363
Loan payable dated November 1, 2017 to NeighborWorks Orange County, collateralized by the property under construction in Placentia, and donations. The loan term is for 24 months from the date of the loan with principal and interest at an annual variable rate of 3.50%. The loan was paid in full in 2018.	-	260,000

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

Note 6 – Notes payable (continued)

	2019	2018
Loan payable dated November 1, 2017 to NeighborWorks Orange County, collateralized by the property under construction in Fullerton and donations. The loan term is for 24 months from the date of the loan with principal and interest at an annual variable rate of 3.50%. The loan was paid in full in 2018.	-	260,000
Loan payable dated November 1, 2017 to NeighborWorks Orange County, collateralized by the property under construction in Tustin and donations. The loan term is for 24 months from the date of the loan with principal and interest at an annual variable rate of 3.50%. The loan was paid in full in 2018.	-	402,400
Loan payable dated August 27, 2018, to the City of Fullerton. The loan is transferred to a new owner upon the sale of the identified property to an eligible purchaser. The loan does not bear interest.	<u>1,332,000</u>	<u>-</u>
Total notes payable	2,104,259	3,902,588
Less: current portion	<u>(1,472,016)</u>	<u>(2,247,665)</u>
Total notes payable, net	<u>\$ 632,243</u>	<u>\$ 1,654,923</u>

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

Note 6 – Notes payable (continued)

Future minimum payments consist of the following for the years ended June 30:

2020	\$ 1,472,016
2021	140,016
2022	102,797
2023	98,004
2024	98,004
2025 and thereafter	<u>193,422</u>
	<u>\$ 2,104,259</u>

Interest expense related to notes payable for the years ended June 30, 2019 and 2018, totaled \$41,390 and \$57,210, respectively.

Note 7 – Lines of credit

The Organization secured a line of credit of up to \$500,000 dated November 1, 2017 from NeighborWorks Orange County. The line is unsecured and matures November 1, 2019 with a fixed interest rate of 3.50%. At June 30, 2019 and 2018, the outstanding balance was \$0 and \$0, respectively.

On September 20, 2018, the Organization entered into a non-revolving line of credit with NeighborWorks Orange County in the amount of \$750,000. The line of credit carries an interest rate of 4.75% and matures September 20, 2021. The line of credit requires interest only payments until maturity. At June 30, 2019, the outstanding balance was \$304,444.

Note 8 – Net assets with donor restrictions

Net assets with donor restrictions consisted of the following at June 30:

	2019	2018
Cal Home Grant	\$ 49,434	\$ 303,464
Family services	5,000	-
Fullerton	-	108,829
Neighborhood Revitalization Initiative	114,421	150,947
Home repair	381,890	326,713
Future projects	<u>62,741</u>	<u>33,454</u>
Total net assets with donor restrictions	<u>\$ 613,486</u>	<u>\$ 923,407</u>

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

Note 9 – Operating leases

The Organization leases office space, ReStore warehouse/retail space, and various office equipment under operating leases totaling \$56,058 per month for terms through September 2022. Rental expenses related to these leases totaled \$675,094 and \$653,831 for the years ended June 30, 2019 and 2018, respectively.

Future minimum lease payments for operating leases for the years ended June 30, are as follows:

2020	\$	665,980
2021		655,466
2022		382,679
2023		108,361
2024		979

Note 10 – Retirement Plan

The Organization offers a retirement plan to eligible employees. The Organization did not provide any employer contributions for the years ended June 30, 2019 and 2018. See Note 15.

Note 11 – Guarantees

The Organization uses cash leveraging programs to generate cash today from years of future monthly mortgage payments by Habitat homeowners.

Vertical US Recovery Fund, LLC / Statebridge Company, LLC

The Organization entered into agreements with unrelated investors, Vertical US Recovery Fund LLC, Vertical US Recovery Fund II LLC, and Vertical Capital Income Fund (collectively Vertical) which purchased certain of the Organization's mortgages. During the year ended June 30, 2017, Vertical sold all their interests to Statebridge Company, LLC. In conjunction with the agreements, the Organization will continue to service these mortgages, monitor payments, and be responsible for collections. Under the terms of the agreement the Organization will remit to Vertical / Statebridge on a monthly basis for a period up to 40 years, an amount equal to the monthly payments due from the homeowners. This amount will vary as homeowners pay off their mortgages.

Under the agreements, the Organization retains the right to substitute a mortgage of equal or greater value in the event of the homeowner requesting a buyback of their property or in the event that the Organization plans to renegotiate the terms of the mortgage with the family. The Organization has guaranteed the full and prompt payment of all obligations in conjunction with the mortgages. The Organization's obligation to Vertical /Statebridge will not change irrespective of the payments collected on the mortgages and has outstanding principal amount of \$2,240,984 and \$2,376,345 as of June 30, 2019 and 2018, respectively.

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

Note 11 – Guarantees (continued)

Guarantees to various banks

Various banks have made loans direct to Habitat homeowners. The banks service the loans. The Organization retains the right to cure the loans for up to 180 days of consecutive late payments by the homeowner or up to 12 months of non-consecutive late payments by the homeowner. After the 180 days or 12 months passes, the loan balances outstanding would be purchased by the Organization. The Organization would then renegotiate a Habitat loan with the homeowner. The Organization has guaranteed mortgages made by various banks in the outstanding principal amount of \$4,502,980 and \$3,394,761 as of June 30, 2019 and 2018, respectively.

California Bank and Trust

The Organization has also guaranteed payment streams in connection with three California Bank and Trust notes payable. The Organization continues to service these mortgages, monitors payments, and is responsible for collections, and will remit to California Bank and Trust on a monthly basis per the term of each agreement as follows: \$5,145 for 15 years through December 2026; \$3,501 for 7 years through August 2021, \$3,021 for 15 years through August 2029.

The Organization retains the right to substitute a mortgage of equal or greater value in the event of the homeowner requesting a buyback of their property or in the event that the Organization plans to renegotiate the terms of the mortgage with the family. The Organization has encumbered eleven loans, of which their total present value equates to approximately forty percent of the notes payable to California Bank and Trust, as possible substitution loans. See Notes 4 and 6.

Note 12 – Related party transactions

Habitat for Humanity International

The Organization is affiliated, by agreement, with Habitat for Humanity International, a tax-exempt organization incorporated under the laws of the state of Georgia. The Organization has been added to the roster of exempt subordinates by the Internal Revenue Service within a group exemption granted to Habitat for Humanity International under Section 501(c)(3) of the Internal Revenue Code.

Under its affiliate agreement the Organization is expected to contribute a certain portion of its unrestricted cash donations to Habitat for Humanity International to continue its international programs. These contributions are accounted for as program services and are recorded when due. The total amount contributed to Habitat for Humanity International for the years ended June 30, 2019 and 2018 were \$66,927 and \$60,641, respectively.

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

Note 13 – Agreement with Humanity Housing, Inc.

The Organization has an Agreement of Purchase and Sale and Joint Escrow Instructions (the "Purchase Agreement") with an unrelated entity, Humanity Housing, Inc., a California non-profit corporation. Humanity Housing, Inc. is working in cooperation with the Organization pursuant to the HOME program regulations requiring Humanity Housing, Inc. to convey the properties and assign all rights and obligations to the Organization which has qualified to rehabilitate the properties, complete the housing construction, and offer for sale and sell the completed units to eligible homebuyers. No properties were transferred between the entities in the fiscal years ended June 30, 2019 or 2018.

The Organization has an accommodation agreement with Humanity Housing, Inc. whereby the Organization pays Humanity Housing, Inc. a sum of \$400 upon the close of escrow for each Affordable Housing Agreement (AHA) in which Humanity Housing, Inc. serves as the counterparty in the role of beneficiary of the AHA.

Note 14 – Supplemental disclosures of cash flow information

	2019	2018
Cash paid during the year for:		
Interest	<u>\$ 41,390</u>	<u>\$ 57,210</u>
Noncash investing and financing activities:		
Completion of investment in joint venture - NMTC	\$ -	\$ 5,627,589
Extinguishment of debt - Clearinghouse NMTC	\$ -	\$ (7,844,846)
Costs capitalized as housing assets	\$ 3,375,070	\$ 3,581,126

Interest expense for the years ended June 30, 2019 and 2018 was \$41,390 and \$65,258, of which \$0 and \$8,048 was related to loan fees, respectively.

Contributed housing assets represents program costs which have been capitalized until the homes are sold. These costs include land, construction in progress, donated materials and services, and incurred losses prior to sale of the homes.

There were no investing cash flow activities for the years ended June 30, 2019 and 2018.

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

Note 15 – Subsequent events

Escrows closed

During July 2019, there was one buyback of a Habitat Home, which decreased cash in the amount of \$92,939.

403b matching program

Effective September 2019, the Organization decided to begin a 403b match program. The Organization will match up to 3.00% for eligible participants.

Management's review

Management has evaluated subsequent events through November 1, 2019, the date on which the financial statements were available to be issued.