

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

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT**

June 30, 2021 and 2020

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

June 30, 2021 and 2020

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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 statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2021, 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, 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 9, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Ronald Blue & Co. CPAs

Santa Ana, California
November 1, 2021

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2021 and 2020

	2021	2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,821,751	\$ 2,073,924
Cash and cash equivalents - restricted	<u>427,368</u>	<u>682,175</u>
Total cash and cash equivalents	3,249,119	2,756,099
Promises to give - current	73,906	75,547
Other receivables	33,063	27,490
Inventory - Homes for sale	933,845	1,339,838
Inventory - ReStores	333,780	266,365
Prepaid expenses	3,961	9,042
Deposits	90,629	111,601
Housing assets, at net realizable value	<u>4,396,528</u>	<u>2,935,268</u>
Total current assets	<u>9,114,831</u>	<u>7,521,250</u>
Noncurrent assets:		
Promises to give - noncurrent	208,933	174,713
Mortgages receivable, net of unamortized discount	4,947,999	5,474,204
Property and equipment, net	42,724	49,824
Other asset	<u>363,332</u>	<u>654,000</u>
Total noncurrent assets	<u>5,562,988</u>	<u>6,352,741</u>
Total assets	<u>\$ 14,677,819</u>	<u>\$ 13,873,991</u>

See accompanying notes and independent auditors' report

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

June 30, 2021 and 2020

	2021	2020
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 816,707	\$ 498,817
Property tax and insurance impounds	9,307	9,984
Deferred mortgage receipts	15,955	15,955
Security deposits	8,510	-
Notes payable - current portion	<u>1,028,611</u>	<u>1,793,015</u>
Total current liabilities	<u>1,879,090</u>	<u>2,317,771</u>
Noncurrent liabilities:		
Lines of credit - noncurrent portion	744,970	600,034
Notes payable - noncurrent portion	550,156	527,362
Assumed mortgages payable	<u>313,193</u>	<u>601,079</u>
Total noncurrent liabilities	<u>1,608,319</u>	<u>1,728,475</u>
Total liabilities	<u>3,487,409</u>	<u>4,046,246</u>
Net assets:		
Without donor restrictions	10,997,765	9,506,991
With donor restrictions	<u>192,645</u>	<u>320,754</u>
Total net assets	<u>11,190,410</u>	<u>9,827,745</u>
Total liabilities and net assets	<u>\$ 14,677,819</u>	<u>\$ 13,873,991</u>

See accompanying notes and independent auditors' report

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2021 and 2020

	2021			2020		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Support and revenue:						
Contributions	\$ 1,682,506	\$ 33,694	\$ 1,716,200	\$ 1,687,899	\$ 37,205	\$ 1,725,104
Donated materials and services	167,775	421,432	589,207	163,312	363,640	526,952
Donated stock	25,097	-	25,097	126,849	-	126,849
Grant income - PPP	621,968	-	621,968	635,000	-	635,000
Interest income	162,137	-	162,137	185,211	-	185,211
Rehab income	105,050	-	105,050	257,312	-	257,312
Rental income	56,435	-	56,435	31,659	-	31,659
ReStore revenues	2,597,947	-	2,597,947	2,395,725	-	2,395,725
Sale of homes	3,908,500	-	3,908,500	1,748,000	-	1,748,000
Special events revenues	365,164	-	365,164	264,191	-	264,191
Other income	33,041	-	33,041	24,549	-	24,549
Net assets released from restrictions	583,235	(583,235)	-	693,577	(693,577)	-
Total support and revenue	10,308,855	(128,109)	10,180,746	8,213,284	(292,732)	7,920,552
Expenses:						
Program activities:						
Restore	1,949,071	-	1,949,071	2,131,655	-	2,131,655
Special events	78,787	-	78,787	123,755	-	123,755
Rental	2,961	-	2,961	4,911	-	4,911
Construction and other programs	5,924,446	-	5,924,446	4,761,033	-	4,761,033
Total program activities	7,955,265	-	7,955,265	7,021,354	-	7,021,354

See accompanying notes and independent auditors' report

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

STATEMENTS OF ACTIVITIES (CONTINUED)

For the Years Ended June 30, 2021 and 2020

	2021			2020		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Supporting activities:						
Management and general	299,328	-	299,328	323,329	-	323,329
Fund development	563,488	-	563,488	601,960	-	601,960
Total supporting activities	862,816	-	862,816	925,289	-	925,289
Total expenses	8,818,081	-	8,818,081	7,946,643	-	7,946,643
Change in net assets	1,490,774	(128,109)	1,362,665	266,641	(292,732)	(26,091)
Net assets, beginning of year	9,506,991	320,754	9,827,745	9,240,350	613,486	9,853,836
Net assets, end of year	<u>\$ 10,997,765</u>	<u>\$ 192,645</u>	<u>\$ 11,190,410</u>	<u>\$ 9,506,991</u>	<u>\$ 320,754</u>	<u>\$ 9,827,745</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, 2021

(with summarized information for the year ended June 30, 2020)

	Program activities				Supporting activities		2021 Total	2020 Total
	Restore	Special events	Rental	Construction and other programs	Management and general	Fund development		
Expenses:								
Accounting	\$ -	\$ -	\$ -	\$ 33,227	\$ -	\$ -	\$ 33,227	\$ 29,102
Advertising and promotion	22,000	5,372	-	155,398	4,799	6,595	194,164	269,087
Conference	55	-	-	22,444	3,374	2,842	28,715	76,044
Cost of home sales	-	7,760	-	3,957,140	41,057	9,515	4,015,472	2,622,844
Cost of rehabs	-	-	2,961	540,715	-	-	543,676	650,338
Depreciation	-	-	-	7,100	-	-	7,100	6,640
Discount on sales	-	-	-	48,773	-	-	48,773	56,008
Grants	-	-	-	-	-	8,400	8,400	10,563
Information technology	9,390	-	-	113,699	-	11,124	134,213	129,229
Insurance	158,415	-	-	85,305	44,856	10,028	298,604	319,993
Interest	-	-	-	30,147	-	-	30,147	35,130
Occupancy	523,328	-	-	179,972	31,726	975	736,001	776,802
Office expense	58,714	5,485	-	14,743	16,385	12,323	107,650	132,394
Officer compensation	-	-	-	651,801	36,936	20,156	708,893	708,893
Other expenses	95,270	-	-	-	-	-	95,270	104,333
Other salaries and wages	895,330	60,170	-	-	71,276	440,324	1,467,100	1,652,346
Payroll taxes	86,731	-	-	83,982	48,919	41,206	260,838	245,671
Travel	99,838	-	-	-	-	-	99,838	121,226
Total expenses	\$ 1,949,071	\$ 78,787	\$ 2,961	\$ 5,924,446	\$ 299,328	\$ 563,488	\$ 8,818,081	\$ 7,946,643

See accompanying notes and independent auditors' report

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Change in net assets	\$ 1,362,665	\$ (26,091)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation expense	7,100	6,640
Changes in:		
Promises to give	(32,579)	181,553
Other receivables	(5,573)	(17,921)
Inventory - Homes for sale	405,993	(865,679)
Inventory - ReStores	(67,415)	(13,073)
Prepaid expenses and deposits	26,053	61,273
Housing assets	(1,461,260)	(956,465)
Acquisition of mortgages receivable	(938,355)	(702,604)
Payments on mortgages receivable	708,867	424,007
Discounts on mortgage receivable	(589,932)	41,842
Buybacks of mortgages	1,414,925	482,673
Other asset	218,000	218,000
Accounts payable and accrued expenses	317,890	70,824
Property tax and insurance impounds	(677)	(111,010)
Security deposits	8,510	(22,601)
	<u>1,374,212</u>	<u>(1,228,632)</u>
Net cash from operating activities	<u>1,374,212</u>	<u>(1,228,632)</u>
Cash flows from investing activities		
Acquisitions of property and equipment	-	(9,000)
	<u>-</u>	<u>(9,000)</u>
Net cash from investing activities	<u>-</u>	<u>(9,000)</u>
Cash flows from financing activities		
Line of credit payments	(550,000)	(19,818)
Line of credit draws	694,936	315,408
Notes payable principal payments	(1,129,051)	(655,883)
Acquisition of notes payable	102,923	-
Assumed mortgages payable	-	601,079
	<u>(881,192)</u>	<u>240,786</u>
Net cash from financing activities	<u>(881,192)</u>	<u>240,786</u>
Net change in cash and cash equivalents	493,020	(996,846)
Total cash and cash equivalents, beginning of year	<u>2,756,099</u>	<u>3,752,945</u>
Total cash and cash equivalents, end of year	<u>\$ 3,249,119</u>	<u>\$ 2,756,099</u>

See accompanying notes and independent auditors' report

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

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.

Six (6) homes are under construction as of the year ended June 30, 2021. During the year ending June 30, 2021, the Organization sold eleven homes, and 231 newly constructed homes since inception. Additionally, five homes were repurchased and have been prepared for resale to another qualifying family. By serving families, the Organization has changed 4,592 lives since inception. Twenty-two (22) homes were repaired in the year ended June 30, 2021. Seven (7) of these were for Veterans part of a Veteran Home Repair Program. The Organization has also funded the building of 479 homes worldwide as of June 30, 2021 and it currently tithes to the Habitat affiliates in Ethiopia and Nicaragua.

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

Note 1 – Summary of significant accounting policies (continued)

Nature of activities (continued)

The Organization also operates two ReStore retail outlets that sell predominantly donated materials to the public. ReStore revenue comprises approximately 26.00% and 30.00% of total revenue for the years ended June 30, 2021 and 2020, respectively. Purchased product represents approximately 7.00% and 10.00% of total retail sales for the years ended June 30, 2021 and 2020, 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 2020 comparative information. With respect to the accompanying statements of activities, information for 2020 is presented in the aggregate and not displayed by category. Accordingly, such information should be read in conjunction with the Organization's fiscal 2020 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, 2021 and 2020

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, 2021 and 2020, other receivables totaled \$33,063 and \$27,490, 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, 2021 and 2020, the reserve for loss was \$366,667 and \$660,000, respectively.

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

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 the Organization's 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. 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, 2021 and 2020, was \$7,100 and \$6,640, 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 2021 and 2020, there were no events or changes in circumstances indicating that the carrying amount of long-lived assets may not be recoverable.

Other asset

The note payable to the City of Fullerton includes a deferred cash assistance that is to be received in three installments upon beginning each of the three phases of construction.

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, 2021 and 2020

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 statements of activities as net assets released from restrictions. At June 30, 2021 and 2020, net assets with donor restrictions consisted of \$192,645 and \$320,754, 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.

Revenue from contracts is recognized when the Organization satisfies a performance obligation by transferring a promised good or service to a customer. The Organization considers the terms of the contract and all relevant facts and circumstances when applying the revenue recognition standard. The Organization also applies the revenue recognition standard consistently to contracts with similar characteristics and in similar circumstances.

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.

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

Note 1 – Summary of significant accounting policies (continued)

Grant income – PPP

On April 19, 2020, the Organization was granted a First Draw PPP loan in the amount of \$635,000 under the Paycheck Protection Program “PPP” administered by a Small Business Administration (SBA) approved partner. The loan was uncollateralized and was fully guaranteed by the Federal government. The Organization initially recorded the loan as grant revenue in accordance with guidance for conditional contributions; that is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed. The Organization recognized \$635,000 as grant revenue for the year ended June 30, 2020.

On March 1, 2021, the Organization was granted a Second Draw PPP loan in the amount of \$621,968 under the Paycheck Protection Program “PPP” administered by a Small Business Administration (SBA) approved partner. The loan was uncollateralized and was fully guaranteed by the Federal government. The Organization initially recorded the loan as grant revenue in accordance with guidance for conditional contributions; that is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed. The Organization recognized \$621,968 as grant revenue for the year ended June 30, 2021.

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. Others are allocated on a basis of time and effort estimates, such as salaries and payroll tax expense.

Quarterly, the Organization allocates payroll costs from administration to functional categories (Construction, ReStore, etc.) by asking each employee to estimate their percentage of time for various categories above, as well as their general and administrative time. The Organization takes this number from each administrative employee’s gross salary and multiplies it to the percentages above, and then allocates this to the functional categories above.

For general liability and unemployment insurance, the Organization charges all insurance directly to the functional categories (Construction, ReStore, etc.) by directly relating the expense to the employees.

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

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, 2021 and 2020, the Organization had revenue from the sale of purchased goods in the ReStores, which constitutes unrelated business income. However, since purchased product represents approximately 7.00% and 10.00% of total retail sales for the years ended June 30, 2021 and 2020, 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, 2021 and 2020, advertising expense totaled \$28,156 and \$30,530, 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, 2021 and 2020

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, 2021:

Total cash and cash equivalents	\$ 3,249,119
Other receivables	<u>33,063</u>
Total financial assets	3,282,182
Contractual or donor-imposed restrictions:	
Cash restricted for legal or contractual compliance	234,723
Donor contributions with specific purpose restrictions (Note 9)	<u>192,645</u>
Total contractual or donor-imposed restrictions	<u>427,368</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,854,814</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 has held an annual five-year unrestricted pledge program. Based on nine years of collection history, the unrestricted promises to give receivable has been discounted by 10.00%. For the years ended June 30, 2021 and 2020, a discount rate of 15.00% was used due to uncertain donor behavior due to the COVID-19 pandemic. The unrestricted promises to give as of June 30, 2021 and 2020 include current portions of \$73,906 and \$75,547, respectively and long-term portions of \$208,933 and \$174,713, respectively.

Note 4 – Mortgages receivable

In general, mortgages receivable carry imputed interest rates between 4.50% and 6.00% 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, 2021 and 2020, were \$12,905,875 and \$12,607,087, respectively. Imputed interest rates for June 30, 2021 and 2020, ranged from 4.00% to 5.00%. Interest income resulting from the amortization of discounted notes for the years ended June 30, 2021 and 2020 totaled \$162,135 and \$185,180, respectively.

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

Note 4 – Mortgages receivable (continued)

Certain mortgages have been pledged as collateral under financing agreements California Bank and Trust (See Note 6). As of June 30, 2021 and 2020, 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.

<u>Lender</u>	<u>Loan name</u>	<u>Payment streams</u>		<u>Balance of mortgages receivable pledged</u>	
		<u>Paid out</u>	<u>Receipts</u>	<u>2021</u>	<u>2020</u>
California Bank & Trust	2011 - 15 yr	\$ 46,025	\$ 63,672	\$ 1,399,472	\$ 1,609,037
California Bank & Trust	2014 - 7 yr	40,751	41,349	200,651	241,969
California Bank & Trust	2014 - 15 yr	23,088	39,234	<u>506,702</u>	<u>494,245</u>
Total mortgages receivable pledged				<u>\$ 2,106,825</u>	<u>\$ 2,345,251</u>

These agreements are also subject to certain guarantees and may contain substitution requirements or options. See Note 12.

Note 5 – Property and equipment

Property and equipment consisted of the following at June 30:

	2021	2020
Equipment	\$ 74,536	119,778
Automobiles	136,509	136,509
Improvements	<u>77,093</u>	<u>77,093</u>
Total property and equipment	288,138	333,380
Less: accumulated depreciation	<u>(245,414)</u>	<u>(283,556)</u>
Property and equipment, net	<u>\$ 42,724</u>	<u>\$ 49,824</u>

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

Note 6 – Notes payable

Notes payable consisted of the following at June 30:

	2021	2020
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.	\$ 301,355	\$ 347,381
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.	8,931	49,682
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.	247,226	270,314
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.	918,332	1,653,000
Loan payable dated February 8, 2021 to First Republic Bank, collateralized by the property under construction in Stanton, and donations. The loan term is extended to February 8, 2023, with principal and interest at an annual rate of 3.25%.	<u>102,923</u>	<u>-</u>
Total notes payable	1,578,767	2,320,377
Less: current portion	<u>(1,028,611)</u>	<u>(1,793,015)</u>
Total notes payable, net	<u>\$ 550,156</u>	<u>\$ 527,362</u>

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

Note 6 – Notes payable (continued)

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

2022	\$ 1,028,611
2023	101,348
2024	101,348
2025	101,348
2026	101,348
2027 and thereafter	<u>144,764</u>
	<u>\$ 1,578,767</u>

Interest expense related to notes payable for the years ended June 30, 2021 and 2020, totaled \$30,147 and \$35,130, respectively.

Note 7 – Assumed mortgages

When the Organization buys back a home from a family and that family has a loan with a financial institution, the Organization buys back the home subject to the loan; the loan is not extinguished and survives the transfer back to the Organization. The Organization then begins making the monthly payments for the seller family, who is notified of the ongoing sale process to the new buyer family.

Once the buyer family is in escrow, escrow is instructed to pay off the seller family's bank loan at closing, which the Organization assumed from the seller family. The buyer family takes title to the home free and clear; the seller family's loan is paid in escrow from the proceeds from the buyer family's loan, terminating the seller family's obligation.

As described above, the Organization has assumed one mortgage payable to Union Bank on behalf of seller. Principle and interest at annual rate for 4.38% payable in monthly installments of \$2,286. At June 30, 2021 and 2020, the outstanding balance on the loan was \$313,193 and \$601,079, respectively.

Note 8 – Line of credit

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, 2021 and 2020, the outstanding balance was \$744,970 and \$600,034, respectively.

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

Note 9 – Net assets with donor restrictions

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

	2021	2020
John Margrite Foundation Gradall Grant	\$ 10,000	\$ -
Neighborhood Revitalization Initiative	64,181	149,400
Home repair	21,832	91,800
Future projects	<u>96,632</u>	<u>79,554</u>
Total net assets with donor restrictions	<u>\$ 192,645</u>	<u>\$ 320,754</u>

Note 10 – Operating leases

The Organization leases office space, ReStore warehouse/retail space, and various office equipment under operating leases totaling \$48,610 per month for terms through August 2028. Rental expenses related to these leases totaled \$660,673 and \$678,756 for the years ended June 30, 2021 and 2020, respectively.

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

2022	\$ 576,123
2023	498,038
2024	286,493
2025	245,738
2026	251,564
Thereafter	545,056

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

Note 11 – Retirement plan

The Organization offers a retirement plan to eligible employees. The organization provided employer contribution in the amount of \$27,835 and \$41,313 for the years ended June 30, 2021 and 2020, respectively.

Note 12 – 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 \$1,992,136 and \$2,116,106 as of June 30, 2021 and 2020, respectively.

Guarantees to various banks

Various banks have made loans directly 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 will be purchased by the Organization. The Organization will then renegotiate a Habitat loan with the homeowner. The Organization has guaranteed mortgages made by various banks in the outstanding principal amount of \$7,089,661 and \$5,428,284 as of June 30, 2021 and 2020, respectively.

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

Note 12 – Guarantees (continued)

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 13 – 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, 2021 and 2020 were \$52,965 and \$63,107, respectively, which is included in other expenses on the statements of functional expenses.

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

Note 14 – 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, 2021 or 2020.

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 15 – Supplemental disclosures of cash flow information

	2021	2020
Cash paid during the year for:		
Interest	\$ <u>30,147</u>	\$ <u>35,130</u>
Noncash investing and financing activities:		
Costs capitalized as housing assets	\$ <u>4,465,911</u>	\$ <u>5,001,516</u>

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 year ended June 30, 2021.

Note 16 – Risks and uncertainties

The COVID-19 pandemic, whose effects first became known in January 2020, is having a broad and negative impact on commerce and financial markets around the world. The United States and global markets experienced significant declines in value resulting from uncertainty caused by the pandemic. The Organization is closely monitoring its liquidity and is actively working to minimize the impact of these declines. The extent of the impact of COVID-19 on the Organization’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impacts on the Organization’s donors, employees, and vendors, all of which at present, cannot be determined. Accordingly, the extent to which COVID-19 may impact the Organization’s financial position and changes in net assets and cash flows is uncertain and the accompanying financial statements include no adjustments relating to the effects of this pandemic.

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

Note 17 – Subsequent events

Assumed mortgage

On July 1, 2021, the assumed mortgage debt of \$313,193 was paid in full as a new buyer family purchased the home.

Escrows closed

During July, August and September 2021, a total of six (6) escrows closed on Habitat homes, thus increasing cash by approximately \$563,353.

Notes payable

During August and September 2021, the Organization used proceeds from the sale of three (3) homes in Fullerton to repay in full the \$744,970 line of credit to NeighborWorks.

Since all twelve (12) homes in the Fullerton-Richman site have now been sold as of September 2021, the outstanding debt for land and cash subsidy to the City of Fullerton were reconveyed without payment in the original amount of \$1,332,000 and \$872,000, respectively. The balance at June 30, 2021 was \$918,332.

During July and August 2021, the Organization took two (2) additional construction loan draws from First Republic Bank for the Stanton build, which increased the notes payable by \$351,301.

Management's review

Management has evaluated subsequent events through November 1, 2021, the date on which the financial statements were available to be issued.