



CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2020

with

Independent Auditors' Report

HABITAT FOR HUMANITY PORTLAND/METRO EAST

Table of Contents

	Page
Independent Auditors' Report	1
Consolidated Financial Statements	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	8

Independent Auditors' Report

The Board of Directors
Habitat for Humanity Portland/Metro East

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Habitat for Humanity Portland/Metro East and subsidiaries (the Organization), which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2020, 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.

Emphasis of a Matter

As discussed in *Note 1* to the consolidated financial statements, the Organization has adopted Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, ASU 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash*, and ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Habitat for Humanity Portland/Metro East and subsidiaries' 2019 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 5, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Huffman, Stewart & Schmidt, P.C.

Lake Oswego, Oregon
November 10, 2020

HABITAT FOR HUMANITY PORTLAND/METRO EAST

Consolidated Statement of Financial Position

June 30, 2020 <i>(With Comparative Amounts for 2019)</i>	2020	2019
ASSETS		
Cash and cash equivalents	\$ 5,772,287	\$ 6,932,607
Cash held for escrow and maintenance <i>(Note 7)</i>	128,472	133,737
Grants and other receivables - net	304,020	66,678
Mortgages receivable - net <i>(Notes 2 and 8)</i>	3,858,646	4,073,745
Inventories <i>(Notes 3 and 8)</i>	13,710,495	10,797,881
Prepaid expenses and deposits	158,105	125,360
Investment in limited partnerships <i>(Note 4)</i>	3,794,417	5,225,426
Restricted cash <i>(Note 4)</i>	126,081	177,869
Property and equipment - net <i>(Notes 5 and 8)</i>	577,917	647,848
Total assets	\$ 28,430,440	\$ 28,181,151
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses <i>(Notes 5 and 16)</i>	\$ 681,848	\$ 569,958
Accrued payroll, PTO, and payroll taxes	323,485	290,913
Due to Habitat International and other affiliates <i>(Note 6)</i>	122,431	245,820
Escrow and maintenance <i>(Note 7)</i>	128,472	133,737
Paycheck Protection Program loan <i>(Note 9)</i>	936,600	-
Notes payable - net <i>(Note 8)</i>	13,892,652	14,543,328
Total liabilities	16,085,488	15,783,756
Commitments and contingencies <i>(Notes 4, 13, 14, 15, and 16)</i>		
Net assets:		
Net assets without donor restrictions:		
Undesignated	9,506,077	7,665,896
Designated <i>(Note 10)</i>	2,465,754	4,640,187
Total net assets without donor restrictions	11,971,831	12,306,083
Net assets with donor restrictions <i>(Note 11)</i>	373,121	91,312
Total net assets	12,344,952	12,397,395
Total liabilities and net assets	\$ 28,430,440	\$ 28,181,151

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

HABITAT FOR HUMANITY PORTLAND/METRO EAST

Consolidated Statement of Activities

Year Ended June 30, 2020 (With Comparative Totals for 2019)

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total	
			2020	2019
Revenue, gains, and other support:				
Sales - homes	\$ 2,214,405	\$ -	\$ 2,214,405	\$ 2,725,440
Resale stores:				
Inventory sales	3,744,467	-	3,744,467	4,483,842
Less: Cost of goods sold	(3,637,988)	-	(3,637,988)	(4,446,745)
Gross profit	106,479	-	106,479	37,097
Noncash contributions - Resale stores	3,369,056	-	3,369,056	4,294,796
Contributions and grants	2,141,492	1,163,087	3,304,579	2,593,115
Noncash contributions - other	233,211	-	233,211	207,225
Amortization of discount on mortgages receivable	311,787	-	311,787	486,089
Net gain from sale of mortgages receivable	-	-	-	1,062,291
Fundraising events:				
Gross revenue	443,616	-	443,616	674,299
Direct costs	(116,998)	-	(116,998)	(217,843)
	326,618	-	326,618	456,456
Gain from forgiveness of notes payable and investment redemption (Notes 4 and 8)	968,991	-	968,991	-
Other - net	274,488	-	274,488	270,747
Net assets released from restrictions (Note 12)	881,278	(881,278)	-	-
Net revenue, gains, and other support	10,827,805	281,809	11,109,614	12,133,256
Expenses:				
Program services:				
Homeownership	5,793,981	-	5,793,981	6,164,223
Resale stores	2,899,995	-	2,899,995	3,568,484
Total program services	8,693,976	-	8,693,976	9,732,707
Supporting services:				
Development	1,346,917	-	1,346,917	1,092,201
Management and general	1,121,164	-	1,121,164	1,075,888
Total supporting services	2,468,081	-	2,468,081	2,168,089
Total expenses	11,162,057	-	11,162,057	11,900,796
Increase (decrease) in net assets	(334,252)	281,809	(52,443)	232,460
Net assets, beginning of year	12,306,083	91,312	12,397,395	12,164,935
Net assets, end of year	\$ 11,971,831	\$ 373,121	\$ 12,344,952	\$ 12,397,395

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

HABITAT FOR HUMANITY PORTLAND/METRO EAST

Consolidated Statement of Functional Expenses

Year Ended June 30, 2020 (With Comparative Totals for 2019)

	Program Services			Development	Management and General	Total	
	Home- ownership	Resale Stores	Total			2020	2019
Cost of homes sold	\$ 2,926,768	\$ -	\$ 2,926,768	\$ -	\$ -	\$ 2,926,768	\$ 2,630,727
Discounts granted on mortgages	-	-	-	-	-	-	847,896
	2,926,768	-	2,926,768	-	-	2,926,768	3,478,623
Cost of goods sold - Resale stores	-	3,637,988	3,637,988	-	-	3,637,988	4,567,918
Salaries and wages	1,519,682	1,211,155	2,730,837	815,185	392,483	3,938,505	3,853,903
Employee benefits and payroll taxes	344,498	274,558	619,056	184,795	88,972	892,823	871,477
Fees for services	111,347	157,050	268,397	234,996	174,573	677,966	630,309
Advertising and promotion	-	-	-	-	92,919	92,919	98,039
Office expenses	29,343	63,426	92,769	3,049	26,478	122,296	92,051
Information technology	23,110	19,312	42,422	41,812	53,904	138,138	91,281
Occupancy	1,451	979,900	981,351	1,480	44,788	1,027,619	1,034,005
Travel	17,009	69,032	86,041	5,204	11,554	102,799	90,697
Interest expense	168,486	289	168,775	467	39,208	208,450	271,625
Allocations to affiliates (Note 6)	437,418	-	437,418	-	23,022	460,440	756,599
Depreciation and amortization	-	41,794	41,794	-	40,463	82,257	94,597
Insurance	60,102	61,921	122,023	738	64,030	186,791	178,051
NRI program expense	61,468	-	61,468	-	-	61,468	30,475
Outreach and support	31,543	18,335	49,878	9,495	15,358	74,731	168,580
Bad debt	-	-	-	-	10,742	10,742	34,018
Fundraising events costs:							
Food and facility	-	-	-	151,067	-	151,067	217,843
Other expenses	61,756	3,223	64,979	15,627	42,670	123,276	126,466
Total expenses	5,793,981	6,537,983	12,331,964	1,463,915	1,121,164	14,917,043	16,686,557
Less: Expenses netted with revenue on consolidated statement of activities	-	(3,637,988)	(3,637,988)	(116,998)	-	(3,754,986)	(4,785,761)
Total expenses per consolidated statement of activities	\$ 5,793,981	\$ 2,899,995	\$ 8,693,976	\$ 1,346,917	\$ 1,121,164	\$ 11,162,057	\$ 11,900,796

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

HABITAT FOR HUMANITY PORTLAND/METRO EAST

Consolidated Statement of Cash Flows

Year Ended June 30, 2020 <i>(With Comparative Totals for 2019)</i>	2020	2019
Cash flows from operating activities:		
Cash receipts:		
Principal payments on mortgages receivable and payments received on sales of homes	\$ 2,700,451	\$ 1,644,400
Resale stores	3,744,467	4,483,843
Contributions and grants	3,436,311	3,044,393
Other	274,488	270,748
	10,155,717	9,443,384
Cash disbursements:		
Land purchases and home construction costs	5,632,722	2,692,078
Payroll and related expenses	4,798,756	4,639,996
Interest	186,879	202,429
Allocations to affiliates	583,829	735,497
Other	2,760,130	2,639,307
	13,962,316	10,909,307
Net cash used by operating activities	(3,806,599)	(1,465,923)
Cash flows from investing activities:		
Proceeds from sale of mortgages receivable	-	6,334,736
Purchases of property and equipment	(12,326)	(63,070)
Net cash provided (used) by investing activities	(12,326)	6,271,666
Cash flows from financing activities:		
Principal payments on capital lease obligations	(8,301)	(7,704)
Proceeds from Paycheck Protection Program loan	936,600	-
Proceeds from notes payable	2,775,577	61,500
Principal payments on notes payable	(1,102,324)	(1,644,740)
Net cash provided (used) by financing activities	2,601,552	(1,590,944)
Net increase (decrease) in cash and cash equivalents and restricted cash	(1,217,373)	3,214,799
Cash and cash equivalents and restricted cash, beginning of year	7,244,213	4,029,414
Cash and cash equivalents and restricted cash, end of year	\$ 6,026,840	\$ 7,244,213

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

HABITAT FOR HUMANITY PORTLAND/METRO EAST

Consolidated Statement of Cash Flows - Continued

Year Ended June 30, 2020 <i>(With Comparative Totals for 2019)</i>	2020	2019
Reconciliation to statement of financial position:		
Cash and cash equivalents	\$ 5,772,287	\$ 6,932,607
Cash held for escrow and maintenance	128,472	133,737
Restricted cash	126,081	177,869
	<u>\$ 6,026,840</u>	<u>\$ 7,244,213</u>
Supplemental disclosures of non-cash investing and financing activities:		
Debt issuance costs financed via proceeds from a note payable	\$ 35,284	\$ -
Forgiveness of notes payable	2,400,000	-
Investment in limited partnership redeemed in exchange for forgiveness of related note payable	1,431,009	-

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

HABITAT FOR HUMANITY PORTLAND/METRO EAST

Notes to Consolidated Financial Statements

1. Significant Accounting Policies

Organization - Habitat for Humanity Portland/Metro East (the Organization) is an affiliate of Habitat for Humanity International, Inc. (Habitat International), a nondenominational Christian not-for-profit organization whose purpose is to create decent, simple housing for those in need, and to make decent shelter a matter of conscience everywhere. Although Habitat International assists with information, resources, training, publications, and in other ways, the Organization is primarily and directly responsible for the legal, organizational, fundraising, family selection and nurture, financial, and construction aspects of the work. The Organization, through its many volunteers, constructs affordable housing in the Portland metropolitan area, transfers the homes to qualified families at below-market prices, and provides non-interest-bearing mortgage loans.

Basis of Accounting - The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Principles of Consolidation - The accompanying consolidated financial statements include the assets, liabilities, and activities of the Organization, HFHPME Company, LLC, HFHPME Company II, LLC, and HFH Real Estate, LLC. HFHPME Company, LLC and HFHPME Company II, LLC are both wholly owned subsidiaries of the Organization and were formed solely to obtain specific financing. HFH Real Estate, LLC is also a wholly owned subsidiary of the Organization and was formed for the purpose of owning, operating, maintaining, and disposing of property. All intercompany balances and transactions have been eliminated upon consolidation.

Basis of Presentation - Net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

Net assets without donor restrictions - Net assets not subject to donor-imposed stipulations. Amounts designated for specific purposes by the Board of Directors are reported as net assets without donor restrictions. Gifts of land, buildings, and equipment are recorded as net assets without donor restrictions unless the donor explicitly stipulates how the donated assets must be used or how long they must be held.

Net assets with donor restrictions - Net assets subject to donor-imposed stipulations that will be met by actions of the Organization and/or the passage of time.

Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

HABITAT FOR HUMANITY PORTLAND/METRO EAST

Notes to Consolidated Financial Statements - Continued

1. Significant Accounting Policies - Continued

Use of Estimates - The preparation of consolidated financial statements in conformity with 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 consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Significant estimates made by management include the valuation of donated resale store inventory, discounts on mortgages receivable and notes payable, and the allocation of expenses by functional classification.

Cash and Cash Equivalents - The Organization considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

Concentration of Credit Risk - The Organization's cash holdings (including cash and cash equivalents held for escrow and maintenance and restricted cash) are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. On occasion, amounts on deposit with financial institutions may exceed FDIC limits.

Inventories - Inventories consist of raw materials, construction in progress, land held for development, and homes available for sale. Inventories are stated at the lower of cost or net realizable value for purchased items and estimated fair market value at the date of donation for donated items, determined by the first-in, first-out (FIFO) method. Land held for development is transferred to construction in progress once construction activity has begun on the respective properties.

Resale Store Sales and Resale Inventory - New and used building materials and supplies are donated to the Organization, some of which are resold. This inventory is stated at estimated fair value at the date of donation, determined by the FIFO method. Resale store revenue is recognized at the time of sale.

Investment in Limited Partnerships - The Organization's investment in limited partnerships do not have a readily determinable fair value, and therefore, the Organization has elected to apply the measurement alternative for the investments as described in *Note 4*.

Property and Equipment - Property and equipment are recorded at cost, if purchased, and at estimated fair market value, if donated. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 7 years for personal property, and 31.5 years for real property. Maintenance and repairs are charged to expense when incurred; major renewals and betterments are capitalized.

Deferred Rent Expense - The Organization records rent expense over the lease term on a straight-line basis for leases with fixed escalation clauses and periods of rent abatement. Accordingly, the Organization recognizes a deferred rent obligation to the extent that the straight-line recognition of rent expense exceeds required rental payments. Deferred rents are reduced when rent payments exceed the recognized amount of expense.

HABITAT FOR HUMANITY PORTLAND/METRO EAST

Notes to Consolidated Financial Statements - Continued

1. Significant Accounting Policies - Continued

Debt Issuance Costs - Debt issuance costs are amortized on a straight-line method over the life of the loan and netted against long-term debt. Debt issuance costs associated with construction loans are included with prepaid expenses and other assets. Amortization of debt issuance costs is included with interest expense.

Revenue Recognition - The Organization recognizes contributions when cash, securities or other assets; an unconditional promise to give (including grants); or a notification of a beneficial interest is received. Conditional promises to give - that is, those 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.

Contributions (including grants) to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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 consolidated statement of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues in the net assets with donor restrictions class, and a reclassification to net assets without donor restrictions is made to reflect the expiration of such restrictions.

Contributions of assets other than cash (property, construction materials, equipment, vehicles, and supplies) are recorded at their estimated fair value. Contributions of donated services that create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased, if not provided by donation, (such as engineering, electrical, plumbing, etc.) and are recorded at their estimated fair values in the period received. Contributions of noncash assets and donated services received during the years ended June 30 were as follows:

	2020	2019
Construction materials and services	\$ 190,560	\$ 144,779
Equipment, supplies, and services	42,651	62,446
	<u>\$ 233,211</u>	<u>\$ 207,225</u>

HABITAT FOR HUMANITY PORTLAND/METRO EAST

Notes to Consolidated Financial Statements - Continued

1. Significant Accounting Policies - Continued

Revenue Recognition - Continued - A substantial number of volunteers donate significant amounts of their time to the Organization for general construction and office labor. However, as these services do not require specialized skills or materially enhance the value of nonfinancial assets, the value of such services is not recorded in the consolidated financial statements.

Sales to homeowners are recorded at the time a home is sold and title passes to a qualified homebuyer. Effective July 1, 2019, homeowners finance the purchase of their home by obtaining third-party financing, proceeds from which are paid to the Organization at closing. Prior to July 1, 2019, the amount of home sale revenue recorded equaled the total of the cash due to the Organization at the time of the sale, plus the face value of a non-interest-bearing mortgage receivable issued by the Organization. Mortgages issued were discounted at various rates ranging from 3.46 to 9 percent. Discounts are amortized using the effective interest method over the lives of the mortgages, and the amortization of mortgage discount is recognized as revenue.

Receivables - The Organization's receivables primarily consist of pledges, grants, and mortgages. Other receivables are recognized as goods or services are provided. An allowance for uncollectible pledges receivable is provided based on management's judgment of potential defaults and an allowance for other receivables is provided based on specific identification of accounts. The Organization will write-off any balance that remains after it has exhausted all reasonable collection efforts. At June 30, 2020, the allowance for uncollectible pledges receivable totaled \$8,700. Management does not believe an allowance was necessary for other receivables.

Gross outstanding pledges receivable of \$11,045 are expected to be collected within one year. Net pledges receivable (net of allowance for uncollectible pledges) were \$2,345 at June 30, 2020, and are included in grants and other receivables in the accompanying consolidated statement of financial position. Grants receivable are all expected to be collected within one year.

Mortgages receivable consist of non-interest bearing mortgages, which are secured by real estate and payable in monthly installments over the life of the mortgage. The Organization considers homeowners to be delinquent if they are 30 days past due on their mortgage payment. Every effort is made to assist homeowners who have become delinquent in their mortgage payments. However, foreclosure proceedings may be initiated and/or the Organization may accept a deed in lieu of foreclosure where homeowner mortgage payments are seriously delinquent. Properties acquired through foreclosure or a deed in lieu of foreclosure are generally refurbished and sold to other families in need of decent, affordable housing. Consequently, no allowance for credit losses has been established for mortgages receivable at June 30, 2020 and 2019.

HABITAT FOR HUMANITY PORTLAND/METRO EAST

Notes to Consolidated Financial Statements - Continued

1. Significant Accounting Policies - Continued

Receivables - Continued - In connection with the sale of homes, in some cases the Organization also issues a second mortgage. These second mortgages represent the difference between the original mortgage and the appraised value of the home. In many cases, they are due to the Organization either in part or in full, only if the homeowner does not comply with the terms of the original mortgage and in certain cases, they are due to the Organization at the maturity of the first mortgage. The second mortgage is to protect the value of the collateral. At June 30, 2020, the Organization has not recorded a receivable related to second mortgages that are due either in part or in full, if the homeowner does not comply with terms of the original mortgage, as management has determined that no triggering events have occurred that would require they be recognized in the consolidated financial statements. Second mortgages that are due at the maturity (regardless of homeowner compliance) of the first mortgage have been recorded and are included in the consolidated financial statements.

Warranties - The Organization provides a one-year warranty on all of its homes. The warranty is generally for defects in materials and/or workmanship. Warranty costs are expensed as incurred. The Organization has experienced minimal warranty costs and therefore does not believe an accrual for such costs is necessary.

Advertising Expense - Advertising costs are charged to expense when incurred. Total advertising expense was \$92,619 for the year ended June 30, 2020.

Income Taxes - The Organization is exempt from federal and state income taxation under Section 501(c)(3) of the Internal Revenue Code and similar state provisions. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2). HFHPME Company, LLC, HFHPME Company II, LLC, and HFH Real Estate, LLC are disregarded entities for federal and state income tax purposes.

GAAP prescribes a recognition threshold and a measurement process for accounting for uncertain tax positions, and provides guidance on various related matters such as interest, penalties, and required disclosures. Management believes the Organization does not have any uncertain tax positions. The Organization files informational returns. Generally, these returns are subject to examination by income tax authorities for a period of three years from the filing of the return. The Organization has not paid any interest or penalties related to its income tax positions, and there are currently no audits of any tax periods in progress. Interest or penalties assessed by taxing authorities, if any, would be included with management and general expenses.

HABITAT FOR HUMANITY PORTLAND/METRO EAST

Notes to Consolidated Financial Statements - Continued

1. Significant Accounting Policies - Continued

Functional Allocation of Expenses - Costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of functional expenses. The consolidated statement of functional expenses reports certain categories of expenses that are attributable to more than one program and supporting service function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy and depreciation, which are allocated on a square-footage basis, and salaries and wages and employee benefits and payroll taxes, which are allocated on the basis of estimated time and effort.

Reclassifications - Certain reclassifications have been made to the 2019 information to conform with the 2020 presentation.

Summarized Financial Information for 2019 - The consolidated financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2019, from which the summarized financial information was derived.

Adoption of New Accounting Standards - In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Organization has implemented the provisions of ASU 2018-08 in the accompanying consolidated financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with its implementation of ASU 2018-08.

In November 2016, FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230), Restricted Cash*. This ASU provides additional guidance related to transfers between cash and restricted cash and how entities present, in their consolidated statements of cash flows, the cash receipts and cash payments that directly affect the restricted cash accounts. The Organization has adopted this ASU in the accompanying consolidated financial statements.

In January 2016, FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This ASU applies to the Organization's investment in limited partnerships that do not have a readily determinable fair value, as further described in *Note 4*. Under this ASU, entities can elect to measure their investments in equity securities without readily determinable fair values at their cost minus impairment, if any. The Organization has made this election for its investment in limited partnerships. The adoption of this ASU did not have a material effect on the Organization's consolidated financial statements.

HABITAT FOR HUMANITY PORTLAND/METRO EAST

Notes to Consolidated Financial Statements - Continued

1. Significant Accounting Policies - Continued

Recent Accounting Pronouncement - In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance under GAAP when it becomes effective. The standard permits the use of either the retrospective or cumulative effect transition method, and will be effective for annual reporting periods beginning after December 15, 2019. The Organization is evaluating the impact that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Organization has not yet selected a transition method, nor has it determined the effect of the standard on its ongoing financial reporting.

2. Mortgages Receivable - Net

	2020	2019
Mortgages receivable	\$ 7,185,723	\$ 7,711,915
Discount on mortgages receivable	<u>(3,327,077)</u>	<u>(3,638,170)</u>
Mortgages receivable - net of discount	<u>\$ 3,858,646</u>	<u>\$ 4,073,745</u>

During the year ended June 30, 2019, mortgages receivable with a carrying value of \$5,272,445 (net of discounts) were sold without recourse for \$6,334,736. A gain of \$1,062,291 was recognized as a result of the sale.

Mortgage principal payments totaling \$32,804 were in arrears related to mortgages receivable with an outstanding balance of \$1,408,722 at June 30, 2020. A provision for impairment of loans has not been recorded since the Organization holds the trust deeds as security on the mortgages.

HABITAT FOR HUMANITY PORTLAND/METRO EAST

Notes to Consolidated Financial Statements - Continued

3. Inventories

	2020	2019
Raw materials:		
Construction	\$ 73,320	\$ 52,480
Resale stores	232,883	250,947
Construction in progress	7,761,519	3,940,514
Land held for development	4,952,387	6,317,893
Home available for sale	<u>690,386</u>	<u>236,047</u>
	<u>\$ 13,710,495</u>	<u>\$ 10,797,881</u>

Construction in progress, land held for development, and homes available for sale all reflect costs incurred to construct homes for program families. Once completed, the homes will be sold to qualified families, and the cost of homes sold will be recorded.

4. Investment in Limited Partnerships and Restricted Cash

The Organization has invested in two limited partnerships (HFHI NMTC Leverage Lender 2013-1, LLC and HFHI NMTC Leverage Lender 2016-1, LLC) to take advantage of new markets tax credit (NMTC) financing. In August 2015, the Organization made an initial investment of \$1,617,737 in HFHI NMTC Leverage Lender 2013-1, LLC. In November 2017, the Organization made an initial investment of \$2,176,680 in HFHI NMTC Leverage Lender 2016-1, LLC. The Organization's investment in each of these limited partnerships is less than 20 percent and management does not have the ability to have significant influence over these entities. These investments do not have readily determinable fair values. As such, the Organization has elected to carry these investments at cost, less any impairment.

NMTC financing allowed the Organization to receive loans from HFHI NMTC Sub-CDE 1, LLC and HFHI NMTC Sub-CDE II, LLC (the lenders) (*Note 8*), who in exchange will receive a 39 percent federal tax credit over a seven-year period. The Organization must comply with various federal requirements during this time, and loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low-income individuals. The tax credits are subject to recapture if these compliance requirements are not satisfied during the seven-year compliance period. At the end of the compliance periods, outside investors that are upstream effective owners of the lenders are expected to exercise a put and call option, which will effectively allow the Organization to extinguish the remaining debt owed to the lenders.

As part of these transactions, the Organization was required to establish restricted cash accounts to be used to pay for various fees and compliance costs that will be incurred over the compliance period. The restricted cash account balances totaled \$126,081 at June 30, 2020.

HABITAT FOR HUMANITY PORTLAND/METRO EAST

Notes to Consolidated Financial Statements - Continued

4. Investment in Limited Partnerships and Restricted Cash - Continued

The Organization's carrying value of its investment in limited partnerships was \$3,794,417 at June 30, 2020. The Organization has not recognized any impairment related to their investment in limited partnerships.

At June 30, 2019, the Organization had an investment in CCML Leverage II, LLC totaling \$1,431,009. The investment allowed the Organization to receive a loan from CCM Community Development XXVII. In September 2019, the investor, the effective owner of CCM Community Development XXVII, LLC exercised its put and call option. As a result, the Organization's investment was redeemed and the Organization's loan from CCM Community Development XXVII, LLC was forgiven. The Organization recognized a gain on the transaction of \$448,991, which was equal to the outstanding principal balance of the aforementioned loan of \$1,880,000 that was forgiven, less the Organization's investment of \$1,431,009 that was redeemed.

5. Property and Equipment - Net

	2020	2019
Land	\$ 80,081	\$ 80,081
Building	591,113	591,113
Equipment	807,588	795,263
Vehicles	189,354	210,317
	<u>1,668,136</u>	<u>1,676,774</u>
Less accumulated depreciation and amortization	<u>(1,090,219)</u>	<u>(1,028,926)</u>
Property and equipment - net	<u>\$ 577,917</u>	<u>\$ 647,848</u>

At June 30, 2020, the Organization had property acquired via capital lease with a cost of \$38,495. Management believes the lease obligation is immaterial, and has included the unpaid obligation of \$8,172 as a component of accounts payable and accrued expenses.

HABITAT FOR HUMANITY PORTLAND/METRO EAST

Notes to Consolidated Financial Statements - Continued

6. Allocations to Affiliates

The Organization annually remits a portion of its unrestricted contributions (excluding in-kind contributions and grants) to Habitat International. These funds are used to construct homes in economically depressed areas around the world.

The Organization also administers its resale inventory program with two other local Portland metropolitan area affiliates. The Organization allocates 33 percent of net proceeds from the program to each of the two local affiliates with the remaining 34 percent retained by the Organization.

The following table provides a summary of allocations to affiliates for the year ended June 30, 2020:

	Habitat International	Local Affiliates	Total
Amount accrued, beginning of year	\$ 129,102	\$ 116,718	\$ 245,820
Amount allocated during the year	245,587	214,853	460,440
Amount paid during the year	<u>(252,258)</u>	<u>(331,571)</u>	<u>(583,829)</u>
Amount accrued, end of year	<u>\$ 122,431</u>	<u>\$ -</u>	<u>\$ 122,431</u>

7. Escrow and Maintenance Accounts

The Organization maintains escrow and maintenance accounts on behalf of homeowners. These accounts are used to collect homeowner deposits to be used to pay escrow expenses (such as property taxes and homeowners' insurance premiums) and for the payment of maintenance expenses on properties that share common facilities. The total balance of these accounts at June 30, 2020, was \$128,472.

HABITAT FOR HUMANITY PORTLAND/METRO EAST

Notes to Consolidated Financial Statements - Continued

8. Notes Payable - Net

	2020	2019
Notes payable issued in connection with NMTC financing:		
Note payable to CCM Community Development XXVII, LLC, forgiven September 2019 (<i>Note 4</i>).	\$ -	\$ 1,858,133
Note payable to HFHI NMTC Sub-CDE I, LLC. Interest on the note is .68 percent (including net unamortized debt issuance costs of \$120,427 and \$125,192 at June 30, 2020 and 2019, respectively) and the note is secured by home inventory. Semi-annual interest payments of \$8,089 due through November 2023, at which time semi-annual principal and interest payments are due in an amount sufficient to fully amortize the remaining principal balance. The note is due December 2044.	2,251,125	2,246,360
Note payable to HFHI NMTC Sub-CDE II, LLC. Interest on the note is .67 percent (including net unamortized debt issuance costs of \$163,955 and \$169,954 at June 30, 2020 and 2019, respectively) and the note is secured by home inventory. Semi-annual interest payments of \$10,885 due through November 2024, at which time semi-annual principal and interest payments are due in an amount sufficient to fully amortize the remaining principal balance. The note is due November 2047.	<u>3,064,984</u>	<u>3,058,985</u>
Total notes payable issued in connection with NMTC financing	5,316,109	7,163,478
Other notes payable:		
13 notes payable to Habitat for Humanity International, Inc. (SHOP notes) at zero percent interest, discounted at rates ranging from 7.5 to 7.58 percent, unsecured. Monthly payments ranging from \$72 to \$937 through January 2025.	175,724	226,806

HABITAT FOR HUMANITY PORTLAND/METRO EAST

Notes to Consolidated Financial Statements - Continued

8. Notes Payable - Net - Continued

	2020	2019
Brought forward	\$ 175,724	\$ 226,806
Note payable to Habitat for Humanity of Oregon at zero percent interest, discounted at 7.5 percent, secured by certain inventory. Monthly payments of \$833 and due March 2022.	20,010	27,500
Note payable to Columbia Bank, secured by specific mortgages receivable (including net unamortized debt issuance costs of \$36,197 and \$38,105 at June 30, 2020 and 2019, respectively.) Monthly payments are currently at \$5,177 and begin to decrease during October 2023. The note includes imputed interest at 2.65 percent and is due May 2039.	506,067	551,138
12 notes payable to The Commerce Bank of Oregon, secured by specific mortgages receivable (including net unamortized debt issuance costs of \$29,042 and \$30,616 at June 30, 2020 and 2019, respectively.) Total monthly payments are currently at \$4,707 and begin to decrease during January 2022. The notes included imputed interest at 2.65 percent and are due through November 2038.	330,155	374,713
Note payable to Umpqua Bank, secured by specific mortgages receivable (including net unamortized debt issuance costs of \$80,069 and \$83,029 at June 30, 2020 and 2019, respectively.) Monthly payments are currently at \$10,316 and begin to decrease during June 2027. The note includes imputed interest at 2.75 percent and is due June 2047.	<u>1,571,095</u>	<u>1,645,516</u>
Carried forward	2,603,051	2,825,673

HABITAT FOR HUMANITY PORTLAND/METRO EAST

Notes to Consolidated Financial Statements - Continued

8. Notes Payable - Net - Continued

	2020	2019
Brought forward	\$ 2,603,051	\$ 2,825,673
1 note payable (3 in 2019) to Network for Oregon Affordable Housing, accruing interest at 2 percent (including net unamortized debt issuance costs of \$-0- and \$1,567 at June 30, 2020 and 2019, respectively), and secured by certain home inventory. Monthly interest only payments at 1 percent are currently due. The note and any unpaid interest is due September 2020.	250,000	1,115,932
Note payable to an individual. Variable interest only payments are due monthly (currently 3 percent per annum). The note is secured by certain home inventory and is due April 2021.	1,240,000	1,240,000
Note payable to Umpqua Bank at 5.49 percent, secured by a vehicle. Monthly payments of \$452, including principal and interest through March 2021.	5,227	8,979
Note payable to the Portland Housing Bureau (PHB), with a maximum amount available of \$3,300,000, at zero percent interest, secured by certain home inventory, and due January 2023. The note is subordinated to First Republic Bank.	2,676,338	-
Note payable to PHB, refinanced in December 2019.	-	1,470,000
Note payable to the PHB, with a maximum amount available of \$1,500,000, at zero percent interest, secured by home inventory, and due March 2021. The note can be forgiven, on prorated basis per housing unit, provided each house is sold to a qualifying family by March 2021.	1,400,855	738,831
Carried forward	8,175,471	7,399,415

HABITAT FOR HUMANITY PORTLAND/METRO EAST

Notes to Consolidated Financial Statements - Continued

8. Notes Payable - Net - Continued

	2020	2019
Brought forward	\$ 8,175,471	\$ 7,399,415
Note payable to the PHB, at zero percent interest, secured by home inventory, and due April 2021. The note can be forgiven, on a per housing unit basis, provided each house is sold to a qualifying family by April 2021. During the year ended June 30, 2020, \$520,000 of the loan proceeds was forgiven by the PHB.	120,000	-
Note payable to First Republic Bank, with a maximum amount available of \$4,260,000, and secured by certain home inventory. Monthly interest only payments are currently due at the bank's prime rate minus .5 percent per annum but not less than 4 percent (consequently, the rate was 4 percent at June 30, 2020). The note and any unpaid interest is due January 2023.	35,943	-
Note payable to the Oregon Housing and Community Services Department, with a maximum amount available of \$650,000, at zero percent interest, secured by certain home inventory, and due December 2042.	<u>264,546</u>	<u>-</u>
Total other notes payable	<u>8,595,960</u>	<u>7,399,415</u>
Total notes payable	13,912,069	14,562,893
Less discount on notes payable	<u>(19,417)</u>	<u>(19,565)</u>
Net notes payable, end of year	<u><u>\$ 13,892,652</u></u>	<u><u>\$ 14,543,328</u></u>

Notes with stated interest rates materially different from prevailing rates at the time of inception have been discounted, as noted above.

Notes payable related to NMTC financing contain provisions whereby the notes will be forgiven by the lender provided that certain conditions are met by the Organization. When a loan, or portion thereof, is forgiven by the lender, the Organization will recognize any gain on the forgiveness as revenue at the time.

HABITAT FOR HUMANITY PORTLAND/METRO EAST

Notes to Consolidated Financial Statements - Continued

8. Notes Payable - Net - Continued

Total principal payments required under note agreements for years subsequent to June 30, 2020, are as follows:

Years Ending June 30,	Amount*
2021	\$ 3,279,067
2022	238,323
2023	2,910,423
2024	182,116
2025	172,384
Thereafter	<u>7,559,446</u>
	<u>\$ 14,341,759</u>

*Amount does not include unamortized debt issuance costs or discounts.

9. Paycheck Protection Program Loan

In April 2020, the Organization received loan proceeds in the amount of \$936,600 from First Republic Bank under the Paycheck Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) provides for full or partial loan forgiveness if loan proceeds are used for qualifying expenses and certain other conditions are satisfied.

While the Organization intends to use the proceeds for purposes consistent with the PPP and will therefore qualify for loan forgiveness, the Organization has elected to account for the loan as long-term debt under GAAP. The PPP loan bears interest at 1 percent per annum, and loan payments are deferred until August 2021, which is 10 months following the end of the applicable forgiveness period. Any amount of the PPP loan that is not forgiven will be repayable ratably over a two-year period beginning August 2021.

HABITAT FOR HUMANITY PORTLAND/METRO EAST

Notes to Consolidated Financial Statements - Continued

10. Designated Net Assets

The Board of Directors chose to designate the Organization's net assets without donor restrictions for the following purposes at June 30:

	2020	2019
Emergency reserve	\$ 1,034,000	\$ 1,006,000
Debt service reserve	-	2,611,527
Loan loss reserve	1,431,754	1,022,660
	<u>\$ 2,465,754</u>	<u>\$ 4,640,187</u>

11. Net Assets With Donor Restrictions

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

	2020	2019
Purpose restricted grants and contributions	\$ 353,704	\$ 71,747
Unamortized balance of discounts granted on notes payable	19,417	19,565
	<u>\$ 373,121</u>	<u>\$ 91,312</u>

12. Net Assets Released from Restrictions

During the year ended June 30, 2020, net assets were released from restrictions as follows:

Satisfaction of purpose restricted grants and contributions	\$ 881,130
Amortization of discount on notes payable	<u>148</u>
	<u>\$ 881,278</u>

13. Contingency

The Organization has either acquired properties directly or received funding for properties from governmental agencies. These governmental agencies have imposed a restriction that requires the properties be occupied by low-income families for periods ranging 5 to 30 years, depending on the agreement with the governmental agency. Failure to comply with this restriction during the time period specified in the agreement could require the Organization to return funding from the governmental agency. However, as of June 30, 2020, the Organization has complied with the aforementioned restriction, and has the intention and ability to continue to comply with the restriction. Accordingly, management believes risk of loss to the Organization under these agreements is remote.

HABITAT FOR HUMANITY PORTLAND/METRO EAST

Notes to Consolidated Financial Statements - Continued

14. Retirement Plan

The Organization has a 403(b) retirement plan for employees. The Organization contributes 3 percent of each eligible employee's salary provided the eligible employee contributes at least 3 percent of their salary. For the year ended June 30, 2020, the Organization's contribution toward employee retirement was \$75,150.

15. Line of Credit

The Organization has a \$325,000 line of credit, secured by substantially all assets, available with KeyBank. Interest on the line of credit is 2 percent over prime (5.25 percent at June 30, 2020). There were no outstanding borrowings at June 30, 2020 and 2019.

16. Commitments

The Organization leases retail and office space in Portland, Vancouver, Beaverton, and Gresham for the Resale Stores under operating lease agreements expiring through September 2031. A deferred rent obligation was recognized, which represents the difference between straight-line recognition of rent expense and actual rent payments made. The deferred rent obligation totaled \$226,657 at June 30, 2020, and is included in accounts payable and accrued expenses on the accompanying consolidated statement of financial position.

Future minimum annual lease payments under these leases at June 30, 2020, are as follows:

Years Ending June 30,	Minimum Scheduled Payments
2021	\$ 547,118
2022	369,821
2023	307,567
2024	315,266
2025	266,363
Thereafter	<u>1,278,134</u>
	<u><u>\$ 3,084,269</u></u>

Rent expense for retail and office space and office equipment was \$701,728 for the year ended June 30, 2020.

HABITAT FOR HUMANITY PORTLAND/METRO EAST

Notes to Consolidated Financial Statements - Continued

17. Liquidity and Availability of Financial Assets

The Organization's financial assets available for general expenditure, that is without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date consist of the following:

	2020	2019
Cash and cash equivalents	\$ 5,772,287	\$ 6,932,607
Grants and other receivables	304,020	66,678
Current portion of mortgages receivable	<u>411,553</u>	<u>433,685</u>
Total financial assets available within one year	6,487,860	7,432,970
Less:		
Designated net assets	(2,465,754)	(4,640,187)
Purpose restricted grants and contributions	<u>(353,704)</u>	<u>(71,747)</u>
	<u>\$ 3,668,402</u>	<u>\$ 2,721,036</u>

The Organization maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

To help manage unanticipated liquidity needs, the Organization has a line of credit through Key Bank for borrowings up to \$325,000. Additionally, the Organization's Board designated net assets are components of net assets without donor restrictions. Although management intends to use the funds in accordance with provisions outlined by the Board of Directors, amounts could be made available for current operations, if approved by the Board.

18. Subsequent Events

Management has evaluated subsequent events through November 10, 2020, the date the consolidated financial statements were available to be issued.

As of November 10, 2020, the date the consolidated financial statements were available to be issued, the impact of COVID-19 on the Organization's operational and financial performance cannot be predicted. The extent of the impact will depend on certain developments, including the duration and spread of the outbreak and its effect on program participants, donors, and employees, all of which are uncertain. As such, the extent to which COVID-19 may impact the Organization's financial position and results of operations cannot be reasonably estimated at this time.