



CONSOLIDATED FINANCIAL STATEMENTS

Six Months Ended June 30, 2021

with

Independent Auditors' Report

HABITAT FOR HUMANITY PORTLAND REGION

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Independent Auditors' Report

The Board of Directors
Habitat for Humanity Portland Region

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Habitat for Humanity Portland Region (the Organization), which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the six months ended June 30, 2021, 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, 2021, and the changes in its net assets and its cash flows for the six months ended June 30, 2021, in accordance with accounting principles generally accepted in the United States of America.

Hoffman, Stewart & Schmidt, P.C.

Lake Oswego, Oregon
November 17, 2021

HABITAT FOR HUMANITY PORTLAND REGION

Consolidated Statement of Financial Position

June 30, 2021

ASSETS

Cash and cash equivalents	\$ 6,728,704
Cash held for escrow and maintenance (Note 7)	127,083
Grants and other receivables - net	459,029
Mortgages receivable - net (Notes 2 and 8)	4,817,657
Inventories (Notes 3 and 8)	18,454,235
Prepaid expenses and other assets	195,003
Investment in limited partnerships (Note 4)	3,794,417
Restricted cash (Note 4)	97,234
Property and equipment - net (Note 5)	994,345
Total assets	<u>\$ 35,667,707</u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable and accrued expenses (Notes 7 and 16)	\$ 1,305,939
Line of credit (Note 15)	300,000
Accrued payroll and payroll taxes	426,064
Due to Habitat International and other affiliates (Note 6)	314,510
Paycheck Protection Program loan (Note 9)	936,605
Notes payable - net (Note 8)	12,826,716

Total liabilities **16,109,834**

Commitments and contingencies (Notes 13, 14, and 16)

Net assets:

Net assets without donor restrictions:	
Undesignated	15,903,658
Designated (Note 10)	2,933,646

Total net assets without donor restrictions 18,837,304

Net assets with donor restrictions (Note 11) 720,569

Total net assets **19,557,873**

Total liabilities and net assets **\$ 35,667,707**

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

HABITAT FOR HUMANITY PORTLAND REGION

Consolidated Statement of Activities

Six Months Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains, and other support:			
Sales of homes	\$ 2,865,594	\$ -	\$ 2,865,594
Resale stores:			
Inventory sales	2,459,355	-	2,459,355
Less: Cost of goods sold	<u>(2,354,367)</u>	<u>-</u>	<u>(2,354,367)</u>
Gross profit	104,988	-	104,988
Noncash contributions - Resale stores	2,241,605	-	2,241,605
Contributions and grants	1,122,097	626,390	1,748,487
Noncash contributions - other	118,841	-	118,841
Amortization of discount on mortgages receivable	161,268	-	161,268
Fundraising events (net of direct costs of \$28,063)	427,100	-	427,100
Gain from forgiveness of the Paycheck Protection Program loan <i>(Note 9)</i>	936,600	-	936,600
Gain from forgiveness of notes payable <i>(Note 8)</i>	1,475,000	-	1,475,000
Other - net	138,484	-	138,484
Net assets released from restrictions <i>(Note 12)</i>	<u>829,868</u>	<u>(829,868)</u>	<u>-</u>
Net revenue, gains, and other support	10,421,445	(203,478)	10,217,967
Expenses:			
Program services	8,906,999	-	8,906,999
Supporting services	<u>1,305,443</u>	<u>-</u>	<u>1,305,443</u>
Total expenses	10,212,442	-	10,212,442
Increase (decrease) in net assets	209,003	(203,478)	5,525
Net assets, beginning of period <i>(Note 19)</i>	<u>18,628,301</u>	<u>924,047</u>	<u>19,552,348</u>
Net assets, end of period	<u>\$ 18,837,304</u>	<u>\$ 720,569</u>	<u>\$ 19,557,873</u>

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

HABITAT FOR HUMANITY PORTLAND REGION

Consolidated Statement of Functional Expenses

Six Months Ended June 30, 2021

	Program Services			Supporting Services			Total
	Home-ownership	Resale Stores	Total	Management and General	Development	Total	
Cost of homes sold	\$ 5,262,294	\$ -	\$ 5,262,294	\$ -	\$ -	\$ -	\$ 5,262,294
Cost of goods sold - Resale stores	-	2,354,367	2,354,367	-	-	-	2,354,367
Salaries and wages	914,318	797,097	1,711,415	257,885	375,105	632,990	2,344,405
Employee benefits and payroll taxes	217,399	189,527	406,926	61,318	89,189	150,507	557,433
Fees for services	45,977	95,135	141,112	39,595	133,242	172,837	313,949
Advertising and promotion	-	-	-	62,300	-	62,300	62,300
Office expenses	9,045	37,231	46,276	12,298	3,423	15,721	61,997
Information technology	7,747	12,348	20,095	51,168	34,776	85,944	106,039
Occupancy	5,714	508,985	514,699	39,665	870	40,535	555,234
Travel	6,930	26,771	33,701	196	680	876	34,577
Interest expense	81,520	39	81,559	3,852	-	3,852	85,411
Allocations to affiliates <i>(Note 6)</i>	352,671	-	352,671	18,562	-	18,562	371,233
Depreciation and amortization	-	19,891	19,891	23,927	-	23,927	43,818
Insurance	26,629	23,979	50,608	26,315	518	26,833	77,441
NRI program expense	218,784	-	218,784	-	-	-	218,784
Outreach and support	31,524	5,669	37,193	7,383	4,634	12,017	49,210
Fundraising events costs:							
Food and facility	-	-	-	-	28,063	28,063	28,063
Other expenses	-	9,775	9,775	49,031	9,511	58,542	68,317
Total expenses	7,180,552	4,080,814	11,261,366	653,495	680,011	1,333,506	12,594,872
Less: Expenses netted with revenue on consolidated statement of activities	-	(2,354,367)	(2,354,367)	-	(28,063)	(28,063)	(2,382,430)
Total expenses per consolidated statement of activities	\$ 7,180,552	\$ 1,726,447	\$ 8,906,999	\$ 653,495	\$ 651,948	\$ 1,305,443	\$ 10,212,442

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

HABITAT FOR HUMANITY PORTLAND REGION

Consolidated Statement of Cash Flows

Six Months Ended June 30, 2021

Cash flows from operating activities:

Cash receipts:

Principal payments on mortgages receivable and payments received on sales of homes	\$ 3,180,323
Resale stores	2,459,355
Contributions and grants	2,214,991
Other	<u>135,467</u>

7,990,136

Cash disbursements:

Land purchases and home construction costs	5,380,383
Payroll and related expenses	2,733,622
Interest	56,655
Allocations to affiliates	268,719
Other	<u>1,700,739</u>

10,140,118

Net cash used by operating activities **(2,149,982)**

Cash flows from financing activities:

Borrowings on line of credit	300,000
Proceeds from Paycheck Protection Program loan	936,605
Proceeds from notes payable	1,383,711
Principal payments on notes payable	<u>(130,991)</u>

Net cash provided by financing activities **2,489,325**

**Net increase in cash and cash
equivalents and restricted cash** **339,343**

Cash and cash equivalents and restricted cash,
beginning of period 6,613,678

Cash and cash equivalents and restricted cash, end of period **\$ 6,953,021**

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

HABITAT FOR HUMANITY PORTLAND REGION

Consolidated Statement of Cash Flows - Continued

Six Months Ended June 30, 2021

Reconciliation to statement of financial position:

Cash and cash equivalents	\$ 6,728,704
Cash held for escrow and maintenance	127,083
Restricted cash	<u>97,234</u>
	<u><u>\$ 6,953,021</u></u>

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

HABITAT FOR HUMANITY PORTLAND REGION

Notes to Consolidated Financial Statements

1. Significant Accounting Policies

Organization - Habitat for Humanity Portland Region (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 Cherry Blossom HFH, LLC. These entities are wholly owned subsidiaries of the Organization and were formed solely to obtain specific financing. 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 REGION

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 Inventory - The Organization operates four Resale Stores, which are located in Portland, Beaverton, Vancouver, and Gresham 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 net realizable value.

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.

HABITAT FOR HUMANITY PORTLAND REGION

Notes to Consolidated Financial Statements - Continued

1. Significant Accounting Policies - Continued

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.

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.

Contributions - 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.

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.

HABITAT FOR HUMANITY PORTLAND REGION

Notes to Consolidated Financial Statements - Continued

1. Significant Accounting Policies - Continued

Revenue Recognition - Sales of homes to homeowners is recognized at a point in time, which is the time a home is sold and title passes to a qualified homebuyer. Currently, most homeowners finance the purchase of their home by obtaining third-party financing, proceeds from which are paid to the Organization at closing. Previously, most homeowners financed the purchase of their home with 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.

Resale Store sales are also recognized at a point in time, which is when control is transferred to the customer. The amount recorded as revenue reflects the consideration the Organization receives in exchange for its inventory.

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, 2021, the allowance for uncollectible pledges receivable totaled \$27,350. Management does not believe an allowance was necessary for other receivables.

Gross outstanding pledges receivable of \$273,496 are expected to be collected within one year. Net pledges receivable (net of allowance for uncollectible pledges) were \$246,146 at June 30, 2021, 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, 2021.

HABITAT FOR HUMANITY PORTLAND REGION

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, 2021, 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.

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 Cherry Blossom HFH, LLC are disregarded entities for federal and state income tax purposes.

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.

Recent Accounting Pronouncement - In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. This ASU, among other things, will require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and a right-of-use asset, which represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 is effective for the Organization on July 1, 2022. The Organization is evaluating the potential impact of this ASU on the Organization's consolidated financial statements.

HABITAT FOR HUMANITY PORTLAND REGION

Notes to Consolidated Financial Statements - Continued

2. Mortgages Receivable - Net

Mortgages receivable	\$ 8,949,818
Discount on mortgages receivable	<u>(4,132,161)</u>
Mortgages receivable - net of discount	<u>\$ 4,817,657</u>

Mortgage principal payments totaling \$55,129 were in arrears related to mortgages receivable with an outstanding balance of \$1,029,476 at June 30, 2021. A provision for impairment of loans has not been recorded since the Organization holds the trust deeds as security on the mortgages.

3. Inventories

Raw materials:	
Construction	\$ 35,501
Resale stores	346,749
Construction in progress	11,887,120
Land held for development	5,347,084
Home available for sale	<u>837,781</u>
	<u>\$ 18,454,235</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.

HABITAT FOR HUMANITY PORTLAND REGION

Notes to Consolidated Financial Statements - Continued

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. The Organization's investment in each of these limited partnerships is less than 20 percent and management does not have the ability to exercise significant influence over these entities. These investments do not have readily determinable fair values, and as such the Organization has elected to carry these investments at cost, less any impairment. The Organization's carrying value of its investment in limited partnerships was \$3,794,417 at June 30, 2021. The Organization has not recognized any impairment related to their investment in these limited partnerships.

In connection with this investment, the Organization holds 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 \$97,234 at June 30, 2021.

5. Property and Equipment - Net

Land	\$ 80,081
Building	1,265,592
Equipment	711,645
Vehicles	<u>180,667</u>
	2,237,985
Less accumulated depreciation and amortization	<u>(1,243,640)</u>
Property and equipment - net	<u><u>\$ 994,345</u></u>

HABITAT FOR HUMANITY PORTLAND REGION

Notes to Consolidated Financial Statements - Continued

6. Allocations to Affiliates

The Organization 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 another local Portland metropolitan area affiliate and allocates 33 percent of net proceeds from the program to this local affiliate.

The following table provides a summary of allocations to affiliates for the six months ended June 30, 2021:

	Habitat International	Local Affiliates	Total
Amount accrued, beginning of period	\$ 179,006	\$ 32,990	\$ 211,996
Amount allocated during the period	207,721	163,512	371,233
Amount paid during the period	<u>(179,006)</u>	<u>(89,713)</u>	<u>(268,719)</u>
Amount accrued, end of period	<u>\$ 207,721</u>	<u>\$ 106,789</u>	<u>\$ 314,510</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, 2021, was \$127,083. A corresponding liability is included with accounts payable and accrued expenses on the accompanying consolidated statement of financial position.

HABITAT FOR HUMANITY PORTLAND REGION

Notes to Consolidated Financial Statements - Continued

8. Notes Payable - Net

Notes payable issued in connection with NMTC financing:

Note payable to HFHI NMTC Sub-CDE I, LLC.

Interest on the note is 0.68 percent (including net unamortized debt issuance costs of \$115,661 at June 30, 2021) 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 amount sufficient to fully amortize the remaining principal balance. The note is due December 2044.

\$ 2,255,891

Note payable to HFHI NMTC Sub-CDE II, LLC.

Interest on the note is 0.67 percent (including net unamortized debt issuance costs of \$157,957 at June 30, 2021) 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.

3,070,982

Total notes payable issued in connection with NMTC financing

5,326,873

Other notes payable:

9 notes payable to Habitat for Humanity International, Inc. (SHOP notes) at zero percent interest, discounted at 7.51 percent, unsecured. Monthly payments ranging from \$72 to \$875 through January 2025.

111,973

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 July 2023.

20,020

Carried forward

131,993

HABITAT FOR HUMANITY PORTLAND REGION

Notes to Consolidated Financial Statements - Continued

8. Notes Payable - Net - Continued

Brought forward	\$ 131,993
Note payable to Columbia Bank, secured by specific mortgages receivable (including net unamortized debt issuance costs of \$34,290 at June 30, 2021). 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.	459,736
12 notes payable to The Commerce Bank of Oregon, secured by specific mortgages receivable (including net unamortized debt issuance costs of \$27,467 at June 30, 2021). Total monthly payments are currently at \$4,707 and begin to decrease January 2022. The notes include imputed interest at 2.65 percent and are due through November 2038.	284,315
Note payable to Umpqua Bank, secured by specific mortgages receivable (including net unamortized debt issuance costs of \$77,110 at June 30, 2021). 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.	1,494,518
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. During the six months ended June 30, 2021, \$1,100,000 of the loan proceeds were forgiven by the PHB. All but \$300,000 of the remaining balance can be forgiven on a prorated basis per housing unit, provided each house is sold to a qualifying family.	2,024,890
Note payable to the PHB, with a maximum amount available of \$1,500,000, at zero percent interest, and secured by home inventory. During the six months ended June 30, 2021, \$375,000 of the loan proceeds were forgiven by the PHB. The remaining balance was forgiven during September 2021.	<u>124,730</u>
Carried forward	4,520,182

HABITAT FOR HUMANITY PORTLAND REGION

Notes to Consolidated Financial Statements - Continued

8. Notes Payable - Net - Continued

Brought forward	\$ 4,520,182
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 0.5 percent per annum but not less than 4 percent (consequently, the rate was 4 percent at June 30, 2021). The note and any unpaid interest is due January 2023.	767,917
Note payable to the Oregon Housing and Community Services Department (OHCS), with a maximum amount available of \$650,000, at zero percent interest, secured by certain home inventory, and due December 2042.	595,771
Note payable to the OHCS, with a maximum amount available of \$2,325,000, at zero percent interest, secured by certain home inventory, and due December 2042.	1,561,249
Note payable to Habitat for Humanity of Oregon at 0 percent interest, discounted at 4.25 percent, secured by certain inventory. Beginning December 2021, monthly payments will be \$1,250. The note is due December 2026.	<u>75,000</u>
Total other notes payable	<u>7,520,119</u>
Total notes payable	12,846,992
Less discount on notes payable	<u>(20,276)</u>
Net notes payable, end of year	<u><u>\$ 12,826,716</u></u>

HABITAT FOR HUMANITY PORTLAND REGION

Notes to Consolidated Financial Statements - Continued

8. Notes Payable - Net - Continued

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

Certain notes payable 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.

Total principal payments required under note agreements for years subsequent to June 30, 2021, are as follows:

Years Ending June 30,	Amount*
2022	\$ 373,213
2023	2,252,122
2024	965,033
2025	194,566
2026	190,528
Thereafter	<u>9,284,015</u>
	<u><u>\$ 13,259,477</u></u>

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

HABITAT FOR HUMANITY PORTLAND REGION

Notes to Consolidated Financial Statements - Continued

9. Paycheck Protection Program Loan

In April 2020, Habitat for Humanity Portland/Metro East 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.

The loan was forgiven in full by the Small Business Administration (SBA) in April 2021 and, as such, during the six months ended June 30, 2021, the Organization has recognized a gain of \$936,600, the full amount of the original loan.

On February 9, 2021, the Organization received proceeds of \$936,605 from a Paycheck Protection Program Second Draw loan from the SBA under the Consolidated Appropriations Act of 2021 (the Act). The loan will have substantially the same terms as the PPP loan received during 2020. If the Organization meets certain criteria under the Act, all or a portion of the loan may be forgiven. Any portion of the loan not forgiven will bear interest at 1 percent per annum over a 2 year period.

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, 2021:

Emergency reserve	\$ 1,056,000
Loan loss reserve	<u>1,877,646</u>
	<u>\$ 2,933,646</u>

11. Net Assets With Donor Restrictions

Net assets with donor restrictions consist of the following at June 30, 2021:

Purpose restricted grants and contributions	\$ 491,009
Contributions and grants for use in future periods	209,284
Unamortized balance of discounts granted on notes payable	<u>20,276</u>
	<u>\$ 720,569</u>

HABITAT FOR HUMANITY PORTLAND REGION

Notes to Consolidated Financial Statements - Continued

12. Net Assets Released from Restrictions

During the six months ended June 30, 2021, net assets were released from restrictions as follows:

Satisfaction of purpose restricted grants and contributions	\$ 626,892
Passage of time	196,666
Amortization of discount on notes payable	<u>6,310</u>
	<u>\$ 829,868</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, 2021, 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.

14. Retirement Plan

The Organization has a 403(b) retirement plan for employees. The Organization makes discretionary matching contributions up to 3 percent of eligible compensation. For the six months ended June 30, 2021, the Organization's contribution toward employee retirement was \$47,205.

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, 2021). At June 30, 2021, the balance outstanding on the line of credit was \$300,000.

HABITAT FOR HUMANITY PORTLAND REGION

Notes to Consolidated Financial Statements - Continued

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 \$219,002 at June 30, 2021, 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, 2021, are as follows:

Years Ending June 30,	Minimum Scheduled Payments
2022	\$ 369,821
2023	307,567
2024	315,266
2025	266,363
2026	193,099
Thereafter	<u>1,085,035</u>
	<u><u>\$ 2,537,151</u></u>

Rent expense for retail and office space and office equipment was \$352,775 for the six months ended June 30, 2021.

HABITAT FOR HUMANITY PORTLAND REGION

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
Cash and cash equivalents	\$ 6,728,704
Grants and other receivables	459,029
Current portion of mortgages receivable	<u>572,448</u>
Total financial assets available within one year	7,760,181
Less:	
Designated net assets	(2,933,646)
Purpose restricted grants and contributions	<u>(491,009)</u>
	<u>\$ 4,335,526</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 17, 2021, the date the consolidated financial statements were available to be issued.

In September 2021, the Organization executed a \$2,000,000 note payable to Habitat Mortgage Solutions, LLC, payable in quarterly installments, including interest at 2.75 percent per annum. The note will be due September 2024 and will be secured by certain home inventory.

In August 2021, the Organization executed a \$1,000,000 note payable to an individual. Variable interest only payments will be due. The note will be due August 2023 and will be secured by certain home inventory.

HABITAT FOR HUMANITY PORTLAND REGION

Notes to Consolidated Financial Statements - Continued

19. Merger

Effective January 1, 2021, Habitat for Humanity Portland/Metro East (Metro East) merged with Willamette West Habitat for Humanity (Willamette West). Willamette West completed a plan of merger and under the plan of merger, net assets of Willamette West were transferred to Metro East. Immediately following the merger, Metro East started doing business as Habitat for Humanity Portland Region.

Through their merger, the entities seek to further their common mission by having a greater impact on the region by fully integrating programs and staff as a single organization.

The following table is a summary of major classes of assets, liabilities, and net assets as of January 1, 2021, the merger date. There were no adjustments to conform the accounting policies of the entities. There was an adjustment to eliminate intra-entity balances totaling \$32,990.

	Habitat for Humanity Portland/Metro East	Willamette West Habitat for Humanity	Habitat for Humanity Portland Region
Cash and cash equivalents	\$ 4,523,198	\$ 2,090,480	\$ 6,613,678
Mortgages receivable - net	3,360,563	1,618,755	4,979,318
Inventories	15,018,839	2,630,444	17,649,283
Investment in limited partnerships	3,794,417	-	3,794,417
Property and equipment	536,624	501,039	1,037,663
Other assets	337,922	349,663	687,585
	<hr/>	<hr/>	<hr/>
Total assets	27,571,563	7,190,381	34,761,944
Accounts payable and accrued expenses	638,277	33,592	671,869
Other current liabilities	528,578	38,466	567,044
Notes payable - net	13,970,683	-	13,970,683
	<hr/>	<hr/>	<hr/>
Total liabilities	15,137,538	72,058	15,209,596
Net assets:			
Without donor restrictions	11,856,042	6,772,259	18,628,301
With donor restrictions	577,983	346,064	924,047
	<hr/>	<hr/>	<hr/>
Total net assets	<u>\$ 12,434,025</u>	<u>\$ 7,118,323</u>	<u>\$ 19,552,348</u>