



CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2024

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 Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Habitat for Humanity Portland Metro East dba Habitat for Humanity Portland Region and its subsidiaries, (collectively, the Organization), which comprise the consolidated statement of financial position as of June 30, 2024, 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2024, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2024, on our consideration of the Habitat for Humanity Portland Region's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Habitat for Humanity Portland Region's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Habitat for Humanity Portland Region's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited the Organization's consolidated financial statements as of and for the year ended June 30, 2023, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 15, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Hoffman, Stewart & Schmidt, P.C.

Lake Oswego, Oregon
November 20, 2024

HABITAT FOR HUMANITY PORTLAND REGION

Consolidated Statement of Financial Position

June 30, 2024 <i>(With Comparative Amounts for 2023)</i>	2024	2023
ASSETS		
Cash and cash equivalents	\$ 7,636,704	\$ 11,187,036
Cash held for escrow and maintenance <i>(Note 2)</i>	34,305	41,222
Investments <i>(Notes 3 and 18)</i>	5,360,134	3,106,591
Grants and other receivables - net	602,540	1,114,077
Employer retention credits receivable	-	1,105,844
Mortgages receivable - net <i>(Notes 4 and 10)</i>	2,717,860	2,950,343
Inventories <i>(Note 5)</i>	34,288,199	34,026,409
Prepaid expenses and other assets	108,590	112,037
Investment in a limited partnership <i>(Note 6)</i>	2,176,680	2,176,680
Restricted cash <i>(Note 6)</i>	7,735	30,940
Land held for leases <i>(Note 7)</i>	1,517,178	1,317,178
Property and equipment - net <i>(Note 8)</i>	1,011,913	978,034
Operating lease right-of-use assets <i>(Note 11)</i>	<u>4,192,922</u>	<u>3,020,883</u>
Total assets	<u>\$ 59,654,760</u>	<u>\$ 61,167,274</u>

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

HABITAT FOR HUMANITY PORTLAND REGION
Consolidated Statement of Financial Position - Continued

June 30, 2024 <i>(With Comparative Amounts for 2023)</i>	2024	2023
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,988,381	\$ 1,306,177
Accrued payroll and payroll taxes	466,896	442,544
Refundable advances	170,821	501,658
Due to affiliate <i>(Note 9)</i>	708,267	734,357
Secured borrowings <i>(Notes 4 and 10)</i>	1,738,009	1,906,859
Notes payable - net <i>(Note 10)</i>	14,640,007	17,415,426
Operating lease liabilities <i>(Note 11)</i>	<u>4,320,908</u>	<u>3,125,223</u>
Total liabilities	24,033,289	25,432,244
Net assets:		
Net assets without donor restrictions:		
Undesignated	32,152,827	32,607,195
Designated <i>(Note 12)</i>	<u>2,642,922</u>	<u>2,422,922</u>
Total net assets without donor restrictions	34,795,749	35,030,117
Net assets with donor restrictions <i>(Note 13)</i>	<u>825,722</u>	<u>704,913</u>
Total net assets	<u>35,621,471</u>	<u>35,735,030</u>
Total liabilities and net assets	<u>\$ 59,654,760</u>	<u>\$ 61,167,274</u>

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

HABITAT FOR HUMANITY PORTLAND REGION

Consolidated Statement of Activities

Year Ended June 30, 2024 *(With Comparative Totals for 2023)*

	Without Donor Restrictions	With Donor Restrictions	Total	
			2024	2023
Revenue, gains, and other support:				
Sales of homes	\$ 9,685,780	\$ -	\$ 9,685,780	8,215,369
Resale store sales	5,102,181	-	5,102,181	5,112,500
Less: cost of goods sold	(4,604,641)	-	(4,604,641)	(4,806,705)
Gross profit	497,540	-	497,540	305,795
Noncash contributions - resale stores	4,320,653	-	4,320,653	4,478,093
Contributions and grants	6,044,013	1,077,332	7,121,345	7,102,169
Noncash contributions - other	79,757	-	79,757	235,712
Amortization of discount on mortgages receivable	133,424	-	133,424	331,769
Fundraising events (net of direct costs of \$231,673 and \$216,810, respectively)	775,124	-	775,124	585,827
Employer retention credits	-	-	-	1,105,844
Gain from sale of mortgages receivable	-	-	-	491,015
Gain from forgiveness of notes payable (Note 10)	6,045,320	-	6,045,320	4,768,756
Net investment return	353,285	-	353,285	153,712
Other income	127,885	-	127,885	139,661
Net assets released from restrictions (Note 13)	956,523	(956,523)	-	-
Net revenue, gains, and other support	29,019,304	120,809	29,140,113	27,913,722
Expenses:				
Program services	25,222,970	-	25,222,970	21,908,145
Supporting services	4,030,702	-	4,030,702	3,546,539
Total expenses	29,253,672	-	29,253,672	25,454,684
Change in net assets	(234,368)	120,809	(113,559)	2,459,038
Net assets, beginning of year	35,030,117	704,913	35,735,030	33,275,992
Net assets, end of year	\$ 34,795,749	\$ 825,722	\$ 35,621,471	\$ 35,735,030

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

HABITAT FOR HUMANITY PORTLAND REGION

Consolidated Statement of Functional Expenses

Year Ended June 30, 2024 *(With Comparative Totals for 2023)*

	Program Services			Supporting Services			2024	2023
	Home-ownership	Resale Stores	Total	Management and General	Development	Total		
Cost of homes sold	\$ 16,184,853	\$ -	\$ 16,184,853	\$ -	\$ -	\$ -	\$ 16,184,853	\$ 13,428,719
Cost of goods sold - Resale stores	-	4,604,641	4,604,641	-	-	-	4,604,641	4,806,705
Salaries and wages	2,627,050	2,525,752	5,152,802	611,989	1,524,356	2,136,345	7,289,147	6,390,453
Employee benefits and payroll taxes	675,171	558,245	1,233,416	161,171	326,414	487,585	1,721,001	1,453,065
Fees for services	63,547	132,572	196,119	287,658	181,330	468,988	665,107	724,097
Advertising and promotion	-	-	-	174,352	-	174,352	174,352	169,786
Office expenses	20,121	58,756	78,877	35,596	6,845	42,441	121,318	172,023
Information technology	23,214	48,207	71,421	186,002	85,931	271,933	343,354	291,246
Occupancy	157,870	907,821	1,065,691	-	4,170	4,170	1,069,861	980,804
Travel	43,250	85,987	129,237	13,337	6,012	19,349	148,586	126,386
Interest expense	143,162	-	143,162	7,535	-	7,535	150,697	349,638
Allocations to affiliate <i>(Note 9)</i>	405,184	-	405,184	-	-	-	405,184	451,930
Depreciation and amortization	-	47,193	47,193	54,873	-	54,873	102,066	79,783
Insurance	29,336	30,250	59,586	113,174	-	113,174	172,760	178,274
Home repairs	255,746	-	255,746	-	-	-	255,746	244,195
Outreach and support	80,221	39,417	119,638	42,508	38,593	81,101	200,739	153,952
Fundraising events costs:								
Food and facility	-	-	-	-	231,673	231,673	231,673	216,810
Uncollectible pledge expense	-	-	-	-	30,992	30,992	30,992	51,162
Other expenses	59,345	20,700	80,045	119,495	18,369	137,864	217,909	209,171
Total expenses	20,768,070	9,059,541	29,827,611	1,807,690	2,454,685	4,262,375	34,089,986	30,478,199
Less: Expenses netted with revenue on consolidated statement of activities	-	(4,604,641)	(4,604,641)	-	(231,673)	(231,673)	(4,836,314)	(5,023,515)
Total expenses per consolidated statement of activities	<u>\$ 20,768,070</u>	<u>\$ 4,454,900</u>	<u>\$ 25,222,970</u>	<u>\$ 1,807,690</u>	<u>\$ 2,223,012</u>	<u>\$ 4,030,702</u>	<u>\$ 29,253,672</u>	<u>\$ 25,454,684</u>

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

HABITAT FOR HUMANITY PORTLAND REGION

Consolidated Statement of Cash Flows

Year Ended June 30, 2024 <i>(With Comparative Totals for 2023)</i>	2024	2023
Cash flows from operating activities:		
Cash receipts:		
Principal payments on mortgages receivable and proceeds received on sales of homes	\$ 10,034,190	\$ 8,703,483
Resale stores	5,102,181	5,036,992
Contributions and grants	9,191,236	6,443,721
Other	229,984	343,081
	<u>24,557,591</u>	<u>20,527,277</u>
Cash disbursements:		
Land purchases and home construction costs	15,829,984	13,813,754
Payroll and related expenses	8,985,796	7,756,493
Interest	113,870	285,702
Allocations to affiliates	431,274	746,925
Other	3,708,407	3,446,651
	<u>29,069,331</u>	<u>26,049,525</u>
Net cash used by operating activities	(4,511,740)	(5,522,248)
Cash flows from investing activities:		
Purchase of investments	(2,000,000)	(3,100,000)
Proceeds from sale of mortgages receivable	-	1,731,151
Purchases of property and equipment	(135,945)	(134,153)
Net cash used by investing activities	(2,135,945)	(1,503,002)
Cash flows from financing activities:		
Repayments on line of credit	-	(1,000,000)
Proceeds from notes payable	4,659,968	7,781,515
Principal payments on notes payable and secured borrowings	(1,592,737)	(1,850,463)
Net cash provided by financing activities	3,067,231	4,931,052
Net decrease in cash and cash equivalents and restricted cash	(3,580,454)	(2,094,198)
Cash and cash equivalents and restricted cash, beginning of year	<u>11,259,198</u>	<u>13,353,396</u>
Cash and cash equivalents and restricted cash, end of year	\$ 7,678,744	\$ 11,259,198

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

HABITAT FOR HUMANITY PORTLAND REGION

Consolidated Statement of Cash Flows - Continued

Year Ended June 30, 2024 <i>(With Comparative Totals for 2023)</i>	2024	2023
Reconciliation to consolidated statement of financial position:		
Cash and cash equivalents	\$ 7,636,704	\$ 11,187,036
Cash held for escrow and maintenance	34,305	41,222
Restricted cash	<u>7,735</u>	<u>30,940</u>
	<u>\$ 7,678,744</u>	<u>\$ 11,259,198</u>
Supplemental disclosures of non-cash investing and financing activities:		
Land held for development financed through notes payable	\$ -	\$ 1,812,500
Investment in limited partnership redeemed in connection with forgiveness of a note payable	-	1,617,737

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 Metro East dba Habitat for Humanity Portland Region 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 Habitat for Humanity Portland Region is primarily and directly responsible for the legal, organizational, fundraising, family selection and nurture, financial, and construction aspects of the work. The Habitat for Humanity Portland Region, 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 Habitat for Humanity Portland Region, HFHPME Company, LLC, HFHPME Company II, LLC, and Cherry Blossom HFH, LLC (collectively, the Organization). These entities are wholly owned subsidiaries of the Habitat for Humanity Portland Region 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.

Investments - Investments in marketable securities are valued at their fair values. Net investment return is reported in the consolidated statement of activities and consists of interest and dividend income, and realized and unrealized gains and losses. Certificates of deposit and cash held for investment purposes are stated at amortized cost plus accrued interest, which approximates fair value.

Fair Value Measurements - GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value, and Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs, other than quoted prices, that are observable for the asset; and
- Inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology that are unobservable and significant to the fair value measurement.

HABITAT FOR HUMANITY PORTLAND REGION

Notes to Consolidated Financial Statements - Continued

1. Significant Accounting Policies - Continued

Fair Value Measurements - Continued - In determining the fair value of its investments, the Organization uses appropriate valuation techniques based on available inputs. The Organization maximizes its use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Accordingly, when available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. If market data is not readily available, fair value is based upon other significant unobservable inputs such as inputs that reflect the Organization's own assumptions about the inputs market participants would use in valuing the investment. As required, investments valued using unobservable inputs are classified to the lowest level of any input that is most significant to the valuation. Thus, a valuation may be classified as Level 3 even though the valuation may include significant inputs that are readily observable.

Concentration of Credit Risk - The Organization's cash holdings (including certificates of deposit, cash held for investment purposes, 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.

The Organization's investments are exposed to various risks, such as interest rate, market, and credit risk. The value, liquidity, and related income of these assets are sensitive to changes in economic conditions and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates. Due to the level of risk associated with certain investment securities, it is at least reasonably possible changes in the values of such assets will occur in the near-term and such changes could materially affect account balances and amounts reported in the consolidated financial statements.

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, 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 6*.

HABITAT FOR HUMANITY PORTLAND REGION

Notes to Consolidated Financial Statements - Continued

1. Significant Accounting Policies - Continued

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.

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. 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.

The Organization has received grants from governmental agencies that are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. At June 30, 2024, the Organization had conditional grants totaling \$771,281, of which \$170,821 had been received and reported on the consolidated statement of financial position as refundable advances. Of the conditional grants total, \$388,155 is conditioned upon the Organization selling certain qualifying homes and the remaining \$383,126 is conditioned upon incurring qualifying expenses.

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.

The Organization reports contributions of property and equipment as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Contributions of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when acquired long-lived assets are placed in service.

HABITAT FOR HUMANITY PORTLAND REGION

Notes to Consolidated Financial Statements - Continued

1. Significant Accounting Policies - Continued

Noncash Contributions - Contributions of assets other than cash are recorded at their estimated fair value at the time of donation. 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 and are recorded at their estimated fair values in the period received.

Noncash contributions consisted of the following during the years ended June 30:

	2024	2023
Noncash contributions - Resale Stores	\$ 4,320,653	\$ 4,478,093
Noncash contributions - other:		
Building and construction materials	64,552	212,248
Professional services	15,205	23,464
	<u>79,757</u>	<u>235,712</u>
Total noncash contributions	<u>\$ 4,400,410</u>	<u>\$ 4,713,805</u>

The Organization estimates the value of donated goods received at the Resales Stores based on their expected selling price. Professional services are valued at standard hourly rates charged for those services. The value of construction materials was determined by the estimated cost of the materials if purchased.

Building and construction materials and professional services were utilized by the Organization in its program and supporting services.

There were no donor-imposed restrictions associated with the noncash contributions.

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, homeowners finance the purchase of their home by obtaining third-party financing, proceeds from which are paid to the Organization at closing. Previously, 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.

Mortgages Receivable - 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. At each reporting date, the Organization recognizes an expected allowance for credit losses, if necessary. In addition, also at each reporting date, this estimate is updated to reflect any changes in credit risk since the receivable was initially recorded. Mortgages receivable are evaluated individually when they do not share similar risk characteristics which could exist in circumstances where amounts are considered at risk or uncollectible.

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, 2024.

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, 2024, 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.

HABITAT FOR HUMANITY PORTLAND REGION

Notes to Consolidated Financial Statements - Continued

1. Significant Accounting Policies - Continued

Transfers of Mortgages Receivable - The Organization follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 860, *Accounting for Transfers and Servicing of Financial Assets* and accounts for transfers of mortgages receivable as sales when it has surrendered control over the related assets. Whether control has been relinquished requires, among other things, an evaluation of relevant legal considerations and an assessment of the nature and extent of the Organization's continuing involvement with the mortgages transferred. Gains and losses from transfers reported as sales are included in net gain on sale of mortgages receivable in the accompanying consolidated statements of activities. There were no transfers of mortgages receivable that qualified as sales during the year ended June 30, 2024.

Transfers of mortgage receivables that do not qualify for sale accounting are reported as secured borrowings. Accordingly, the related assets remain on the Organization's consolidated statement of financial position and continue to be reported and accounted for as if the transfer had not occurred. Cash proceeds from these transfers are reported as liabilities, with attributable interest expense recognized over the life of the related transactions. The Organization has transferred mortgages receivable that qualified as secured borrowings as described in *Note 10*.

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 and amortization, 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.

HABITAT FOR HUMANITY PORTLAND REGION

Notes to Consolidated Financial Statements - Continued

1. Significant Accounting Policies - Continued

Summarized Financial Information for 2023 - 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 six months ended June 30, 2023, from which the summarized financial information was derived.

Adoption of New Accounting Standard - In June 2016, the Financial Accounting Standards Board (FASB) issued guidance (FASB ASC 326) which significantly changed how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the consolidated financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the Organization that are subject to the guidance in FASB ASC 326 were mortgages receivable.

The Organization adopted the standard effective July 1, 2023. The impact of the adoption was not considered material to the consolidated financial statements and primarily resulted in new/enhanced disclosures only.

Reclassifications - Certain reclassifications have been made to the 2023 information to conform with the 2024 presentation.

2. 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. At June 30, 2024, the balance of these accounts totaled \$34,305. 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

3. Investments

A summary of investments by type is as follows at June 30:

	2024	2023
Investments carried at fair value:		
U.S. Treasury bills	\$ -	\$ 130,325
Money market funds	823,759	112,566
U.S. Treasury notes and bonds	<u>656,358</u>	<u>1,126,544</u>
	1,480,117	1,369,435
Investments carried at cost plus accrued interest:		
Certificates of deposit	3,864,124	1,737,156
Cash held for investment purposes	<u>15,893</u>	<u>-</u>
	<u>3,880,017</u>	<u>1,737,156</u>
	<u><u>\$ 5,360,134</u></u>	<u><u>\$ 3,106,591</u></u>

4. Mortgages Receivable - Net

	2024	2023
Mortgages receivable	\$ 4,984,210	\$ 5,350,117
Discount on mortgages receivable	<u>(2,266,350)</u>	<u>(2,399,774)</u>
Mortgages receivable - net of discount	<u><u>\$ 2,717,860</u></u>	<u><u>\$ 2,950,343</u></u>

At June 30, 2024, mortgage principal payments totaling \$74,364, were in arrears related to mortgages receivable with an outstanding balance of \$852,690. An allowance for credit losses has not been recorded since the Organization holds the trust deeds as security on the mortgages.

At June 30, 2024, mortgages receivable with an outstanding balance of \$1,999,383 (excluding discounts) have been pledged to financial institutions under the secured borrowing transactions described in *Note 10*.

HABITAT FOR HUMANITY PORTLAND REGION

Notes to Consolidated Financial Statements - Continued

5. Inventories

	2024	2023
Raw materials:		
Construction	\$ 4,325	\$ 8,650
Resale stores	382,160	338,007
Construction in progress	9,154,139	11,143,067
Land held for development	18,694,794	14,987,629
Home available for sale	6,052,781	7,549,056
	<u>\$ 34,288,199</u>	<u>\$ 34,026,409</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.

6. Investment in a Limited Partnership and Restricted Cash

The Organization has invested in a limited partnership (HFHI NMTC Leverage Lender 2016-1, LLC) to take advantage of new markets tax credit (NMTC) financing. The Organization's investment in this limited partnership is less than 20 percent and management does not have the ability to exercise significant influence over the entity. The investment does not have readily determinable fair value, and as such the Organization has elected to carry the investment at cost, less any impairment. At June 30, 2024 and 2023, the Organization's carrying value of its investment in the limited partnership was \$2,176,680. The Organization has not recognized any impairment related to their investment in the limited partnership.

In connection with this investment, the Organization holds a loan from HFHI NMTC Sub-CDE II, LLC (the lender) (*Note 10*), 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 lender are expected to exercise a put and call option, which will effectively allow the Organization to extinguish the remaining debt owed to the lender.

As part of this transaction, the Organization was required to establish a restricted cash account to be used to pay for various fees and compliance costs that will be incurred over the compliance period. At June 30, 2024, the restricted cash account balance was \$7,735.

HABITAT FOR HUMANITY PORTLAND REGION

Notes to Consolidated Financial Statements - Continued

7. Land Held for Leases

To promote current and future affordability to homeowners, the Organization retained title to certain land as opposed to selling homes including the land. In lieu of selling the land, the Organization entered into a long-term land lease arrangement with the homeowners at a nominal annual rental amount. Land lease arrangements are for terms between 70 and 99 years. Concurrent with the recognition of the sale, the cost of the land was transferred from inventory to land leased to homeowners on the accompanying consolidated statement of financial position. At June 30, 2024, land leased to homeowners totaled \$1,517,178.

8. Property and Equipment - Net

	2024	2023
Land	\$ 80,081	\$ 80,081
Building	1,310,604	1,310,604
Equipment	692,375	598,811
Vehicles	214,723	249,909
	<u>2,297,783</u>	<u>2,239,405</u>
Less accumulated depreciation and amortization	<u>(1,285,870)</u>	<u>(1,261,371)</u>
Property and equipment - net	<u>\$ 1,011,913</u>	<u>\$ 978,034</u>

9. Allocations to Affiliate

The Organization remits a portion of its unrestricted contributions to Habitat International. These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2024, and 2023, the Organization contributed \$405,184 and \$451,930, respectively, to Habitat International. Such amounts are included in program services expenses in the consolidated statement of activities. At June 30, 2024 and 2023, amount due to Habitat International for these allocations was \$708,267 and \$734,357, respectively.

HABITAT FOR HUMANITY PORTLAND REGION

Notes to Consolidated Financial Statements - Continued

10. Notes Payable and Secured Borrowings

Notes payable:

	2024	2023
Notes payable to the Oregon Housing and Community Services, at zero percent interest, secured by certain home inventory, and due through December 2044. During the year ended June 30, 2024, \$4,845,320 of the loan proceeds were recognized as a gain from loan forgiveness since conditions for loan forgiveness were substantially met. The remaining balance can be forgiven on a prorated basis per housing unit, provided each home is sold to a qualifying family and other requirements specified in the loan agreements have been met.	\$ 8,609,394	\$ 9,878,579
Note payable to HFHI NMTC Sub-CDE II, LLC. Interest on the note is 0.67 percent (including net unamortized debt issuance costs of \$140,452 and \$146,451 at 2024 and 2023, respectively) and secured by certain 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.	3,088,487	3,082,488
Note payable to Habitat for Humanity International at 2.75 percent interest (including net unamortized debt issuance costs of \$5,345 and \$26,724 at June 30, 2024 and 2023, respectively), and secured by certain home inventory. Quarterly interest only payments of \$13,750 are currently due. A principal payment of \$1,000,000 is due in September 2024.	994,655	1,973,276
Note payable to the City of Hillsboro, at zero percent interest, secured by certain home inventory, and due December 2025. The balance can be forgiven on a prorated basis per housing unit, provided each house is sold to a qualifying family.	912,500	912,500
Note payable to Network for Affordable Housing at zero percent interest, and is secured by certain inventory. The note is due November 2024.	790,000	-
Carried forward	14,395,036	15,846,843

HABITAT FOR HUMANITY PORTLAND REGION

Notes to Consolidated Financial Statements - Continued

10. Notes Payable and Secured Borrowings - Continued

	2024	2023
Brought forward	\$ 14,395,036	\$ 15,846,843
Notes payable to Habitat for Humanity International, Inc. (SHOP notes) at zero percent interest and is unsecured. Monthly payments ranging from \$145 to \$823 through July 2030.	207,471	103,090
Note payable to Habitat for Humanity of Oregon at zero percent interest, discounted at 4.25 percent, secured by certain inventory. Monthly payments of \$1,250, and is due December 2026.	37,500	52,500
Note payable to First Republic Bank was paid off during 2024.	-	387,228
Note payable to Habitat for Humanity of Oregon was paid off during 2024.	-	854
Note payable to the Portland Housing Bureau (PHB). During the year ended June 30, 2024, \$1,200,000 of the loan proceeds were recognized as a gain from loan forgiveness since conditions for loan forgiveness were substantially met.	-	1,024,911
Total notes payable	<u>\$ 14,640,007</u>	<u>\$ 17,415,426</u>

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 that time.

Secured Borrowings:

The Organization entered into agreements with The Commerce Bank of Oregon, and Umpqua Bank to sell certain mortgages receivable. In accordance with the agreements, the Organization has the obligation to cure a default, and if it cannot do so, it shall, at its option, either repurchase the affected mortgage at the repurchase price, or provide a substitute mortgage. Accordingly, the sales were classified as secured borrowing transactions.

HABITAT FOR HUMANITY PORTLAND REGION

Notes to Consolidated Financial Statements - Continued

10. Notes Payable and Secured Borrowings - Continued

Secured Borrowings - Continued:

The difference between the cash proceeds and the aggregate unpaid principal balance of the mortgages sold was recorded as a discount and is being amortized over the life of the mortgages sold. Installment payments are due monthly in accordance with the amortization schedules of the underlying mortgages receivable that were sold. The final payments are due between November 2038 and June 2047.

The following is a summary of the outstanding balances to each financial institution associated with the secured borrowing arrangements at June 30:

	2024	2023
The Commerce Bank of Oregon	\$ 208,387	\$ 251,130
Umpqua Bank	2,001,248	2,179,455
	<u>\$ 2,209,635</u>	<u>\$ 2,430,585</u>

At June 30, 2024, future maturities on the notes payable and secured borrowings are as follows:

Years Ending June 30,	Notes Payable	Secured Borrowings	Total
2025	\$ 1,857,630	\$ 220,950	\$ 2,078,580
2026	972,904	219,428	1,192,332
2027	52,904	199,807	252,711
2028	44,805	164,526	209,331
2029	19,227	160,336	179,563
Thereafter	<u>11,838,334</u>	<u>1,244,588</u>	<u>13,082,922</u>
	14,785,804	2,209,635	16,995,439
Less unamortized debt issuance costs	(145,797)	(119,543)	(265,340)
Less unamortized discounts	<u>-</u>	<u>(352,083)</u>	<u>(352,083)</u>
	<u>\$ 14,640,007</u>	<u>\$ 1,738,009</u>	<u>\$ 16,378,016</u>

HABITAT FOR HUMANITY PORTLAND REGION

Notes to Consolidated Financial Statements - Continued

11. Operating Leases

The Organization determines if an arrangement is a lease or a service contract at inception. A contract is determined to be or contain a lease if the contract conveys the right to control the use of an identified asset in exchange for consideration. When an arrangement is a lease, the Organization determines whether it is an operating or finance lease.

Leases result in recognition of right-of-use (ROU) assets and lease liabilities on the consolidated statement of financial position. ROU assets represent the right to use an underlying asset for the lease term. Lease liabilities represent the obligation to make lease payments, measured on a discounted basis. At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability, adjusted for any direct costs, prepaid or deferred rent, and lease incentives. The Organization has elected not to separate lease components from non-lease components, and to apply the short-term lease exception, which does not require the capitalization of leases with a term of 12 months or less. Short-term leases are recognized as expense on a straight-line basis over the term of the lease. Variable lease payments, if any, are recognized as expense in the period in which the obligation for payment is incurred. The Organization considers any options to extend or terminate a lease when determining the lease term, and only options that the Organization believes are reasonably certain to be exercised are included in the measurement of the ROU assets and lease liabilities.

The Organization has several leases for retail, office, and equipment under operating leases with 3-to-15-year initial terms. Some leases may include renewal options which can extend the lease term. The exercise of these renewal options are generally at the discretion of the Organization, and only lease options that the Organization believes are reasonably certain to be exercised are included in the measurement of the lease assets and liabilities. The lease agreements do not include any residual value guarantees or restrictive covenants. The Organization has elected to use the risk-free rate of return as the discount rate for its leases, as neither the rate implicit in the lease nor the Organization's incremental borrowing rate are readily available.

Lease expense was comprised of the following for the year ended June 30, 2024:

Operating lease expense	\$ 639,967
Short-term lease expense	<u>42,494</u>
	<u><u>\$ 682,461</u></u>

HABITAT FOR HUMANITY PORTLAND REGION

Notes to Consolidated Financial Statements - Continued

11. Operating Leases - Continued

The following summarizes the cash flow information related to operating leases for the year ended June 30, 2024:

Cash paid for amounts included in the measurement of the lease liabilities for operating leases included in operating cash flows	\$ 665,592
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Operating lease right-of-use assets obtained in exchange for an operating lease liabilities	\$ 1,753,692
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Weighted average lease term and discount rate were as follows at June 30, 2024:

Weighted-average remaining lease term (in years) for the operating leases	7.8
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Weighted-average discount rate for the operating leases	2.97%
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The maturities of operating lease liabilities were as follows as of June 30, 2024:

Years Ending June 30,	Total
2025	\$ 656,105
2026	643,494
2027	647,198
2028	572,145
2029	554,876
Thereafter	<u>1,810,139</u>
	4,883,957
Less present value discount	<u>(563,049)</u>
	<u><u>\$ 4,320,908</u></u>

HABITAT FOR HUMANITY PORTLAND REGION

Notes to Consolidated Financial Statements - Continued

12. 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:

	2024	2023
Emergency reserve	\$ 1,300,000	\$ 1,080,000
Loan loss reserve	<u>1,342,922</u>	<u>1,342,922</u>
	<u>\$ 2,642,922</u>	<u>\$ 2,422,922</u>

13. Net Assets With Donor Restrictions

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

	2024	2023
Purpose restricted grants and contributions	\$ 555,425	\$ 584,084
Contributions and grants for use in future periods	<u>270,297</u>	<u>120,829</u>
	<u>\$ 825,722</u>	<u>\$ 704,913</u>

During the year ended June 30, 2024, net assets totaling \$956,253, were released from restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of other events specified by donors.

HABITAT FOR HUMANITY PORTLAND REGION

Notes to Consolidated Financial Statements - Continued

14. Contingencies

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, 2024, the Organization has complied with the aforementioned restriction, and has the intention and ability to continue to comply with the restriction.

Amounts received from government grants are subject to audit and potential adjustment by these agencies. It is management's belief that no material amounts will be required to be returned in the future.

15. 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 year ended June 30, 2024, the Organization's contribution toward employee retirement was \$162,304.

16. Line of Credit

The Organization has a \$1,434,000 line of credit with First Republic Bank bearing interest at the bank's prime rate plus .25 percent (8.5 percent at June 30, 2024). The line of credit is due October 2025, and is secured by property in Portland and Hillsboro, Oregon. There was no outstanding balance on the line of credit at June 30, 2024.

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:

	2024	2023
Cash and cash equivalents	\$ 7,636,704	\$ 11,187,036
Investments	5,360,134	3,106,591
Grants and other receivables	602,540	1,114,077
Employer retention credits receivable	-	1,105,844
Current portion of mortgages receivable	<u>381,667</u>	<u>397,997</u>
Total financial assets available within one year	13,981,045	16,911,545
Less:		
Designated net assets	(2,642,922)	(2,422,922)
Purpose restricted grants and contributions	<u>(555,425)</u>	<u>(584,084)</u>
	<u>\$ 10,782,698</u>	<u>\$ 13,904,539</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 First Republic Bank for borrowings up to \$1,434,000. 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.

HABITAT FOR HUMANITY PORTLAND REGION

Notes to Consolidated Financial Statements - Continued

18. Fair Value Measurements

The following table sets forth by level, within the fair value hierarchy, the Organization's assets that are measured at fair value on a recurring basis as of June 30, 2024:

	Level 1	Level 2	Total
Money market funds	\$ 823,759	\$ -	\$ 823,759
U.S. Treasury notes and bonds	<u>-</u>	<u>656,358</u>	<u>656,358</u>
	<u>\$ 823,759</u>	<u>\$ 656,358</u>	<u>\$ 1,480,117</u>

Level 1 Measurements: Fair value of Level 1 assets described above is determined by reference to quoted market prices or other relevant market data as provided by the broker.

Level 2 Measurements: Fair value of Level 2 assets described above is based on pricing models or other relevant economic measures provided by the broker.

19. Subsequent Events

Management has evaluated subsequent events through November 20, 2024, the date the consolidated financial statements were available to be issued.