

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

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT**

June 30, 2022 and 2021

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

June 30, 2022 and 2021

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Habitat for Humanity of Orange County, Inc. (the Organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Habitat for Humanity of Orange County, Inc. 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Habitat for Humanity of Orange County, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are issued.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 GAAS 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 financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 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 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.

Ronald Blue & Co. CPAs

Santa Ana, California
October 31, 2022

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2022 and 2021

	2022	2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,690,989	\$ 2,821,751
Cash and cash equivalents - restricted	<u>2,053,497</u>	<u>427,368</u>
Total cash and cash equivalents	5,744,486	3,249,119
Promises to give, net - current	57,303	73,906
Other receivables	59,139	33,063
Inventory - Homes for sale	230,316	933,845
Inventory - ReStores	321,897	333,780
Prepaid expenses	15,200	3,961
Deposits	243,716	90,629
Home repair assets, at net realizable value	238,807	62,008
Housing assets, at net realizable value	<u>2,308,367</u>	<u>4,334,520</u>
Total current assets	<u>9,219,231</u>	<u>9,114,831</u>
Noncurrent assets:		
Promises to give, net - noncurrent	168,450	208,933
Mortgages receivable, net of unamortized discount	4,553,717	4,947,999
Property and equipment, net	36,265	42,724
Other asset	<u>-</u>	<u>363,332</u>
Total noncurrent assets	<u>4,758,432</u>	<u>5,562,988</u>
Total assets	<u>\$ 13,977,663</u>	<u>\$ 14,677,819</u>

See accompanying notes and independent auditors' report

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

June 30, 2022 and 2021

	2022	2021
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 356,686	\$ 816,707
Property tax and insurance impounds	-	9,307
Deferred mortgage receipts	15,955	15,955
Security deposits	-	8,510
Lines of credit	800,000	744,970
Notes payable - current portion	<u>226,513</u>	<u>1,028,611</u>
Total current liabilities	<u>1,399,154</u>	<u>2,624,060</u>
Noncurrent liabilities:		
Notes payable - noncurrent portion	399,441	550,156
Assumed mortgages payable	<u>-</u>	<u>313,193</u>
Total noncurrent liabilities	<u>399,441</u>	<u>863,349</u>
Total liabilities	<u>1,798,595</u>	<u>3,487,409</u>
Net assets:		
Without donor restrictions	10,825,454	10,997,765
With donor restrictions	<u>1,353,614</u>	<u>192,645</u>
Total net assets	<u>12,179,068</u>	<u>11,190,410</u>
Total liabilities and net assets	<u>\$ 13,977,663</u>	<u>\$ 14,677,819</u>

See accompanying notes and independent auditors' report

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2022 and 2021

	2022			2021		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Support and revenue:						
Contributions	\$ 1,505,260	\$ 1,327,320	\$ 2,832,580	\$ 1,682,506	\$ 33,694	\$ 1,716,200
Donated materials and services	18,264	279,165	297,429	167,775	421,432	589,207
Donated stock	25,050	-	25,050	25,097	-	25,097
Grant income - PPP	-	-	-	621,968	-	621,968
Interest income	157,871	-	157,871	162,137	-	162,137
Rehab income	473,554	-	473,554	105,050	-	105,050
Rental income	15,767	-	15,767	56,435	-	56,435
ReStore revenues	2,612,458	-	2,612,458	2,597,947	-	2,597,947
Sale of homes	5,434,000	-	5,434,000	3,908,500	-	3,908,500
Special events revenues	736,781	-	736,781	365,164	-	365,164
Other income	97,260	-	97,260	33,041	-	33,041
Net assets released from restrictions	445,516	(445,516)	-	583,235	(583,235)	-
Total support and revenue	11,521,781	1,160,969	12,682,750	10,308,855	(128,109)	10,180,746
Expenses:						
Program activities:						
Restore	2,061,726	-	2,061,726	1,949,071	-	1,949,071
Special events	153,788	-	153,788	78,787	-	78,787
Rental	-	-	-	2,961	-	2,961
Construction and other programs	8,277,857	-	8,277,857	5,924,446	-	5,924,446
Total program activities	10,493,371	-	10,493,371	7,955,265	-	7,955,265

See accompanying notes and independent auditors' report

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

STATEMENTS OF ACTIVITIES (CONTINUED)

For the Years Ended June 30, 2022 and 2021

	2022			2021		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Supporting activities:						
Management and general	552,592	-	552,592	299,328	-	299,328
Fund development	648,129	-	648,129	563,488	-	563,488
Total supporting activities	<u>1,200,721</u>	<u>-</u>	<u>1,200,721</u>	<u>862,816</u>	<u>-</u>	<u>862,816</u>
Total expenses	<u>11,694,092</u>	<u>-</u>	<u>11,694,092</u>	<u>8,818,081</u>	<u>-</u>	<u>8,818,081</u>
Change in net assets	(172,311)	1,160,969	988,658	1,490,774	(128,109)	1,362,665
Net assets, beginning of year	<u>10,997,765</u>	<u>192,645</u>	<u>11,190,410</u>	<u>9,506,991</u>	<u>320,754</u>	<u>9,827,745</u>
Net assets, end of year	<u>\$ 10,825,454</u>	<u>\$ 1,353,614</u>	<u>\$ 12,179,068</u>	<u>\$ 10,997,765</u>	<u>\$ 192,645</u>	<u>\$ 11,190,410</u>

See accompanying notes and independent auditors' report

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2022

(with summarized information for the year ended June 30, 2021)

	Program activities			Supporting activities		2022 Total	2021 Total
	Restore	Special events	Construction and other programs	Management and general	Fund development		
Expenses:							
Accounting	\$ -	\$ -	\$ 40,954	\$ -	\$ -	\$ 40,954	\$ 33,227
Advertising and promotion	22,391	73,437	240,958	8,629	9,238	354,653	194,164
Conference	841	4,314	54,376	27,479	8,600	95,610	28,715
Cost of home sales	-	71,833	5,961,191	72,987	2,086	6,108,097	4,015,472
Cost of rehabs	-	-	634,097	-	-	634,097	543,676
Depreciation	-	-	6,459	-	-	6,459	7,100
Discount on sales	-	-	70,703	-	-	70,703	48,773
Grants	-	45	-	-	5,707	5,752	8,400
Information technology	9,238	-	99,957	-	43,037	152,232	134,213
Insurance	121,235	-	72,185	35,197	13,393	242,010	298,604
Interest	-	-	25,414	-	-	25,414	30,147
Occupancy	584,483	-	69,695	154,060	607	808,845	736,001
Office expense	62,981	2,093	3,184	43,616	16,876	128,750	107,650
Officer compensation	-	-	640,633	34,303	11,114	686,050	708,893
Other expenses	148,011	-	-	-	-	148,011	95,270
Other salaries and wages	960,254	2,066	257,806	150,309	499,549	1,869,984	1,467,100
Payroll taxes	71,417	-	100,245	26,012	37,922	235,596	260,838
Travel	80,875	-	-	-	-	80,875	99,838
Total expenses	\$ 2,061,726	\$ 153,788	\$ 8,277,857	\$ 552,592	\$ 648,129	\$ 11,694,092	\$ 8,818,081

See accompanying notes and independent auditors' report

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Change in net assets	\$ 988,658	\$ 1,362,665
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation expense	6,459	7,100
Changes in:		
Promises to give	57,086	(32,579)
Other receivables	(26,076)	(5,573)
Inventory - Homes for sale	703,529	405,993
Inventory - ReStores	11,883	(67,415)
Prepaid expenses and deposits	(164,326)	26,053
Housing assets	1,849,354	(1,461,260)
Acquisition of mortgages receivable	(916,687)	(938,355)
Payments on mortgages receivable	596,208	708,867
Discounts on mortgage receivable	421,350	(589,932)
Buybacks of mortgages	293,411	1,414,925
Other asset	363,332	218,000
Accounts payable and accrued expenses	(460,021)	317,890
Property tax and insurance impounds	(9,307)	(677)
Security deposits	(8,510)	8,510
	<u>3,706,343</u>	<u>1,374,212</u>
Net cash from operating activities	<u>3,706,343</u>	<u>1,374,212</u>
Cash flows from financing activities		
Line of credit payments	(744,970)	(550,000)
Line of credit draws	800,000	694,936
Notes payable principal payments	(1,252,813)	(1,129,051)
Acquisition of notes payable	300,000	102,923
Assumed mortgages payments	(313,193)	-
	<u>(1,210,976)</u>	<u>(881,192)</u>
Net cash from financing activities	<u>(1,210,976)</u>	<u>(881,192)</u>
Net change in cash and cash equivalents	2,495,367	493,020
Total cash and cash equivalents, beginning of year	<u>3,249,119</u>	<u>2,756,099</u>
Total cash and cash equivalents, end of year	<u>\$ 5,744,486</u>	<u>\$ 3,249,119</u>

See accompanying notes and independent auditors' report

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

Note 1 – Summary of significant accounting policies

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

Nature of activities

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

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

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

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

Six (6) homes were constructed during the year ended June 30, 2022. During the year ending June 30, 2022, the Organization sold fourteen homes, and 235 newly constructed homes since inception. Additionally, two homes were repurchased and have been prepared for resale to another qualifying family. By serving families, the Organization has changed 4,640 lives since inception. Forty-two (42) homes were repaired in the year ended June 30, 2022. Four of these were for Veterans part of a Veteran Home Repair Program. The Organization has also funded the building of 486 homes worldwide as of June 30, 2022, and it currently tithes to the Habitat affiliates in Ethiopia and Nicaragua.

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

Note 1 – Summary of significant accounting policies (continued)

Nature of activities (continued)

The Organization also operates two ReStore retail outlets that sell predominantly donated materials to the public. ReStore revenue comprises approximately 21.00% and 26.00% of total revenue for the years ended June 30, 2022 and 2021, respectively. Purchased product represents approximately 8.00% and 7.00% of total retail sales for the years ended June 30, 2022 and 2021, respectively.

Basis of accounting

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

Comparative financial information

The accompanying financial statements include certain 2021 comparative information. With respect to the accompanying statements of activities, information for 2021 is presented in the aggregate and not displayed by category. Accordingly, such information should be read in conjunction with the Organization's fiscal 2021 financial statements from which summarized information was derived.

Concentration of credit risk

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

Cash and cash equivalents

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

Cash and cash equivalents - restricted

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

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

Note 1 – Summary of significant accounting policies (continued)

Promises to give

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

Other receivables

Other receivables consists of miscellaneous items related to properties. As of June 30, 2022 and 2021, other receivables totaled \$59,139 and \$33,063, respectively.

Inventory – Homes for sale

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

Inventory – ReStores

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

Housing assets

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

The Organization constructs housing for sale to low- and moderate-income families. In furtherance of this purpose, a substantial amount of the cost of housing assets is not passed on to the homeowners but absorbed by the Organization. Completed new construction homes are stated at the lower of cost or market using the specific identification method and reserving for a loss when appropriate. As of June 30, 2022 and 2021, the reserve for loss was \$0 and \$366,667, respectively.

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

Note 1 – Summary of significant accounting policies (continued)

Mortgages receivable

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

Property and equipment

Capital expenditures over \$2,500 for property and equipment are capitalized, and presented at cost. Depreciation is computed utilizing the straight-line method over the estimated useful lives of the assets, which range from three to thirty-nine years. Donated assets are capitalized at their approximate fair value at the date of the gift. Depreciation expense for the years ended June 30, 2022 and 2021, was \$6,459 and \$7,100, respectively.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. During 2022 and 2021, there were no events or changes in circumstances indicating that the carrying amount of long-lived assets may not be recoverable.

Other asset

During 2021, the note payable to the City of Fullerton included a deferred cash assistance that was to be received in three installments upon beginning each of the three phases of construction. See Note 6.

Deferred mortgage receipts / rental income

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

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

Note 1 – Summary of significant accounting policies (continued)

Net assets

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as net assets with donor restrictions, depending on the nature of restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. At June 30, 2022 and 2021, net assets with donor restrictions consisted of \$1,353,614 and \$192,645, respectively.

Revenue recognition

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

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

Donated services

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

Donated materials

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

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

Note 1 – Summary of significant accounting policies (continued)

Grant income – PPP

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

Functional allocation of expenses

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

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

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

Income taxes

The Organization is exempt from Federal and California income tax under Internal Revenue Code Section 501(c)(3). The Organization is subject, however, to Federal and California income tax on unrelated business income as stipulated in Internal Revenue Code Section 511 and Regulation Section 1.511. During the years ended June 30, 2022 and 2021, the Organization had revenue from the sale of purchased goods in the ReStores, which constitutes unrelated business income. However, since purchased product sales represent approximately 8.50% and 7.00% of total retail sales for the years ended June 30, 2022 and 2021, respectively, and the applicable expenses of the activity exceeded the income from the activity, the Organization did not have unrelated business taxable income, and therefore incurred no tax liability due to unrelated business income. The Organization does not believe its financial statements include (or reflect) any uncertain tax positions.

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

Note 1 – Summary of significant accounting policies (continued)

Advertising expense

For the years ended June 30, 2022 and 2021, advertising expense totaled \$88,401 and \$28,156, respectively.

Use of estimates

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

Reclassifications

Certain prior year amounts were reclassified to conform to the current year presentation. These reclassifications had no impact on the change in net assets.

Note 2 – Liquidity and availability

As part of liquidity management, the Organization has put a policy in place to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Financial assets available for general expenditure within one year consisted of the following at June 30, 2022:

Total cash and cash equivalents	\$ 5,744,486
Other receivables	<u>59,139</u>
Total financial assets	5,803,625
Contractual or donor-imposed restrictions:	
Cash restricted for legal or contractual compliance	699,883
Donor contributions with specific purpose restrictions (Note 9)	<u>1,353,614</u>
Total contractual or donor-imposed restrictions	<u>2,053,497</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,750,128</u>

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

Note 3 – Promises to give

Promises to give may include restricted and unrestricted pledges. Restricted pledges are generally restricted to payment for the costs of construction for several projects. Promises to give are discounted to present value in conformity with U.S. generally accepted accounting principles.

Since March 2012, the Organization has held an annual five-year unrestricted pledge program. Based on ten years of collection history, the Organization has applied a reserve for uncollectible pledges of 10.00%. For the years ended June 30, 2022 and 2021, a reserve rate of 15.00% was used due to uncertain donor behavior due to the COVID-19 pandemic. The promises to give as of June 30, 2022 and 2021 include current portions of \$57,303 and \$73,906, respectively and long-term portions of \$168,450 and \$208,933, respectively.

Note 4 – Mortgages receivable

In general, mortgages receivable carry imputed interest rates between 4.50% and 6.00% and are presented in the accompanying statements of financial position net of unamortized discount. The face amount and unamortized discount of mortgages receivable as of June 30, 2022 and 2021, were \$13,226,354 and \$12,905,875, respectively. Imputed interest rates for June 30, 2022 and 2021, ranged from 4.00% to 5.00%. Interest income resulting from the amortization of discounted notes for the years ended June 30, 2022 and 2021 totaled \$157,789 and \$162,135, respectively.

Certain mortgages have been pledged as collateral under financing agreements with California Bank & Trust (See Note 6). As of June 30, 2022 and 2021, the amount of receivables pledged (at face value) in connection with specific loan agreements are shown in the table below. On the statements of financial position, these same non-interest bearing mortgages are included net of discounts. In the table below, the payment streams represent cash paid out by the Organization to the specified lenders and cash received by the Organization from mortgage payments from homeowners related to the collateralized Habitat mortgages.

<u>Lender</u>	<u>Loan name</u>	<u>Payment streams</u>		<u>Balance of mortgages</u>	
		<u>Paid out</u>	<u>Receipts</u>	<u>receivable pledged</u>	
				2022	2021
California Bank & Trust	2011 - 15 yr	\$ 48,324	\$ 63,544	\$ 1,522,865	\$ 1,399,472
California Bank & Trust	2014 - 7 yr	8,931	28,701	172,305	200,651
California Bank & Trust	2014 - 15 yr	24,304	39,680	<u>467,520</u>	<u>506,702</u>
Total mortgages receivable pledged				<u>\$ 2,162,690</u>	<u>\$ 2,106,825</u>

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

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

Note 5 – Property and equipment

Property and equipment consisted of the following at June 30:

	2022	2021
Equipment	\$ 69,536	74,536
Automobiles	136,509	136,509
Improvements	<u>77,093</u>	<u>77,093</u>
Total property and equipment	283,138	288,138
Less: accumulated depreciation	<u>(246,873)</u>	<u>(245,414)</u>
Property and equipment, net	<u>\$ 36,265</u>	<u>\$ 42,724</u>

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

Note 6 – Notes payable

Notes payable consisted of the following at June 30:

	2022		2021
Loan payable dated December 1, 2011, to California Bank & Trust, collateralized by mortgages receivable, with principal and interest at an annual rate of 4.75% payable in monthly installments of \$5,145 through December 20, 2026.	\$ 253,032	\$	301,355
Loan payable dated August 11, 2014, to California Bank & Trust, collateralized by mortgages receivable with principal and interest at an annual rate of 4.00% payable in monthly installments of \$3,501 through August 20, 2021. This loan was paid in full as of June 30, 2022.	-		8,931
Loan payable dated August 11, 2014, to California Bank & Trust, collateralized by mortgages receivable with principal and interest at an annual rate of 5.00% payable in monthly installments of \$3,021 through August 20, 2029.	222,922		247,226
Loan payable dated August 27, 2018, to the City of Fullerton. The loan is transferred to a new owner upon the sale of the identified property to an eligible purchaser. The loan does not bear interest. This loan was transferred as of June 30, 2022.	-		918,332
Bank, collateralized by the property under construction in Stanton, and donations. The loan term is extended to February 8, 2023, with principal and interest at an annual rate of 3.25%. This loan was paid in full as of June 30, 2022.	-		102,923

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

Note 6 – Notes payable (continued)

	2022	2021
Loan payable dated December 29, 2021, to American Family Housing, collateralized by land in Santa Ana, and donations. The loan is payable in installments of \$150,000 due six months from date of note, \$75,000 due nine months from date of note, and \$75,000 due at maturity date, with principal and interest at an annual rate of 4.00%.	<u>150,000</u>	<u>-</u>
Total notes payable	625,954	1,578,767
Less: current portion	<u>(226,513)</u>	<u>(1,028,611)</u>
Total notes payable, net	<u>\$ 399,441</u>	<u>\$ 550,156</u>

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

2023	\$ 226,513
2024	80,295
2025	84,264
2026	88,428
2027	65,844
2028 and thereafter	<u>80,610</u>
	<u>\$ 625,954</u>

Interest expense related to notes payable for the years ended June 30, 2022 and 2021, totaled \$25,414 and \$30,147, respectively.

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

Note 7 – Assumed mortgages

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

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

As described above, the Organization had assumed one mortgage payable to Union Bank on behalf of seller. Principle and interest at an annual rate of 4.38% payable in monthly installments of \$2,286. At June 30, 2022 and 2021, the outstanding balance on the loan was \$0 and \$313,193, respectively.

Note 8 – Lines of credit

On September 20, 2018, the Organization entered into a non-revolving line of credit with NeighborWorks Orange County in the amount of \$750,000. The line of credit carries an interest rate of 4.75% and matured September 20, 2021. The line of credit requires interest only payments until maturity. At June 30, 2022 and 2021, the outstanding balance was \$0 and \$744,970, respectively.

On October 1, 2021, the Organization entered into a non-revolving line of credit with NeighborWorks Orange County in the amount of \$800,000. The line of credit carries an interest rate of 2.50% and matures April 1, 2023. The line of credit requires interest only payments until maturity. At June 30, 2022 and 2021, the outstanding balance was \$800,000 and \$0, respectively.

On February 28, 2022, the Organization entered into a revolving line of credit with First Republic Bank in the amount of \$1,000,000. The line of credit carries a variable interest rate (4.75% at June 30, 2022) and matures February 28, 2023. The line of credit requires interest only payments until maturity. At June 30, 2022 and 2021, the outstanding balance was \$0 and \$0, respectively.

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

Note 9 – Net assets with donor restrictions

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

	2022	2021
The Davis Foundation Gradall Grant	\$ 55,000	\$ 10,000
ReStore Warehouse	65,000	-
CalHome Grant	111,458	-
Neighborhood Revitalization Initiative	504	64,181
Home repair	9,930	21,832
Future projects	<u>1,111,722</u>	<u>96,632</u>
Total net assets with donor restrictions	<u>\$ 1,353,614</u>	<u>\$ 192,645</u>

Note 10 – Operating leases

The Organization leases office space, ReStore warehouse/retail space, and various office equipment under operating leases totaling \$87,702 per month for terms through August 2028. Rental expenses related to these leases totaled \$754,993 and 660,673 for the years ended June 30, 2022 and 2021, respectively.

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

2023	\$ 535,351
2024	593,982
2025	416,738
2026	422,564
2027	408,314
Thereafter	293,492

Note 11 – Retirement plan

The Organization offers a retirement plan to eligible employees. The organization provided employer contributions in the amount of \$47,340 and \$27,835 for the years ended June 30, 2022 and 2021, respectively.

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

Note 12 – Guarantees

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

Vertical US Recovery Fund, LLC / Statebridge Company, LLC

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

Under the agreements, the Organization retains the right to substitute a mortgage of equal or greater value in the event of the homeowner requesting a buyback of their property or in the event that the Organization plans to renegotiate the terms of the mortgage with the family. The Organization has guaranteed the full and prompt payment of all obligations in conjunction with the mortgages. The Organization's obligation to Vertical /Statebridge will not change irrespective of the payments collected on the mortgages and has outstanding principal amount of \$1,866,248 and \$1,992,136 as of June 30, 2022 and 2021, respectively.

Guarantees to various banks

Various banks have made loans directly to Habitat homeowners. The banks service the loans. The Organization retains the right to cure the loans for up to 180 days of consecutive late payments by the homeowner or up to 12 months of non-consecutive late payments by the homeowner. After the 180 days or 12 months passes, the loan balances outstanding will be purchased by the Organization. The Organization will then renegotiate a Habitat loan with the homeowner. The Organization has guaranteed mortgages made by various banks in the outstanding principal amount of \$6,582,545 and \$7,089,661 as of June 30, 2022 and 2021, respectively.

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

Note 12 – Guarantees (continued)

California Bank & Trust

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

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

Note 13 – Related party transactions

Habitat for Humanity International

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

Under its affiliate agreement the Organization is expected to contribute a certain portion of its unrestricted cash donations to Habitat for Humanity International to continue its international programs. These contributions are accounted for as program services and are recorded when due. The total amount contributed to Habitat for Humanity International for the years ended June 30, 2022 and 2021 were \$59,701 and \$52,965, respectively, which is included in other expenses on the statements of functional expenses.

Donated materials and services

The Organization receives significant donated materials and services from related parties, including board members, in the normal course of providing its program activities. These donated materials and services are recorded as revenue and program expenses, resulting in a net zero effect on the change in net assets.

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

Note 14 – Agreement with Humanity Housing, Inc.

The Organization has an Agreement of Purchase and Sale and Joint Escrow Instructions (the “Purchase Agreement”) with an unrelated entity, Humanity Housing, Inc., a California non-profit corporation. Humanity Housing, Inc. is working in cooperation with the Organization pursuant to the HOME program regulations requiring Humanity Housing, Inc. to convey the properties and assign all rights and obligations to the Organization which has qualified to rehabilitate the properties, complete the housing construction, and offer for sale and sell the completed units to eligible homebuyers. No properties were transferred between the entities in the fiscal years ended June 30, 2022 or 2021.

The Organization has an accommodation agreement with Humanity Housing, Inc. whereby the Organization pays Humanity Housing, Inc. a sum of \$200 upon the close of escrow for each Affordable Housing Agreement (AHA) in which Humanity Housing, Inc. serves as the counterparty in the role of beneficiary of the AHA.

Note 15 – Supplemental disclosures of cash flow information

	2022	2021
Cash paid during the year for:		
Interest	\$ 25,414	\$ 30,147
Income taxes	\$ -	\$ -
Noncash investing and financing activities:		
Costs capitalized as housing assets	\$ 2,822,284	\$ 4,465,911

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

There were no investing cash flow activities for the years ended June 30, 2022 and 2021.

Note 16 – Legal matters

The Organization is party to occasional legal disputes in the normal course of business, and maintains adequate insurance coverage in order to mitigate risk and loss. The Organization believes its insurance coverage would cover any potential settlements or losses, therefore the accompanying financial statements include no adjustments relating to the effects of such matters.

The Organization is currently in settlement negotiations related to a claim from a former employee alleging wrongful termination and other claims. The matter was referred to the Organization’s insurance carrier, and defense counsel was appointed to protect the Organization.

HABITAT FOR HUMANITY OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

Note 17 – Subsequent events

Escrows closed

During July and August 2022, a total of three escrows closed on Habitat homes, the sale of two newly constructed homes, and the repurchase of one home to be prepared for resale to another qualifying family, thus, increasing cash by \$842,564 aggregate.

Notes payable

During August 2022, the Organization approved the payoff of the loan payable to American Family Housing for land in Santa Ana in the amount of \$150,000.

CalHome agreement executed

In September 2022, the Organization executed an agreement with the State of California Department of Housing and Community Development through the CalHome Program whereby the Organization will receive a grant with a maximum amount of \$2,700,000. The grant was initially awarded in April 2022. The Grant will be used to support rehabilitating 40 owner-occupied homes for low-income homeowners and assist to build five (5) new construction builds through its current program for an amount of \$2,250,000. The remaining \$450,000 will be used to support the activity delivery fee, including housing counseling. Homeowners will qualify at or below 80% of county median income as defined by HUD and reside in Orange County.

City of Santa Ana grant disbursement

In October 2022, Habitat for Humanity of Orange County received the first disbursement of cash assistance from the City of Santa Ana in the amount of \$508,744. The agreement was originally entered into on April 6, 2021 by Habitat for Humanity of Orange County and the City of Santa Ana for assistance in the cost of construction of two homes in Santa Ana, CA. Total Grant funds in the amount of \$565,271 were awarded by the City of Santa Ana to offset a portion of the additional construction costs associated with the project due to architectural requirements of French Park where the properties are located. There will be a final disbursement of 10%, in the amount of \$56,527, when the homes are built and the certificate of occupancy is received.

Management's review

Management has evaluated subsequent events through October 31, 2022, the date on which the financial statements were available to be issued.