

HABITAT FOR HUMANITY OF SONOMA COUNTY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Habitat for Humanity of Sonoma County
Santa Rosa, California

We have audited the accompanying financial statements of Habitat for Humanity (a nonprofit corporation), which comprise the statements of financial position as of June 30, 2016, and the related statements of activities, statement of functional expense and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



Goranson and Associates, Inc.

717 College Avenue, First Floor, Santa Rosa, CA 95404 Phone: 707/542-1256 Fax 707/978-3090

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity as of June 30, 2016, 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.

Report on Summarized Comparative Information

We have previously audited the Habitat for Humanity's financial statements for the year ended June 30, 2015, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 1, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Goranson and Associates, Inc.

October 18, 2016

Santa Rosa, California

HABITAT FOR HUMANITY OF SONOMA COUNTY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016
(With summarized comparative totals for June 30, 2015)

	2016	2015
ASSETS		
Current Assets:		
Cash and cash equivalents		
Operating	\$ 171,575	\$ 70,129
Restricted for construction program	16,858	12,862
Total cash and cash equivalents	188,433	82,991
Prepaid expenses	34,120	27,427
Accounts Receivable	2,696	2,517
Mortgages receivable, current portion	33,226	13,884
Total current assets	258,475	126,819
Property and equipment:		
Furniture and equipment	46,524	46,524
Vehicles	29,943	29,943
Leasehold improvements	8,807	8,807
Subtotal	85,274	85,274
Less accumulated depreciation	(82,578)	(77,652)
Net property and equipment	2,696	7,622
Non-current assets:		
Housing in development	337,150	715,654
Mortgages receivable, net of current portion	591,775	549,575
Security deposits	14,750	14,750
Total non-current assets	943,675	1,279,979
Total assets	\$ 1,204,846	\$ 1,414,420

The accompanying notes are integral part of these financial statements

HABITAT FOR HUMANITY OF SONOMA COUNTY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016
(With summarized comparative totals for June 30, 2015)

	2016	2015
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 74,038	\$ 38,646
Accrued Expenses	31,090	24,445
Total current liabilities	105,128	63,091
Non-current liabilities		
Notes payable, net of current portion	88,460	86,660
Escrow deposits	11,256	8,276
Total non-current liabilities	99,716	94,936
Total liabilities	204,844	158,027
Net Assets:		
Unrestricted:	987,502	1,231,393
Temporarily restricted	12,500	25,000
Total net assets	1,000,002	1,256,393
Total liabilities and net assets	\$ 1,204,846	\$ 1,414,420

The accompanying notes are integral part of these financial statements

HABITAT FOR HUMANITY OF SONOMA COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
(With summarized comparative totals for the year ended June 30, 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
SUPPORT AND REVENUE:				
Contributions	\$ 244,799		\$ 244,799	\$ 527,975
Donations-in-kind	47,885		47,885	39,435
Special events	77,676		77,676	53,576
Sales of donated goods	789,430		789,430	706,286
Grants	226,486		226,486	222,486
Other income	3,778		3,778	97,422
Net assets released from restrictions	12,500	\$ (12,500)	-	-
Total support and revenue	<u>1,402,554</u>	<u>(12,500)</u>	<u>1,390,054</u>	<u>1,647,180</u>
OPERATING EXPENSES:				
Program services:				
Construction costs, net of capitalization	54,733		54,733	22,889
Family resource and mentoring	64,504		64,504	19,692
ReStore	658,894		658,894	614,897
Total program services	<u>778,131</u>		<u>778,131</u>	<u>657,478</u>
Supporting services:				
General and administration	392,563		392,563	387,840
Fund raising	72,542		72,542	72,045
Total supporting services	<u>465,105</u>		<u>465,105</u>	<u>459,885</u>
Total operating expenses	<u>1,243,236</u>		<u>1,243,236</u>	<u>1,117,363</u>
OTHER EXPENSES:				
Homes transferred	352,994		352,994	367,190
Mortgage discount expense	50,215		50,215	69,573
	<u>403,209</u>		<u>403,209</u>	<u>436,763</u>
CHANGE IN NET ASSETS	(243,891)	(12,500)	(256,391)	93,054
Net assets, beginning	<u>1,231,393</u>	<u>25,000</u>	<u>1,256,393</u>	<u>1,163,339</u>
NET ASSETS, ENDING	<u>\$ 987,502</u>	<u>\$ 12,500</u>	<u>\$ 1,000,002</u>	<u>\$ 1,256,393</u>

The accompanying notes are integral part of these financial statements

HABITAT FOR HUMANITY OF SONOMA COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

(With summarized comparative totals for the year ended June 30, 2015)

	Construction Costs	Family Resource & Mentoring	ReStore	Total Program	Administration	Fundraising	2016 Total	2015 Total
Salaries and wages	\$ 14,940	\$ 53,838	\$ 239,647	\$ 308,425	\$ 246,284	\$ 33,997	\$ 588,706	\$ 532,137
Personnel costs	4,315	7,457	95,344	107,116	37,086	4,469	148,671	148,169
Direct construction costs	453,483	-	-	453,483	-	-	453,483	572,448
Grant Repayment expense	-	-	-	-	-	-	-	24,000
Occupancy	(5,935)	526	183,966	178,557	33,399	-	211,956	226,068
Advertising	300	-	8,625	8,925	25,487	4,314	38,726	54,371
Interest and finance charges	171	-	-	171	828	-	999	3,788
Insurance	3,130	-	1,253	4,383	4,001	-	8,384	6,300
Professional fees and contract services	604	-	1,091	1,695	29,761	3,682	35,138	22,966
Event supplies and materials	-	-	-	-	149	21,830	21,979	14,110
Vehicle	4,145	-	29,213	33,358	2,108	95	35,561	39,273
Travel & training	190	-	280	470	3,356	-	3,826	8,285
Volunteer, staff & donor appreciation	2,798	924	2,673	6,395	7,611	397	14,403	9,219
Communications	114	-	6,354	6,468	8,525	-	14,993	9,230
Office expenses	99	91	1,994	2,184	4,758	338	7,280	9,946
Supplies	543	417	7,855	8,815	6,292	-	15,107	17,232
Dues and subscriptions	144	-	444	588	4,366	-	4,954	15,193
Printing	53	-	682	735	579	1,452	2,766	3,870
Other operating expenses	42,504	316	16,656	59,476	57,058	991	117,525	29,260
Allocated Expenses	(9,387)	935	59,665	51,213	(80,859)	977	(28,669)	(38,923)
Capitalized Payroll Expense	-	-	-	-	-	-	-	(26,594)
Subtotal	<u>512,211</u>	<u>64,504</u>	<u>655,742</u>	<u>1,232,457</u>	<u>390,789</u>	<u>72,542</u>	<u>1,695,788</u>	<u>1,680,348</u>
Capitalized construction costs	(457,478)	-	-	(457,478)	-	-	(457,478)	(572,535)
Depreciation and amortization	-	-	3,152	3,152	1,774	-	4,926	9,550
Total expenses	<u>\$ 54,733</u>	<u>\$ 64,504</u>	<u>\$ 658,894</u>	<u>\$ 778,131</u>	<u>\$ 392,563</u>	<u>\$ 72,542</u>	<u>\$ 1,243,236</u>	<u>\$ 1,117,363</u>

The accompanying notes are integral part of these financial statements

HABITAT FOR HUMANITY OF SONOMA COUNTY
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016
(With summarized comparative totals for June 30, 2015)

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (256,391)	\$ 93,054
Adjustments to reconcile change in net assets to cash from operations		
Amortization of discounts on mortgages receivable	(50,215)	(19,342)
Depreciation and amortization expense	4,926	9,550
Accrued interest on long-term debt	1,800	1,800
(Increase) decrease in:		
Housing in development	378,505	248,545
Prepaid expenses	(6,694)	13,820
Grants and pledges receivable	(179)	(2,517)
Increase (decrease) in:		
Accounts payable	35,392	(75,426)
Accrued expenses	6,645	(29,041)
Escrow deposits	2,980	(446)
Deferred revenue	-	-
Deferred rent	-	(8,133)
Net cash provided by operating activities	<u>116,769</u>	<u>231,864</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Mortgage receivable	(141,400)	(187,461)
Payments on mortgage receivable	77,558	55,236
Purchase of property and equipment	-	4,000
Net cash provided (used) by investing activities	<u>(63,842)</u>	<u>(128,225)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Mortgage receivable transferred to homeowners	52,515	69,573
Repayment of long term debt	-	(141,230)
Net cash used by investing activities	<u>52,515</u>	<u>(71,657)</u>
NET INCREASE (DECREASE) IN CASH	105,442	31,982
CASH, beginning of year	<u>82,991</u>	<u>51,009</u>
CASH, end of year	<u>\$ 188,433</u>	<u>\$ 82,991</u>

The accompanying notes are integral part of these financial statements

HABITAT FOR HUMANITY OF SONOMA COUNTY
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2016

NOTE 1 ORGANIZATION

Habitat For Humanity of Sonoma County (Organization) is a faith-based, nonprofit corporation dedicated to improving lives by building modest, affordable homes in partnership with communities and families in need. The Organization's vision is for every person in Sonoma County, California to have a simple, decent place to live. The Organization was formed in 1984 and is an affiliate of Habitat for Humanity International. Support and revenue is primarily from public and private sources and store sales.

PROGRAM SERVICES:

Construction: The Organization builds modest, affordable homes for families in need.

Habitat Family Resource and Mentoring: The Organization helps families transition to homeownership by providing classes and training on various family education and home maintenance topics.

ReStore: The Organization sells donated building materials and uses the proceeds in its construction program.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis Of Presentation – The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence of absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows.

Unrestricted Net Assets: Net assets that are not subject to donor-imposed restrictions. If a restriction is fulfilled in the same period in which the contribution is received, the organization reports the support as unrestricted.

Temporarily Restricted Net Assets: Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Net assets released from restriction – Temporarily restricted net assets are “released” to unrestricted net assets when the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed.

HABITAT FOR HUMANITY OF SONOMA COUNTY
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Other Basis of Presentation Policies – Revenues or support are reported as increases in unrestricted net assets unless subject to donor-imposed restrictions. If temporary restrictions are fulfilled in the same time period the revenue or support is received, the Organization reports the revenue or support as unrestricted. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless restricted by explicit donor stipulation or by law.

Cash and Cash Equivalents – Cash equivalents consist primarily of money market accounts and other investments with an original maturity of 90 days or less.

Housing In Development – Housing in Development represents the development costs of homes that will be transferred to needy families upon completion. The properties are carried at cost and no depreciation is recorded on these assets. The capitalized costs consist of specifically identifiable costs including pre-construction costs essential to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries and related costs of personnel directly involved and other costs incurred during the period of development. The Organization ceases cost capitalization when the property is held available for occupancy. If, in management's opinion, the carrying value exceeds the market price for such housing, the carrying value would be adjusted to reflect the estimated fair value of the property.

Property and Equipment – Purchased property and equipment is stated at cost. Contributed equipment is recorded at fair value at the date of donation. Property and equipment is being depreciated over estimated useful lives of five years using the straight-line method. Items are capitalized if the purchase price is in excess of \$5,000.

Contributed Services – A substantial number of volunteers have made significant contributions of their time primarily to the Organization's construction program, but also to its' supporting services. Contributed services that require specialized skills, provided by individuals possessing those skills, which would otherwise need to be purchased if not provided by donation. Contributed services are recognized as revenue and expense. Such amounts totaled approximately \$26,017 for the year ended June 30, 2016.

Interest Costs – Interest costs incurred through construction is presented in the Statement of Functional Expenses. Interest capitalization is not required.

HABITAT FOR HUMANITY OF SONOMA COUNTY
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2016

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES, continued

Functional Allocation of Expenses – The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activity. Accordingly, certain costs have been allocated among the programs and supporting services.

Home building costs are capitalized during the construction phase. The home building costs are reclassified to program services expenses when a home is transferred to a family. The Organization's program services expenses may vary significantly year-to-year depending on the timing of home transfers.

Income Taxes – The Organization is exempt from Federal and State Income taxes under Internal Revenue Code Section 501(c)(3) and California Franchise Tax Board Code Section 23701(d). Therefore, no provision for income taxes has been made in the accompanying financial statements. In addition, the Internal Revenue Service has determined the Organization is not a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code.

Management of the Organization considers the likelihood of changes by taxing authorities in its filed tax returns and recognizes a liability for or discloses potential significant changes if management believes it is more likely than not for a change to occur, including changes to the Organization's status as a not-for-profit entity. Management believes the Organization met the requirements to maintain its tax-exempt status and has no income subject to unrelated business income tax; therefore, no provision for income taxes has been provided in these financial statements. The Organization's tax returns for the past three years are subject to examination by tax authorities, and may change upon examination.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Significant estimates in these financial statements include the asset, housing in development, and the expenses, costs of home transferred. These amounts require management to make estimates with respect to cost capitalization and allocation. It is reasonably possible for those estimates to change in the near term or for actual results to differ from those estimates.

HABITAT FOR HUMANITY OF SONOMA COUNTY
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2016

NOTE 3 MORTGAGES RECEIVABLE

Eight mortgages and eight subordinated notes were outstanding at June 30, 2016. The mortgages are interest-free and are collateralized by the homes. Future mortgage payments as of June 30, 2016 total \$1,156,708. Generally accepted accounting principles require discounting of these interest-free mortgages to present value by imputing a fair rate of interest. As of June 30, 2016, mortgages receivable is presented net of a \$531,707 discount based on a three to eight percent annual imputed interest rate, respectively.

Annual amortization of the discount, approximately \$50,215, in the fiscal year ended June 30, 2016, is included in interest income. Approximately \$413,300 in undiscounted mortgages receivable is forgivable.

Future principal due at June 30:

2017		\$	33,226
2018			33,226
2019			33,226
2020			33,226
2021			33,326
Thereafter			990,478
Total mortgages receivable			1,156,708
Discount to present value			(531,707)
Net mortgages receivable			\$ 625,001

Management believes mortgages receivable at June 30, 2016 are collectible. Accordingly, no allowance for doubtful receivables is recorded.

HABITAT FOR HUMANITY OF SONOMA COUNTY
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2016

NOTE 4 HOUSING IN DEVELOPMENT

Housing in development consists of costs for the last of a five-home project in Cotati.

Houses three and four closed escrow in September 2015 and March 2016 and were transferred out of houses in development.

The final Cotati home site is currently under development. As of June 30, 2016, development costs totaling \$337,150 have incurred on this property. Development costs consist primarily of land development, permit, and construction costs.

NOTE 5 ACCRUED VACATION

Accumulated unpaid employee vacation benefits are recognized as liabilities of the Organization.

The value of accumulated vacation at June 30, 2016 is \$19,699.

Sick leave benefits are accumulated for each qualified employee. Those employees do not gain a vested right to accumulated sick leave. Accumulated sick leave benefits are recorded as expenses in the period taken.

NOTE 6 LINE OF CREDIT

The Organization has one unsecured line of credit at a local bank for a total of \$50,000 with interest at 5.25 percent. As of June 30, 2016, there is no balance.

HABITAT FOR HUMANITY OF SONOMA COUNTY
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2016

NOTE 7 LONG TERM DEBT

Long-term debt consisted of the following at June 30, 2016:

Note payable to City Housing Authority. Interest accrues at 3.0% from the date of the loan, September 8, 2000. Principal and interest are payable at maturity, September 8, 2025. Accrued interest for the year ended June 30, 2015 totaled \$1,800. The note is secured by land and improvements. \$ 88,460

The notes to Habitat for Humanity International, the individuals and a trust were paid off in August 2015.

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2016 are for solar installation of one home in the Woodland Hills project.

NOTE 9 IN KIND INCOME AND EXPENSES

The Organization receives in kind income for the ReStore. Goods are donated and then sold to help further the mission of the Organization.

NOTE 10 OPERATING LEASES AND LEASE COMMITMENTS

The Organization is committed under various lease agreements, both long-term and month to month for its office and program locations.

The administrative office is leased under a lease commencing June 1, 2010 and terminating June 30, 2015. Monthly rent is \$2,200. The lease was renewed for another five years from July 1, 2016 to June 30, 2020. Monthly rent will be \$2,200.

HABITAT FOR HUMANITY OF SONOMA COUNTY
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2016

NOTE 10 OPERATING LEASES AND LEASE COMMITMENTS, continued

The ReStore warehouse and retail sales facility is leased under a lease commencing April 1, 2010 and terminating June 30, 2015. Monthly rent is \$13,600. This lease was also renewed for another five years from July 1, 2016 to June 30, 2020. Monthly rent will be \$13,940 with a discount of \$20,000 in the first year.

Minimum future lease payments under for the future years as follows at June 30:

2017	\$ 189,600
2018	189,600
2019	189,600
2020	189,600

Rent expenses under these leases were, \$26,400 and \$143,300 for the year ended June 30, 2016.

NOTE 11 SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through October 18, 2016, the date the financial statements were available to be issued, and determined that there were no events occurring subsequent to June 30, 2016 that would have a material impact on the Organization's results of operations or financial position.