

HABITAT FOR HUMANITY OF SONOMA COUNTY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2017

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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 of Sonoma County (a nonprofit corporation), which comprise the statements of financial position as of June 30, 2017, 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 of Sonoma County as of June 30, 2017, 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 of Sonoma County's financial statements for the year ended June 30, 2016, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 18, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Goranson and Associates, Inc.

January 15, 2018

Santa Rosa, California

HABITAT FOR HUMANITY OF SONOMA COUNTY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017
(With summarized comparative totals for June 30, 2016)

	2017	2016
ASSETS		
Current Assets:		
Cash and cash equivalents		
Operating	\$ 186,921	\$ 171,575
Restricted for construction program	19,491	16,858
Total cash and cash equivalents	206,412	188,433
Prepaid expenses	73,700	34,120
Accounts receivable	3,765	2,696
Grants receivable, current portion	20,000	-
Mortgages receivable, current portion	27,007	33,226
Total current assets	330,884	258,475
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)	(82,578)
Net property and equipment	2,696	2,696
Non-current assets:		
Housing in development	751,836	337,150
Grants receivable, net of current portion	80,000	-
Mortgages receivable, net of current portion	697,494	680,719
Security deposits	14,750	14,750
Total non-current assets	1,544,080	1,032,619
Total assets	\$ 1,877,660	\$ 1,293,790

The accompanying notes are integral part of these financial statements

HABITAT FOR HUMANITY OF SONOMA COUNTY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017
(With summarized comparative totals for June 30, 2016)

	2017	2016
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 75,913	\$ 74,038
Accrued Expenses	21,907	31,090
Total current liabilities	97,820	105,128
Non-current liabilities		
Notes payable	505,260	88,460
Escrow deposits	8,760	11,256
Total non-current liabilities	514,020	99,716
Total liabilities	611,840	204,844
Net Assets:		
Unrestricted:	1,104,320	1,076,446
Temporarily restricted	161,500	12,500
Total net assets	1,265,820	1,088,946
Total liabilities and net assets	\$ 1,877,660	\$ 1,293,790

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, 2017
(With summarized comparative totals for the year ended June 30, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
SUPPORT AND REVENUE:				
Contributions	\$ 499,404		\$ 499,404	\$ 244,799
Donations-in-kind	86,016		86,016	47,885
Special events, net of \$14,825 expense	99,005		99,005	77,676
Sales of donated goods	777,702		777,702	789,430
Grants	118,993	\$ 161,500	280,493	226,486
Other income	49,071		49,071	3,778
Net assets released from restrictions	12,500	(12,500)	-	-
Total support and revenue	<u>1,642,691</u>	<u>149,000</u>	<u>1,791,691</u>	<u>1,390,054</u>
OPERATING EXPENSES:				
Program services:				
Construction costs, net of capitalization	169,284		169,284	54,733
Family resource and mentoring	84,666		84,666	64,504
ReStore	743,367		743,367	658,894
Total program services	<u>997,317</u>		<u>997,317</u>	<u>778,131</u>
Supporting services:				
General and administration	339,089		339,089	392,563
Fundraising	93,416		93,416	72,542
Total supporting services	<u>432,505</u>		<u>432,505</u>	<u>465,105</u>
Total operating expenses	<u>1,429,822</u>		<u>1,429,822</u>	<u>1,243,236</u>
OTHER EXPENSES:				
Homes transferred	149,714		149,714	352,994
Mortgage discount expense	35,281		35,281	50,215
	<u>184,995</u>		<u>184,995</u>	<u>403,209</u>
CHANGE IN NET ASSETS	<u>27,874</u>	<u>149,000</u>	<u>176,874</u>	<u>(256,391)</u>
NET ASSETS, BEGINNING OF YEAR	1,076,446	12,500	1,088,946	1,256,393
Prior period adjustment	-	-	-	88,944
NET ASSETS, BEGINNING OF YEAR RESTATED	<u>1,076,446</u>	<u>12,500</u>	<u>1,088,946</u>	<u>1,345,337</u>
NET ASSETS, END OF YEAR	<u>\$ 1,104,320</u>	<u>\$ 161,500</u>	<u>\$ 1,265,820</u>	<u>\$ 1,088,946</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, 2017
(With summarized comparative totals for the year ended June 30, 2016)

	Construction Costs	Family Resource & Mentoring	ReStore	Total Program	Administration	Fundraising	2017 Total	2016 Total
Salaries and wages	\$ 29,723	\$ 66,630	\$ 283,544	\$ 379,897	\$ 245,806	\$ 36,909	\$ 662,612	\$ 588,706
Personnel costs	6,385	7,503	81,298	95,186	34,681	4,840	134,707	148,671
Direct construction costs	506,560	-	-	506,560	-	-	506,560	453,483
Occupancy	2,045	-	219,289	221,334	33,510	-	254,844	211,956
Advertising	1,273	6,264	11,067	18,604	8,670	2,952	30,226	38,726
Interest and finance charges	-	-	-	-	1,800	543	2,343	999
Insurance	2,915	-	1,583	4,498	2,572	-	7,070	8,384
Professional fees and contract services	2,830	685	-	3,515	27,959	1,596	33,070	35,138
Event supplies and materials	-	-	-	-	1,098	41,395	42,493	21,979
Vehicle	3,365	-	31,444	34,809	2,065	113	36,987	35,561
Travel & training	732	646	2,605	3,983	12,828	-	16,811	3,826
Volunteer, staff & donor appreciation	2,411	873	2,345	5,629	7,428	38	13,095	14,403
Communications	808	-	8,009	8,817	5,959	-	14,776	14,993
Office expenses	181	200	3,920	4,301	5,271	324	9,896	7,280
Supplies	1,401	90	7,524	9,015	9,883	904	19,802	15,107
Dues and subscriptions	-	-	5,798	5,798	19,039	-	24,837	4,954
Printing	66	-	821	887	988	405	2,280	2,766
Other operating expenses	506	1,775	16,699	18,980	17,271	3,397	39,648	117,525
Allocated Expenses	30,318	-	67,421	97,739	(97,739)	-	-	(28,669.00)
Subtotal	<u>591,519</u>	<u>84,666</u>	<u>743,367</u>	<u>1,419,552</u>	<u>339,089</u>	<u>93,416</u>	<u>1,852,057</u>	<u>1,695,788</u>
Capitalized construction costs	(422,235)	-	-	(422,235)	-	-	(422,235)	(457,478)
Depreciation and amortization	-	-	-	-	-	-	-	4,926
Total expenses	<u>\$ 169,284</u>	<u>\$ 84,666</u>	<u>\$ 743,367</u>	<u>\$ 997,317</u>	<u>\$ 339,089</u>	<u>\$ 93,416</u>	<u>\$ 1,429,822</u>	<u>\$ 1,243,236</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, 2017
(With summarized comparative totals for June 30, 2016)

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 176,874	\$ (256,391)
Adjustments to reconcile change in net assets to cash from operations		
Amortization of discounts on mortgages receivable	(18,164)	(50,215)
Depreciation and amortization expense	-	4,926
Accrued interest on long-term debt	1,800	1,800
(Increase) decrease in:		
Housing in development	(414,685)	378,505
Prepaid expenses	(39,581)	(6,694)
Accounts receivable	(1,069)	
Grants and pledges receivable	(100,000)	(179)
Increase (decrease) in:		
Accounts payable	1,875	35,392
Accrued expenses	(9,183)	6,645
Escrow deposits	(2,496)	2,980
Net cash (used) provided by operating activities	<u>(404,629)</u>	<u>116,769</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Mortgage receivable	(60,000)	(141,400)
Payments on mortgage receivable	32,327	77,558
Net cash used by investing activities	<u>(27,673)</u>	<u>(63,842)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Mortgage receivable transferred to homeowners	35,281	52,515
Proceeds from borrowings	415,000	-
Net cash provided by investing activities	<u>450,281</u>	<u>52,515</u>
NET INCREASE IN CASH	17,979	105,442
CASH, beginning of year	<u>188,433</u>	<u>82,991</u>
CASH, end of year	<u>\$ 206,412</u>	<u>\$ 188,433</u>
Supplemental information:		
Cash paid for interest	<u>\$ 4,760</u>	<u>\$ -</u>

The accompanying notes are integral part of these financial statements

HABITAT FOR HUMANITY OF SONOMA COUNTY
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2017

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, 2017

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. Homes built by the organization have a carrying cost and are sold at a below market price to eligible buyers. The Organization ceases cost capitalization when the property is held available for occupancy. If, in management's opinion, the carrying value exceeds the realizable value for such housing, the carrying value would be adjusted to reflect the estimated realizable 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 \$60,264 for the year ended June 30, 2017.

HABITAT FOR HUMANITY OF SONOMA COUNTY
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2017

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. When a home is transferred the net of building costs over the sales price are included in support and revenue on the Statement of Activities. 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, 2017

NOTE 3 MORTGAGES RECEIVABLE

Eight mortgages and ten subordinated notes were outstanding at June 30, 2017. The mortgages are interest-free and are collateralized by the homes. Future mortgage payments as of June 30, 2017 total \$1,234,596. 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, 2017, mortgages receivable is presented net of a \$475,556 discount based on a three to eight percent annual imputed interest rate, respectively.

Annual amortization of the discount, approximately \$17,422, in the fiscal year ended June 30, 2017, is included in interest income. Approximately \$413,300 in mortgages receivable is forgivable.

Future principal due at June 30:

2017	\$	2,707
2018		2,707
2019		2,707
2020		2,707
2021		2,707
Thereafter		<u>1,221,061</u>
Total mortgages receivable		<u>1,234,596</u>
Discount to present value		<u>(510,095)</u>
Net mortgages receivable	\$	<u><u>724,501</u></u>

Management believes mortgages receivable at June 30, 2017 are collectible. Accordingly, no allowance for doubtful receivables is recorded.

HABITAT FOR HUMANITY OF SONOMA COUNTY
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2017

NOTE 4 HOUSING IN DEVELOPMENT

Housing in development consists of costs for three new projects, one in Windsor and two in Santa Rosa.

The last of a five-home project in Cotati closed escrow in September 2016 and was transferred out of houses in development.

The three new homes are currently under development. As of June 30, 2017, development costs totaling \$751,836 have incurred on these properties. 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, 2017 is \$13,562.

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, 2017, there is no balance.

HABITAT FOR HUMANITY OF SONOMA COUNTY
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2017

NOTE 7 LONG TERM DEBT

Long-term debt consisted of the following at June 30, 2017:

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, 2017 totals \$1,800. The note is secured by land and improvements. \$ 90,260

Note payable to Rural Community Assistance Corporation. Interest accrues at 5.25% from the date of the loan, March 1, 2017. Principal and interest are payable at maturity, April 1, 2020. Prepaid interest is held in an interest reserve account with the lender. Capitalized interest for the year ended June 30, 2017 totals \$4,217. The Note is secured by the house in development in Windsor \$ 415,000

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2017 consist of solar installation of four homes in Santa Rosa and two homes in Graton for \$61,500 and time restricted revenue of \$100,000.

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.

HABITAT FOR HUMANITY OF SONOMA COUNTY
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2017

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 at a monthly rent of \$2,200. The lease was renewed for another five years from July 1, 2015 to June 30, 2020. Monthly rent is \$2,200.

The ReStore warehouse and retail sales facility is leased under a lease commencing April 1, 2010 and terminating June 30, 2015 at a monthly rent of \$13,600. This lease was also renewed for another five years from July 1, 2015 to June 30, 2020. Monthly rent is \$13,940.

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

2018	\$ 193,762
2019	193,845
2020	193,930

Rent expenses under these leases were, \$26,400 and \$167,280 for the year ended June 30, 2017.

NOTE 11 PRIOR PERIOD RESTATEMENT

The Organization has restated prior period revenue and mortgages receivable based on corrections determined in the current year.

NOTE 12 SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through January 15, 2018, the date the financial statements were available to be issued, and determined that there were no events occurring subsequent to June 30, 2017 that would have a material impact on the Organization's results of operations or financial position.