Habitat for Humanity of Sonoma County

(a California Not-for-Profit Corporation)

Financial Statements
For the Year Ended June 30, 2018

Together with Independent Auditors' Report

Habitat for Humanity of Sonoma County

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Independent Auditors' Report

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

We have audited the accompanying financial statements of Habitat for Humanity of Sonoma County, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Dillwood Burkel & Millar, LLP

Santa Rosa, California
November 16, 2018

Habitat for Humanity of Sonoma County

Statement of Financial Position
As of June 30, 2018

Assets		
Current assets		
Cash and cash equivalents	$	2,495,993
Restricted cash and cash equivalents		709,847
Accounts receivable		5,830
Grants receivable, current		320,000
Inventory		2,492,147
Mortgage receivable, current portion, net		8,067
Prepaid expenses and other current assets		47,134
Total current assets		6,079,018
Investments		13,639
Grants receivable, non-current		60,000
Mortgage receivable, non-current portion, net		44,044
Properties and equipment, net		83,099
Deposits		15,750
Total Assets	$	6,295,550
Liabilities		
Current liabilities		
Accounts payable	$	463,370
Accrued expenses		192,511
Escrow deposits		10,740
Notes payable, current portion		257,747
Total current liabilities		924,368
Notes payable, non-current portion		399,003
Total Liabilities		1,323,371
Net Assets		
Unrestricted		3,893,072
Temporarily restricted		1,079,107
Total Net Assets		4,972,179
Total Liabilities and Net Assets	$	6,295,550

See accompanying Notes to Financial Statements.

Habitat for Humanity of Sonoma County

Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Total
Changes in Net Assets			
Support and revenue			
Contributions	$ 1,957,040	$ 20,000	$ 1,977,040
Grants	103,242	1,187,485	1,290,727
In-kind Contributions	369,496	-	369,496
Special events	1,276,167	-	1,276,167
Restore sales	1,053,929	-	1,053,929
Other income	62,209	-	62,209
Net assets released from restriction	289,878	(289,878)	-
Total support and revenue	5,111,961	917,607	6,029,568
Expenses			
Program services:			
Habitat programs	683,631	-	683,631
ReStore	983,495	-	983,495
Total program services	1,667,126	-	1,667,126
Supporting services:			
General and administration	141,131	-	141,131
Fundraising	165,730	-	165,730
Total support services	306,861	-	306,861
Total expenses	1,973,987	-	1,973,987
Changes in Net Assets	3,137,974	917,607	4,055,581
Net Assets at Beginning of Year *(Restated)*	755,098	161,500	916,598
Net Assets at End of Year	$ 3,893,072	$ 1,079,107	$ 4,972,179

See accompanying Notes to Financial Statements.

Habitat for Humanity of Sonoma County

Statement of Functional Expenses
For the Year Ended June 30, 2018

	Program Services		Support Services		
	Habitat Programs	ReStore	Management and General	Fundraising	Total Expenses
Wages and salaries	$ 219,275	$ 355,692	$ 191,288	$ 16,557	$ 782,812
Payroll taxes	29,815	32,918	17,116	1,393	81,242
Employee benefits	13,462	49,642	7,793	655	71,552
	262,552	438,252	216,197	18,605	935,606
Occupancy	8,735	225,611	50,226	-	284,572
Professional services	62,876	8,811	103,241	45,262	220,190
Donations and grants	-	150,000	25,000	-	175,000
Supplies and small equipment	25,638	27,778	21,076	705	75,197
Advertising and marketing	6,322	12,816	8,197	24,571	51,906
Travel	10,724	27,138	2,876	39	40,777
Dues and subscriptions	6,704	5,566	25,435	601	38,306
Bank and credit card fees	375	17,376	5,467	4,638	27,856
Food and beverages	5,977	4,405	10,804	-	21,186
Telephone and internet	2,570	7,538	9,972	-	20,080
Event costs	-	-	-	14,475	14,475
Postage	35	26	1,851	9,834	11,746
Insurance	3,680	1,936	5,635	-	11,251
Training	5,399	3,089	2,581	-	11,069
Taxes and license	9,142	366	424	-	9,932
Depreciation	-	3,863	4,273	-	8,136
Interest	2,854	-	3,007	-	5,861
Repairs and maintenance	-	4,360	1,105	-	5,465
Equipment rental	3,150	-	1,899	-	5,049
Selection process expense	327	-	-	-	327
	417,060	938,931	499,266	118,730	1,973,987
Overhead allocation	266,571	44,564	(358,135)	47,000	-
Total	$ 683,631	$ 983,495	$ 141,131	$ 165,730	$ 1,973,987

See accompanying Notes to Financial Statements.

Habitat for Humanity of Sonoma County

Statement of Cash Flows
For the Year Ended June 30, 2018

	Increase (decrease) in cash and cash equivalents
Cash Flows from Operating Activities	
Increase in net assets	$ 4,055,581
Adjustments to reconcile changes in net assets	
to net cash flows from operating activities:	
Depreciation	8,136
Amortization on discount of mortgage receivable	(5,306)
Equity securities contributions received	(13,639)
In-kind contributions received	(258,984)
Interest capitalized into inventory	(15,997)
(Increase) decrease in operating assets:	
Accounts receivable	(2,065)
Grants receivable	(280,000)
Inventory	(1,389,830)
Prepaid expenses	26,566
Increase (decrease) in operating liabilities:	
Accounts payable	387,457
Accrued expenses	137,544
Escrow accounts	1,980
Net cash and cash equivalents provided by operating activities	2,651,443
Cash Flows From Investing Activities	
Proceeds from sale of mortgage receivable	183,194
Purchases of fixed assets	(88,539)
Collection on mortgage receivable	12,580
Additional rent deposit	(1,000)
Net cash and cash equivalentsprovided by investing activities	106,235
Cash Flows From Financing Activities	
Borrowings from promissary notes	562,747
Payments on notes payable	(320,997)
Net cash and cash equivalents provided by financing activities	241,750
Net Change in Cash and Cash Equivalents	2,999,428
Cash and Cash Equivalents at Beginning of Year	206,412
Cash and Cash Equivalents at End of Year	$ 3,205,840

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Habitat for Humanity of Sonoma County

Statement of Cash Flows
For the Year Ended June 30, 2018

continued from previous page

Unrestricted cash and cash equivalents	$	2,495,993
Restricted cash and cash equivalents		709,847
Total Cash And Cash Equivalents	$	3,205,840
Supplementary Cash Information		
Cash paid for interest	$	21,858

See accompanying Notes to Financial Statements.

Note 1. Organization

Habitat for Humanity of Sonoma County ("Habitat" or the "Organization") is a faith-based, California nonprofit corporation dedicated to improving lives by building modest, affordable homes in partnership with communities and families in need. The Organization was formed in 1984 and is an affiliate of Habitat for Humanity International. The Organization's vision is for every person in Sonoma County, California to have a simple, decent place to live. In addition to building modest and affordable homes for families in need through its construction program, Habitat also helps families transition to homeownership by providing classes and training on various financial education and home maintenance topics.

The Organization also operates ReStore, a home improvement store located in Santa Rosa, California, selling primarily donated merchandise.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets not subject to donor-imposed stipulations. Amounts designated for specific purposes by the Board of Directors are reported as unrestricted. Gifts of land, buildings, and equipment are recorded as unrestricted unless the donor explicitly stipulates how the donated assets must be used or how long they must be held.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met by the actions of Habitat or the passage of time. When a restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that require they be maintained permanently by Habitat. The Organization did not have any permanently restricted net assets as of June 30, 2018.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions based on management's knowledge and experience. Those estimates affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue, support and expenses. The use of management's estimates primarily relate to the collectability of pledges and other receivables, and depreciable lives of property, equipment and improvements. Actual results could differ from those estimates.

Note 2. Summary of Significant Accounting Policies, *continued*

Cash and Cash Equivalents

Habitat considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, except when a restriction is imposed, which limits the investment's use to long-term.

As of June 30, 2018, the Organization held restricted cash and cash equivalents due to donor restrictions placed on the assets and escrow funds held for homeowners.

At various times during the year ended June 30, 2018, the Organization had deposit amounts with financial institutions in excess of the $250,000 Federal Deposit Insurance Corporation ("FDIC") insurance limit. At June 30, 2018, Habitat had approximately $3,000,000 on deposit in excess of the FDIC insured amount.

Investments

Investments, which include equity securities, government securities, corporate bonds and certificates of deposit, are carried at fair value. Unrealized gains and losses are included in the statement of activities and changes in net assets. Investment earnings restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the earnings are recognized. At June 30, 2018, investments reported on the Organization’s Statement of Financial Position represents the fair value of marketable securities contributed to the Organization during the current fiscal year.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined on a standard cost basis that approximates the first-in, first-out (FIFO) method. Market is determined based on net realizable value. Inventories consist of housing in development, construction supplies, and purchased ReStore merchandise.

Construction supplies received through in-kind contributions are recorded at fair market value at the time of the donation, adjusted for impairment. Purchased construction supplies and ReStore merchandise are recorded at costs. Housing in development represents the development costs of homes that will be transferred to families in need upon completion. The capitalized costs consist of specifically identifiable costs including pre-construction costs essential to the development of the property, development costs, construction costs, capitalized interest, real estate taxes, salaries and related costs of personnel directly involved, and other costs incurred during the period of development. Habitat ceases cost capitalization when the property is held available for occupancy.

Management periodically evaluates the inventory value of housing in development. In the event the carrying value exceeds the realizable value, the carrying value is adjusted to reflect the estimated realizable value of the inventory.

Note 2. Summary of Significant Accounting Policies, *continued*

Mortgages Receivable

The Organization provides financing to some of the home purchases to qualified families. These low interest mortgages are discounted to present their present values.

Property and Equipment

The Organization capitalizes all expenditures for property and equipment in excess of $1,000. Property and equipment are stated at cost or, if donated, at fair value at date of donation. Depreciation is computed using the straight-line method over the estimated useful life of the asset.

Revenue Recognition

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. Conditional promises to give are recognized as revenue only when the related conditions have been substantially met. The Organization reports gifts and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restriction.

Sales to homeowners are recorded at the gross amount of payments to be received over the lives of the mortgages. Mortgages are non-interest bearing and have been discounted at various rates ranging from 7.96 percent to 8.19 percent. The rates are provided by Habitat International based on market rate data for low-income housing. Discounts are amortized on a straight-line basis over the lives of the mortgages, and the amortization of mortgage discount is recognized as revenue. As of June 30, 2018, mortgage receivable is presented on the Statement of Financial Position net of discount totaling $ 88,953.

In-kind Contributions

Donated inventory and equipment are reflected as contributions in the accompanying statements at their estimated fair value at date of receipt.

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the year received. Many individuals volunteer their time and perform a variety of tasks that assist the Organization at programming events and fundraising activities; however, these donated services are not reflected in the financial statements as the services do not require specialized skills.

Note 2. Summary of Significant Accounting Policies, *continued*

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been provided in detail in the statements of functional expenses and summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services based on staff time incurred by employees for various activities. The remaining costs are charged directly to the appropriate functional category.

Income Taxes

The Organization is a not-for-profit organization and is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and California Revenue and Taxation Code Section 23701(d). However, Habitat is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption, commonly referred to as unrelated business income.

The Organization determines whether its tax positions are "more-likely-than-not" to be sustained upon examination by the applicable taxing authority based on the technical merits of the positions. As of June 30, 2018, the Organization has reviewed its tax positions and has concluded no reserve for uncertain tax positions is required. The Organization's exempt organization information returns are subject to review through three years after the date of filing for federal and four years after the date of filing for California.

Recent Accounting Pronouncement

In July 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-11, Inventory, *Simplifying the Measurement of Inventory*. ASU 2015-11 requires an entity to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This guidance is effective for annual periods beginning after December 15, 2016. The adoption of ASU 2015-11 is not expected to have a material impact on the Organization's financial statements.

New Accounting Pronouncement

In August 2016, FASB issued ASU No. 2016-14, *Not-for-Profit-Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit-Entities* ("ASU 2016-14"), to improve the current net asset classification requirements and the information presented in financial statements and notes about not-for-profit-entities liquidity, financial performance, and cash flows. The adoption of ASU 2016-14 is effective for the Organization beginning July 1, 2018. Management is currently evaluating the impact of the provisions of ASU 2016-14 on the financial statements.

Note 3. Beginning Balance Restatement

During the preparation of the financial statements as of and for the year ended June 30, 2018, Management noted errors in several previously reported account balances. The beginning unrestricted net asset balance as of July 1, 2017 was restated to reflect the correction of such errors. The effect of these adjustments on the previously reported net asset balance is presented as follows:

Previously reported unrestricted net assets	$ 1,104,320
Adjustment made to mortgage discounts	(37,181)
Adjustment made to mortgages receivable	(369,241)
Adjustment made to notes payable	90,260
Adjustment to record deferred rent	(24,233)
Adjustment to record prior period liabilities	(8,827)
Restated beginning unrestricted net assets	$ 755,098

Note 4. Inventory

Inventory balance consist of the following at June 30, 2018:

Housing construction in progress	$ 2,194,572
Construction inventory	258,984
ReStore purchased inventory	38,591
	$ 2,492,147

Construction in progress reflects costs incurred to construct homes for program families. Once complete, the homes will be sold or rented to qualified families. For homes sold, the cost of homes sold will be recorded at the time of the sale.

Note 5. Mortgages Receivable

The Organization directly finances some of the homes it sells. During the year ended June 30, 2018, the Organization sold a portion of its mortgages receivable portfolio to an unrelated commercial bank. The transaction removed mortgages receivable net of unamortized discounts in the amount of $183,194, and generated a net gain in the amount of $9,281.

Mortgages receivable presented at year-end consisted of three mortgages, and are summarized as the following at June 30, 2018:

Mortgages receivable at face value	$ 141,064
Unamortized discounts	(88,953)
	52,111
Less: current portion of mortgages receivable	8,067
	$ 44,044

Note 5. Mortgages Receivable, *continued*

Future collections on these mortgages, net of unamortized discounts, are as follows as of June 30:

2019	$ 2,745
2020	2,745
2021	2,745
2022	2,745
2023	2,745
Thereafter	38,386
	$ 52,111

Note 6. Properties and Equipment

Properties and equipment and related accumulated depreciation as of June 30, 2018 are as follows:

Office equipment	$ 66,825
Vehicles	59,489
Furniture and equipment	25,743
Leasehold improvements	16,664
Tools	5,092
Total depreciable assets	173,813
Less: accumulated depreciation	(90,714)
	$ 83,099

Depreciation totaled $8,136 for the year ended June 30, 2018.

Note 7. Accrued Expenses

Accrued expenses consist of the following at June 30, 2018:

Accrued payroll	$ 43,376
Accrued vacation	21,081
Gift cards with ReStore	83,964
Deferred rent liabilities	20,240
Other accrued activities	23,850
	$ 192,511

Note 8. Notes Payable

Notes payable at year-end consist of the following construction loan agreements:

A promissory note agreement with the Rural Community Assistance Corporation, allowing for borrowing up to $415,000. Outstanding borrowings bear interest at 5.25% per annum, maturing April 1, 2020. Borrowings against the note are secured by the construction project.	$	399,003
Promissory note agreements with City of Santa Rosa and the Housing Authority of the City of Santa Rosa, allowing for borrowing up to $400,000 in connection with the construction of the Harris Village project. The borrowings from the notes bear 0% interest, due 18 months from the date of the loans, or upon the initial sale of the homes, whichever is sooner. The loans can be transferred to qualified home buyers at 3% per annum for a term of 30 years upon sale or transfer. Borrowings against the notes are secured by the construction project.		257,747
		656,750
Less: current portion		(257,747)
Non-current portion	$	399,003

During the year ended June 30, 2018, interest in the amount of $15,997 on the notes payable has been capitalized into construction in progress inventory.

Note 9. Line of Credit

The Organization had available a $50,000 unsecured line of credit with a bank. The agreement was renewed subsequent to year-end, with borrowing limit increased to $150,000 and the current maturity date set as September 1, 2019. Borrowings under the line of credit bear interest at the bank's variable rate, but not less than 6.75%. The Organization had no balance borrowed against the line as of June 30, 2018.

Note 10. Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for specific purposes or until specific events occur. Net assets are released from restrictions when expenses are incurred or specific events occur. Net assets released from time and purpose restrictions amounted to $20,000 and $269,878 for the year ended June 30, 2018, respectively.

The following schedule summarizes temporarily restricted net assets as of June 30, 2018:

Time restrictions	$	80,000
Program purpose restrictions		999,107
	$	1,079,107

Temporarily restricted net assets are included on the statement of financial position at June 30, 2018 as follows:

Cash and cash equivalents	$	699,107
Grants receivable		380,000
	$	1,079,107

Note 11. Operating Lease Commitments

The Organization has operating lease agreements for the ReStore and office space through June 30, 2020. The lease agreements calls for monthly base rent approximately $20,000. Future minimum payments under the lease as of June 30, 2018 are as follows for years ending June 30,

2019	$	254,712
2020		258,792
	$	513,504

Total rent expenses incurred for the year ended June 30, 2018 were $231,218.

Note 12. Limited Liability Company Agreements

The Organization formed two limited liability companies during the year ended June 30, 2018 as insulated entities for two separate construction projects. The Organization owns 100% of both limited liability companies (the "LLCs"). As limited liability companies, the LLCs' taxable income or loss is reported by Habitat. The State of California charges limited liability companies an entity fee based on revenues with a minimum tax of $800 at the entity level in addition to taxing members individually.

Note 13. Transactions with Affiliates

The Organization annually remits a portion of its unrestricted contributions (excluding in-kind contributions and grants) to Habitat International. These funds are used to construct homes in economically depressed areas around the world. Habitat contributed $25,000 for the year ended June 30, 2018.

Note 14. Related Party Transactions

During the year ended June 30, 2018, the Organization purchased real estate property from a Board member with the purpose of constructing a habitat housing project. The property was sold by the Board member to the Organization for $500,000, and was partially financed by the seller. In connection with the transaction, the Organization borrowed $305,000 under two promissory note agreements with the Board member, with the borrowings bearing annual interest at 8% and 3%. The notes were paid off shortly after the purchase transaction before the end of the fiscal year.

Note 15. Subsequent Events

The Organization has evaluated subsequent events through November 16, 2018, the date the financial statements were available to be issued, and determined that other than the renewal of the line of credit agreement as discussed in Note 9, there were no additional events occurring subsequent to June 30, 2018 that would have a material impact on the Organization's results of operations or financial position that require adjustments or disclosures.