

Habitat for Humanity of Sonoma County
(a California Not-for-Profit Corporation)

Financial Statements
For the Years Ended June 30, 2019 and 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 statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses, 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.

Auditors' 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 auditors' 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, 2019 and 2018, 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.

Emphasis of Matter

The accompanying financial statements have been prepared assuming the entity will continue as a going concern. As discussed in Note 3 to the financial statements, the entity experienced certain financial challenges subsequent to year-end in November 2019, which raised substantial doubt about its ability to continue as a going concern. Management had subsequently implemented operational changes to address such challenges. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the financial statements, as of July 1, 2018, the Habitat for Humanity of Sonoma County adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities. The adoption of the standard resulted in additional footnote disclosures and changes to the classification of net assets and the disclosures related to net assets. The ASU has been applied retrospectively to all periods presented with the exception of the omission of certain information as permitted by the ASU. Our opinion is not modified with respect to this matter.

Dillwood Burkel & Millar, LLP

Santa Rosa, California
September 3, 2020

Habitat for Humanity of Sonoma County

Statements of Financial Position

As of June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 1,428,389	\$ 2,495,993
Restricted cash and cash equivalents	56,521	709,847
Accounts receivable	318,996	5,830
Grants receivable, current	-	320,000
Inventory	3,380,109	2,492,147
Mortgage receivable, current portion, net	2,745	2,745
Prepaid expenses and other current assets	52,593	47,134
	<u>5,239,353</u>	<u>6,073,696</u>
Total current assets	5,239,353	6,073,696
Investments	31,120	13,639
Grants receivable, non-current	40,000	60,000
Mortgage receivable, non-current portion, net	47,540	49,366
Properties and equipment, net	76,362	83,099
Deposits	45,650	15,750
	<u>5,480,025</u>	<u>6,295,550</u>
Total assets	<u>\$ 5,480,025</u>	<u>\$ 6,295,550</u>
Liabilities		
Current liabilities		
Accounts payable	\$ 335,082	\$ 463,370
Accrued expenses	175,662	192,511
Escrow deposits	14,254	10,740
Notes payable, current portion	80,000	257,747
	<u>604,998</u>	<u>924,368</u>
Total current liabilities	604,998	924,368
Notes payable, non-current portion	599,395	399,003
	<u>1,204,393</u>	<u>1,323,371</u>
Total liabilities	1,204,393	1,323,371
Net assets		
Net assets without donor restrictions	4,213,401	3,893,072
Net assets with donor restrictions	62,231	1,079,107
	<u>4,275,632</u>	<u>4,972,179</u>
Total net assets	4,275,632	4,972,179
	<u>\$ 5,480,025</u>	<u>\$ 6,295,550</u>
Total liabilities and net assets	<u>\$ 5,480,025</u>	<u>\$ 6,295,550</u>

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, 2019

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Changes in net assets			
Support and revenue			
Restore sales, net	\$ 1,118,176	\$ -	\$ 1,118,176
Grants	50,000	906,000	956,000
Contributions	784,521	93,021	877,542
In-kind contributions	26,393	213,382	239,775
Special events	106,201	-	106,201
Home sales, net	(914,058)	-	(914,058)
Investment income, net	17,985	-	17,985
Other income	8,806	-	8,806
Net assets released from restriction	<u>2,229,279</u>	<u>(2,229,279)</u>	<u>-</u>
Total support and revenue	<u>3,427,303</u>	<u>(1,016,876)</u>	<u>2,410,427</u>
Expenses			
Program services:			
Habitat programs	1,065,391	-	1,065,391
ReStore	<u>925,909</u>	<u>-</u>	<u>925,909</u>
Total program services	<u>1,991,300</u>	<u>-</u>	<u>1,991,300</u>
Supporting services:			
General and administration	840,717	-	840,717
Fundraising	<u>274,957</u>	<u>-</u>	<u>274,957</u>
Total supporting services	<u>1,115,674</u>	<u>-</u>	<u>1,115,674</u>
Total expenses	<u>3,106,974</u>	<u>-</u>	<u>3,106,974</u>
Changes in net assets	<u>320,329</u>	<u>(1,016,876)</u>	<u>(696,547)</u>
Net assets at beginning of year	<u>3,893,072</u>	<u>1,079,107</u>	<u>4,972,179</u>
Net assets at end of year	<u>\$ 4,213,401</u>	<u>\$ 62,231</u>	<u>\$ 4,275,632</u>

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

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	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
Special events	1,276,167	-	1,276,167
Restore sales	1,053,929	-	1,053,929
In-kind contributions	369,496	-	369,496
Other income	46,353	-	46,353
Investment income, net	15,856	-	15,856
Net assets released from restriction	289,878	(289,878)	-
	<u>5,111,961</u>	<u>917,607</u>	<u>6,029,568</u>
Total support and revenue			
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 supporting services	306,861	-	306,861
Total expenses	1,973,987	-	1,973,987
Changes in net assets	<u>3,137,974</u>	<u>917,607</u>	<u>4,055,581</u>
Net assets at beginning of year (restated)	<u>755,098</u>	<u>161,500</u>	<u>916,598</u>
Net assets at end of year	<u>\$ 3,893,072</u>	<u>\$ 1,079,107</u>	<u>\$ 4,972,179</u>

See accompanying Notes to Financial Statements.

Habitat for Humanity of Sonoma County

Statement of Functional Expenses For the Year Ended June 30, 2019

	Program Services		Support Services		Total Expenses
	Habitat Programs	ReStore	Management and General	Fundraising	
Wages and salaries	\$ 301,782	\$ 436,681	\$ 459,751	\$ 95,280	\$ 1,293,494
Payroll taxes	67,909	39,327	37,442	8,384	153,062
Employee benefits	76,348	78,471	33,754	7,325	195,898
	<u>446,039</u>	<u>554,479</u>	<u>530,947</u>	<u>110,989</u>	<u>1,642,454</u>
Construction costs	431,107	-	-	-	431,107
Occupancy	23,384	233,654	84,931	-	341,969
Professional services	46,145	9,176	95,557	96,302	247,180
Supplies and small equipment	44,582	38,961	21,254	764	105,561
Advertising and marketing	1,906	10,183	6,343	31,168	49,600
Dues and subscriptions	6,271	5,523	31,293	224	43,311
Food and beverages	15,760	6,000	8,267	3,342	33,369
Bank and credit card fees	66	24,231	1,770	3,218	29,285
Travel	12,773	12,186	3,681	43	28,683
Event costs	-	-	418	24,404	24,822
Taxes and license	7,436	15,814	160	-	23,410
Training	6,561	2,265	9,138	2,931	20,895
Telephone and internet	2,142	6,082	12,263	-	20,487
Depreciation	-	-	19,284	-	19,284
Insurance	13,665	1,753	1,170	-	16,588
Equipment rental	3,874	3,058	5,880	-	12,812
Other	3,667	839	2,198	-	6,704
Donations and grants	-	-	5,000	-	5,000
Postage	13	99	1,087	1,572	2,771
Repairs and maintenance	-	1,606	54	-	1,660
Interest	-	-	22	-	22
Total	<u>\$ 1,065,391</u>	<u>\$ 925,909</u>	<u>\$ 840,717</u>	<u>\$ 274,957</u>	<u>\$ 3,106,974</u>

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		Total Expenses
	Habitat Programs	ReStore	Management and General	Fundraising	
Wages and salaries	\$ 309,283	\$ 381,207	\$ 59,550	\$ 32,772	\$ 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
	<u>352,560</u>	<u>463,767</u>	<u>84,459</u>	<u>34,820</u>	<u>935,606</u>
Occupancy	49,491	226,483	4,148	4,450	284,572
Professional services	126,326	16,779	17,052	60,033	220,190
Donations and grants	15,625	153,125	3,125	3,125	175,000
Supplies and small equipment	38,724	27,778	6,536	2,159	75,197
Advertising and marketing	11,392	13,830	1,099	25,585	51,906
Travel	12,887	27,140	709	41	40,777
Dues and subscriptions	22,601	8,745	3,180	3,780	38,306
Bank and credit card fees	375	17,376	5,467	4,638	27,856
Food and beverages	10,999	4,586	4,963	638	21,186
Telephone and internet	8,980	7,538	2,850	712	20,080
Event costs	-	-	-	14,475	14,475
Postage	1,180	255	248	10,063	11,746
Insurance	5,558	3,814	1,879	-	11,251
Training	6,530	3,315	998	226	11,069
Taxes and license	9,142	366	424	-	9,932
Depreciation	3,052	3,863	611	610	8,136
Interest	2,854	-	3,007	-	5,861
Repairs and maintenance	691	4,498	138	138	5,465
Equipment rental	4,337	237	238	237	5,049
Selection process expense	327	-	-	-	327
Total	<u>\$ 683,631</u>	<u>\$ 983,495</u>	<u>\$ 141,131</u>	<u>\$ 165,730</u>	<u>\$ 1,973,987</u>

See accompanying Notes to Financial Statements.

Habitat for Humanity of Sonoma County

Statements of Cash Flows

For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
	<i>Increase (decrease)</i>	
	<i>in cash and cash equivalents</i>	
Cash flows from operating activities		
Increase (decrease) in net assets	\$ (696,547)	\$ 4,055,581
Adjustments to reconcile changes in net assets to net cash flows provided by (used in) operating activities:		
Depreciation	19,284	8,136
Amortization on discount of mortgage receivable	(5,306)	(5,306)
Equity securities contributions received	(17,481)	(13,639)
In-kind contributions capitalized into inventory	(159,889)	(258,984)
Interest capitalized into inventory	(21,737)	(15,997)
Decrease (increase) in operating assets:		
Accounts receivable	(313,166)	(2,065)
Grants receivable	340,000	(280,000)
Inventory	(706,336)	(1,389,830)
Prepaid expenses	(5,459)	26,566
Increase (decrease) in operating liabilities:		
Accounts payable	(128,288)	387,457
Accrued expenses	(16,849)	137,544
Escrow accounts	3,514	1,980
Net cash and cash equivalents provided by (used in) operating activities	<u>(1,708,260)</u>	<u>2,651,443</u>
Cash flows from investing activities		
Proceeds from sale of mortgage receivable	-	183,194
Purchases of fixed assets	(12,547)	(88,539)
Collection on mortgage receivable	7,132	12,580
Additional rent deposit	(29,900)	(1,000)
Net cash and cash equivalents provided by (used in) investing activities	<u>(35,315)</u>	<u>106,235</u>
Cash flows from financing activities		
Borrowings from promissory notes	280,392	562,747
Payments on notes payable	(257,747)	(320,997)
Net cash and cash equivalents provided by financing activities	<u>22,645</u>	<u>241,750</u>
Net change in cash and cash equivalents	<u>(1,720,930)</u>	<u>2,999,428</u>
Cash and cash equivalents at beginning of year	<u>3,205,840</u>	<u>206,412</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,484,910</u></u>	<u><u>\$ 3,205,840</u></u>

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See accompanying Notes to Financial Statements.

Habitat for Humanity of Sonoma County

Statements of Cash Flows

For the Years Ended June 30, 2019 and 2018

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Unrestricted cash and cash equivalents	\$ 1,428,389	\$ 2,495,993
Restricted cash and cash equivalents	<u>56,521</u>	<u>709,847</u>
Total cash and cash equivalents	<u>\$ 1,484,910</u>	<u>\$ 3,205,840</u>
Supplementary cash information		
Cash paid for interest	<u>\$ 21,759</u>	<u>\$ 21,858</u>

See accompanying Notes to Financial Statements.

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

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:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions include unconditional promises to give by donors without any use or time restrictions. These net assets are available for all operations conducted by the Organization. Gifts of land, buildings, and equipment are recorded as without restriction unless the donor explicitly stipulates how the donated assets must be used or how long they must be held.

Net Assets With Donor Restrictions – Net assets that are subject to donor-imposed stipulations that may be fulfilled by actions of Habitat or by a date specified by the donor. These donations include unconditional promises to give by donors that specify an explicit use or the occurrence of a certain future event. When a stipulated restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

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.

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

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, 2019, the Organization held restricted cash and cash equivalents due to donor restrictions placed on the assets and escrow funds held for homeowners.

Cash is held in demand accounts at banks, and cash balances may exceed the federally insured amounts during the year. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Liquidity and Availability of Financial Assets

The following reflects the Habitat's financial assets as of June 30, 2019, reduced by amounts not available for general use because of contractual, donor imposed or board designated restrictions within one year of the balance sheet date.

Cash and cash equivalents	\$	1,484,910
Short-term investments		31,120
Contributions receivables, current portion		<u>318,996</u>
Total financial assets at year end		1,835,026
Less those unavailable for general expenditures within one year, due to:		
Purpose restricted funds		(22,231)
Time restricted funds		(40,000)
Escrow account funds		<u>(34,290)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$	<u>1,738,505</u>

The Habitat also has available for operating use a \$150,000 Line of Credit (see Note 11). Management is working on establishing a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations become due.

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 net assets without donor restrictions 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, 2019 and 2018, investments reported on the Organization's Statement of Financial Position represent the fair value of marketable securities contributed to the Organization during the current fiscal year.

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

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

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

- Level 1: Valuation based on quoted market prices in active markets for identical assets or liabilities that the Organization has the ability to access.
- Level 2: Valuation based on pricing inputs that are other than quoted prices in active markets which are either directly or indirectly observable.
- Level 3: Valuation derived from other valuation methodologies, including pricing models, discounted cash flow models, and similar techniques.

The categorization of an investment within the hierarchy is based on the pricing transparency of the investment and does not necessarily correspond to the Organization's perceived risk of that investment.

As of June 30, 2019 and 2018, all investments held by the Organization were considered Level 1 instruments.

Fair Value of Financial Instruments

The carrying value of cash, cash equivalents, contributions receivable and accounts payable approximate fair value due to the short maturity of those instruments.

Inventories

Inventories consist of housing in development, construction supplies, and purchased ReStore merchandise. Inventories are stated at current cost or lower recoverable amount at year-end.

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.

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

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

Contributions and Grants Receivable

Verifiable pledges for contributions are recorded as contributions receivable. Pledges that are expected to be collected within one year are recorded at net realizable value. Pledges that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the pledges are made. Amortization of the discount is included in contribution revenue. The Organization uses the allowance method to reserve for uncollectible accounts. Management periodically evaluates the allowance. As of June 30, 2019 and 2018, management expects all contributions receivable to be collected.

Mortgages Receivable

The Organization provides financing to some of the home purchases to qualified families. These low interest mortgages are discounted to represent 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 lives of the assets ranging from 3-10 years.

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.

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, 2019 and 2018, mortgage receivable is presented on the Statement of Financial Position net of discount totaling \$83,647 and \$88,953, respectively.

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

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

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.

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.

An income tax provision has been calculated for the year ended June 30, 2019 for the ReStore sales of purchased merchandise, which are considered unrelated business activities and therefore taxable under the Internal Revenue Code and California Revenue and Taxation Code (See Note 16).

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, 2019, 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.

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

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

Accounting Pronouncement Adopted

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. There was no material impact on the Organization’s net assets or financial position upon adoption of the new standard.

Pronouncements Effective in the Future

In December 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, which provide guidance for recognizing revenue from contracts with customers. The core principle of Topic 606 is that revenue will be recognized when promised goods or services are transferred to customers in an amount that reflects consideration for which entitlement is expected in exchange for those goods or services. The guidance is effective for annual reporting periods that begin after December 15, 2018. Management is currently evaluating the impact on the financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Non-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves current guidance about whether a transfer of assets, or a reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the Organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. The ASU is effective for annual reporting periods that begin after December 15, 2018. Management is currently evaluating the impact on the financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (“ASU 2016-02”), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The adoption of ASU 2016-02 is effective for annual reporting periods that begin after December 15, 2021. Management is currently evaluating the impact of the provisions of ASU 2016-02 on the financial statements.

Reclassification

Certain reclassifications have been made to the prior year’s financial statements to conform to the current year presentation. The reclassifications had no effect on previously reported results of operations or net asset balances.

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

Note 3. Going Concern Considerations

In November 2019, Habitat realized the Organization had overextended its resources in the recovery work it performed after the 2017 wildfires. Facing a cash flow shortage the Organization suspended most of their operations and implemented various cost-reducing plans to stabilize the Organization's financial situation. The cost-reducing plans included the discontinuation of an operating lease, which provided over \$30,000 savings per month, as well as a reduction of employees, which allowed the Organization to reduce its salary expenses by close to 80%.

Since the implementation of these cost-reducing plans, the Organization has been able to complete the two homes in their Green Valley project and have kept their ReStore operations open, except during the shelter in place orders as discussed in Note 17. The sale of the Green Valley project homes were completed by the report date. In addition, the Organization continues to receive monthly rental income of approximately \$14,000 from its 9 rental cottages. As of report date, the Organization is in good standing with all its vendors and all accounts are current.

Subsequent to year-end in August 2020, the Organization also received a usable land donation valued at \$315,000.

For fiscal year started July 1, 2020, the Organization is relaunching its Aging in Place and Neighborhood Revitalization programs, which focuses on small home repairs in the community. These programs are expected to incur significantly less costs, will rely heavily on volunteer labor, and will continue to generate community supports.

Management believes the continuing operation of the ReStore and the rental cottages, combined with the relaunching of the Aging in Place and Neighborhood Revitalization programs, allows Habitat to continue as a going concern.

Note 4. Cash Concentration

At various times during the year ended June 30, 2019, the Organization had deposit amounts with financial institutions in excess of the \$250,000 Federal Deposit Insurance Corporation ("FDIC") insurance limit. At June 30, 2019, Habitat had approximately \$1,270,000 in deposit in excess of the FDIC insured amount.

Note 5. Restricted Cash

Restricted cash represents cash balances restricted by donor stipulations and funds held in escrow by the Organization related to the mortgages receivable the Organization holds. Restricted cash included the following as of June 30:

	<u>2019</u>	<u>2018</u>
Donor restricted funds	\$ 22,231	\$ 688,000
Mortgage escrow funds	34,290	21,847
	<u>\$ 56,521</u>	<u>\$ 709,847</u>

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

Note 6. Investments

Investments stated at fair value included the following as of June 30:

	2019		2018	
	Cost	Fair Market Value	Cost	Fair Market Value
Bank sweep	\$ 548	\$ 548	\$ 108	\$ 108
Equity funds	29,968	30,572	13,639	13,531
	<u>\$ 30,516</u>	<u>\$ 31,120</u>	<u>\$ 13,747</u>	<u>\$ 13,639</u>

Investment returns are comprised of the following for the year ended June 30:

	2019	2018
Dividends and interest	\$ 570	\$ 130
Net unrealized loss	(23)	(130)
	<u>\$ 547</u>	<u>\$ -</u>

Note 7. Inventory

Inventory balance consist of the following at June 30:

	2019	2018
Housing construction in progress	\$ 3,120,754	\$ 2,194,572
Construction inventory	227,484	258,984
ReStore purchased inventory	31,871	38,591
	<u>\$ 3,380,109</u>	<u>\$ 2,492,147</u>

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

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

Note 8. Mortgages Receivable

The Organization directly finances some of the homes it sells. Mortgages receivable presented at year-end consisted of three mortgages, and are summarized as the following at June 30:

	<u>2019</u>	<u>2018</u>
Mortgages receivable at face value	\$ 133,932	\$ 141,064
Unamortized discounts	<u>(83,647)</u>	<u>(88,953)</u>
	50,285	52,111
Less: current portion of mortgages receivable net of unamortized discounts	<u>2,745</u>	<u>2,745</u>
	<u>\$ 47,540</u>	<u>\$ 49,366</u>

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

2020	\$ 2,745
2021	2,745
2022	2,745
2023	2,745
2024	2,745
Thereafter	<u>36,560</u>
	<u>\$ 50,285</u>

Note 9. Properties and Equipment

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

	<u>2019</u>	<u>2018</u>
Office equipment	\$ 70,069	\$ 66,825
Vehicles	66,989	59,489
Furniture and equipment	25,743	25,743
Leasehold improvements	18,467	16,664
Tools	<u>5,092</u>	<u>5,092</u>
Total depreciable assets	186,360	173,813
Less: accumulated depreciation	<u>(109,998)</u>	<u>(90,714)</u>
	<u>\$ 76,362</u>	<u>\$ 83,099</u>

Depreciation totaled \$19,284 and \$8,136 for the years ended June 30, 2019 and 2018, respectively.

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

Note 10. Accrued Expenses

Accrued expenses consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Accrued payroll	\$ 59,971	\$ 43,376
Accrued vacation	37,009	21,081
Gift cards with ReStore	66,522	83,964
Deferred rent liabilities	12,160	20,240
Other accrued activities	-	23,850
	<u>\$ 175,662</u>	<u>\$ 192,511</u>

Note 11. Line of Credit

The Organization had available a \$150,000 unsecured line of credit (“LOC”) with a bank. The LOC was renewed subsequent to year-end with a current maturity date set as December 1, 2021. 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, 2019 and 2018. Subsequent to year-end the Organization borrowed \$150,000 on the LOC. The full balance was then repaid in January 2020.

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

Note 12. Notes Payable

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

	<u>2019</u>	<u>2018</u>
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 January 1, 2021. Borrowings against the note are secured by the construction project.	\$ 415,000	\$ 399,003
A straight note agreement with a third party provided borrowing of \$80,000 in connection with the acquisition of the land for the Green Valley project. The note bears 0% interest and is due June 11, 2020. Subsequent to year end the loan was extended to be paid off at the time of sale for the properties. The properties closed escrow on July 29, 2020 at which point the note was paid off in full.	80,000	-
A promissory note agreement with the Sonoma County Community Development Commission allowing for borrowing up to \$400,000 in connection with the construction of the Duncan Village project. The borrowings from the note bear 0% interest, due in 55 years from the date of permanent financing or the 58 years from the date of the note, whichever is sooner. The loan can be transferred to qualified home buyers upon sale or transfer of the property. Borrowings against the note is secured by the construction project.	184,395	-
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
	<u>679,395</u>	<u>656,750</u>
Less: current portion	<u>(80,000)</u>	<u>(257,747)</u>
Non-current portion	<u>\$ 599,395</u>	<u>\$ 399,003</u>

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

Note 12. Notes Payable, *continued*

During the year ended June 30, 2019 and 2018, interest in the amount of \$21,737 and \$15,997, respectively on the notes payable has been capitalized into construction in progress inventory.

In January 2020, the Organization entered into a construction loan with a bank. Borrowings on the loan are allowed up to \$525,000 and is secured by the Green Valley property. Borrowings on the loan bear 5% interest. Interest only payments are required starting March 1, 2020 until completion of the project or February 1, 2022, whichever comes first, at which time the full principal and all unpaid accrued interest is due. As of the date of the financial statements, the Green Valley project had been completed and on July 29, 2020 the sale of the properties closed and the full outstanding principal and interest on this loan was repaid.

In May 2020, the Organization applied for and received a Paycheck Protection Program ("PPP") loan through the Small Business Administration in relation to the coronavirus pandemic (See Note 15). The Organization received \$67,000, and bears interest of 1%. The loan matures 2 years from its issuance and payments are deferred for the first 6 months. If the Organization meets certain criteria the loan may be fully forgiven. The Organization believes they will meet this criteria and will have the loan fully forgiven.

Note 13. Net Assets with Donor Restrictions

Net assets with donor restrictions 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 \$2,209,279 for the year ended June 30, 2019, respectively, and \$20,000 and \$269,878 for the year ended June 30, 2018, respectively.

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

	<u>2019</u>	<u>2018</u>
Time restrictions	\$ 40,000	\$ 80,000
Program purpose restrictions	<u>22,231</u>	<u>999,107</u>
	<u>\$ 62,231</u>	<u>\$ 1,079,107</u>

Net assets with donor restrictions are included on the statement of financial position as follows at June 30:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 22,231	\$ 699,107
Accounts receivable	<u>40,000</u>	<u>380,000</u>
	<u>\$ 62,231</u>	<u>\$ 1,079,107</u>

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

Note 13. Net Assets with Donor Restrictions, *continued*

Net assets released from program restrictions are as follows for the year ended June 30:

	<u>2019</u>	<u>2018</u>
Sonoma Cottages	\$ 1,353,460	\$ 228,653
Larkfield Fence	477,435	-
Rebuild Wine Country	179,880	-
Green Valley	88,832	20,605
Solar Panels	51,500	10,000
Harris Village	46,162	5,000
Celebrate Community	20,000	20,000
Duncan Village	7,331	-
Aging in Place	4,679	5,620
	<u>\$ 2,229,279</u>	<u>\$ 289,878</u>

Note 14. Operating Lease Commitments

The Organization's office space lease was terminated in December 2019. The Organization has an operating lease agreement for the ReStore through June 30, 2025. The lease agreement calls for monthly base rent of approximately \$16,000. Future minimum payments under the lease as of June 30, 2019 are as follows for years ending June 30,

2020	\$ 221,556
2021	183,600
2022	187,680
2023	191,760
2024	195,840
Thereafter	<u>199,920</u>
	<u>\$ 1,180,356</u>

Total rent expenses incurred for the years ended June 30, 2019 and 2018 were \$255,951 and \$231,218, respectively.

Note 15. Limited Liability Company Agreements

The Organization formed two limited liability companies during the year ended June 30, 2018 and one more during the year ended June 30, 2019 as insulated entities for three separate construction projects. The Organization owns 100% of the limited liability companies (the "LLCs"). The Organization has requested and been approved for tax exempt status for two of the LLCs and is awaiting approval for the third with the IRS. All income, expenses, assets and liabilities of the LLCs is included in the reporting of the Organization.

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

Note 16. Unrelated Business Income

In addition to the sales of donated inventory, the ReStore also sells purchased merchandise, which is considered an unrelated business activity. During the year ended June 30, 2019, the Organization generated unrelated business income from the sales of purchased furniture and appliances at the ReStore. There were no material unrelated business activities during the year ended June 30, 2018.

The unrelated business activities incurred at the Organization are summarized as the following for the year ended June 30, 2019:

ReStore sales of purchased inventory	\$	427,580
Less:		
Wages and benefits attributed		(175,974)
Cost of inventory		(130,626)
Rent		<u>(43,117)</u>
Net income from unrelated business	\$	<u>77,863</u>

Note 17. 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 \$5,000 and \$25,000 for the years ended June 30, 2019 and 2018.

Note 18. Contingencies

On March 11, 2020, The World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closing and shelter in place orders. It is at least reasonably possible that this matter will negatively impact the Organization. However, the financial impact and duration cannot be reasonably estimated at this time.

In June 2020, the Organization received a demand for payment from an unrelated third party who had been in contract with the Organization, but who had stopped providing services according to the contract. The Organization is disputing the demand and expects to enter into mediation with the third party. The outcome of the demand is not estimable as of the date of the report.

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2019 and 2018

Note 19. Subsequent Events

The Organization has evaluated subsequent events from July 1, 2019 through September 3, 2020, the date the financial statements were available to be issued, and determined that other than the items discussed above in Note 3, Note 11, Note 12, and Note 17, there were no additional events occurring subsequent to June 30, 2019 that would have a material impact on the Organization's results of operations or financial position that require adjustments or disclosures.