

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

Financial Statements
For the Years Ended June 30, 2020 and 2019

Together with Independent Accountants' Report

Habitat for Humanity of Sonoma County

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Independent Accountants' Review Report

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

We have reviewed the accompanying financial statements of Habitat for Humanity of Sonoma County, which comprise the statement of financial position as of June 30, 2020, 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. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Report on Financial Statements as of and for the Year Ended June 30, 2019

The financial statements as of and for the year ended June 30, 2019 were audited by us, and we expressed an unmodified opinion on them in our report dated September 3, 2020. We have not performed any auditing procedures since that date.

Dillwood Burkel & Millar, LLP

Santa Rosa, California
May 13, 2021

Habitat for Humanity of Sonoma County

Statements of Financial Position

As of June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 255,756	\$ 1,428,389
Restricted cash and cash equivalents	2,231	56,521
Accounts receivable	17,989	318,996
Inventory	2,296,934	3,380,109
Mortgage receivable, current portion, net	2,745	2,745
Prepaid expenses and other current assets	9,067	52,593
Total current assets	<u>2,584,722</u>	<u>5,239,353</u>
Investments	-	31,120
Grants receivable	40,000	40,000
Mortgage receivable, non-current portion, net	49,275	47,540
Properties and equipment, net	2,610,069	76,362
Deposits	15,650	45,650
Total assets	<u><u>\$ 5,299,716</u></u>	<u><u>\$ 5,480,025</u></u>
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 169,042	\$ 335,082
Accrued expenses	48,148	91,698
Deferred revenue	58,384	83,964
Escrow deposits	21,958	14,254
Notes payable, current portion	80,000	80,000
Total current liabilities	<u>377,532</u>	<u>604,998</u>
Notes payable, non-current portion	<u>1,156,035</u>	<u>599,395</u>
Total liabilities	<u>1,533,567</u>	<u>1,204,393</u>
Net assets		
Net assets without donor restrictions	3,763,918	4,213,401
Net assets with donor restrictions	2,231	62,231
Total net assets	<u>3,766,149</u>	<u>4,275,632</u>
Total liabilities and net assets	<u><u>\$ 5,299,716</u></u>	<u><u>\$ 5,480,025</u></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, 2020

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Changes in net assets			
Support and revenue			
Restore sales, net	\$ 936,334	\$ -	\$ 936,334
Grants	117,000	-	117,000
Contributions	186,154	298,000	484,154
In-kind contributions	50,455	-	50,455
Special events	39,465	-	39,465
Investment income, net	10,598	-	10,598
Rental income	81,811	-	81,811
Other income	37,537	-	37,537
Net assets released from restriction	<u>358,000</u>	<u>(358,000)</u>	<u>-</u>
Total support and revenue	<u>1,817,354</u>	<u>(60,000)</u>	<u>1,757,354</u>
Expenses			
Program services:			
Habitat programs	851,896	-	851,896
ReStore	<u>769,567</u>	<u>-</u>	<u>769,567</u>
Total program services	1,621,463	-	1,621,463
Supporting services:			
General and administration	482,802	-	482,802
Fundraising	<u>162,572</u>	<u>-</u>	<u>162,572</u>
Total supporting services	<u>645,374</u>	<u>-</u>	<u>645,374</u>
Total expenses	<u>2,266,837</u>	<u>-</u>	<u>2,266,837</u>
Changes in net assets	<u>(449,483)</u>	<u>(60,000)</u>	<u>(509,483)</u>
Net assets at beginning of year	<u>4,213,401</u>	<u>62,231</u>	<u>4,275,632</u>
Net assets at end of year	<u>\$ 3,763,918</u>	<u>\$ 2,231</u>	<u>\$ 3,766,149</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	1,991,300	-	1,991,300
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 Functional Expenses

For the Year Ended June 30, 2020

	Program Services		Support Services		Total Expenses
	Habitat Programs	ReStore	Management and General	Fundraising	
Wages and salaries	\$ 246,996	\$ 412,325	\$ 226,926	\$ 108,584	\$ 994,831
Payroll taxes	21,430	34,864	19,946	9,442	85,682
Employee benefits	48,911	70,699	17,500	13,228	150,338
	<u>317,337</u>	<u>517,888</u>	<u>264,372</u>	<u>131,254</u>	<u>1,230,851</u>
Occupancy	288,253	158,685	44,250	-	491,188
Professional services	54,982	942	71,493	300	127,717
Other	105,897	273	15,940	-	122,110
Depreciation	33,206	6,802	12,610	-	52,618
Dues and subscriptions	2,670	5,229	29,445	225	37,569
Supplies and small equipment	13,348	4,579	6,663	2,943	27,533
Insurance	13,853	6,379	4,107	-	24,339
Advertising and marketing	-	5,411	1,048	16,154	22,613
Bank and credit card fees	1,165	14,869	2,792	260	19,086
Construction costs not capitalized	7,052	7,905	3,500	-	18,457
Travel	1,689	16,079	291	52	18,111
Equipment rental	4,554	2,027	11,000	-	17,581
Telephone and internet	1,380	5,769	9,144	-	16,293
Food and beverages	2,610	7,335	2,215	519	12,679
Event costs	-	-	-	10,832	10,832
Taxes and license	343	7,133	1,132	-	8,608
Training	1,829	1,083	410	-	3,322
Interest	1,617	-	1,216	-	2,833
Postage	111	-	1,174	33	1,318
Repairs and maintenance	-	1,179	-	-	1,179
Total	<u>\$ 851,896</u>	<u>\$ 769,567</u>	<u>\$ 482,802</u>	<u>\$ 162,572</u>	<u>\$ 2,266,837</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

Statements of Cash Flows

For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
	<i>Increase (decrease)</i>	
	<i>in cash and cash equivalents</i>	
Cash flows from operating activities		
Decrease in net assets	\$ (509,483)	\$ (696,547)
Adjustments to reconcile decrease in net assets to net cash flows used in operating activities:		
Depreciation	52,618	19,284
Amortization on discount of mortgage receivable	(5,826)	(5,306)
Equity securities contributions received	-	(17,481)
In-kind contributions capitalized into construction inventory	(32,661)	(159,889)
Interest capitalized into construction inventory	(22,151)	(21,737)
Decrease (increase) in operating assets:		
Accounts receivable	301,007	(313,166)
Construction inventory	(1,448,338)	(706,336)
Prepaid expenses	43,526	(5,459)
Grants receivable	-	340,000
Increase (decrease) in operating liabilities:		
Accounts payable	(166,040)	(128,288)
Accrued expenses	(43,550)	593
Deferred revenue	(25,580)	(17,442)
Escrow accounts	7,704	3,514
Net cash and cash equivalents used in operating activities	<u>(1,848,774)</u>	<u>(1,708,260)</u>
Cash flows from investing activities		
Collection on mortgage receivable	4,091	7,132
Additional rent deposit	30,000	(29,900)
Proceeds from sale of equity securities	31,120	-
Purchases of fixed assets	-	(12,547)
Net cash and cash equivalents provided by (used in) investing activities	<u>65,211</u>	<u>(35,315)</u>
Cash flows from financing activities		
Borrowings from promissory notes	556,640	280,392
Payments on notes payable	-	(257,747)
Net cash and cash equivalents provided by financing activities	<u>556,640</u>	<u>22,645</u>
Net change in cash and cash equivalents	(1,226,923)	(1,720,930)
Cash and cash equivalents at beginning of year	<u>1,484,910</u>	<u>3,205,840</u>
Cash and cash equivalents at end of year	<u><u>\$ 257,987</u></u>	<u><u>\$ 1,484,910</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, 2020 and 2019

continued from previous page

Unrestricted cash and cash equivalents	\$ 255,756	\$ 1,428,389
Restricted cash and cash equivalents	<u>2,231</u>	<u>56,521</u>
Total cash and cash equivalents	<u>\$ 257,987</u>	<u>\$ 1,484,910</u>
Supplementary cash information		
Cash paid for interest	<u>\$ 23,367</u>	<u>\$ 21,759</u>

See accompanying Notes to Financial Statements.

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2020 and 2019

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, 2020 and 2019

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, 2020, 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.

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, 2020 and 2019, 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.

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, all investments held by the Organization were considered Level 1 instruments. There were no investments held as of June 30, 2020.

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2020 and 2019

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

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 purchased ReStore merchandise and construction inventory, which consist of housing in development and construction supplies. 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.

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 uncollectable accounts. Management periodically evaluates the allowance. As of June 30, 2020 and 2019, management expects all contributions receivable to be collected.

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2020 and 2019

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 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, 2020 and 2019, mortgage receivable is presented on the Statement of Financial Position net of discount totaling \$77,821 and \$83,647, respectively.

Deferred Revenue

The ReStore sells gift cards to customers or local charitable and civic organizations for their programs during the year. Unredeemed gift cards at year-end are reported as deferred revenue.

In-kind Contributions

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

Goods donated to ReStore for resale are not valued, as the value is undeterminable.

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.

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2020 and 2019

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

Accrued Vacation

Accumulated unpaid employee vacation benefits are recognized as liabilities of the Organization. The value of accrued vacation at June 30, 2020 and 2019 totaled \$12,465 and \$37,009, respectively. Accrued vacation is included in accrued expenses on the Statement of Financial Position.

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, 2020 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, 2020, 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, 2020 and 2019

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

Accounting Pronouncement Adopted

In December 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which provides 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 adoption of ASU 2016-10 is effective for the Organization beginning July 1, 2019. There was no material impact on the Organization's financial position upon adoption of the new standard.

In June 2018, the FASB issued ASU No. 2018-08, Not-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 was adopted as of July 1, 2019. There was no material impact on the Organization's previously reported changes in net assets or net assets balances upon adoption of the new standard.

Pronouncements Effective in the Future

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 the period beginning after July 1, 2022. 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, 2020 and 2019

Note 3. Liquidity and Availability of Financial Assets

The following reflects the Habitat's financial assets as of June 30, 2020 and 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.

	<u>2020</u>	<u>2019</u>
Cash	\$ 257,987	\$ 1,484,910
Short-term investments	-	31,120
Accounts receivable	17,989	318,996
Total financial assets at year end	275,976	1,835,026
Less those unavailable for general expenditures within one year due to:		
Purpose restricted funds	(2,231)	(22,231)
Time restricted funds	-	(40,000)
Escrow account funds	-	(34,290)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 273,745</u>	<u>\$ 1,738,505</u>

The Habitat also has available for operating use a \$150,000 Line of Credit (see Note 10). 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.

Note 4. Cash Concentration

At various times during the year ended June 30, 2020, the Organization had deposit amounts with financial institutions in excess of the \$250,000 Federal Deposit Insurance Corporation ("FDIC") insurance limit. At June 30, 2020, Habitat had approximately \$5,600 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>2020</u>	<u>2019</u>
Donor restricted funds	\$ 2,231	\$ 22,231
Mortgage escrow funds	-	34,290
	<u>\$ 2,231</u>	<u>\$ 56,521</u>

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2020 and 2019

Note 6. Investments

Investments stated at fair value included the following as of June 30, 2019:

	<u>Cost</u>	<u>Fair Market Value</u>
Bank sweep	\$ 548	\$ 548
Equity funds	<u>29,968</u>	<u>30,572</u>
	<u>\$ 30,516</u>	<u>\$ 31,120</u>

Investment returns are comprised of the following for the year ended June 30, 2019:

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

Note 7. Inventory

Inventory balance consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Housing construction in progress	\$ 2,275,992	\$ 3,120,754
ReStore purchased inventory	20,942	31,871
Construction supplies	<u>-</u>	<u>227,484</u>
	<u>\$ 2,296,934</u>	<u>\$ 3,380,109</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, 2020 and 2019

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>2020</u>	<u>2019</u>
Mortgages receivable at face value	\$ 129,841	\$ 133,932
Unamortized discounts	<u>(77,821)</u>	<u>(83,647)</u>
	52,020	50,285
Less: current portion of mortgages receivable net of unamortized discounts	<u>2,745</u>	<u>2,745</u>
	<u>\$ 49,275</u>	<u>\$ 47,540</u>

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

2021	\$ 2,745
2022	2,745
2023	2,745
2024	2,745
2025	2,745
Thereafter	<u>35,550</u>
	<u>\$ 49,275</u>

Note 9. Properties and Equipment

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

	<u>2020</u>	<u>2019</u>
Cottages	\$ 2,590,057	\$ -
Office equipment	62,184	70,069
Vehicles	66,989	66,989
Furniture and equipment	26,166	25,743
Leasehold improvements	18,467	18,467
Tools	<u>937</u>	<u>5,092</u>
Total depreciable assets	2,764,800	186,360
Less: accumulated depreciation	<u>(154,731)</u>	<u>(109,998)</u>
	<u>\$ 2,610,069</u>	<u>\$ 76,362</u>

Depreciation totaled \$52,618 and \$19,284 for the years ended June 30, 2020 and 2019, respectively.

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2020 and 2019

Note 10. Line of Credit

The Organization had available a \$150,000 unsecured line of credit (“LOC”) with a bank 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, 2020 and 2019.

Note 11. Notes Payable

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

	<u>2020</u>	<u>2019</u>
A promissory note agreement with the Rural Community Assistance Corporation, allowing for borrowing up to \$415,000 to construct the Duncan Village project. Outstanding borrowings bear interest at 5.50% per annum, maturing July 1, 2021. Borrowings against the note are secured by the construction project.	\$ 415,000	\$ 415,000
A promissory note agreement with the Sonoma County Community Development Commission allowing for borrowing up to approximate \$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.	401,604	184,395
A promissory note agreement with a commercial bank allowing for borrowing up to \$525,000 in connection with the construction of two single family residences for affordable housing. Borrowings on the loan bear 5% interest per annum. The two single family residence were sold subsequent to year-end and the note was paid off in July 2020.	339,431	-
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 upon sale of the project. The property was in escrow at year-end. Subsequent to year-end, the properties closed escrow in July 2020, at which point the note was paid off in full.	<u>80,000</u>	<u>80,000</u>
	1,236,035	679,395
Less: current portion	<u>(80,000)</u>	<u>(80,000)</u>
Non-current portion	<u>\$ 1,156,035</u>	<u>\$ 599,395</u>

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2020 and 2019

Note 11. Notes Payable, *continued*

During the year ended June 30, 2020 and 2019, interest in the amount of \$22,151 and \$21,737, respectively on the notes payable has been capitalized into construction in progress inventory.

Note 12. Government Forgivable Loan

In May 2020, the Organization applied for and received a Paycheck Protection Program (“PPP”) loan through the Small Business Administration (“SBA”) in relation to the coronavirus pandemic (See Note 17). The Organization received \$67,000 in loan proceeds. The loan bears annual interest at 1%, matures 2 years from its issuance, and payments are deferred for the first 10 months. If the Organization meets certain criteria the loan may be fully forgiven. As of June 30, 2020, management had reasonable assurance that the Organization had met the SBA criteria, and had therefore reported the proceeds from the PPP loan as a grant revenue for the year ended June 30, 2020.

Subsequent to year-end on February 11, 2021, the loan was 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 \$60,000 and \$298,000 for the year ended June 30, 2020, respectively, and \$20,000 and \$2,209,279 for the year ended June 30, 2019, respectively.

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

	<u>2020</u>	<u>2019</u>
Sonoma Cottages	\$ 270,000	\$ 1,353,460
The Habitat Center	25,000	-
Green Valley	3,000	88,832
Larkfield Fence	-	477,435
Rebuild Wine Country	-	179,880
Solar Panels	-	51,500
Harris Village	-	46,162
Duncan Village	-	7,331
Aging in Place	-	4,679
	<u>\$ 358,000</u>	<u>\$ 2,209,279</u>

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2020 and 2019

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

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

	<u>2020</u>	<u>2019</u>
Program purpose restrictions	\$ 2,231	\$ 22,231
Time restrictions	-	40,000
	<u>\$ 2,231</u>	<u>\$ 62,231</u>

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

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 2,231	\$ 22,231
Accounts receivable	-	40,000
	<u>\$ 2,231</u>	<u>\$ 62,231</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, 2020 are as follows for years ending June 30,

2021	\$ 183,600
2022	187,680
2023	191,760
2024	195,840
2025	<u>199,920</u>
	<u>\$ 958,800</u>

During the year ended June 30, 2020, the Organization received relief from its landlord due to pandemic related business closure (Note 17). Total rent expenses incurred for the rental of the ReStore and its office space for the years ended June 30, 2020 and 2019 were \$129,018 and \$255,951, respectively.

During the year ended June 30, 2020, the Organization attempted a separate program operation, the Habitat Center, in Rohnert Park, California. The program was terminated during the year. Rent incurred related to the program totaled \$271,060.

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2020 and 2019

Note 15. 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, 2020 and 2019, the Organization generated unrelated business income (loss) from the sales of purchased furniture and appliances at the ReStore.

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

	<u>2020</u>	<u>2019</u>
ReStore sales of purchased inventory	\$ 166,429	\$ 427,580
Less:		
Wages and benefits attributed	(80,901)	(175,974)
Cost of inventory	(79,845)	(130,626)
Rent	(22,236)	(43,117)
Net income (loss) from unrelated business	<u>\$ (16,553)</u>	<u>\$ 77,863</u>

Note 16. 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. The Organization did not make such contribution for the year ended June 30, 2020, and contributed \$5,000 for the years ended June 30, 2019.

Note 17. 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, 2020 and 2019

Note 18. Limited Liability Company Agreement

The Organization forms limited liability companies (the “LLC’s”) for its ongoing construction projects. The Organization owns 100% of these LLCs. These LLCs are dissolved when the construction projects are completed and sold. All income, expenses, assets and liabilities of these LLCs is included in the reporting of the Organization.

Note 19. Subsequent Events

The Organization has evaluated subsequent events from July 1, 2020 through May 13, 2021, the date the financial statements were available to be issued, and determined that other than the items discussed above in Note 11 and Note 12, there were no additional events occurring subsequent to June 30, 2020 that would have a material impact on the Organization’s results of operations or financial position that require adjustments or disclosures.