

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

Financial Statements
For the Years Ended June 30, 2021 and 2020

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

Opinion

We have audited the financial statements of Habitat for Humanity of Sonoma County, which comprise the statement of financial position as of June 30, 2021 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Habitat for Humanity of Sonoma County as of June 30, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Habitat for Humanity of Sonoma County and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The financial statements as of and for the year ended June 30, 2020 were reviewed by us and our report thereon, dated May 13, 2021, stated we were not aware of any material modifications that should be made to those statements for them to be in accordance with accounting principles generally accepted in the United States of America. A review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements as a whole.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Habitat for Humanity of Sonoma County's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibility

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Habitat for Humanity of Sonoma County's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Habitat for Humanity of Sonoma County's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Dillwood Burkell + Millar, LLP

Santa Rosa, California
March 16, 2022

Habitat for Humanity of Sonoma County

Statements of Financial Position

As of June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 707,213	\$ 210,237
Restricted cash and cash equivalents	21,158	47,750
Accounts receivable	2,395	17,989
Mortgage receivable, current portion, net	2,745	2,745
Prepaid expenses and other current assets	79,306	30,009
Total current assets	812,817	308,730
Investments	476,419	-
Grants receivable	-	40,000
Mortgage receivable, non-current portion, net	51,658	49,275
Construction project inventory	1,842,719	2,275,992
Properties and equipment, net	1,565,807	2,610,069
Deposits	15,650	15,650
Total assets	<u>\$ 4,765,070</u>	<u>\$ 5,299,716</u>
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 86,722	\$ 217,190
Deferred revenue	52,384	58,384
Escrow deposits	25,069	21,958
Notes payable, current portion	2,858	80,000
Total current liabilities	167,033	377,532
Notes payable, non-current portion	963,831	1,156,035
Total liabilities	1,130,864	1,533,567
Net assets		
Net assets without donor restrictions	3,632,581	3,763,918
Net assets with donor restrictions	1,625	2,231
Total net assets	<u>3,634,206</u>	<u>3,766,149</u>
Total liabilities and net assets	<u>\$ 4,765,070</u>	<u>\$ 5,299,716</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, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue			
Restore sales, net	\$ 1,471,547	\$ -	\$ 1,471,547
Contributions and grants	517,698	59,740	577,438
Rental income	160,941	-	160,941
Government grants	150,000	-	150,000
Home sales, net	(158,215)	-	(158,215)
Investment income, net	24,802	-	24,802
Other income	24,305	-	24,305
Net assets released from restriction	60,346	(60,346)	-
	<u>2,251,424</u>	<u>(606)</u>	<u>2,250,818</u>
Expenses			
Program services:			
Habitat programs	1,168,178	-	1,168,178
ReStore	790,130	-	790,130
Total program services	<u>1,958,308</u>	<u>-</u>	<u>1,958,308</u>
Supporting services:			
Management and general	355,432	-	355,432
Fundraising	69,021	-	69,021
	<u>424,453</u>	<u>-</u>	<u>424,453</u>
Total expenses	<u>2,382,761</u>	<u>-</u>	<u>2,382,761</u>
Changes in net assets	<u>(131,337)</u>	<u>(606)</u>	<u>(131,943)</u>
Net assets at beginning of year	<u>3,763,918</u>	<u>2,231</u>	<u>3,766,149</u>
Net assets at end of year	<u>\$ 3,632,581</u>	<u>\$ 1,625</u>	<u>\$ 3,634,206</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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue			
Restore sales, net	\$ 936,334	\$ -	\$ 936,334
Contributions and grants	236,154	298,000	534,154
Rental income	81,811	-	81,811
Government grants	67,000	-	67,000
In-kind contributions	50,455	-	50,455
Special events	39,465	-	39,465
Investment income, net	10,598	-	10,598
Other income	37,537	-	37,537
Net assets released from restriction	358,000	(358,000)	-
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	769,567	-	769,567
Total program services	<u>1,621,463</u>	<u>-</u>	<u>1,621,463</u>
Supporting services:			
Management and general	482,802	-	482,802
Fundraising	162,572	-	162,572
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 Functional Expenses For the Year Ended June 30, 2021

	Program Services		Supporting Services		Total Expenses
	Habitat Programs	ReStore	Management and General	Fundraising	
Wages and salaries	\$ 44,504	\$ 366,543	\$ 207,175	\$ 34,930	\$ 653,152
Payroll taxes	4,375	34,372	15,791	2,299	56,837
Employee benefits	4,031	81,041	15,130	8,864	109,066
	<u>52,910</u>	<u>481,956</u>	<u>238,096</u>	<u>46,093</u>	<u>819,055</u>
Impairment loss	962,439	-	-	-	962,439
Occupancy	3,409	212,515	-	-	215,924
Professional services	15,118	13,841	59,546	10,460	98,965
Depreciation	66,412	7,802	12,610	-	86,824
Equipment rental	25,530	359	8,866	-	34,755
Dues and subscriptions	3,804	2,632	24,160	2,554	33,150
Supplies and small equipment	20,837	9,503	1,085	22	31,447
Travel	6,470	21,221	-	-	27,691
Bank and credit card fees	1,649	21,302	757	84	23,792
Advertising and marketing	-	644	106	9,688	10,438
Repairs and maintenance	6,425	3,470	449	-	10,344
Telephone and internet	189	6,358	148	-	6,695
Taxes and license	877	394	4,687	-	5,958
Insurance	1,781	1,662	2,492	-	5,935
Other	-	2,939	1,578	-	4,517
Food and beverages	328	3,532	437	-	4,297
Postage	-	-	415	80	495
Training	-	-	-	40	40
Total expenses	<u>\$ 1,168,178</u>	<u>\$ 790,130</u>	<u>\$ 355,432</u>	<u>\$ 69,021</u>	<u>\$ 2,382,761</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		Supporting 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 licenses	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 expenses	<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

Statements of Cash Flows

For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
	<i>Increase (decrease) in cash and cash equivalents</i>	
Cash flows from operating activities		
Changes in net assets	\$ (131,943)	\$ (509,483)
Adjustments to reconcile changes in net assets to net cash flows provided by (used in) operating activities:		
Depreciation	86,824	52,618
Impairment loss	962,439	-
Amortization on discount of mortgage receivable	(5,323)	(5,826)
In-kind donation of equity securities	(8,686)	-
Realized gain on investments	(3,192)	-
Unrealized gain on investments	(16,375)	-
Dividends and interest reinvested	(3,831)	-
Contributions capitalized to construction project inventory	(315,000)	(32,661)
Interest capitalized to construction project inventory	(23,678)	(22,151)
Decrease (increase) in operating assets:		
Accounts receivable	55,594	301,007
Construction project inventory	771,951	(1,448,338)
Prepaid expenses and other current assets	(49,297)	43,526
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(130,468)	(209,590)
Deferred revenue	(6,000)	(25,580)
Escrow deposits	3,111	7,704
	<u>1,186,126</u>	<u>(1,848,774)</u>
Net cash and cash equivalents provided by (used in) operating activities	1,186,126	(1,848,774)
Cash flows from investing activities		
Collection on mortgage receivable	2,940	4,091
Additional rent deposit	-	30,000
Proceeds from sale of equity securities	11,879	31,120
Purchases of investment securities	(456,214)	-
Purchases of fixed assets	(5,001)	-
	<u>(446,396)</u>	<u>65,211</u>
Net cash and cash equivalents provided by (used in) investing activities	(446,396)	65,211

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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, 2021 and 2020

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Cash flows from financing activities		
Borrowings from promissory notes	\$ 149,900	\$ 556,640
Payments on notes payable	<u>(419,246)</u>	<u>-</u>
Net cash and cash equivalents provided by (used in) financing activities	<u>(269,346)</u>	<u>556,640</u>
Net change in cash and cash equivalents	470,384	(1,226,923)
Cash and cash equivalents at beginning of year	<u>257,987</u>	<u>1,484,910</u>
Cash and cash equivalents at end of year	<u><u>\$ 728,371</u></u>	<u><u>\$ 257,987</u></u>
Unrestricted cash and cash equivalents	\$ 707,213	\$ 210,237
Restricted cash and cash equivalents	<u>21,158</u>	<u>47,750</u>
Total cash and cash equivalents	<u><u>\$ 728,371</u></u>	<u><u>\$ 257,987</u></u>
Supplementary cash information		
Cash paid for interest	<u><u>\$ 23,678</u></u>	<u><u>\$ 21,759</u></u>

See accompanying Notes to Financial Statements.

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2021 and 2020

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 net assets 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 Statements of Activities and Changes in Net Assets 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, 2021 and 2020

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 investments use to long-term. As of June 30, 2021, 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 can include equity securities, government securities, corporate bonds and certificates of deposit, are carried at fair value. Unrealized gains and losses are included in the Statements 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, 2021 and 2020, investments reported on the Organization's Statements 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, 2021, 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, 2021 and 2020

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.

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of purchased ReStore merchandise inventory, and prepaid insurance and other expenses. Inventories are recorded at cost and stated at current cost or lower recoverable amount at year-end.

Construction Project Inventories

Construction project inventories 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 are recorded at cost. 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, 2021 and 2020, management expects all contributions receivable to be collected.

Mortgages Receivable

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

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2021 and 2020

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

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 3-39 years.

The Organization reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors. Based on this assessment, the Organization recorded an impairment loss in the amount of \$962,439 during the year ended June 30, 2021 (See Note 9). There was no impairment loss during the year ended June 30, 2020.

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, 2021 and 2020, mortgage receivable is presented on the Statements of Financial Position net of discount totaling \$72,498 and \$77,821, respectively.

Revenue from sales to homeowners are presented as home sales revenue net of cost of construction on the Statement of Activities and Changes in Net Assets.

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, 2021 and 2020

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

Deferred Revenue

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

Accrued Vacation

Accumulated unpaid employee vacation benefits are recognized as liabilities of the Organization. The value of accrued vacation at June 30, 2021 and 2020 totaled \$25,861 and \$12,465, respectively. Accrued vacation is included in accounts payable and accrued expenses on the Statements 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, 2021 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 15).

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, 2021, 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, 2021 and 2020

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

Pronouncements Effective in the Future

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (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 fiscal year beginning July 1, 2022 for the Organization. Management is currently evaluating the impact of the provisions of ASU 2016-02 on the financial statements.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958), Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* ("ASU 2020-07"), to improve financial reporting by providing new presentation and disclosure requirement about contributed nonfinancial assets for not-for-profit entities, including additional disclosure requirements for recognized contributed services. The adoption of ASU 2020-07 is effective for the Organization beginning July 1, 2021. The Organization is currently evaluating the impact of the provisions of ASU 2020-07 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.

Note 3. Liquidity and Availability of Financial Assets

The following reflects the Habitat's financial assets as of June 30, 2021 and 2020, 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>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 728,371	\$ 257,987
Investments	476,419	-
Accounts receivable	2,395	17,989
Total financial assets at year end	1,207,185	275,976
Less those unavailable for general expenditures within one year due to:		
Purpose restricted funds	(1,625)	(2,231)
Escrow account funds	(19,533)	(45,519)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,186,027</u>	<u>\$ 228,226</u>

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.

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2021 and 2020

Note 4. Cash Concentration

At various times during the year ended June 30, 2021, the Organization had deposit amounts with financial institutions in excess of the \$250,000 Federal Deposit Insurance Corporation ("FDIC") insurance limit. At June 30, 2021 and 2020, Habitat had approximately \$277,000 and \$5,600, respectively, 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>2021</u>	<u>2020</u>
Homeowner escrow funds	\$ 19,533	\$ 45,519
Donor restricted funds	1,625	2,231
	<u>\$ 21,158</u>	<u>\$ 47,750</u>

Note 6. Investments

As of June 30, 2021, the Organization held exchange traded funds with a cost of \$462,725 and a fair market value of \$476,419. The Organization held no investments during the year ended June 30, 2020.

Investment returns are comprised of the following for the year ended June 30, 2021:

Net unrealized gain	\$ 16,375
Interest and dividend income	5,235
Realized gains	<u>3,192</u>
	<u>\$ 24,802</u>

Interest and dividend income includes \$508 of interest income earned from the operating account during the year ended June 30, 2021.

Note 7. Construction Project Inventory

Construction project inventory consists of 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. The cost of the housing construction projects were \$1,842,719 and \$2,275,992 as of June 30, 2021 and 2020, respectively.

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2021 and 2020

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>2021</u>	<u>2020</u>
Mortgages receivable at face value	\$ 126,901	\$ 129,841
Unamortized discounts	<u>(72,498)</u>	<u>(77,821)</u>
	54,403	52,020
Less: current portion of mortgages receivable net of unamortized discounts	<u>(2,745)</u>	<u>(2,745)</u>
	<u>\$ 51,658</u>	<u>\$ 49,275</u>

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

2022	2,745
2023	2,745
2024	2,745
2025	2,745
2026	2,745
Thereafter	<u>40,678</u>
	<u>\$ 54,403</u>

Note 9. Properties and Equipment

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

	<u>2021</u>	<u>2020</u>
Cottages	\$ 1,627,619	\$ 2,590,057
Office equipment	62,184	62,184
Vehicles	71,989	66,989
Furniture and equipment	26,166	26,166
Leasehold improvements	18,467	18,467
Tools	937	937
Total depreciable assets	1,807,362	2,764,800
Less: accumulated depreciation	<u>(241,555)</u>	<u>(154,731)</u>
	<u>\$ 1,565,807</u>	<u>\$ 2,610,069</u>

Depreciation totaled \$86,824 and \$52,618 for the years ended June 30, 2021 and 2020, respectively.

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2021 and 2020

Note 9. Properties and Equipment, *continued*

During the year ended June 30, 2021, Habitat determined an impairment loss was necessary for the Cottages based on market value of similar properties in the area. The value of the Cottages was reduced by \$962,439 to reflect such impairment.

Note 10. Notes Payable

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

	<u>2021</u>	<u>2020</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 January 1, 2023. 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.	401,789	401,789
A promissory note agreement with Small Business Administration in the amount of \$149,900. The borrowings from the note bear 2.75% interest, due in 30 years starting one year from the date of the note. Borrowings against the note are secured by substantially all of the Organization's tangible and intangible assets.	149,900	-
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 residences were sold and the note was paid off in July 2020.	-	339,246
A straight note agreement with a third party provided borrowing of \$80,000 in connection with the acquisition of land for the Green Valley project. The note bears 0% interest and is due upon sale of the project. The property was sold in July 2020, at which point the note was paid off in full.	-	80,000
	<u>966,689</u>	<u>1,236,035</u>
Less: current portion	<u>(2,858)</u>	<u>(80,000)</u>
Non-current portion	<u>\$ 963,831</u>	<u>\$ 1,156,035</u>

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2021 and 2020

Note 10. Notes Payable, *continued*

During the years ended June 30, 2021 and 2020, interest in the amount of \$23,678 and \$22,151, respectively, on the notes payable has been capitalized into construction in progress and reported in inventory on the Statements of Financial Position.

Note 11. 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, 2021 and 2020. Upon maturing subsequent to year-end, the LOC was not renewed by the Organization.

Note 12. Government Forgivable Loan and Grant Revenue

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. The loan is a forgivable loan if certain criteria are met. As of June 30, 2020 the Organization had reasonable assurance they would meet the criteria and therefore reported the proceeds as government grant revenue in the Statement of Activities and Changes in Net Assets. In April 2021, Habitat met the criteria, and the PPP loan was fully forgiven.

In February 2021, the Organization applied for and received a second PPP loan with the SBA in the amount of \$150,000. The loan bears annual interest at 1%, matures 5 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. In June 2021, the Organization had met the SBA criteria, and the PPP loan was fully forgiven and therefore reported as a government grant revenue in the Statement of Activities and Changes in Net Assets.

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 purpose restrictions amounted to \$60,346 for the year ended June 30, 2021. Net assets released from time and purpose restrictions amounted to \$60,000 and \$298,000 for the year ended June 30, 2020, respectively.

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2021 and 2020

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

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

	<u>2021</u>	<u>2020</u>
Aging in Place	\$ 60,346	\$ -
Sonoma Cottages	-	270,000
The Habitat Center	-	25,000
Green Valley	-	3,000
	<u>\$ 60,346</u>	<u>\$ 358,000</u>

Net assets with donor restrictions consist of program restrictions in the amount of \$1,625 and \$2,231 as of June 30, 2021 and 2020, respectively, and are included on the Statements of Financial Position as restricted cash and cash equivalents.

Note 14. Operating Lease Commitments

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, 2021 are as follows for years ending June 30,

2022	\$ 187,700
2023	191,800
2024	195,800
2025	<u>199,900</u>
	<u>\$ 775,200</u>

During the year ended June 30, 2021, 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, 2021 and 2020 were \$167,454 and \$129,018 respectively.

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 years ended June 30, 2021 and 2020, the Organization generated unrelated business income (loss) from the sales of purchased tools, supplies, furniture and appliances at the ReStore.

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2021 and 2020

Note 15. Unrelated Business Income, *continued*

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

	<u>2021</u>	<u>2020</u>
ReStore sales of purchased inventory	\$ 140,224	\$ 166,429
Less:		
Wages and benefits attributed	(80,140)	(80,901)
Cost of inventory	(96,838)	(79,845)
Rent	(9,324)	(22,236)
	<u> </u>	<u> </u>
Net loss from unrelated business	<u>\$ (40,078)</u>	<u>\$ (16,553)</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 made a contribution of \$1,500 for the year ended June 30, 2021. No contribution was made for the year ended June 30, 2020.

Note 17. Contingency

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.

Although not directly impacted through June 30, 2021, operations and business results of the Organization could be materially adversely affected in the future, including a reduction in grant and contribution revenues, or an impact to the timing of cash flows. Further, some significant estimates, such as the fair value of investments may be materially adversely impacted by national, state and local events necessary to contain the coronavirus. Throughout the pandemic, the Organization has implemented safety measures to protect employees and will continue to review them as needed.

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.

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.

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2021 and 2020

Note 19. Subsequent Events

The Organization has evaluated subsequent events from July 1, 2021 through March 16, 2022, the date the financial statements were available to be issued, and determined that other than the expiration of the line of credit discussed above in Note 11, there were no additional events occurring subsequent to June 30, 2021 that would have a material impact on the Organization's results of operations or financial position that require adjustments or disclosures.