

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

Financial Statements
For the Years Ended June 30, 2022 and 2021

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 (the "Organization"), which comprise the statements of financial position as of June 30, 2022 and 2021, 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.

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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 the Organization's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

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 the Organization'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 the Organization'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 Burkel + Millar, LLP

Santa Rosa, California
February 13, 2023

Habitat for Humanity of Sonoma County

Statements of Financial Position

As of June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 1,029,273	\$ 707,213
Restricted cash and cash equivalents	31,918	21,158
Accounts receivable	2,772	2,395
Mortgage receivable, current portion, net	2,745	2,745
Prepaid expenses and other current assets	<u>41,165</u>	<u>79,306</u>
Total current assets	1,107,873	812,817
Investments	181,551	476,419
Mortgages receivable, non-current portion, net	54,066	51,658
Construction project inventory	1,906,257	1,842,719
Properties and equipment, net	306,635	1,565,807
Deposits	<u>16,671</u>	<u>15,650</u>
Total assets	<u>\$ 3,573,053</u>	<u>\$ 4,765,070</u>
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 97,716	\$ 86,722
Deferred revenue	45,222	52,384
Escrow deposits	35,232	25,069
Notes payable, current portion	<u>2,445</u>	<u>2,858</u>
Total current liabilities	180,615	167,033
Notes payable, non-current portion	<u>749,244</u>	<u>963,831</u>
Total liabilities	929,859	1,130,864
Net assets		
Net assets without donor restrictions	2,643,194	3,632,581
Net assets with donor restrictions	<u>-</u>	<u>1,625</u>
Total net assets	<u>2,643,194</u>	<u>3,634,206</u>
Total liabilities and net assets	<u>\$ 3,573,053</u>	<u>\$ 4,765,070</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, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue			
Contributions of nonfinancial assets	\$ 1,537,980	\$ -	\$ 1,537,980
Contributions of financial assets	413,314	26,200	439,514
Rental income	157,089	-	157,089
Restore sales	98,260	-	98,260
Government grants	-	5,000	5,000
Investment income, net	(27,320)	-	(27,320)
Other income	5,292	-	5,292
Net assets released from restriction	32,825	(32,825)	-
	<u>2,217,440</u>	<u>(1,625)</u>	<u>2,215,815</u>
Expenses			
Program services:			
Habitat programs	1,547,681	-	1,547,681
ReStore	1,169,974	-	1,169,974
Total program services	<u>2,717,655</u>	<u>-</u>	<u>2,717,655</u>
Supporting services:			
Management and general	372,979	-	372,979
Fundraising	116,193	-	116,193
Total supporting services	<u>489,172</u>	<u>-</u>	<u>489,172</u>
Total expenses	<u>3,206,827</u>	<u>-</u>	<u>3,206,827</u>
Changes in net assets	(989,387)	(1,625)	(991,012)
Net assets at beginning of year	<u>3,632,581</u>	<u>1,625</u>	<u>3,634,206</u>
Net assets at end of year	<u>\$ 2,643,194</u>	<u>\$ -</u>	<u>\$ 2,643,194</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

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Contributions of nonfinancial assets	\$ 1,743,161	\$ -	\$ 1,743,161
Contributions of financial assets	202,698	59,740	262,438
Rental income	160,941	-	160,941
Government grants	150,000	-	150,000
Restore sales	140,224	-	140,224
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)	-
Total support and revenue	2,348,262	(606)	2,347,656
Expenses			
Program services:			
Habitat programs	1,168,178	-	1,168,178
ReStore	886,968	-	886,968
Total program services	2,055,146	-	2,055,146
Supporting services:			
Management and general	355,432	-	355,432
Fundraising	69,021	-	69,021
Total supporting services	424,453	-	424,453
Total expenses	2,479,599	-	2,479,599
Changes in net assets	(131,337)	(606)	(131,943)
Net assets at beginning of year	3,763,918	2,231	3,766,149
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 Functional Expenses
For the Year Ended June 30, 2022

	Program Services		Supporting Services		Total Expenses
	Habitat Programs	ReStore	Management and General	Fundraising	
Wages and salaries	\$ 125,859	\$ 588,947	\$ 203,856	\$ 69,950	\$ 988,612
Payroll taxes	10,945	55,027	16,124	5,293	87,389
Employee benefits	13,087	103,069	18,549	16,965	151,670
	149,891	747,043	238,529	92,208	1,227,671
Impairment loss	1,202,619	-	-	-	1,202,619
Occupancy	292	235,630	3,063	-	238,985
Professional services	16,376	7,531	58,188	-	82,095
Restore merchandise	-	75,836	-	-	75,836
Supplies and small equipment	54,980	9,923	4,921	220	70,044
Depreciation	43,403	6,802	15,076	-	65,281
Rental property maintenance	53,289	-	-	-	53,289
Travel	11,809	22,186	2,467	-	36,462
Dues and subscriptions	-	2,690	27,484	2,289	32,463
Bank and credit card fees	-	28,462	398	1,190	30,050
Equipment rental	4,099	5,447	8,603	-	18,149
Postage	-	467	536	16,768	17,771
Insurance	4,271	4,580	5,469	-	14,320
Telephone and internet	698	6,278	4,674	-	11,650
Advertising and marketing	2,893	3,959	1,041	1,978	9,871
Repairs and maintenance	-	7,457	73	-	7,530
Food and beverages	686	4,769	1,675	-	7,130
Taxes and license	913	914	519	-	2,346
Other	1,462	-	263	80	1,805
Event costs	-	-	-	1,460	1,460
Total expenses	\$ 1,547,681	\$ 1,169,974	\$ 372,979	\$ 116,193	\$ 3,206,827

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
	52,910	481,956	238,096	46,093	819,055
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
Restore merchandise	-	96,838	-	-	96,838
Depreciation	66,412	7,802	12,610	-	86,824
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
Rental property maintenance	25,010	-	-	-	25,010
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
Equipment rental	520	359	8,866	-	9,745
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	40	4,557
Food and beverages	328	3,532	437	-	4,297
Postage	-	-	415	80	495
Total expenses	\$ 1,168,178	\$ 886,968	\$ 355,432	\$ 69,021	\$ 2,479,599

See accompanying Notes to Financial Statements.

Habitat for Humanity of Sonoma County

Statements of Cash Flows

For the Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
	<i>Increase (decrease) in cash and cash equivalents</i>	
Cash flows from operating activities		
Changes in net assets	\$ (991,012)	\$ (131,943)
Adjustments to reconcile changes in net assets to net cash flows provided by operating activities:		
Depreciation	65,281	86,824
Impairment loss	1,202,619	962,439
Amortization on discount of mortgage receivable	(5,322)	(5,323)
In-kind donation of equity securities	(4,281)	(8,686)
Gain on sale of equipment	(2,000)	-
Realized (gain)/loss on investments	29,798	(3,192)
Unrealized (gain)/loss on investments	11,108	(16,375)
Dividends and interest reinvested	(10,674)	(3,831)
Contributions capitalized to construction project inventory	-	(315,000)
Interest capitalized to construction project inventory	(16,216)	(23,678)
Decrease (increase) in operating assets:		
Accounts receivable	(377)	55,594
Construction project inventory	(47,322)	771,951
Prepaid expenses and other current assets	38,141	(49,297)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	10,994	(130,468)
Deferred revenue	(7,162)	(6,000)
Escrow deposits	10,163	3,111
	<u>283,738</u>	<u>1,186,126</u>
Net cash and cash equivalents provided by operating activities		
Cash flows from investing activities		
Collection on mortgage receivable	2,914	2,940
Additional rent deposit	(1,021)	-
Proceeds from sale of equity securities	268,917	11,879
Proceeds from sale of equipment	5,000	-
Purchases of investment securities	-	(456,214)
Purchases of properties and equipment	(11,728)	(5,001)
	<u>264,082</u>	<u>(446,396)</u>
Net cash and cash equivalents provided by (used in) investing activities		

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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, 2022 and 2021

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	<u>2022</u>	<u>2021</u>
	<i>Increase (decrease) in cash and cash equivalents</i>	
Cash flows from financing activities		
Borrowings from promissory notes	\$ -	\$ 149,900
Payments on notes payable	<u>(215,000)</u>	<u>(419,246)</u>
Net cash and cash equivalents used in financing activities	<u>(215,000)</u>	<u>(269,346)</u>
Net change in cash and cash equivalents	332,820	470,384
Cash and cash equivalents at beginning of year	<u>728,371</u>	<u>257,987</u>
Cash and cash equivalents at end of year	<u>\$ 1,061,191</u>	<u>\$ 728,371</u>
Unrestricted cash and cash equivalents	\$ 1,029,273	\$ 707,213
Restricted cash and cash equivalents	<u>31,918</u>	<u>21,158</u>
Total cash and cash equivalents	<u>\$ 1,061,191</u>	<u>\$ 728,371</u>
Supplementary cash information		
Cash paid for interest	<u>\$ 16,216</u>	<u>\$ 23,678</u>

See accompanying Notes to Financial Statements.

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2022 and 2021

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, 2022 and 2021

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, 2022 and 2021, the Organization held restricted cash and cash equivalents due to donor restrictions placed on the assets or 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 in the Statements of Financial Position. Donated investments are recorded at their fair value at the date of donation. Realized and unrealized gains and losses are included in the change in net assets in the accompanying 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.

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, 2022 and 2021, all investments held by the Organization were considered Level 1 instruments.

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2022 and 2021

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 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. As of June 30, 2022 and 2021 there were no contributions or grants receivable.

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, 2022 and 2021

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 \$1,202,619 and \$962,439 during the years ended June 30, 2022 and 2021, respectively (See Note 8).

Revenue Recognition

Contributions received and unconditional promises to give are measured at their fair values on the date of donation 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 presented as home sales revenue net of cost of construction on the Statements of Activities and Changes in Net Assets. Sales to homeowners with Habitat providing financing 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, 2022 and 2021, mortgage receivable is presented on the Statements of Financial Position net of discount totaling \$67,176 and \$72,498, respectively.

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 recognized as contribution revenue at the price sold.

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, 2022 and 2021

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, 2022 and 2021 totaled \$39,097 and \$25,861, 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 years ended June 30, 2022 and 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 13).

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, 2022, 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, 2022 and 2021

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

Accounting Pronouncements Adopted

In September 2020, the Financial Accounting Standards Board FASB issued Accounting Standard Update 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 Organization adopted this new standard effective July 1, 2021. There were no changes to previously reported net assets upon adoption.

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 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.

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, 2022 and 2021, 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>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 1,061,191	\$ 728,371
Investments	181,551	476,419
Receivables	5,517	5,140
Total financial assets at year end	1,248,259	1,209,930
Less those unavailable for general expenditures within one year due to:		
Donor restricted funds	-	(1,625)
Escrow account funds	(31,918)	(19,533)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,216,341</u>	<u>\$ 1,188,772</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, 2022 and 2021

Note 4. Cash Concentration

At various times during the years ended June 30, 2022 and 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, 2022 and 2021, Habitat had approximately \$577,000 and \$277,000, respectively, on 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>2022</u>	<u>2021</u>
Homeowner escrow funds	\$ 31,918	\$ 19,533
Donor restricted funds	-	1,625
	<u>\$ 31,918</u>	<u>\$ 21,158</u>

Note 6. Investments

As of June 30, 2022 and 2021, the Organization held exchange traded funds with a cost of \$189,640 and \$462,725, and fair market values of \$181,551 and \$476,419, respectively.

Investment returns are comprised of the following for the year ended June 30, 2022

	<u>2022</u>	<u>2021</u>
Interest and dividend income	\$ 13,586	\$ 5,235
Net unrealized gain (loss)	(11,108)	16,375
Realized gains (loss)	<u>(29,798)</u>	<u>3,192</u>
	<u>\$ (27,320)</u>	<u>\$ 24,802</u>

Interest and dividend income includes \$1,728 and \$508 of interest income earned from the operating account during the years ended June 30, 2022 and 2021, respectively.

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2022 and 2021

Note 7. 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>2022</u>	<u>2021</u>
Mortgages receivable at face value	\$ 123,987	\$ 126,901
Unamortized discounts	<u>(67,176)</u>	<u>(72,498)</u>
	56,811	54,403
Less: current portion of mortgages receivable net of unamortized discounts	<u>(2,745)</u>	<u>(2,745)</u>
	<u>\$ 54,066</u>	<u>\$ 51,658</u>

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

2023	\$ 2,745
2024	2,745
2025	2,745
2026	2,745
2027	2,745
Thereafter	<u>43,086</u>
	<u>\$ 56,811</u>

Note 8. Properties and Equipment

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

	<u>2022</u>	<u>2021</u>
Cottages	\$ 425,000	\$ 1,627,619
Furniture and fixtures	26,166	26,166
Vehicles	77,989	71,989
Equipment	63,121	63,121
Leasehold improvements	<u>19,196</u>	<u>18,467</u>
Total depreciable assets	611,472	1,807,362
Less: accumulated depreciation	<u>(304,837)</u>	<u>(241,555)</u>
	<u>\$ 306,635</u>	<u>\$ 1,565,807</u>

Depreciation totaled \$65,281 and \$86,824 for the years ended June 30, 2022 and 2021, respectively.

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2022 and 2021

Note 8. Properties and Equipment, *continued*

During the years ended June 30, 2022 and 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 \$1,202,916 and \$962,439, respectively, to reflect such impairment. Subsequent to year-end, Habitat started the process of making the Cottages available for sale.

Note 9. Notes Payable

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

	<u>2022</u>	<u>2021</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 5.0% per annum, maturing January 1, 2024. Borrowings against the note are secured by the construction project.	\$ 200,000	\$ 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 are 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 two years from the date of the note. Borrowings against the note are secured by substantially all of the Organization's tangible and intangible assets.	<u>149,900</u>	<u>149,900</u>
	751,689	966,689
Less: current portion	<u>(2,445)</u>	<u>(2,858)</u>
Non-current portion	<u>\$ 749,244</u>	<u>\$ 963,831</u>

During the years ended June 30, 2022 and 2021, interest in the amount of \$16,216 and \$23,678, respectively, on the notes payable has been capitalized into construction in progress and reported in inventory on the Statements of Financial Position.

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2022 and 2021

Note 9. Notes Payable, *continued*

Scheduled future maturities of notes payable as of June 30, 2022 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2023	\$ 2,445	\$ 4,323	\$ 6,768
2024	203,900	4,222	208,122
2025	4,008	4,114	8,122
2026	4,120	4,002	8,122
2027	4,235	3,887	8,122
Thereafter	532,981	49,114	582,095
	<u>\$ 751,689</u>	<u>\$ 69,662</u>	<u>\$ 821,351</u>

Note 10. Government Forgivable Loan and Grant Revenue

In February 2021, the Organization applied for and received a Paycheck Protection Program (“PPP”) loan with the Small Business Administration (“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 Statements of Activities and Changes in Net Assets.

Note 11. 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 \$32,825 and \$60,346 for the years ended June 30, 2022 and 2021, respectively.

There were no net assets with donor restrictions as of June 30, 2022. Net assets with donor restrictions consist of program restrictions in the amount of \$1,625 as of June 30, 2021, and are included on the Statements of Financial Position as restricted cash and cash equivalents.

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2022 and 2021

Note 12. Operating Lease Commitments

The Organization has an operating lease agreement for the ReStore building 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, 2022 are as follows for years ending June 30,

2023	\$	191,760
2024		195,840
2025		<u>199,920</u>
	\$	<u>587,520</u>

Total rent expenses incurred for the rental of the ReStore building for the years ended June 30, 2022 and 2021 were \$188,388 and \$167,454 respectively.

Note 13. 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, 2022 and 2021, the Organization generated unrelated business losses from the sales of purchased tools, supplies, furniture and appliances at the ReStore.

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

	<u>2022</u>	<u>2021</u>
ReStore sales of purchased inventory	\$ 98,260	\$ 140,224
Less:		
Wages and benefits attributed	(96,807)	(80,140)
Cost of inventory	(75,836)	(96,838)
Rent	<u>(12,469)</u>	<u>(9,324)</u>
Net loss from unrelated business	<u>\$ (86,852)</u>	<u>\$ (40,078)</u>

As of June 30, 2022, the Organization had net operating loss carry forwards of approximately \$52,000 for each federal and state purposes. The carry forwards have no expiration date. The net operating loss carry forwards generate a deferred tax asset in the amount of approximately \$41,000. Due to the lack of a consistent history of profitability however, a valuation allowance has been recorded against the income tax benefits to reduce the deferred tax asset balance to zero due to the uncertainty of the future realization of any of such deferred tax assets.

Habitat for Humanity of Sonoma County

Notes to Financial Statements

For the Years Ended June 30, 2022 and 2021

Note 14. 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 no contributions during the year ended June 30, 2022, and \$1,500 for the year ended June 30, 2021.

Note 15. 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 are included in the reporting of the Organization.

Note 16. Contributions of Nonfinancial Assets

During the year ended June 30, 2022, Habitat received donations of merchandise for their ReStore store valued at \$1,537,980. Habitat uses the sales price of the merchandise to determine the value of the donation. There were no restrictions on the use of the merchandise by the donors.

During the year ended June 30, 2021, Habitat received donations of merchandise for their ReStore store valued at \$1,428,161. Habitat uses the sales price of the merchandise to determine the value of the donation. There were no restrictions on the use of the merchandise by the donors. Habitat also received a plot of land from a donor valued at \$315,000. The land was valued based on the appraised market value, there were no restrictions on the use of the land, and it is in the development process for the Organization's home building program.

Note 17. Subsequent Events

The Organization has evaluated subsequent events from July 01, 2022 through February 13, 2023, the date the financial statements were available to be issued, and determined there were no additional events occurring subsequent to June 30, 2022 that would have a material impact on the Organization's results of operations or financial position that require adjustments or disclosures.