

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

**Financial Statements**  
**For the Year Ended June 30, 2023**

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 statement of financial position as of June 30, 2023, 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, 2023, 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 the Organization 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.

### ***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 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 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 15, 2024

# Habitat for Humanity of Sonoma County

## Statement of Financial Position

As of June 30, 2023

### Assets

#### Current assets

Cash and cash equivalents	\$ 1,177,848
Restricted cash and cash equivalents	37,522
Accounts receivable	80,333
Prepaid expenses and other current assets	59,898

**Total current assets** 1,355,601

Investments	194,067
Construction project inventory	963,081
Properties and equipment, <i>net</i>	3,355
Operating right-to-use asset, <i>net</i>	446,292
Deposits	16,792

**Total assets** \$ 2,979,188

### Liabilities and net assets

#### Current liabilities

Accounts payable and accrued expenses	\$ 189,080
Deferred revenue	23,193
Escrow deposits	39,678
Notes payable, current portion	204,086
Operating lease liability, current portion	257,393

**Total current liabilities** 713,430

Notes payable, non-current portion 544,600

Operating lease liability, non-current portion 286,043

**Total liabilities** 1,544,073

#### Net assets

Net assets without donor restrictions 1,435,115

**Total net assets** 1,435,115

**Total liabilities and net assets** \$ 2,979,188

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, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Support and revenue</b>			
Contributions of nonfinancial assets	\$ 1,996,245	\$ -	\$ 1,996,245
Contributions of financial assets	341,485	27,800	369,285
Rental income	49,004	-	49,004
Restore sales	136,263	-	136,263
Investment income, net	19,728	-	19,728
Loss on sale of property and improvements	(50,184)	-	(50,184)
Other income	23,650	-	23,650
Net assets released from restriction	27,800	(27,800)	-
	<u>2,543,991</u>	<u>-</u>	<u>2,543,991</u>
<b>Expenses</b>			
Program services:			
Habitat programs	1,560,195	-	1,560,195
ReStore	1,568,523	-	1,568,523
Total program services	<u>3,128,718</u>	<u>-</u>	<u>3,128,718</u>
Supporting services:			
Management and general	399,106	-	399,106
Fundraising	136,281	-	136,281
Total supporting services	<u>535,387</u>	<u>-</u>	<u>535,387</u>
Total expenses	<u>3,664,105</u>	<u>-</u>	<u>3,664,105</u>
<b>Changes in net assets</b>	<b>(1,120,114)</b>	<b>-</b>	<b>(1,120,114)</b>
<b>Net assets at beginning of year, restated</b>	<u>2,555,229</u>	<u>-</u>	<u>2,555,229</u>
<b>Net assets at end of year</b>	<u><u>\$ 1,435,115</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,435,115</u></u>

See accompanying Notes to Financial Statements.

## Habitat for Humanity of Sonoma County

### Statement of Functional Expenses

For the Year Ended June 30, 2023

	Program Services		Supporting Services		Total Expenses
	Habitat Programs	ReStore	Management and General	Fundraising	
Wages and salaries	\$ 222,607	\$ 743,790	\$ 111,296	\$ 83,132	\$ 1,160,825
Impairment loss	1,043,939	-	-	-	1,043,939
Depreciation and amortization	3,700	217,301	17,595	-	238,596
Employee benefits	18,581	136,347	11,070	17,233	183,231
Professional services	22,715	22,454	100,712	-	145,881
Restore merchandise	-	124,011	-	-	124,011
Supplies and small equipment	96,095	13,427	1,727	-	111,249
Occupancy	3,831	95,618	11,025	-	110,474
Payroll taxes	19,298	68,670	8,870	6,292	103,130
Lawsuit settlement	-	-	82,500	-	82,500
Bad debts	53,500	-	-	-	53,500
Interest	490	44,383	3,407	-	48,280
Repairs and maintenance	42,150	1,258	-	-	43,408
Dues and subscriptions	588	4,666	28,982	5,225	39,461
Bank and credit card fees	5	37,882	281	571	38,739
Travel	15,000	20,217	-	347	35,564
Insurance	5,064	6,909	7,754	-	19,727
Equipment rental	4,095	6,685	8,883	-	19,663
Postage	36	363	674	15,249	16,322
Advertising and marketing	84	6,925	213	7,882	15,104
Telephone and internet	1,171	11,377	585	-	13,133
Food and beverages	2,644	5,666	749	-	9,059
Other	3,020	8	2,500	350	5,878
Taxes and license	1,582	566	283	-	2,431
<b>Total expenses</b>	<b>\$ 1,560,195</b>	<b>\$ 1,568,523</b>	<b>\$ 399,106</b>	<b>\$ 136,281</b>	<b>\$ 3,664,105</b>

See accompanying Notes to Financial Statements.

# Habitat for Humanity of Sonoma County

## Statement of Cash Flows

For the Year Ended June 30, 2023

	<i>Increase (decrease) in cash and cash equivalents</i>
<b>Cash flows from operating activities</b>	
Change in net assets	\$ (1,120,114)
Adjustments to reconcile change in net assets to net cash flows used in operating activities:	
Depreciation and amortization	238,596
Impairment loss	1,043,939
Write-off of mortgage receivable	56,811
Contribution of equity securities	(5,020)
Loss on disposal of property and improvements	50,184
Realized gain on investments	(177)
Unrealized gain on investments	(10,358)
Dividends and interest reinvested	(2,158)
Interest capitalized to construction project inventory	(11,139)
Decrease (increase) in operating assets:	
Accounts receivable	(77,561)
Construction project inventory	(89,624)
Prepaid expenses and other current assets	(18,733)
Increase (decrease) in operating liabilities:	
Accounts payable and accrued expenses	91,364
Deferred revenue	(22,029)
Escrow deposits	4,446
Operating lease liability	(201,321)
	<hr/>
<b>Net cash and cash equivalents used in operating activities</b>	(72,894)
<b>Cash flows from investing activities</b>	
Additional rent deposit	(121)
Proceeds from sale of equity securities	5,197
Proceeds from sale of equipment	225,000
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<b>Net cash and cash equivalents provided by investing activities</b>	230,076

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*See accompanying Notes to Financial Statements.*



# Habitat for Humanity of Sonoma County

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## Statement of Cash Flows

For the Year Ended June 30, 2023

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	<i>Increase (decrease) in cash and cash equivalents</i>
<b>Cash flows from financing activities</b>	
Payments on notes payable	\$ (3,003)
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<b>Net cash and cash equivalents used in financing activities</b>	(3,003)
	<hr/>
<b>Net change in cash and cash equivalents</b>	154,179
<b>Cash and cash equivalents at beginning of year</b>	1,061,191
	<hr/>
<b>Cash and cash equivalents at end of year</b>	\$ 1,215,370
	<hr/> <hr/>
Unrestricted cash and cash equivalents	\$ 1,177,848
Restricted cash and cash equivalents	37,522
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<b>Total cash and cash equivalents</b>	\$ 1,215,370
	<hr/> <hr/>
<b>Supplementary cash information</b>	
Cash paid for interest	\$ 11,139
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Operating right-of-use asset obtained by lease liability	\$ 303,518
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*See accompanying Notes to Financial Statements.*

# Habitat for Humanity of Sonoma County

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## Notes to Financial Statements For the Year Ended June 30, 2023

### 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 Statement 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

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## Notes to Financial Statements For the Year Ended June 30, 2023

### 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, 2023, the Organization held restricted cash and cash equivalents due to 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, exchange traded funds, corporate bonds, and certificates of deposit, are carried at fair value in the Statement 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 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.

#### 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, 2023, all investments held by the Organization were considered Level 1 instruments.

#### Fair Value of Financial Instruments

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

# Habitat for Humanity of Sonoma County

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## Notes to Financial Statements For the Year Ended June 30, 2023

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

#### 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 the lower of cost or recoverable amount at year-end.

#### Construction Project Inventories

Construction project inventories consist of housing in development and construction supplies. Inventories are stated at lower of cost or recoverable amount at year-end.

Construction supplies received through contributions of nonfinancial assets 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 can include contributed services and 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 available for occupancy.

The Organization 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. The factors considered by management in performing this assessment include trends and prospects, the manner in which the property is expected to be 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 \$1,043,939 during the year ended June 30, 2023.

#### 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, 2023, there were no contributions or grants receivable.

#### Mortgages Receivable

The Organization provides low interest financing to some of the homes purchased by qualified families. These mortgages are discounted to represent their present values. Management periodically evaluates the collectability of these mortgages. As of June 30, 2023, management determined the mortgages were not collectable and wrote off the balance in the amount of \$53,500.

# Habitat for Humanity of Sonoma County

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## Notes to Financial Statements For the Year Ended June 30, 2023

### 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.

Contributed property and equipment are recorded at fair value at the date of donation. In the absence of donor stipulations, all contributions of property and equipment are recorded as unrestricted support and depreciated over the assets' estimated useful lives. Contributions of personal property are recorded at fair value, which is both measurable and objective. Long-lived assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment, are reported as restricted support until the donated assets are placed in service. Upon the assets being placed in service, the restrictions are considered met and funds are released to unrestricted support. Expenditures for maintenance and repairs are charged to expense when incurred.

#### Leases

Transactions give rise to leases when the Organization receives substantially all of the economic benefits from, and has the ability to direct the use of specified property and equipment. The Organization has lessee activity that is classified as an operating lease. The operating lease is included in operating lease right-of-use asset, operating lease liability-current portion, and operating lease liability, non-current portion on the Statement of Financial Position.

An operating lease right-of-use asset represents the right to use an underlying asset for the lease term and an operating lease liability represents obligations to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized at the commencement date of the lease based on the present value of lease payments over the lease term. When discount rates implicit in the lease cannot be readily determined, the Organization uses their applicable incremental borrowing rate, or a risk free rate, at lease commencement to perform lease classification tests and to measure the lease liability and right-of-use asset. Lease expense for operating leases is recognized on a straight-line basis over the lease term. Certain optional renewal periods would not be included in the determination of the lease liability and right-of-use asset if management determined it was not reasonably certain that the lease would be extended or if the payments were not determinable.

The Organization has agreements with lease and non-lease components, such as common area maintenance, and has elected the practical expedient to not separate the lease and non-lease components when calculating the lease liability and right-of-use asset when it relates to office leases. The Organization has also elected not to recognize right-of-use assets and lease liabilities for leases of terms less than 12 months.

#### 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.

# Habitat for Humanity of Sonoma County

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## Notes to Financial Statements For the Year Ended June 30, 2023

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

#### Revenue Recognition, *continued*

Sales to homeowners are presented as home sales revenue net of cost of construction on the Statement 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, 2023, there were no mortgages receivable.

#### Contributions of Nonfinancial Assets

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.

#### Deferred Revenue

Deferred revenue consists of the gift cards the ReStore either donates or sells to customers and local charitable and civic organizations for their programs during the year that have been unredeemed as of June 30, 2023.

#### Accrued Vacation

Accumulated unpaid employee vacation benefits are recognized as liabilities of the Organization. The value of accrued vacation at June 30, 2023 totaled \$34,785. Accrued vacation is included in accounts payable and 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 Statement of Functional Expenses and summarized on a functional basis in the Statement 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.

# Habitat for Humanity of Sonoma County

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## Notes to Financial Statements For the Year Ended June 30, 2023

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

#### 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, 2023 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 12).

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, 2023, 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.

#### Accounting Pronouncements Adopted

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 Organization adopted ASU 2016-02 with a date of initial application of July 1, 2022, by electing the modified retrospective transition approach and using the additional (and optional) transition method provided by ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*. The adoption of the new standard created a restatement of the beginning balance of the Organization's net assets due to the change in the accounting for two of the Organization's operating leases.

As part of the transition, the Organization also elected to apply the following hindsight practical expedients:

1. Election not to reassess whether any expired or existing contracts are, or contain, leases;
2. Election not to reassess the lease classification for any expired or existing leases; and
3. Election not to reassess initial direct costs on any existing leases.

As a result of the adoption on July 1, 2022, the Organization recorded an unamortized operating lease right-of-use asset of \$353,274, an operating lease liability of \$441,239, and a reduction to net assets in the amount of \$87,965.

# Habitat for Humanity of Sonoma County

## Notes to Financial Statements For the Year Ended June 30, 2023

### Note 3. Liquidity and Availability of Financial Assets

The following reflects the Habitat's financial assets as of June 30, 2023, reduced by amounts not available for general use because of contractual, donor imposed or board designated restrictions within one year of the balance sheet date.

Cash and cash equivalents	\$	1,215,370
Investments		194,067
Receivables		<u>80,333</u>
Total financial assets at year end		1,489,770
Less those unavailable for general expenditures within one year due to:		
Escrow account funds		<u>(37,522)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$	<u><u>\$1,452,248</u></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.

### Note 4. Cash Concentration

At various times during the year ended June 30, 2023, the Organization had deposit amounts with financial institutions in excess of the \$250,000 Federal Deposit Insurance Corporation ("FDIC") insurance limit. At June 30, 2023, Habitat had approximately \$742,000 on deposit in excess of the FDIC insured amount.

### Note 5. Investments

As of June 30, 2023, the Organization held exchange traded funds with a cost of \$191,799, and fair market value of \$194,067.

Investment returns are comprised of the following for the year ended June 30, 2023:

Interest and dividend income	\$	9,193
Net unrealized gain		10,358
Realized gains		<u>177</u>
	\$	<u><u>19,728</u></u>

Interest and dividend income includes \$2,772 of interest income earned from the operating account during the year ended June 30, 2023.



# Habitat for Humanity of Sonoma County

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## Notes to Financial Statements For the Year Ended June 30, 2023

### Note 6. Properties and Equipment

Properties and equipment and related accumulated depreciation are as follows as of June 30, 2023:

Furniture and fixtures	\$	26,166
Vehicles		77,989
Equipment		63,121
Leasehold improvements		<u>7,507</u>
Total depreciable assets		174,783
Less: accumulated depreciation		<u>(171,428)</u>
	\$	<u>3,355</u>

Depreciation totaled \$28,096 for the year ended June 30, 2023.

### Note 7. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consists of the following as of June 30, 2023:

Accounts payable	\$	12,234
Accrued payroll		32,061
Accrued vacation		34,785
Other accrued expenses		<u>110,000</u>
	\$	<u>189,080</u>

# Habitat for Humanity of Sonoma County

## Notes to Financial Statements For the Year Ended June 30, 2023

### Note 8. Notes Payable

Notes payable for the year ended June 30, 2023 consist of the following loan agreements:

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. Subsequent to year end in December 2023, this loan was fully paid off.	\$ 200,000
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
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.	146,897
	<u>748,686</u>
Less: current portion	<u>204,086</u>
Non-current portion	<u>\$ 544,600</u>

During the year ended June 30, 2023, interest in the amount of \$11,139 on the notes payable has been capitalized into construction in progress and reported in inventory on the Statement of Financial Position.

Scheduled future maturities of notes payable as of June 30, 2023 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2024	\$ 204,086	\$ 3,606	\$ 207,692
2025	4,184	3,508	7,692
2026	4,284	3,408	7,692
2027	4,387	3,305	7,692
2028	4,492	3,200	7,692
Thereafter	<u>527,253</u>	<u>37,992</u>	<u>565,245</u>
	<u>\$ 748,686</u>	<u>\$ 55,019</u>	<u>\$ 803,705</u>

# Habitat for Humanity of Sonoma County

## Notes to Financial Statements For the Year Ended June 30, 2023

### Note 9. 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 \$27,800 for the year ended June 30, 2023. There were no net assets with donor restrictions as of June 30, 2023.

### Note 10. Operating Leases

The Organization has two non-cancelable operating lease agreements for the ReStore building. The lease have expiration dates of June 30, 2025 and July 31, 2025, and require monthly minimum payments of approximately \$26,000 as of June 30, 2023. The Organization determined the weighted average incremental borrowing rate for these leases to be 6.9%.

Total lease costs incurred by these leases and type of payment for the year ended June 30, 2023, consist of the following:

Operating lease cost	
Rent expenses	\$ 29,268
Amortization of lease asset	210,500
Interest on lease liability	<u>44,383</u>
	<u>\$ 284,151</u>

Operating cash flows from operating leases for the year ended June 30, 2023 amounted to \$274,972.

As of June 30, 2023, the undiscounted future lease payment over the lease term for operating leases along with a reconciliation of the undiscounted cash flows to operating lease liabilities are as follows:

	2024	\$ 286,956
	2025	286,956
	2026	<u>10,313</u>
		584,225
Less: present value discount		<u>(40,789)</u>
Lease liability		<u>\$ 543,436</u>

### Note 11. 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, 2023, the Organization generated unrelated business losses from the sales of purchased tools, supplies, furniture and appliances at the ReStore.

# Habitat for Humanity of Sonoma County

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## Notes to Financial Statements For the Year Ended June 30, 2023

### Note 11. Unrelated Business Income, *continued*

The unrelated business activities incurred by the Organization are summarized as the following for the years ended June 30, 2023:

Restore sales of purchased inventory	\$	136,263
Less:		
Wages and benefits attributed		(17,354)
Cost of inventory		(124,011)
Rent		(11,785)
		<hr/>
Net loss from unrelated business	\$	<u>(16,887)</u>

As of June 30, 2023, the Organization had net operating loss carry forwards of approximately \$155,000 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 \$46,000. 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.

### Note 12. 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 remitted \$2,500 during the year ended June 30, 2023.

### Note 13. 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 14. Contributions of Nonfinancial Assets

During the year ended June 30, 2023, Habitat received donations of household items and construction materials to be sold in their ReStore store valued at \$1,996,245. 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 for Humanity of Sonoma County

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## Notes to Financial Statements For the Year Ended June 30, 2023

### Note 15. Legal Settlement

In 2023, the Organization was named in two class action complaints filed by a former employee in the Sonoma County Superior Court. The Organization denied each of the allegations in these claims, however they agreed to attend a mediation to discuss settlement of the claims. In January 2024, mediation was held and the parties arrived at a global settlement amount of \$110,000. The Organization anticipates a contribution by the codefendant of \$27,500. The settlement liability, and expected contribution by the codefendant, were recorded in the Statement of Financial Position as of June 30, 2023, and included in the accounts payable and accrued expenses and other current assets, respectively.

### Note 16. Subsequent Events

The Organization has evaluated subsequent events from July 01, 2023 through February 15, 2024, the date the financial statements were available to be issued, and determined that other than the note payable payoff (Note 8) and the legal settlement (Note 15), there were no additional events occurring subsequent to June 30, 2023 that would have a material impact on the Organization's results of operations or financial position that require adjustments or disclosures.