

**HABITAT FOR HUMANITY OF SNOHOMISH COUNTY**

Financial Statements  
June 30, 2023 and 2022

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Habitat for Humanity of Snohomish County  
Lynnwood, Washington

### **Opinion**

We have audited the accompanying financial statements of Habitat for Humanity of Snohomish County (the Agency, a nonprofit organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements (collectively, the financial statements).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Agency 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.

### **Emphasis of Matter Regarding Change in Accounting Principles**

As discussed in Note 1 to the financial statements, the Agency adopted a provision of Financial Accounting Standards Board Accounting Standards Updates 2016-02, *Leases (Topic 842)*. The guidance requires lessees to recognize a right-of-use asset and corresponding liability for all operating and finance leases with lease terms greater than one year. Our opinion is not modified with respect to that matter.

### **Prior Period Financial Statements**

The financial statements of the Agency as of June 30, 2022, were audited by other auditors whose report dated February 27, 2023, expressed an unmodified opinion on those statements.

### **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 Agency's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Amanda O'Rourke, CPA  
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Andrew Van Ness, CPA



### **Auditor's 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 auditor's 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 generally accepted auditing standards 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 generally accepted auditing standards, 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 Agency'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 Agency'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.

*Greenwood Ohlund*

Seattle, Washington  
March 26, 2024

**HABITAT FOR HUMANITY OF SNOHOMISH COUNTY**

STATEMENTS OF FINANCIAL POSITION

June 30, 2023 and 2022

ASSETS	2023	2022
Current Assets		
Cash and cash equivalents	\$ 531,368	\$ 585,521
Mortgages receivable	31,313	21,051
Store inventory	141,628	166,395
Prepaid expenses and other assets	17,379	57,049
Total current assets	721,688	830,016
Mortgages Receivable, net	1,003,817	1,255,321
Property and Equipment, net	59,442	81,971
Property Held for Development, net	1,229,048	946,211
Right-of-Use Asset – Operating Leases	1,282,181	-
Total assets	\$ 4,296,176	\$ 3,113,519
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 57,840	\$ 68,214
Accrued payroll, taxes, and benefits	58,906	61,170
Current portion of debt	783,065	32,144
Operating lease liability	457,157	-
Total current liabilities	1,356,968	161,528
Long term debt, less current portion	45,370	716,889
Operating Lease Liability, less current portion	819,242	
Total liabilities	2,221,580	878,417
Net Assets		
Without donor restrictions	2,074,596	2,204,400
With donor restrictions	-	30,702
Total net assets	2,074,596	2,235,102
Total liabilities and net assets	\$ 4,296,176	\$ 3,113,519

*See accompanying notes to financial statements.*

**HABITAT FOR HUMANITY OF SNOHOMISH COUNTY**

STATEMENTS OF ACTIVITIES  
For the Years Ended June 30, 2023 and 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue						
Contributions	\$ 456,496	\$ -	\$ 456,496	\$ 385,358	\$ -	\$ 385,358
Forgiveness of Paycheck Protection Program loan	-	-	-	153,100	-	153,100
In-kind donations for resale	1,199,853	-	1,199,853	1,133,567	-	1,133,567
Early mortgage payoff	137,507	-	137,507	171,807	-	171,807
Interest income – mortgages	60,907	-	60,907	78,740	-	78,740
Store sales	1,206,620	-	1,206,620	1,086,843	-	1,086,843
Store sales – cost of sales	(1,224,620)	-	(1,224,620)	(1,084,488)	-	(1,084,488)
Other income	18,952	-	18,952	1,135	-	1,135
Net assets released from restrictions	30,702	(30,702)	-	100,000	(100,000)	-
<b>Total support and revenue</b>	<b>1,886,417</b>	<b>(30,702)</b>	<b>1,855,715</b>	<b>2,026,062</b>	<b>(100,000)</b>	<b>1,926,062</b>
Expenses						
Program services	1,373,390	-	1,373,390	1,251,169	-	1,251,169
Management and general	485,345	-	485,345	519,751	-	519,751
Fundraising	157,486	-	157,486	176,036	-	176,036
<b>Total expenses</b>	<b>2,016,221</b>	<b>-</b>	<b>2,016,221</b>	<b>1,946,956</b>	<b>-</b>	<b>1,946,956</b>
<b>Change in net assets</b>	<b>(129,804)</b>	<b>(30,702)</b>	<b>(160,506)</b>	<b>79,106</b>	<b>(100,000)</b>	<b>(20,894)</b>
Net Assets, beginning of year	2,204,400	30,702	2,235,102	2,125,294	130,702	2,255,996
Net Assets, end of year	<u>\$ 2,074,596</u>	<u>\$ -</u>	<u>\$ 2,074,596</u>	<u>\$ 2,204,400</u>	<u>\$ 30,702</u>	<u>\$ 2,235,102</u>

*See accompanying notes to financial statements.*

## HABITAT FOR HUMANITY OF SNOHOMISH COUNTY

### STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2023

	Program Services			Management and General	Fundraising	Total
	Construction	Store	Total			
Salaries, taxes and benefits	\$ 158,078	\$ 486,112	\$ 644,190	\$ 223,751	\$ 138,234	\$ 1,006,175
Store sales – cost of sales	-	1,224,620	1,224,620	-	-	1,224,620
Occupancy	8,287	495,233	503,520	81,092	486	585,098
Second mortgages forgiven	60,178	-	60,178	-	-	60,178
Professional services	2,204	2,858	5,062	48,424	6,422	59,908
Dues and subscriptions	905	773	1,678	51,423	2,795	55,896
Taxes and fees	6,665	34,993	41,658	4,533	-	46,191
Office expenses	1,650	21,266	22,916	18,535	1,615	43,066
Building materials	31,917	-	31,917	-	-	31,917
Advertising	518	10,441	10,959	8,499	6,460	25,918
Depreciation	-	-	-	27,997	-	27,997
Insurance	7,702	10,637	18,339	374	-	18,713
Equipment	242	14,454	14,696	2,367	14	17,077
Miscellaneous	15,117	500	15,617	-	175	15,792
Interest	-	-	-	14,160	-	14,160
Travel and training	-	2,660	2,660	4,190	1,285	8,135
	<u>293,463</u>	<u>2,304,547</u>	<u>2,598,010</u>	<u>485,345</u>	<u>157,486</u>	<u>3,240,841</u>
Less: Store sales – cost of sales	-	(1,224,620)	(1,224,620)	-	-	(1,224,620)
	<u>\$ 293,463</u>	<u>\$ 1,079,927</u>	<u>\$ 1,373,390</u>	<u>\$ 485,345</u>	<u>\$ 157,486</u>	<u>\$ 2,016,221</u>

*See accompanying notes to financial statements.*

**HABITAT FOR HUMANITY OF SNOHOMISH COUNTY**

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2022

	Program Services			Management and General	Fundraising	Total
	Construction	Store	Total			
Salaries, taxes and benefits	\$ 93,657	\$ 370,236	\$ 463,893	\$ 294,024	\$ 108,542	\$ 866,459
Store sales – cost of sales	-	1,084,488	1,084,488	-	-	1,084,488
Occupancy	-	414,764	414,764	46,085	-	460,849
Professional services	15,614	6,072	21,686	63,608	59,272	144,566
Office expenses	11,981	85,213	97,194	22,407	-	119,601
Building materials	57,704	-	57,704	12,589	-	70,293
Second mortgages forgiven	57,498	-	57,498	-	-	57,498
Taxes and fees	7,203	37,816	45,019	4,899	-	49,918
Miscellaneous	411	49,829	50,240	217	2,490	52,947
Dues and subscriptions	512	437	949	29,085	1,581	31,615
Insurance	11,733	16,203	27,936	570	-	28,506
Depreciation	-	-	-	24,558	-	24,558
Travel and training	1,827	1,687	3,514	8,302	4,151	15,967
Interest	-	-	-	13,407	-	13,407
Advertising	754	10,018	10,772	-	-	10,772
<b>Total expenses</b>	<b>258,894</b>	<b>2,076,763</b>	<b>2,335,657</b>	<b>519,751</b>	<b>176,036</b>	<b>3,031,444</b>
Less: Store sales – cost of sales	-	(1,084,488)	(1,084,488)	-	-	(1,084,488)
	<u>\$ 258,894</u>	<u>\$ 992,275</u>	<u>\$ 1,251,169</u>	<u>\$ 519,751</u>	<u>\$ 176,036</u>	<u>\$ 1,946,956</u>

*See accompanying notes to financial statements.*



## HABITAT FOR HUMANITY OF SNOHOMISH COUNTY

### STATEMENTS OF CASH FLOWS For the Years Ended June 30, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
Cash received from donors	\$ 456,496	\$ 488,065
Cash received from customers	1,255,814	1,086,843
Cash received for interest	60,907	251,682
Cash paid to employees and suppliers	(1,952,813)	(1,932,355)
Cash paid for interest	-	(13,407)
Net cash flows from operating activities	(179,596)	(119,172)
Cash Flows from Investing Activities		
Receipts of mortgages receivable	348,507	317,657
Purchase of property and equipment	(5,468)	(2,876)
Capitalized expenditures for property held for development	(282,837)	(704)
Net cash flows from investing activities	60,202	314,077
Cash Flows from Financing Activities		
Borrowings on line of credit	300,000	-
Repayment of line of credit	(205,293)	-
Repayments of loans payable	(29,466)	(157,548)
Net cash flows from financing activities	65,241	(157,548)
<b>Net change in cash and cash equivalents</b>	<b>(54,153)</b>	<b>37,357</b>
Cash and Cash Equivalents, beginning of the year	585,521	548,164
Cash and Cash Equivalents, end of the year	\$ 531,368	\$ 585,521

*See accompanying notes to financial statements.*

# HABITAT FOR HUMANITY OF SNOHOMISH COUNTY

## NOTES TO FINANCIAL STATEMENTS

### **Note 1 – Nature of Activities and Summary of Significant Accounting Policies**

#### *Organization*

Habitat for Humanity of Snohomish County (the Agency), a Washington nonprofit corporation, is an affiliate of Habitat for Humanity International, Inc. (Habitat International), a nondenominational Christian nonprofit organization whose purpose is to create affordable housing for those in need and to make shelter a matter of conscience with people everywhere. Although Habitat International assists with information resources, publications, and training, the Agency is directly responsible for conducting its own operations on a self-sustaining basis.

The Agency builds houses using primarily volunteer labor, together with purchased and donated materials and land. The houses are sold to qualified low-income homebuyers at a price determined by the Board of Directors, which is generally cost or an amount below cost. Cost includes both direct expenditures and the fair value of in-kind contributions for materials but excludes the value of volunteer labor. Prospective purchasers are required to meet certain minimum participation requirements in the construction of their homes.

The Agency also operates a Home Repair Service performing critical home repair, preservation, and weatherization services for low and very low-income homeowners using primarily volunteer labor, donated services and building materials and financial support to cover the majority of project costs for these much-needed repairs.

The Agency operates a retail store at three locations in Snohomish County. These stores accept donations of home furnishings and building materials. The proceeds from store sales are used to support the ongoing activities related to the Agency's primary mission. In August 2023, the Agency closed its Smokey Point store location and plans to sublease the space to tenants for the remainder of the lease term through November 2026.

#### *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 that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

#### *Basis of Presentation*

The financial statements of the Agency have been prepared on the accrual basis of accounting and report information regarding its financial position and activities according to two classes of net assets, depending on the existence and nature of donor restrictions: without donor restrictions and with donor restrictions.

Net Assets without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations.

# HABITAT FOR HUMANITY OF SNOHOMISH COUNTY

## NOTES TO FINANCIAL STATEMENTS

Net Assets with Donor Restrictions – Net assets subject to donor-imposed stipulations that will be met either by actions of the Agency or the passage of time. Net assets with donor restrictions consist of the following at June 30:

	2023	2022
Restricted for use in a future period (time restricted)	\$ -	\$ 2,707
Vehicle purchase	-	27,995
	<u>\$ -</u>	<u>\$ 30,702</u>

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Expirations of donor restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled or the stipulated period of time has lapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions that the donor requires to be used to acquire long-lived assets (e.g., building improvements, furniture, fixtures, and equipment) are reported as restricted. When the long-lived assets are placed in service, the Agency reflects the expiration of the donor-imposed restriction as a reclassification included in net assets released from restriction.

### *Cash and Cash Equivalents*

For purposes of the statements of cash flows, the Agency considers all highly liquid investments with an initial maturity of three months or less to be cash and cash equivalents. Cash and cash equivalents include checking and money market accounts deposited with major financial institutions. At times, balances exceed federally insured limits; however, the Agency has not experienced any loss due to this excess.

### *Mortgages Receivable*

Mortgages arise from the sale of homes to qualified low-income homebuyers, are secured by homes sold, and do not bear interest. The total payments to be received from homebuyers have been discounted using imputed interest rates as prescribed by generally accepted accounting principles in the United States. The resulting carrying value of the mortgages approximates fair value. The mortgages are due upon the earlier of the sale of the home, refinance or at maturity. Uncollectible mortgages are expected to be insignificant; accordingly, no provision for doubtful accounts has been included in the financial statements.

At the time the home is sold by the Agency, a first mortgage amount is determined with consideration to both the costs of construction and the homeowner's income, and typically extend for terms of 20-30 years. The Agency records a second mortgage equal to the difference between the estimated fair market value of the home and the underlying first mortgage. Generally, no repayments are required on the second mortgage; rather, the mortgage may be forgiven ratably over terms of 15-25 years commencing with the sixth anniversary of the first mortgage.

A delinquent mortgage is considered non-performing if no payment has been received in the previous 90 days and no attempt has been made by the homeowner to contact the Agency to work out a payment plan. At that time, foreclosure procedures may begin.

# HABITAT FOR HUMANITY OF SNOHOMISH COUNTY

## NOTES TO FINANCIAL STATEMENTS

Mortgages receivable consist of the following at June 30:

	<u>2023</u>	<u>2022</u>
First mortgages receivable	\$ 648,453	\$ 857,722
Second mortgages receivable	<u>924,908</u>	<u>1,123,376</u>
	1,573,361	1,981,098
Less: Unamortized interest discount	<u>(538,231)</u>	<u>(704,726)</u>
	1,035,130	1,276,372
Less: Current portion	<u>(31,313)</u>	<u>(21,051)</u>
	<u>\$ 1,003,817</u>	<u>\$ 1,255,321</u>

As of June 30, 2023, there were 32 total mortgages, comprised of 14 first mortgages and 18 second mortgages. As of June 30, 2022, there were 34 total mortgages receivable, comprised of 15 first mortgages and 19 second mortgages.

Mortgages receivable have been discounted at interest rates between 4 and 7 percent. The imputed interest recorded as revenue on these mortgages was \$60,907 and \$71,234 for the years ended June 30, 2023 and 2022, respectively. Mortgage amounts of \$60,178 and \$57,498 were forgiven for the years ended June 30, 2023 and 2022, respectively, in accordance with the terms of the agreements.

### *Store Inventory*

Store inventory consists of donated building materials and furnishings held for re-sale at the Agency's retail stores. The amount presented on the statements of financial position is estimated based on six weeks of store revenues for the year which is consistent with previous years. This method is not materially different from methods prescribed by generally accepted accounting principles in the United States and is determined to be a reasonable estimate of fair value.

### *Property and Equipment*

The Agency capitalizes assets with a purchase price in excess of \$1,000 and a useful life in excess of one year. Property and equipment are carried at cost if purchased or, if donated, at fair value at the date of donation.

Depreciation of furniture and equipment is computed using the straight-line method based on the estimated useful lives ranging from two to seven years. Leasehold improvements are amortized over the lesser of the estimated useful live of the improvement or the lease term.

# HABITAT FOR HUMANITY OF SNOHOMISH COUNTY

## NOTES TO FINANCIAL STATEMENTS

Property and equipment consists of the following at June 30:

	2023	2022
Furniture and equipment	\$ 144,828	\$ 143,755
Leasehold improvements	85,654	85,668
	230,482	229,423
Less: Accumulated depreciation	(171,040)	(147,452)
	\$ 59,442	\$ 81,971

### *Property Held for Development*

Property held for development consists of land, buildings, and construction in progress. Property held for development is carried at cost, or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over a period of 15 years for buildings which are rented during construction. The Agency ceases depreciation when the property is no longer rented. No buildings were being rented at June 30, 2023 and 2022.

Property held for development consists of the following at June 30:

	2023	2022
Buildings	\$ 176,351	\$ 176,351
Less: Accumulated depreciation	(38,210)	(33,801)
	138,141	142,550
Land	832,784	551,468
Construction in progress	258,123	252,193
	\$ 1,229,048	\$ 946,211

### *Revenue Recognition*

The Agency recognizes contribution revenue when a cash or noncash gift is received or pledged, provided the pledge is unconditional. Conditional contributions and grants, that is, those with a measurable performance-related barrier or other measurable barrier and a right of return, are recognized as revenue when the conditions have been substantially met.

The Agency entered into a Small Business Administration Paycheck Protection Program note with a bank on March 22, 2021, for \$153,100. The note carried certain conditions for forgiveness (as applied under conditional grant guidance under generally accepted accounting principles in the United States). These conditions were met during the year ended June 30, 2022, and accordingly, the Agency recognized the \$153,100 as support and revenue on the statement of activities.

Store sales are recognized at the point of sale when title to the goods transfers to the customer.

# HABITAT FOR HUMANITY OF SNOHOMISH COUNTY

## NOTES TO FINANCIAL STATEMENTS

### *Home Sales and Cost Recognition*

At the time a home is sold to a qualified buyer, the sale is recorded as revenue and cost of the home is removed from property held for development on the statements of financial position. Historically, the Agency financed a portion of the sale of homes by offering qualifying mortgages to low-income homeowners secured by a first deed of trust, followed by a no-interest loan secured by a second deed of trust on the related property. During the years ended June 30, 2023 and 2022, all sales were financed by third parties for first deed of trust mortgages. In accordance with generally accepted accounting principles, revenue is recognized by discounting the future payments to be received from the homeowners using an interest rate based on term loans collateralized by mortgages receivable.

There were no homes sold during the years ending June 30, 2023 and 2022.

### *In-kind Donations for Resale*

The Agency estimates the value of donated goods received based upon net revenues generated from the sales of the donated goods. Using this method, management has estimated that the value of all goods donated to the Agency throughout the year is equal to revenues realized by the sale of these goods, as adjusted for year-end store inventory.

### *In-kind Services*

Donated services are recognized as revenue and corresponding expense when (a) the services received create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Agency. The Agency receives significant donated services from unpaid volunteers who assist in home building, retail operations and administrative tasks. The value of these contributed services are not recognized as contributions in the financial statements as there is no objective basis to measure the value of such services and / or the recognition criteria are not met.

### *Functional Allocation of Expenses*

The statements of functional expenses present expenses by function and natural classification. Certain categories of expenses are attributed to more than one program or supporting function and have been allocated among the program and supporting services benefited. Payroll expenses are allocated on the basis of estimates of time and effort spent. The administrative office shares a building with the Lynnwood Store and shares the building expenses of rent and utilities on a percent of square footage basis. Certain office expenses (including the office's share of building expense), such as telephone, postage, and copies & prints are shared evenly by the departments that use the office. The Store Support function (donation coordination and truck operations) expenses are apportioned to the stores based on each store's projected percent of the total expected store group revenue.

### *Income Taxes*

The Agency is a nonprofit organization that is exempt from income taxes under Internal Revenue Code Section 501(c)(3).

# HABITAT FOR HUMANITY OF SNOHOMISH COUNTY

## NOTES TO FINANCIAL STATEMENTS

### *Recently Adopted Accounting Standards*

FASB issued ASU 2016-02, *Leases (Topic 842)*, requiring lessees to recognize leases on the statement of financial position and disclose key information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the statement of financial position for all leases with a term longer than 12 months. This new standard increases transparency and comparability among organizations.

The most prominent change required by the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

On July 1, 2022, the Agency adopted the lease accounting standard and has elected to apply the provisions of this standard to the beginning of the period of adoption using a modified retrospective method of application to all leases existing on July 1, 2022. The adoption of this standard did not result in an adjustment to beginning net assets.

The Agency has elected to adopt the package of practical expedients available in the year of adoption.

### *Leases*

The Agency determines if an arrangement is a lease at inception. Operating leases are included in ROU assets and lease liabilities in the statements of financial position.

ROU assets represent the Agency's right to use an underlying asset for the lease term, and lease liabilities represent the Agency's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that WithinReach will exercise the option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

The Agency has elected to recognize payments for short-term leases with terms of 12 months or less as expense as incurred, and these leases are not included as ROU assets or lease liabilities on the statements of financial position. The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, the Agency has elected to use a risk-free discount rate determined using a period comparable with that of the lease term for computing the present value of lease liabilities.

The Agency has elected not to separate non-lease components from lease components and instead accounts for each separate lease component and the non-lease component as a single lease component.

### *Reclassifications*

Certain prior year balances have been reclassified to conform to the current year presentation.

# HABITAT FOR HUMANITY OF SNOHOMISH COUNTY

## NOTES TO FINANCIAL STATEMENTS

### *Subsequent Events*

The Agency has evaluated subsequent events through the date these financial statements were available to be issued, which was March 26, 2024.

### **Note 2 – Liquidity and Availability of Resources**

The following table shows the total financial assets held by the Agency as of June 30 and the amounts of those financial assets that are available to meet general expenditures within one year of the statement of financial position date:

	<u>2023</u>	<u>2022</u>
Financial assets		
Cash and cash equivalents	\$ 531,368	\$ 585,521
Mortgages receivable	<u>1,035,130</u>	<u>1,276,372</u>
	1,566,498	1,861,893
Less: Financial assets not available to meet cash needs for general expenditures over the next 12 months		
Mortgages receivable not collectible within one year	<u>(1,003,817)</u>	<u>(1,255,321)</u>
	<u>\$ 562,681</u>	<u>\$ 606,572</u>

The Agency has some variation in revenues through the year, due to some seasonality of cash donations, timing of major grants, and seasonality of store revenues. These seasonal patterns often offset each other to a certain extent; summer is strong in store revenue when cash donations tend to be weak, and calendar year-end giving is very strong while store revenue is weak through the holidays.

### **Note 3 – Long-Term Debt**

In July 2015, the Agency purchased two contiguous parcels of property in Everett, Washington, for \$700,000 (the Twin Creeks property). This purchase was financed, in part, by a \$603,000 loan from the Washington State Housing Commission (Loan A). Loan A bears interest at 1%, requires no payments of interest or principal until maturity of July 2023, and is collateralized by the property purchased.

On July 31, 2023 Loan A matured and was due in full and, is considered in default as of that date. As a result of default, the interest rate increased from 1% to the Ten-Year Constant Maturity Rate, plus 2.0%, resulting in a rate of 6.22%. As of the date these financial statements were available to be issued, the Agency is continuing to work with the lender to satisfy the loan, either through refinance or payoff. The loan is secured by real property, and the underlying value supports the loan balance, and no loss is expected.



# HABITAT FOR HUMANITY OF SNOHOMISH COUNTY

## NOTES TO FINANCIAL STATEMENTS

Additionally, in June 2015, the Agency obtained a ten-year term loan from Habitat International totaling \$254,700 (Loan B). The loan was also used in part to finance the purchase of the Twin Creeks Property and additional construction, as well as for general operating purposes. The loan bears interest at 4.75% and is collateralized by certain mortgages receivable. The loan requires quarterly payments of \$8,036 including principal and interest and matures in June 2025.

Finally, the Agency maintains a \$250,000 line of credit with a bank with a maturity of December 2024. The line of credit is secured by generally all assets of the Agency and bears interest at the Wall Street Journal Prime rate plus 2.25%, resulting in a rate of 8.5% at June 30, 2023. This line of credit had an outstanding balance of \$98,325 at June 30, 2023. There was no balance on the line of credit at June 30, 2022.

Long-term debt consists of the following at June 30:

	2023	2022
Loan A	\$ 652,596	\$ 646,135
Loan B	77,514	102,898
Line of credit	98,325	-
	828,435	749,033
Less: Current portion	(783,065)	(32,144)
	\$ 45,370	\$ 716,889

Annual principal maturities applicable to the above note are as follows for the years ending June 30:

2024	\$ 783,065
2025	32,144
2026	13,226
	\$ 828,435

### Note 4 – Operating Leases

The Agency has noncancelable operating leases for its administrative offices and retail store in Lynnwood, Washington, as well as retail stores in Everett, Washington, and Smokey Point, Washington. The leases mature between February 2025 and August 2026 with a weighted average remaining term of approximately 3 years. The leases provide for annual increases in future minimum monthly rental payments.

The Agency has recognized operating lease ROU assets and corresponding operating lease liabilities representing the discounted payments required under the leases through maturity. Operating lease costs under these leases totaled \$424,995 and \$460,489 for years ended June 30, 2023 and 2022, respectively, and are included within occupancy on the statements of functional expenses. Net operating cash flows for the operating leases totaled \$440,553 for the year ended June 30, 2023.

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## NOTES TO FINANCIAL STATEMENTS

A maturity analysis of annual undiscounted cash flows for lease liabilities as of June 30, 2023, is as follows:

2024	\$	452,207
2025		451,203
2026		393,340
2027		<u>40,780</u>
		1,337,530
Less: Imputed interest (weighted average of 2.86%)		<u>(61,131)</u>
	\$	<u><u>1,276,399</u></u>

The operating lease liability is presented in the statement of financial position as follows at June 30, 2023:

Operating lease liability (a current liability)	\$	457,157
Operating lease liability, less current portion		<u>819,242</u>
	\$	<u><u>1,276,399</u></u>