

HABITAT FOR HUMANITY RIVERSIDE, INC.

FINANCIAL STATEMENTS

JUNE 30, 2014

HABITAT FOR HUMANITY RIVERSIDE, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Habitat for Humanity Riverside, Inc.
Riverside, CA

We have audited the accompanying financial statements of Habitat for Humanity Riverside, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity Riverside, Inc. as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Bowen, McBeth Inc.
Bowen, McBeth, Inc.
October 8, 2014

HABITAT FOR HUMANITY RIVERSIDE, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2014

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	\$ 1,060,826
Impound trust account	56,778
Notes receivable	5,660
Accounts receivable	71,873
Mortgage receivables, current portion	169,617
Construction in progress	955,208
Total Current Assets	<u>2,319,962</u>
PROPERTY AND EQUIPMENT	
Equipment	77,688
Vehicles	58,276
Leasehold improvements	106,623
Accumulated depreciation	<u>(153,685)</u>
Total Property and Equipment	<u>88,902</u>
OTHER ASSETS	
Mortgage receivables, net of current portion	4,794,529
Unamortized mortgage discount	<u>(3,219,848)</u>
Total Other Assets	<u>1,574,681</u>
TOTAL ASSETS	<u><u>\$ 3,983,545</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Loan payable-line of credit	\$ 21,911
Accounts payable	101,305
Accrued payroll	8,230
Accrued vacation	18,870
Homeowner escrow funds	48,291
Homeowner deposits	8,575
Current portion of long term debt	51,185
Total Current Liabilities	<u>258,367</u>
LONG TERM DEBT	
Note payable, net of current portion	<u>318,621</u>
TOTAL LIABILITIES	<u>576,988</u>
NET ASSETS	
Unrestricted	3,334,888
Temporarily restricted	<u>71,669</u>
Total Net Assets	<u>3,406,557</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,983,545</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

HABITAT FOR HUMANITY RIVERSIDE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
SUPPORT AND REVENUES			
Contributions	\$ 345,637	\$ 71,669	\$ 417,306
Contributions-United Way	2,387		2,387
Restore sales	737,958		737,958
Home sales	536,300		536,300
Mortgage discount amortization	316,497		316,497
City of Moreno Valley NSP	249,938		249,938
County of Riverside NSP	420,876		420,876
Grants	164,037		164,037
Special events,net	19,444		19,444
Interest income	120		120
Other income	13,496		13,496
Net assets released by payment	401,882	(401,882)	-
	<u>3,208,572</u>	<u>(330,213)</u>	<u>2,878,359</u>
EXPENSES			
Program services	2,450,564		2,450,564
Management and general	40,296		40,296
Fundraising	15,244		15,244
	<u>2,506,104</u>		<u>2,506,104</u>
Total expenses	<u>2,506,104</u>		<u>2,506,104</u>
CHANGE IN NET ASSETS	702,468	(330,213)	372,255
NET ASSETS-BEGINNING OF YEAR	<u>2,632,420</u>	<u>401,882</u>	<u>3,034,302</u>
NET ASSETS- END OF YEAR	<u><u>\$ 3,334,888</u></u>	<u><u>\$ 71,669</u></u>	<u><u>\$ 3,406,557</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

**HABITAT FOR HUMANITY RIVERSIDE, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 372,255
Adjustments to reconcile change in net assts to net cash provided (used) by operating activities:	
Depreciation	23,299
Home sales	(536,300)
Mortgage discount amortization	(316,497)
Mortgage debt forgiven	49,567
Mortgage discount	339,362
(Increase) decrease in operating assets:	
Notes receivable	2,400
Accounts receivable	(30,465)
Construction in progress	(553,326)
Impound trust account	14,643
Increase (decrease) in operating liabilities:	
Accounts payable	82,603
Accrued payroll	4,140
Accrued vacation	11,921
Homeowner deposits	2,500
Homeowner escrow funds	(2,674)
Net cash provided (used) by operating activities	<u>(536,572)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Payments received on mortgages	395,517
Cash provided by investing activities	<u>395,517</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payment on line of credit	(794)
Proceeds from note payable	393,900
Payments on note payable	(24,094)
Cash provided by financing activities	<u>369,012</u>

NET INCREASE IN CASH 227,957

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 832,869

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 1,060,826

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

HABITAT FOR HUMANITY RIVERSIDE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Program</u>	<u>Restore</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total Expenses</u>
Construction and related cost	\$ 829,699	\$	\$ 829,699	\$	\$	\$ 829,699
Salaries and wages	329,965	222,341	552,306	24,501	12,250	589,057
Payroll taxes	30,254	20,252	50,506	2,245	1,116	53,867
Advertising	1,397	5,589	6,986			6,986
Auto	7,929	19,860	27,789	588	292	28,669
Bank charges		12,864	12,864	680		13,544
Dues	1,249	8,599	9,848			9,848
Equipment expense	954	17,219	18,173			18,173
Insurance		103,300	103,300			103,300
Office supplies	7,350	13,513	20,863	546	271	21,680
Outside services	8,565	24,217	32,782			32,782
Postage	2,797	51	2,848	208	103	3,159
Professional services	7,400	7,991	15,391	9,490		24,881
Repairs		23,223	23,223			23,223
Supplies		9,911	9,911			9,911
Telephone	1,839	11,151	12,990	137	68	13,195
Travel	6,444	858	7,302			7,302
Rent		160,699	160,699			160,699
Utilities	2,636	43,283	45,919	195	97	46,211
Tithes to Habitat International	2,731		2,731			2,731
Mortgage debt forgiven	49,567		49,567			49,567
Mortgage discount	348,226		348,226			348,226
Newsletter	1,047		1,047		1,047	2,094
Depreciation		23,018	23,018	281		23,299
Interest	12,021	935	12,956	790		13,746
Alarm service		946	946			946
Tax, License and permits		158	158	635		793
Helping hands costs	27,446		27,446			27,446
Americorps	32,628		32,628			32,628
Volunteer recognition	6,041		6,041			6,041
Miscellaneous	1,913	488	2,401			2,401
Total	<u>\$ 1,720,098</u>	<u>\$730,466</u>	<u>\$ 2,450,564</u>	<u>\$ 40,296</u>	<u>\$ 15,244</u>	<u>\$2,506,104</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

HABITAT FOR HUMANITY RIVERSIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Habitat for Humanity Riverside, Inc. (the Organization) is a not-for-profit Organization organized in California in 1988 and governed by a volunteer board of directors. Its purpose is to construct, with donated labor and materials, low-income housing for families who live in substandard dwellings and cannot afford to improve their living standards by conventional means.

Habitat provides interest-free financing. If the original family retains ownership of the home, Habitat will forgive a substantial portion of the mortgage principal in the final years of the loan. Habitat uses the proceeds from mortgage collections to finance the building of additional housing.

Habitat also operates a thrift store (Restore) as another means of raising funds for its building programs, which sells surplus donated building materials not used for its own housing projects. Sources of these donations included major home improvements chains, building contractors as well as the general public. Because many of the donations are the result of overstocked or low demand items, the value of the donations is not readily determinable until such merchandise is sold. Therefore, the donated retail inventory has not been valued in these financial statements.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Income taxes

The Organization is exempt from income taxes under the Internal Revenue Code Section 501 (c) (3) and the California Revenue and Taxation Code Section 23701 (d). Habitat is not classified as a private foundation. Generally accepted accounting principles provides accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the organization in its federal and state tax returns are more likely than not to be sustained upon examination. The Organization's tax returns are subject to examination by federal taxing authorities for a period of three years from the date they are filed and for a period of four years for California taxing authorities.

Property and equipment

Property and equipment over \$500 are valued at cost if purchased or at fair market value at the date of receipt if donated. Depreciation has been computed on a straight-line basis over the useful lives of the assets, as follows:

Vehicles, furniture and equipment	5 to 7 years
Leasehold improvements	10 years

HABITAT FOR HUMANITY RIVERSIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted and unrestricted revenue

The Organization reports grants and donations as increases in unrestricted, temporarily, or permanently restricted, net assets, depending on the existence and/or nature of any donor restrictions. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Grants and donations with purpose restrictions that are accomplished during the same year they are received are reported as unrestricted net assets.

Donated services

Amounts are reported in the accompanying statements for voluntary donation of services when those services create or enhance non-financial assets or require specialized skills provided by individuals possessing those skills and which would be typically purchased if not provided by donation.

Donated material and supplies

Donated material and supplies are recorded as contributions at their estimated fair market value at the date of donation if a value can be reasonably determined. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose.

Use of estimates

Accounting principles generally accepted in the United States of America require management to make assumptions in estimates that affect the amount reported in the financial statements for assets, liabilities, revenues, and expenses. In addition, assumptions and estimates are used to determine disclosure for contingencies, and other matters discussed in the notes to the financial statements. Actual results could differ from those estimates

Cash equivalents

For the purpose of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Advertising costs

Advertising costs are expensed as incurred.

Subsequent events

Habitat has evaluated subsequent events through October 8, 2014, which is the date the financial statements were issued.

HABITAT FOR HUMANITY RIVERSIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 2-HABITAT FOR HUMANITY INTERNATIONAL

The Organization annually remits a portion of its monetary contributions to Habitat for Humanity International. These contributions are used to construct homes in economically depressed areas around the world. During this reporting period, the Organization contributed \$2,731 to Habitat for Humanity International. This amount is included in program services in the statement of functional expenses.

NOTE 3-CONSTRUCTION PROPERTY AND CONSTRUCTION IN PROGRESS

Construction property consists of land acquired for the purpose of future building sites for suitable housing project and is reported at acquisition cost, or at fair market value if donated. Construction in progress consists of costs accumulated during the construction process.

NOTE 4-PROPERTY AND EQUIPMENT

Property and equipment were comprised of the following at June 30, 2014.

Fixed assets:

Leasehold improvements	\$ 106,623
Office equipment	77,688
Vehicles	<u>58,276</u>
Subtotal	242,587
Less accumulated depreciation	<u>(153,685)</u>
Total property and equipment	<u>\$ 88,902</u>

Depreciation expense for the year ended June 30, 2014 was \$23,299.

NOTE 5-MORTGAGES RECEIVABLE AND DISCOUNT AMORTIZATION

Mortgages receivable consists of several interest-free loans made to families who have become owners of Habitat homes. These homeowners pay between \$200 and \$500 monthly, not including insurance and property taxes, and the loans have varying terms 18.5 to 45 years. Habitat's policy is to forgive approximately 40% of the original loan amount during the final 10 to 15 years of the loan amortization under the condition that the borrower retains ownership for the entire loan period per the mortgage contract.

Accounting principles generally accepted in the United States of America require that interest-free loans, which involve the purchase of real estate, be discounted to their present value using a fair market rate of interest. Accordingly, the carrying amounts of mortgages receivable have been reduced by the amount of these discounts, which will be amortized over the life of the loans.

**HABITAT FOR HUMANITY RIVERSIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 5-MORTGAGES RECEIVABLE (continued)

Mortgages receivable present value at June 30, 2014

Mortgages receivable at face value	\$ 4,964,146
Less unamortized present value discount	<u>(3,219,848)</u>
Total mortgages receivable	<u>\$ 1,744,298</u>
Mortgage receivable-current portion	\$ 169,617
Mortgage receivable-long term	\$ 1,574,681

Amortization of the mortgage discount was \$ 316,497 for year ended June 30, 2014.

NOTE 6-OPERATING LEASES

On May 26, 2010 the Organization entered into a lease agreement and moved the business office and Restore to a new location in Riverside. The new lease agreement commenced October 1, 2010 and ends on September 30, 2016. Minimum lease payments for the new lease are as follows:

Year ended June 30		
	2015	\$ 165,633
	2016	188,187

NOTE 7-NOTE PAYABLE

The Organization obtained a loan from Habitat for Humanity International using the Flexible Capital Access Program (FlexCap). The FlexCap program allows Habitat affiliates to pledge mortgages as collateral for a loan. The Organization borrowed \$393,900 with quarterly payments of \$16,088 including interest at 3.8% per annum. Maturity of the loan is December 2020.

Balance at June 30, 2014	\$ 369,806
Less current portion	<u>(51,185)</u>
Note payable long term	\$ <u>318,621</u>

Maturities of the note payable are as follows:

Year ending June 30,	
2015	\$ 51,185
2016	53,165
2017	55,220
2018	57,355
2019	59,573
2020	61,877
2021	<u>31,431</u>
	<u>\$369,806</u>

HABITAT FOR HUMANITY RIVERSIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 8-FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 9-FAIR VALUE OF FINANCIAL INSTRUMENTS

The Organization's financial instruments are cash, accounts receivable, mortgage receivable and accounts payable. The recorded values of cash, accounts receivable and accounts payable approximate their fair values based on their short-term nature. The fair value of mortgage receivables has been discounted to present values as explained in note 5.

NOTE 10-LOAN PAYABLE LINE OF CREDIT

The Organization has a line of credit with Wells Fargo Bank for a total of \$150,000. The balance at June 30, 2014 was \$ 21,911 and the interest rate was 5% annually. The loan matures June 10, 2015.

The Organization also has an unused line of credit with Union Bank for \$200,000.

NOTE 11-TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the construction costs of homes and purchase of equipment. Upon the purchase of the equipment and completion of the homes the temporarily restricted net assets will be released to unrestricted net assets.