

HABITAT FOR HUMANITY RIVERSIDE, INC.

AUDIT REPORT

JUNE 30, 2019

HABITAT FOR HUMANITY RIVERSIDE, INC.

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CERTIFIED PUBLIC ACCOUNTANTS

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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, 2019, 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, 2019, 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.

Werner & Company Inc.
Werner & Company, Inc.
November 12, 2019

HABITAT FOR HUMANITY RIVERSIDE, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 603,372
Impound trust account	22,670
Accounts receivable	109,767
Inventory-Restore	169,000
Mortgage receivables, current portion	224,496
Construction in progress	1,478,327
Total Current Assets	2,607,632

PROPERTY AND EQUIPMENT

Equipment	78,545
Vehicles	58,276
Leasehold improvements	106,623
Accumulated depreciation	(229,947)
Total Property and Equipment	13,497

OTHER ASSETS

Mortgage receivables, net of current portion	6,043,862
Unamortized mortgage discount	(4,164,869)
Total Other Assets	1,878,993

TOTAL ASSETS

\$ 4,500,122

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 19,685
Accrued payroll	42,892
Accrued vacation	19,761
Homeowner escrow funds	27,447
Homeowner deposits	615
Current portion of long term debt	61,877
Total Current Liabilities	172,277

LONG TERM DEBT

Note payable, net of current portion	31,791
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TOTAL LIABILITIES

204,068

NET ASSETS

Without Donor Restrictions	4,019,897
With Donor Restrictions	276,157
Total Net Assets	4,296,054

TOTAL LIABILITIES AND NET ASSETS

\$ 4,500,122

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, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>TOTAL</u>
SUPPORT AND REVENUES			
Contributions	\$ 363,210	\$	\$ 363,210
Restore sales	1,024,977		1,024,977
Mortgage discount amortization	182,133		182,133
Grants	363,970	14,888	378,858
Special events	2,433		2,433
Gain on disposal of asset	29,076		29,076
Other income	2,587		2,587
	<u>1,968,386</u>	<u>14,888</u>	<u>1,983,274</u>
EXPENSES			
Program services	1,672,730		1,672,730
Management and general	60,683		60,683
Fundraising	67,587		67,587
	<u>1,801,000</u>		<u>1,801,000</u>
Total support and revenues			
CHANGE IN NET ASSETS	167,386	14,888	182,274
NET ASSETS-BEGINNING OF YEAR	<u>3,852,511</u>	<u>261,269</u>	<u>4,113,780</u>
NET ASSETS- END OF YEAR	<u>\$ 4,019,897</u>	<u>\$ 276,157</u>	<u>\$ 4,296,054</u>

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, 2019

	<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	\$ 32,251	\$	\$ 32,251	\$	\$	\$ 32,251
Salaries and wages	368,006	266,049	634,055	43,195	42,366	719,616
Payroll taxes	29,784	22,761	52,545	3,499	3,432	59,476
Advertising	979	11,171	12,150			12,150
Auto	4,256	15,937	20,193			20,193
Bank charges	4,014	627	4,641			4,641
Dues	1,051	7,025	8,076			8,076
Equipment expense	339	30,280	30,619			30,619
Insurance	103,657	60,878	164,535			164,535
Office supplies	4,151	2,594	6,745			6,745
Outside services	735	40,866	41,601			41,601
Postage	482	751	1,233			1,233
Professional services		4,104	4,104	13,989		18,093
Repairs	37	15,427	15,464			15,464
Supplies	10,157	11,810	21,967			21,967
Telephone	734	12,577	13,311			13,311
Rent		295,284	295,284			295,284
Utilities		33,688	33,688			33,688
Tithes to Habitat International	28,433		28,433			28,433
Mortgage debt forgiven	40,700		40,700			40,700
Freight		15,682	15,682			15,682
Depreciation		10,662	10,662			10,662
Interest	5,009		5,009			5,009
Alarm service		1,830	1,830			1,830
Tax, license and permits	843	1,857	2,700			2,700
Helping hands costs	58,419		58,419			58,419
Americorps		1,500	1,500			1,500
Training	3,415		3,415			3,415
Home repairs	115,340		115,340			115,340
Special events			-		21,389	21,389
Inventory adjustment		(5,000)	(5,000)			(5,000)
Miscellaneous	633	945	1,578		400	1,978
Total	<u>\$ 813,425</u>	<u>\$859,305</u>	<u>\$ 1,672,730</u>	<u>\$ 60,683</u>	<u>\$67,587</u>	<u>\$1,801,000</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, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 182,274
Adjustments to reconcile change in net assts to net cash provided by operating activities:	
Depreciation	10,662
Mortgage discount amortization	(182,133)
Mortgage debt forgiven	40,700
(Increase) decrease in operating assets:	
Impound trust account	9,139
Inventory	(5,000)
Accounts receivable	316,228
Construction in progress	(296,437)
Increase (decrease) in operating liabilities:	
Accounts payable	5,010
Accrued payroll	31,034
Accrued vacation	(3,691)
Homeowner escrow funds	(8,653)
Net cash provided by operating activities	99,133

CASH FLOWS FROM INVESTING ACTIVITIES

Payments received on mortgages	241,638
Cash provided by investing activities	241,638

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on note payable	(59,386)
Cash provided (used) by financing activities	(59,386)

NET INCREASE IN CASH 281,385

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 321,987

CASH AND CASH EQUIVALENTS, END OF YEAR **\$ 603,372**

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

HABITAT FOR HUMANITY RIVERSIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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.

Financial Statement Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Organization reports information regarding its financial position and activities according to two classes of net assets; net assets without donor restrictions and net assets with donor restrictions. Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. Net assets with donor restrictions are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature where the donor stipulates that resources be maintained in perpetuity. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

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.

HABITAT FOR HUMANITY RIVERSIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

Inventory- Restore

Restore inventory consists of donated building materials available for sale to the general public. The recorded value is estimated based on total yearly sales to approximate the fair value.

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 November 12, 2019, which is the date the financial statements were issued.

HABITAT FOR HUMANITY RIVERSIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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 \$28,433 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, 2019.

Fixed assets:

Leasehold improvements	\$ 106,623
Office equipment	78,545
Vehicles	<u>58,276</u>
Subtotal	243,444
Less accumulated depreciation	<u>(229,947)</u>
Total property and equipment	<u>\$ 13,497</u>

Depreciation expense for the year ended June 30, 2019 was \$10,662.

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 \$800 monthly, not including insurance and property taxes, and the loans have varying terms 18.5 to 45 years. Habitat's policy is to forgive a portion 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, 2019

NOTE 5-MORTGAGES RECEIVABLE (continued)

Mortgages receivable present value at June 30, 2019

Mortgages receivable at face value	\$ 6,268,358
Less unamortized present value discount	<u>(4,164,869)</u>
Total mortgages receivable	<u>\$ 2,103,489</u>
Mortgage receivable-current portion	\$ 224,496
Mortgage receivable-long term	\$ 1,878,993

Amortization of the mortgage discount was \$ 182,133 for year ended June 30, 2019.

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. In 2017 the lease agreement was extended to September 30, 2022. Lease expense for the year was \$ 295,284. Minimum lease payments for the new lease are as follows:

Three months ended September 30,	
2020	\$ 280,589
2021	289,007
2022	297,677
2023	74,965

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, 2019	\$ 93,668
Less current portion	<u>(61,877)</u>
Note payable long term	<u>\$ 31,791</u>

Maturities of the note payable are as follows:

Year ending June 30,	
2020	\$ 61,877
2021	<u>31,791</u>
	<u>\$ 93,668</u>

HABITAT FOR HUMANITY RIVERSIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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. Salaries and employee benefits have been allocated on the basis of analysis of personnel time and other operating expenses have been allocated based on space utilized for the related activities,

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-NET ASSETS WITH DONOR RESTRICTIONS

Temporarily restricted net assets are restricted for the construction costs of homes. Upon the completion of the homes the net assets with donor restrictions will be released to net assets without donor restrictions.

NOTE 11-CONTINGENCIES

The Organization receives government grants as well as certain other grant funds, for specific purposes that are subject to review and audit by grantor agencies. Such audits could generate expenses disallowed under the terms of the grant. As of June 30, 2019, in the opinion of the Organization's management, there are no outstanding matters which would have a material affect on the Organization's financial position.

NOTE 12-LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Organization's financial assets as of June 30, 2019 and the amounts of those financial assets that are available for use within one year to meet general expenditures:

Cash and cash equivalents	\$ 603,372
Impound trust account	22,670
Accounts receivable	<u>109,767</u>
Total Financial Assets	<u>\$ 735,809</u>

NOTE 13- RETIREMENT PLAN

The Organization has a 403(b) salary deferral plan whereby employees can contribute up to the amount allowed under the Internal Revenue Plan. There were no matching contributions by the Organization for the year.