

HABITAT FOR HUMANITY RIVERSIDE, INC.

AUDIT REPORT

JUNE 30, 2015

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, 2015, 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, 2015, 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.
January 11, 2016

HABITAT FOR HUMANITY RIVERSIDE, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2015

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	\$ 331,813
Impound trust account	57,845
Accounts receivable	388,137
Mortgage receivables, current portion	173,892
Construction in progress	2,944,478
Total Current Assets	<u>3,896,165</u>
PROPERTY AND EQUIPMENT	
Equipment	78,545
Vehicles	58,276
Leasehold improvements	106,623
Accumulated depreciation	(176,984)
Total Property and Equipment	<u>66,460</u>
OTHER ASSETS	
Mortgage receivables, net of current portion	4,663,709
Unamortized mortgage discount	(3,128,106)
Total Other Assets	<u>1,535,603</u>
TOTAL ASSETS	<u><u>\$ 5,498,228</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Loan payable-line of credit	\$ 19,021
Accounts payable	65,363
Accrued payroll	7,254
Accrued vacation	16,983
Homeowner escrow funds	37,259
Homeowner deposits	10,075
Current portion of long term debt	53,165
Total Current Liabilities	<u>209,120</u>
LONG TERM DEBT	
Note payable, net of current portion	<u>265,456</u>
TOTAL LIABILITIES	<u>474,576</u>
NET ASSETS	
Unrestricted	3,567,154
Temporarily restricted	1,456,498
Total Net Assets	<u>5,023,652</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 5,498,228</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, 2015

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
SUPPORT AND REVENUES			
Contributions	\$ 255,214	\$	\$ 255,214
Restore sales	787,039		787,039
Home sales	222,593		222,593
Mortgage discount amortization	151,193		151,193
City of Moreno Valley NSP		1,456,498	1,456,498
Grants	597,396		597,396
Special events,net	13,929		13,929
Interest income	289		289
Other income	13,295		13,295
Net assets released by payment	71,669	(71,669)	-
	<u>2,112,617</u>	<u>1,384,829</u>	<u>3,497,446</u>
EXPENSES			
Program services	1,842,868		1,842,868
Management and general	23,754		23,754
Fundraising	13,729		13,729
	<u>1,880,351</u>		<u>1,880,351</u>
Total support and revenues			
	232,266	1,384,829	1,617,095
CHANGE IN NET ASSETS			
NET ASSETS-BEGINNING OF YEAR	<u>3,334,888</u>	<u>71,669</u>	<u>3,406,557</u>
NET ASSETS- END OF YEAR	<u>\$ 3,567,154</u>	<u>\$ 1,456,498</u>	<u>\$ 5,023,652</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, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 1,617,095
Adjustments to reconcile change in net assts to net cash provided (used) by operating activities:	
Depreciation	23,299
Home sales	(98,600)
Mortgage discount amortization	(151,193)
Mortgage debt forgiven	40,567
Mortgage discount	59,451
(Increase) decrease in operating assets:	
Notes receivable	5,660
Accounts receivable	(316,264)
Construction in progress	(1,989,270)
Impound trust account	(1,067)
Increase (decrease) in operating liabilities:	
Accounts payable	(35,942)
Accrued payroll	(976)
Accrued vacation	(1,887)
Homeowner deposits	1,500
Homeowner escrow funds	(11,032)
Net cash provided (used) by operating activities	<u><u>(858,659)</u></u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of equipment	(857)
Payments received on mortgages	184,578
Cash provided by investing activities	<u><u>183,721</u></u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payment on line of credit	(2,890)
Payments on note payable	(51,185)
Cash provided (used) by financing activities	<u><u>(54,075)</u></u>

NET INCREASE (DECREASE) IN CASH (729,013)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 1,060,826

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 331,813

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, 2015

	<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	\$ 249,446	\$	\$ 249,446	\$	\$	\$ 249,446
Salaries and wages	483,419	187,528	670,947	20,067	10,033	701,047
Payroll taxes	31,510	18,710	50,220	1,340	670	52,230
Advertising	2,437	5,004	7,441			7,441
Auto	432	10,138	10,570	18	9	10,597
Bank charges		15,334	15,334			15,334
Dues	1,982	563	2,545			2,545
Equipment expense	194	34,435	34,629			34,629
Insurance	(8,515)	164,925	156,410			156,410
Office supplies	4,992	13,955	18,947	212	106	19,265
Outside services	494	28,809	29,303			29,303
Postage	2,269	128	2,397			2,397
Professional services	5,190	12,719	17,909	221	110	18,240
Repairs		15,561	15,561			15,561
Supplies		3,549	3,549			3,549
Telephone	1,647	11,016	12,663	70	35	12,768
Travel	7,123	403	7,526	303	156	7,985
Rent		167,046	167,046			167,046
Utilities		38,273	38,273			38,273
Tithes to Habitat International	2,682		2,682			2,682
Mortgage debt forgiven	40,567		40,567			40,567
Mortgage discount	59,452		59,452			59,452
Newsletter			-		1,231	1,231
Depreciation		23,018	23,018	281		23,299
Interest	13,167	1,168	14,335			14,335
Alarm service		1,361	1,361			1,361
Tax, License and permits		451	451	1,085		1,536
Helping hands costs	21,822		21,822			21,822
Americorps	56,414		56,414			56,414
Volunteer recognition	1,598		1,598			1,598
Training	3,762	1,115	4,877	157		5,034
Mobile home repairs	85,328		85,328			85,328
Payments to national affiliate	20,700		20,700			20,700
Miscellaneous	(547)	94	(453)		1,379	926
Total	\$ 1,087,565	\$755,303	\$ 1,842,868	\$ 23,754	\$13,729	\$1,880,351

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

HABITAT FOR HUMANITY RIVERSIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2015

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 January 11, 2016, which is the date the financial statements were issued.

HABITAT FOR HUMANITY RIVERSIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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 \$2,682 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, 2015.

Fixed assets:	
Leasehold improvements	\$ 106,623
Office equipment	78,545
Vehicles	<u>58,276</u>
Subtotal	243,444
Less accumulated depreciation	<u>(176,984)</u>
Total property and equipment	<u>\$ 66,460</u>

Depreciation expense for the year ended June 30, 2015 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, 2015

NOTE 5-MORTGAGES RECEIVABLE (continued)

Mortgages receivable present value at June 30, 2015

Mortgages receivable at face value	\$ 4,837,601
Less unamortized present value discount	<u>(3,128,106)</u>
 Total mortgages receivable	 <u>\$ 1,709,495</u>
 Mortgage receivable-current portion	 \$ 173,892
Mortgage receivable-long term	\$ 4,663,709

Amortization of the mortgage discount was \$ 151,193 for year ended June 30, 2015.

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. Lease expense for the year was \$ 167,046. Minimum lease payments for the new lease are as follows:

Year ended June 30	2016	\$ 188,187
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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, 2015	\$ 318,621
Less current portion	<u>(53,165)</u>
Note payable long term	\$ <u>265,456</u>

Maturities of the note payable are as follows:

Year ending June 30,	
2016	\$ 53,165
2017	55,220
2018	57,355
2019	59,573
2020	61,877
2021	<u>31,431</u>
	<u>\$318,621</u>

HABITAT FOR HUMANITY RIVERSIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2015 was \$ 19,021 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. Upon the completion of the homes the temporarily restricted net assets will be released to unrestricted net assets.