

HABITAT FOR HUMANITY RIVERSIDE, INC.

FINANCIAL STATEMENTS

JUNE 30, 2013

HABITAT FOR HUMANITY RIVERSIDE, INC.

TABLE OF CONTENTS

JUNE 30, 2013

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Statement of Functional Expenses	6
Notes to Financial Statements	7-11

JAMES M. GARBO, CPA
JEFFREY L. WERNER, CPA
RANDAL L. DOUGLASS, CPA
CRAIG B. MILLER, CPA



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, 2013, 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, 2013, 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.
September 9, 2013

HABITAT FOR HUMANITY RIVERSIDE, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2013

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 832,869
Impound trust account	71,421
Notes receivable	8,060
Accounts receivable	41,408
Mortgage receivables, current portion	164,900
Construction in progress	401,882
Total Current Assets	<u>1,520,540</u>

PROPERTY AND EQUIPMENT

Equipment	77,688
Vehicles	58,276
Leasehold improvements	106,623
Accumulated depreciation	<u>(130,386)</u>
Total property and equipment	<u>112,201</u>

OTHER ASSETS

Mortgage receivables, net of current portion	4,708,027
Unamortized mortgage discount	<u>(3,196,980)</u>
Total other assets	<u>1,511,047</u>

TOTAL ASSETS

\$ 3,143,788

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Loan payable-line of credit	\$ 22,705
Accounts payable	18,702
Accrued payroll	4,090
Accrued vacation	6,949
Homeowner escrow funds	50,965
Homeowner deposits	<u>6,075</u>
Total Current Liabilities	<u>109,486</u>

NET ASSETS

Unrestricted	2,632,420
Temporarily restricted	<u>401,882</u>
Total Net Assets	<u>3,034,302</u>

TOTAL LIABILITIES AND NET ASSETS

\$ 3,143,788

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, 2013

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
SUPPORT AND REVENUES			
Contributions	\$ 272,272		\$ 272,272
Contributions-United Way	3,897		3,897
Restore sales	576,712		576,712
Home sales	538,509		538,509
Mortgage discount amortization	352,965		352,965
City of Riverside		129,000	129,000
County of Riverside reimbursement	334,802	272,882	607,684
Grant-County of Riverside NSP	166,579		166,579
Grants- CSBG	50,000		50,000
Grants-CDBG	20,000		20,000
Special events	6,909		6,909
Interest income	84		84
Loss on mortgage settlement	(108,516)		(108,516)
Other income	9,956		9,956
Net assets released by payment	59,880	(59,880)	-
Total support and revenues	<u>2,284,049</u>	<u>342,002</u>	<u>2,626,051</u>
EXPENSES			
Program services	2,175,565		2,175,565
Management and general	37,351		37,351
Fundraising	17,273		17,273
Total expenses	<u>2,230,189</u>		<u>2,230,189</u>
CHANGE IN NET ASSETS	53,860	342,002	395,862
NET ASSETS-BEGINNING OF YEAR	<u>2,578,560</u>	<u>59,880</u>	<u>2,638,440</u>
NET ASSETS- END OF YEAR	<u>\$ 2,632,420</u>	<u>\$ 401,882</u>	<u>\$ 3,034,302</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, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 395,862
Adjustments to reconcile change in net assts to net cash provided (used) by operating activities:	
Depreciation	23,337
Home sales	(538,509)
Mortgage discount amortization	(352,965)
Mortgage debt forgiven	44,567
Mortgage discount	354,084
Loss on mortgage settlement	108,516
(Increase) decrease in operating assets:	
Notes receivable	2,400
Accounts receivable	112,702
Construction in progress	(211,347)
Impound trust account	(5,136)
Increase (decrease) in operating liabilities:	
Accounts payable	12,418
Accrued payroll	4,090
Accrued vacation	6,949
Homeowner deposits	75
Homeowner escrow funds	3,316
Net cash provided (used) by operating activities	<u>(39,641)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Payments received on mortgages	545,667
Purchase of equipment and leasehold improvements	(17,884)
Cash provided by investing activities	<u>527,783</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payment on line of credit	(2,556)
Cash provided (used) by financing activities	<u>(2,556)</u>

NET INCREASE IN CASH

485,586

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

347,283

CASH AND CASH EQUIVALENTS, END OF YEAR

\$ 832,869

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, 2013

	<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	\$ 743,331		\$ 743,331			\$ 743,331
Salaries and wages	298,133	205,879	504,012	19,776	9,887	533,675
Payroll taxes	25,216	19,038	44,254	1,724	862	46,840
Advertising	1,438	4,113	5,551			5,551
Auto	5,558	29,429	34,987	380	190	35,557
Bank charges		9,366	9,366	94		9,460
Conferences	1,710		1,710			1,710
Dues	6,205		6,205			6,205
Equipment expense	1,684	11,999	13,683			13,683
Insurance		75,200	75,200			75,200
Office supplies	6,441	9,200	15,641	440	220	16,301
Outside services	7,308	14,344	21,652			21,652
Postage	2,165	21	2,186			2,186
Professional services	6,840	3,745	10,585	12,579		23,164
Repairs	448	18,554	19,002			19,002
Supplies	3,883	7,027	10,910			10,910
Telephone	2,340	13,153	15,493	160	80	15,733
Travel	3,094		3,094	211	106	3,411
Rent		151,251	151,251			151,251
Utilities	2,977	37,587	40,564	49	25	40,638
Tithes to Habitat International	5,647		5,647			5,647
Mortgage debt forgiven	44,567		44,567			44,567
Mortgage discount	354,084		354,084			354,084
Newsletter	1,376		1,376		1,376	2,752
Depreciation		23,056	23,056	281		23,337
Interest		1,586	1,586	276		1,862
Alarm service		756	756			756
Tax, License and permits		2,892	2,892	597		3,489
Helping hands costs	8,217		8,217			8,217
Special events		1,500	1,500		4,527	6,027
Volunteer recognition	2,985		2,985			2,985
Miscellaneous	130	92	222	784		1,006
Total	<u>\$1,535,777</u>	<u>\$639,788</u>	<u>\$ 2,175,565</u>	<u>\$ 37,351</u>	<u>\$17,273</u>	<u>\$2,230,189</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

HABITAT FOR HUMANITY RIVERSIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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, 2013

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 September 9, 2013, which is the date the financial statements were issued.

HABITAT FOR HUMANITY RIVERSIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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 \$5,647 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, 2013.

Fixed assets:	
Leasehold improvements	\$ 106,623
Office equipment	77,688
Vehicles	<u>58,276</u>
Subtotal	242,587
Less accumulated depreciation	<u>(130,386)</u>
Total property and equipment	<u>\$ 112,201</u>

Depreciation expense for the year ended June 30, 2013 was \$23,337.

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, 2013

NOTE 5-MORTGAGES RECEIVABLE (continued)

Mortgages receivable present value at June 30, 2013

Mortgages receivable at face value	\$ 4,872,927
Less unamortized present value discount	<u>(3,196,980)</u>
 Total mortgages receivable	 <u>\$ 1,675,947</u>
 Mortgage receivable-current portion	 \$ 164,900
Mortgage receivable-long term	\$ 1,511,047

Amortization of the mortgage discount was \$ 352,965 for year ended June 30, 2013.

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		
	2014	\$ 160,698
	2015	165,633
	2016	188,187

NOTE 7-COUNTY OF RIVERSIDE NSP PROGRAM

The Organization entered into an agreement with the County of Riverside to borrow up to \$1,530,000 for a Neighborhood Stabilization Program (NSP). The NSP was originally authorized by the Housing and Economic Recovery Act of 2008 and provides grants for the acquisition, rehabilitation and resale of foreclosed upon homes to stabilize neighborhoods and stem declining values in neighboring homes. Additional funding was authorized in 2009 and 2010. Habitat received an original grant of \$2,000,000 from NSP1 and completed the agreement in a prior year. The current funding is from the NSP3 funding. Under the terms of the agreement Habitat will borrow the funds from the County of Riverside to purchase and rehabilitate foreclosed homes and then resale the homes to qualified very low income homebuyers. The NSP loan from the County of Riverside is forgiven and converted to a grant upon the resale and transfer to a qualified homebuyer.

HABITAT FOR HUMANITY RIVERSIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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, 2013 was \$ 22,705 and the interest rate was 5% annually. The loan matures May 10, 2014.

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 have been received from the City of Riverside and County of Riverside for the construction of homes. Upon the completion of the homes and sell to eligible homeowners the temporarily restricted net assets will be released to unrestricted net assets.