

**HABITAT FOR HUMANITY RIVERSIDE, INC.**

**FINANCIAL STATEMENTS**

**JUNE 30, 2011**

**HABITAT FOR HUMANITY RIVERSIDE, INC.**

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The logo for Bowen, McBeth, Inc. features a stylized arrow pointing to the right, composed of several vertical lines of varying heights and a horizontal line at the top. The text "BOWEN, McBETH, INC." is centered above the arrow, and "CERTIFIED PUBLIC ACCOUNTANTS" is centered below it.

**BOWEN, McBETH, INC.**  
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 statement of financial position of Habitat for Humanity Riverside, Inc. (a nonprofit organization) as of June 30, 2011, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of the Organization's management. 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 also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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. at June 30, 2011, 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 12, 2011

**HABITAT FOR HUMANITY RIVERSIDE, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2011**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 361,078
Impound trust account	55,802
Notes receivable	16,681
Accounts receivable	37,243
Mortgage receivables, current portion	133,800
Construction in progress	22,722
<b>Total Current Assets</b>	<b>627,326</b>

**PROPERTY AND EQUIPMENT**

Equipment	54,688
Vehicles	58,277
Leasehold improvements	94,681
Accumulated depreciation	(84,982)
<b>Total property and equipment</b>	<b>122,664</b>

**OTHER ASSETS**

Mortgage receivables, net of current portion	3,928,924
Unamortized mortgage discount	(2,587,827)
<b>Total other assets</b>	<b>1,341,097</b>

**TOTAL ASSETS**

**\$ 2,091,087**

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Loan payable-line of credit	\$ 28,235
Accounts payable	2,666
Sales tax payable	4,032
Homeowner escrow funds	48,089
<b>Total Current Liabilities</b>	<b>83,022</b>

**NET ASSETS**

Unrestricted	2,008,065
<b>Total Net Assets</b>	<b>2,008,065</b>

**TOTAL LIABILITIES AND NET ASSETS**

**\$ 2,091,087**

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, 2011**

	<b>UNRESTRICTED</b>
<b>SUPPORT AND REVENUES</b>	
Contributions	\$ 227,569
Contributions-United Way	10,143
Restore sales	559,722
Home sales	991,108
Mortgage discount amortization	156,804
City of Moreno Valley reimbursement	28,443
County of Riverside reimbursement	58,057
Grant-County of Riverside NSP	1,646,978
Grants- CSBG	107,892
Grants-CDBG	20,000
Special events, net	24,827
Interest income	180
Other income	<u>5,020</u>
 Total support and revenues	 <u>3,836,743</u>
<b>EXPENSES</b>	
Program services	3,524,810
Management and general	23,013
Fundraising	<u>13,617</u>
 Total expenses	 <u>3,561,440</u>
 <b>CHANGE IN NET ASSETS</b>	 <u>275,303</u>
 <b>NET ASSETS-BEGINNING OF YEAR</b>	 <u>1,732,762</u>
 <b>NET ASSETS- END OF YEAR</b>	 <u><u>\$ 2,008,065</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, 2011**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ 275,303
Adjustments to reconcile change in net assts to net cash provided by operating activities:	
Depreciation	13,342
Home sales	(991,108)
Mortgage discount amortization	(156,804)
Mortgage debt forgiven	98,567
Mortgage discount	601,530
(Increase) decrease in operating assets:	
Notes receivable	(6,231)
Accounts receivable	71,097
Construction in progress	910,188
Impound trust account	(26,819)
Increase (decrease) in operating liabilities:	
Accounts payable	(2,506)
Sales tax payable	(83)
Homeowner deposits	(500)
Homeowner escrow funds	29,221
<b>Net cash provided by operating activities</b>	<b>815,197</b>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Payments received on mortgages	147,147
Purchase of equipment and leasehold improvements	(111,868)
<b>Cash provided by investing activities</b>	<b>35,279</b>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Decrease in loan payable County of Riverside	(931,000)
Proceeds from line of credit	28,235
<b>Cash provided (used) by financing activities</b>	<b>(902,765)</b>

**NET INCREASE (DECREASE) IN CASH** (52,289)

**CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** 413,367

**CASH AND CASH EQUIVALENTS, END OF YEAR** **\$ 361,078**

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, 2011**

	Program	Restore	Total Program Services	Management and General	Fund Raising	Total Expenses
Construction and related cost	\$ 1,785,092	\$ -	\$ 1,785,092	\$ -	\$ -	\$ 1,785,092
Salaries and wages	320,310	223,958	544,268	17,500	8,750	570,518
Payroll taxes	28,531	20,936	49,467	1,542	771	51,780
Advertising	7,653	2,936	10,589			10,589
Auto	3,798	19,591	23,389	205	102	23,696
Bank charges	74	10,175	10,249			10,249
Conferences	1,801	455	2,256	97	48	2,401
Dues	2,289	165	2,454			2,454
Equipment expense	983	13,180	14,163			14,163
Insurance	38,030	33,891	71,921	2,055	1,028	75,004
Office supplies	7,741	9,767	17,508	418	209	18,135
Outside services	713	8,178	8,891			8,891
Postage	2,036	718	2,754	110	55	2,919
Professional services	16,225	7,077	23,302	652	326	24,280
Repairs		19,177	19,177			19,177
Supplies	651	10,207	10,858	35	17	10,910
Telephone	6,216	10,172	16,388	336	168	16,892
Travel	1,171	860	2,031	63	32	2,126
Rent		156,459	156,459			156,459
Utilities	35	30,333	30,368			30,368
Tithes to Habitat International	2,715		2,715			2,715
Mortgage debt forgiven	98,567		98,567			98,567
Mortgage discount	601,530		601,530			601,530
Newsletter			-		1,196	1,196
Promotion			-		915	915
Depreciation		13,342	13,342			13,342
Freight		600	600			600
Interest		735	735			735
Alarm service		1,963	1,963			1,963
License and permits	757	867	1,624			
Miscellaneous	725	1,425	2,150			
<b>Total</b>	<b>\$ 2,927,643</b>	<b>\$ 597,167</b>	<b>\$ 3,524,810</b>	<b>\$ 23,013</b>	<b>\$13,617</b>	<b>\$ 3,561,440</b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

**HABITAT FOR HUMANITY RIVERSIDE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

General

Habitat for Humanity Riverside, Inc. (Habitat) 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

Habitat 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

Habitat 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.

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, 2011**

**NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Restricted and unrestricted revenue

Habitat 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, Habitat 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 12, 2011, which is the date the financial statements were issued.

**HABITAT FOR HUMANITY RIVERSIDE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 2-HABITAT FOR HUMANITY INTERNATIONAL**

Habitat 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, Habitat contributed \$2,715 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, 2011.

Fixed assets:	
Leasehold improvements	\$ 94,681
Office equipment	54,688
Vehicles	<u>58,277</u>
Subtotal	207,646
Less accumulated depreciation	<u>(84,982)</u>
Total property and equipment	<u>\$ 122,664</u>

Depreciation expense for the year ended June 30, 2011 was \$13,342.

**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 \$1100 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, 2011**

**NOTE 5-MORTGAGES RECEIVABLE (continued)**

Mortgages receivable present value at June 30, 2011

Mortgages receivable at face value	\$ 4,062,724
Less unamortized present value discount	<u>(2,587,827)</u>
Total mortgages receivable	<u>\$ 1,474,897</u>
Mortgage receivable-current portion	\$ 133,800
Mortgage receivable-long term	\$ 3,928,924

Amortization of the mortgage discount was \$ 156,804 for year ended June 30, 2011.

**NOTE 6-OPERATING LEASES**

On May 26, 2010 Habitat 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		
	2012	\$ 137,439
	2013	150,831
	2014	160,698
	2015	165,633
	2016	188,187

**NOTE 7-COUNTY OF RIVERSIDE NSP PROGRAM**

Habitat entered into an agreement with the County of Riverside to borrow up to \$2,000,000 for a Neighborhood Stabilization Program (NSP). The NSP was 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. 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. Habitat has purchased nine homes with NSP funds. Two homes were completed and sold in the prior year ended June 30, 2010. The remaining seven homes were completed and sold during the year ended June 30, 2011. 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, 2011**

**NOTE 8-LOAN PAYABLE LINE OF CREDIT**

Habitat has a line of credit with Wells Fargo Bank for a total of \$150,000. The balance at June 30, 2011 was \$ 28,235 and the interest rate was 5% annually.