

HABITAT FOR HUMANITY RIVERSIDE, INC.

AUDIT REPORT

JUNE 30, 2016

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, 2016, 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, 2016, 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.
December 5, 2016

HABITAT FOR HUMANITY RIVERSIDE, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 790,798
Impound trust account	40,942
Inventory-Restore	157,000
Accounts receivable	154,721
Mortgage receivables, current portion	231,156
Construction in progress	1,138,932
Prepaid expenses	22,305
Total Current Assets	2,535,854

PROPERTY AND EQUIPMENT

Equipment	78,545
Vehicles	58,276
Leasehold improvements	106,623
Accumulated depreciation	(195,914)
Total Property and Equipment	47,530

OTHER ASSETS

Mortgage receivables, net of current portion	6,478,989
Unamortized mortgage discount	(4,463,423)
Total Other Assets	2,015,566

TOTAL ASSETS

\$ 4,598,950

LIABILITIES AND NET ASSETS

LIABILITIES

Loan payable-line of credit	\$ 209,246
Accounts payable	11,392
Accrued payroll	41,170
Accrued vacation	22,283
Homeowner escrow funds	52,161
Homeowner deposits	1,115
Current portion of long term debt	55,220
Total Current Liabilities	392,587

LONG TERM DEBT

Note payable, net of current portion	210,236
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TOTAL LIABILITIES

602,823

NET ASSETS

Unrestricted	3,651,977
Temporarily restricted	344,150
Total Net Assets	3,996,127

TOTAL LIABILITIES AND NET ASSETS

\$ 4,598,950

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, 2016

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
SUPPORT AND REVENUES			
Contributions	\$ 411,409		\$ 411,409
Restore sales	985,527		985,527
Home sales	2,240,992		2,240,992
Mortgage discount amortization	159,690		159,690
City of Moreno Valley NSP		1,028,421	1,028,421
Grants	458,740		458,740
Special events	5,411		5,411
Gain on disposal of asset	60,912		60,912
Other income	5,202		5,202
Net assets released by payment	2,140,769	(2,140,769)	-
Total support and revenues	<u>6,468,652</u>	<u>(1,112,348)</u>	<u>5,356,304</u>
EXPENSES			
Program services	6,290,245		6,290,245
Management and general	49,611		49,611
Fundraising	43,973		43,973
Total expenses	<u>6,383,829</u>	<u>-</u>	<u>6,383,829</u>
CHANGE IN NET ASSETS	84,823	(1,112,348)	(1,027,525)
NET ASSETS-BEGINNING OF YEAR	<u>3,567,154</u>	<u>1,456,498</u>	<u>5,023,652</u>
NET ASSETS-END OF YEAR	<u>\$ 3,651,977</u>	<u>\$ 344,150</u>	<u>\$ 3,996,127</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, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (1,027,525)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation	18,930
Home sales	(2,240,992)
Mortgage discount amortization	(159,690)
Mortgage discount expense	1,495,007
Mortgage debt forgiven	40,567
(Increase) decrease in operating assets:	
Impound trust account	16,903
Inventory	(157,000)
Accounts receivable	233,416
Construction in progress	1,805,546
Prepaid expenses	(22,305)
Increase (decrease) in operating liabilities:	
Accounts payable	(53,971)
Accrued payroll	33,916
Accrued vacation	5,300
Homeowner escrow funds	14,902
Homeowner deposits	(8,960)
Net cash provided (used) by operating activities	(5,956)

CASH FLOWS FROM INVESTING ACTIVITIES

Payments on mortgages receivable	327,880
Net cash provided by investing activities	327,880

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on line of credit	(9,774)
Proceeds from new line of credit	200,000
Payments on note payable	(53,165)
Net cash provided by financing activities	137,061

NET INCREASE IN CASH 458,985

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 331,813

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 790,798

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, 2016

	<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	\$3,263,646		\$3,263,646			\$3,263,646
Salaries and wages	323,845	253,248	577,093	40,768	38,681	656,542
Payroll taxes	25,842	23,478	49,320	2,972	2,752	55,044
Advertising	1,050	1,049	2,099			2,099
Auto	1,789	19,067	20,856	1,258	1,191	23,305
Bank charges	638	20,366	21,004			21,004
Dues	1,765	4,900	6,665			6,665
Equipment expense	290	22,159	22,449			22,449
Insurance		159,743	159,743			159,743
Office supplies	882	17,099	17,981	604	302	18,887
Outside services	5,146	17,464	22,610			22,610
Postage	916	179	1,095			1,095
Professional services	9,858	12,314	22,172	745	373	23,290
Repairs		12,623	12,623			12,623
Supplies	1,044	7,069	8,113			8,113
Telephone	997	13,010	14,007	471	235	14,713
Rent		188,660	188,660			188,660
Utilities	454	40,439	40,893			40,893
Tithes to Habitat International	5,379		5,379			5,379
Mortgage debt forgiven	40,567		40,567			40,567
Mortgage discount	1,495,007		1,495,007			1,495,007
Newsletter			-		348	348
Depreciation		17,467	17,467	1,463		18,930
Interest	18,722	1,357	20,079			20,079
Alarm service		657	657			657
Tax, License and permits		416	416	1,085		1,501
Helping hands cost	96,899		96,899			96,899
Americorps	39,872	1,500	41,372			41,372
Volunteer recognition	350		350			350
Training	1,711	780	2,491	57		2,548
Mobile home repairs	79,391		79,391			79,391
Special events	31,336		31,336			31,336
Miscellaneous	5,062	2,743	7,805	188	91	8,084
Total	<u>\$5,452,458</u>	<u>\$837,787</u>	<u>\$6,290,245</u>	<u>\$ 49,611</u>	<u>\$43,973</u>	<u>\$6,383,829</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

HABITAT FOR HUMANITY RIVERSIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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 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, 2016

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.

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 December 5, 2016, which is the date the financial statements were issued.

HABITAT FOR HUMANITY RIVERSIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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 \$5,379 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, 2016.

Fixed assets:	
Leasehold improvements	\$ 106,623
Office equipment	78,545
Vehicles	<u>58,276</u>
Subtotal	243,444
Less accumulated depreciation	<u>(195,914)</u>
Total property and equipment	<u>\$ 47,530</u>

Depreciation expense for the year ended June 30, 2016 was \$18,930.

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, 2016

NOTE 5-MORTGAGES RECEIVABLE (continued)

Mortgages receivable present value at June 30, 2016

Mortgages receivable at face value	\$ 6,710,145
Less unamortized present value discount	<u>(4,463,423)</u>
Total mortgages receivable	<u>\$ 2,246,722</u>
Mortgage receivable-current portion	\$ 231,156
Mortgage receivable-long term	\$ 6,478,989

Amortization of the mortgage discount was \$ 159,690 for year ended June 30, 2016.

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 \$ 188,660. Minimum lease payments for the new lease are as follows:

Three months ended September 30,	
2016	\$ 47,046

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, 2016	\$ 265,456
Less current portion	<u>(55,220)</u>
Note payable long term	<u>\$ 210,236</u>

Maturities of the note payable are as follows:

Year ending June 30,	
2017	\$ 55,220
2018	57,355
2019	59,573
2020	61,877
2021	<u>31,431</u>
	<u>\$265,456</u>

HABITAT FOR HUMANITY RIVERSIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2016 was \$ 13,416 and the interest rate was 5.25% annually. The loan matures July 10, 2016.

The Organization also has a line of credit with Union Bank for \$200,000. The balance at June 30, 2016 was \$ 195,830 and the interest rate was 6.50% annually. The loan matures April 18, 2017.

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.