HABITAT FOR HUMANITY RIVERSIDE, INC.

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JUNE 30, 2012

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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, 2012, 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, 2012, 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.

October 15, 2012

HABITAT FOR HUMANITY RIVERSIDE, INC. STATEMENT OF FINANCIAL POSITION June 30, 2012

ASSETS

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$	347,283
Impound trust account		66,285
Notes receivable		10,460
Accounts receivable		154,110
Mortgage receivables, current portion		167,500
Construction in progress	_	190,535
Total Current Assets		936,173
PROPERTY AND EQUIPMENT		
Equipment		71,745
Vehicles		58,277
Leasehold improvements		94,681
Accumulated depreciation		(107,049)
Total property and equipment		117,654
OTHER ASSETS		
Mortgage receivables, net of current portion		4,865,669
Unamortized mortgage discount	(3,195,862)
Total other assets	_	1,669,807
TOTAL ASSETS	\$ 2	2,723,634
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Loan payable-line of credit	\$	25,261
Accounts payable		2,585
Sales tax payable		3,699
Homeowner escrow funds		47,649
Homeowner deposits		6,000
Total Current Liabilities		85,194
NET ASSETS		
Unrestricted		2,578,560
Temporarily restricted		59,880
Total Net Assets		2,638,440
TOTAL LIABILITIES AND NET ASSETS	\$	2,723,634

HABITAT FOR HUMANITY RIVERSIDE, INC. STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2012

	UNR	ESTRICTED		PORARILY TRICTED	7	ГОТАL
SUPPORT AND REVENUES						
Contributions	\$	245,748	\$	130,000	\$	375,748
Contributions-United Way		11,748				11,748
Restore sales		567,745				567,745
Home sales		1,182,420				1,182,420
Mortgage discount amortization		135,595				135,595
County of Riverside reimbursement		270,829				270,829
Grant-County of Riverside NSP		1,357,746				1,357,746
Grants- CSBG		97,649				97,649
Grants-CDBG		18,341				18,341
Special events, net		2,110				2,110
Interest income		145				145
Other income		12,870				12,870
Net assets released by payment	-	70,120		(70,120)	_	<u>-</u>
Total support and revenues		3,973,066		59,880		4,032,946
EXPENSES						
Program services		3,347,520				3,347,520
Management and general		31,779				31,779
Fundraising		23,272	-		_	23,272
Total expenses		3,402,571		<u> </u>	_	3,402,571
CHANGE IN NET ASSETS		570,495		59,880		630,375
NET ASSETS-BEGINNING OF YEAR		2,008,065				2,008,065
NET ASSETS- END OF YEAR	\$	2,578,560	\$	59,880	\$	2,638,440

HABITAT FOR HUMANITY RIVERSIDE, INC. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$	630,375
Adjustments to reconcile change in net assts		
to net cash provided by operating activities:		
Depreciation		22,067
Home sales	((1,182,420)
Mortgage discount amortization		(135,595)
Mortgage debt forgiven		59,663
Mortgage discount		743,630
(Increase) decrease in operating assets:		
Notes receivable		6,221
Accounts receivable		(116,867)
Construction in progress		(167,813)
Impound trust account		(10,483)
Increase (decrease) in operating liabilities:		
Accounts payable		(81)
Sales tax payable		(333)
Homeowner deposits		6,000
Homeowner escrow funds		(440)
Net cash provided (used) by operating activities		(146,076)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments received on mortgages		152,312
Purchase of equipment and leasehold improvements		(17,057)
Cash provided by investing activities		135,255
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit		(2,974)
Cash provided (used) by financing activities		(2,974)
NET INCREASE (DECREASE) IN CASH		(13,795)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	_	361,078
CASH AND CASH EQUIVALENTS, END OF YEAR	\$	347,283

HABITAT FOR HUMANITY RIVERSIDE, INC. STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2012

			Total			
		.	Program	Management	Fund	Total
	Program	Restore	Services	and General \$ -	Raising \$ -	\$1,479,129
Construction and related cost	\$1,479,129	\$ -	\$ 1,479,129		8,750	554,313
Salaries and wages	305,211	222,852	528,063	17,500	709	48,621
Payroll taxes	25,076	21,364	46,440	1,472	/09	
Advertising	455	1,612	2,067	214	151	2,067
Auto	5,350	25,266	30,616	314	151	31,081
Bank charges	1.540	9,311	9,311	302		9,613
Conferences	1,542	883	2,425			2,425
Dues	3,115	165	3,280			3,280
Equipment expense	3,862	9,917	13,779			13,779
Insurance	(2,816)	66,465	63,649	224	156	63,649
Office supplies	5,518	6,449	11,967	324	156	12,447
Outside services	638	11,622	12,260			12,260
Postage	2,134		2,134			2,134
Professional services	7,140	11,429	18,569	8,937		27,506
Repairs	180	17,522	17,702			17,702
Supplies	1,210	11,910	13,120			13,120
Telephone	5,715	12,689	18,404	335	162	18,901
Travel	1,377	430	1,807	81	39	1,927
Rent		137,440	137,440			137,440
Utilities	8,709	30,442	39,151	511	246	39,908
Tithes to Habitat International	21,555		21,555			21,555
Mortgage debt forgiven	743,630		743,630			743,630
Mortgage discount	59,663		59,663			59,663
Newsletter	414		414		414	828
Promotion			-	500		500
Depreciation		22,067	22,067			22,067
Interest		1,237	1,237	39		1,276
Alarm service		1,523	1,523			1,523
License and permits			-	181		181
Helping hands costs	28,514		28,514			28,514
Special events					12,645	12,645
Volunteer days	15,575		15,575			15,575
Volunteer recognition	1,740		1,740			1,740
Miscellaneous	<u> </u>	289	289	1,283		1,572
Total	\$2,724,636	\$622,884	\$ 3,347,520	\$ 31,779	\$23,272	\$3,402,571

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

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 October 15, 2012, which is the date the financial statements were issued.

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 \$21,555 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, 2012.

Fixed assets:

Leasehold improvements	\$	94,681
Office equipment		71,745
Vehicles	_	58,277
Subtotal		224,703

Less accumulated depreciation (107,049)

Total property and equipment \$ 117,654

Depreciation expense for the year ended June 30, 2012 was \$22,067.

NOTE 5-MORTAGES 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.

NOTE 5-MORTGAGES RECEIVABLE (continued)

Mortgages receivable present value at June 30, 2012

Mortgages receivable at face value	\$ 5,033,169
Less unamortized present value discount	(3,195,862)
Total mortgages receivable	\$ 1,837,307
Mortgage receivable-current portion	\$ 167,500
Mortgage receivable-long term	\$ 4,865,669

Amortization of the mortgage discount was \$ 135,595 for year ended June 30, 2012.

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		
	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 \$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.

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, 2012 was \$25,261 and the interest rate was 5% annually.

NOTE9-TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for expenses for the Neighborhood Revitalization program.