

HABITAT FOR HUMANITY RIVERSIDE, INC.

AUDIT REPORT

JUNE 30, 2017

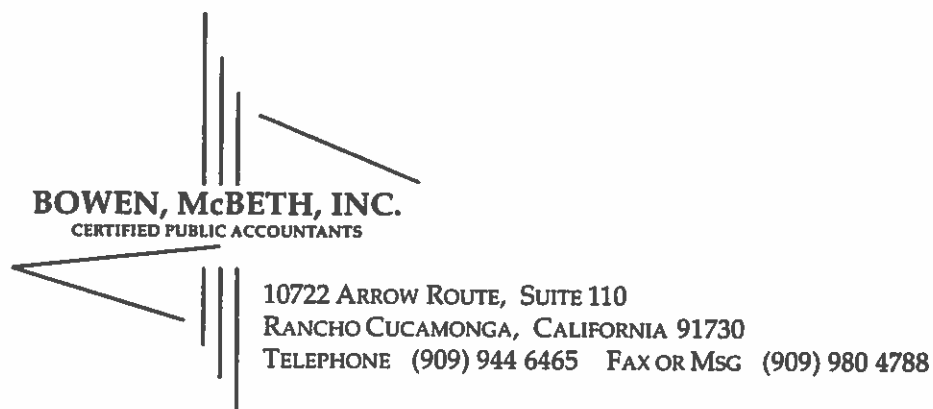
HABITAT FOR HUMANITY RIVERSIDE, INC.

TABLE OF CONTENTS

JUNE 30, 2017

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	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, 2017, 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, 2017, 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 31, 2018

HABITAT FOR HUMANITY RIVERSIDE, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 885,503
Impound trust account	38,779
Inventory-Restore	176,000
Accounts receivable	26,024
Mortgage receivables, current portion	227,292
Construction in progress	979,761
Total Current Assets	<u>2,333,359</u>

PROPERTY AND EQUIPMENT

Equipment	78,545
Vehicles	58,276
Leasehold improvements	106,623
Accumulated depreciation	(208,623)
Total Property and Equipment	<u>34,821</u>

OTHER ASSETS

Mortgage receivables, net of current portion	6,417,435
Unamortized mortgage discount	(4,427,115)
Total Other Assets	<u>1,990,320</u>

TOTAL ASSETS

\$ 4,358,500

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	10,714
Accrued payroll	14,785
Accrued vacation	24,895
Homeowner escrow funds	41,456
Homeowner deposits	615
Current portion of long term debt	57,355
Total Current Liabilities	<u>149,820</u>

LONG TERM DEBT

Note payable, net of current portion	152,881
--------------------------------------	---------

TOTAL LIABILITIES

302,701

NET ASSETS

Unrestricted	4,048,045
Temporarily restricted	7,754
Total Net Assets	<u>4,055,799</u>

TOTAL LIABILITIES AND NET ASSETS

\$ 4,358,500

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, 2017

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
SUPPORT AND REVENUES			
Contributions	\$ 215,239	\$ 7,754	\$ 222,993
Restore sales	1,056,803		1,056,803
Home sales	207,320		207,320
Mortgage discount amortization	183,758		183,758
Developer fee	36,258		36,258
Grants	376,802		376,802
Special events	60,181		60,181
Other income	4,313		4,313
Net assets released by payment	344,150	(344,150)	-
	<u>2,484,824</u>	<u>(336,396)</u>	<u>2,148,428</u>
EXPENSES			
Program services	1,975,770		1,975,770
Management and general	56,462		56,462
Fundraising	56,524		56,524
	<u>2,088,756</u>	<u></u>	<u>2,088,756</u>
CHANGE IN NET ASSETS	396,068	(336,396)	59,672
NET ASSETS-BEGINNING OF YEAR	<u>3,651,977</u>	<u>344,150</u>	<u>3,996,127</u>
NET ASSETS- END OF YEAR	<u>\$ 4,048,045</u>	<u>\$ 7,754</u>	<u>\$ 4,055,799</u>

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, 2017

	<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	\$ 333,400		\$ 333,400			\$ 333,400
Salaries and wages	370,576	291,795	662,371	50,659	47,122	760,152
Payroll taxes	33,529	29,153	62,682	4,813	4,477	71,972
Advertising	1,092	2,232	3,324			3,324
Auto	2,399	5,716	8,115	273	137	8,525
Bank charges		23,553	23,553			23,553
Dues	1,655	6,650	8,305			8,305
Equipment expense		25,124	25,124			25,124
Insurance		166,984	166,984			166,984
Office supplies	1,805	5,562	7,367	248	124	7,739
Outside services	1,721	16,321	18,042			18,042
Postage	1,222	588	1,810			1,810
Professional services	11,377	12,661	24,038			24,038
Repairs		16,309	16,309			16,309
Supplies	7,067	12,472	19,539			19,539
Telephone	680	13,260	13,940	469	234	14,643
Rent		194,027	194,027			194,027
Utilities		50,144	50,144			50,144
Tithes to Habitat International	3,568		3,568			3,568
Mortgage debt forgiven	80,504		80,504			80,504
Mortgage discount	147,450		147,450			147,450
Depreciation		12,709	12,709			12,709
Interest	19,611	222	19,833			19,833
Alarm service		1,045	1,045			1,045
Tax, License and permits		161	161			161
Helping hands costs	8,303		8,303			8,303
Americorps	26,894	3,600	30,494			30,494
Volunteer recognition	406		406			406
Training	10,188		10,188			10,188
Mobile home repairs	9,866		9,866			9,866
Special events			-		4,430	4,430
Travel	4,029		4,029			4,029
Donations		2,000	2,000			2,000
Miscellaneous	3,232	2,908	6,140			6,140
Total	\$ 1,080,574	\$ 895,196	\$ 1,975,770	\$ 56,462	\$ 56,524	\$ 2,088,756

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, 2017**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 59,672
Adjustments to reconcile change in net assts to net cash provided by operating activities:	
Depreciation	12,709
Mortgage discount amortization	(183,758)
Mortgage debt forgiven	80,504
Mortgage discount	147,450
(Increase) decrease in operating assets:	
Impound trust account	2,163
Inventory	(19,000)
Accounts receivable	128,697
Construction in progress	159,171
Prepaid expenses	22,305
Increase (decrease) in operating liabilities:	
Accounts payable	(678)
Accrued payroll	(26,385)
Accrued vacation	2,612
Homeowner deposits	(500)
Homeowner escrow funds	(10,705)
Net cash provided by operating activities	<u>374,257</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Mortgages for home sales	(207,320)
Payments received on mortgages	192,234
Cash provided (used) by investing activities	<u>(15,086)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payment on line of credit	(209,246)
Payments on note payable	(55,220)
Cash provided (used) by financing activities	<u>(264,466)</u>

NET INCREASE IN CASH 94,705

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 790,798

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 885,503

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

HABITAT FOR HUMANITY RIVERSIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017

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 January 31, 2018, which is the date the financial statements were issued.

HABITAT FOR HUMANITY RIVERSIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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 \$3,568 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, 2017.

Fixed assets:

Leasehold improvements	\$ 106,623
Office equipment	78,545
Vehicles	<u>58,276</u>
Subtotal	243,444
Less accumulated depreciation	<u>(208,623)</u>
Total property and equipment	<u>\$ 34,821</u>

Depreciation expense for the year ended June 30, 2017 was \$12,709.

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, 2017

NOTE 5-MORTGAGES RECEIVABLE (continued)

Mortgages receivable present value at June 30, 2017

Mortgages receivable at face value	\$ 6,644,727
Less unamortized present value discount	<u>(4,427,115)</u>
 Total mortgages receivable	 <u>\$ 2,217,612</u>
 Mortgage receivable-current portion	 \$ 227,292
Mortgage receivable-long term	\$ 6,417,435

Amortization of the mortgage discount was \$ 183,758 for year ended June 30, 2017.

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 lease agreement commenced October 1, 2010 and ends on September 30, 2017. Lease expense for the year was \$ 194,027. Minimum lease payments for the lease are as follows:

Three months ended September 30,	
2017	\$ 49,690

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, 2017	\$ 210,236
Less current portion	<u>(57,355)</u>
Note payable long term	<u>\$ 152,881</u>

Maturities of the note payable are as follows:

Year ending June 30,	
2018	\$ 57,355
2019	59,573
2020	61,877
2021	<u>31,431</u>
	<u>\$210,236</u>

HABITAT FOR HUMANITY RIVERSIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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-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.