

HABITAT FOR HUMANITY RIVERSIDE, INC.

AUDIT REPORT

JUNE 30, 2020

HABITAT FOR HUMANITY RIVERSIDE, INC.

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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 financial statements of Habitat for Humanity Riverside, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, 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, 2020, 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.

Werner & Company Inc,
Werner & Company, Inc.
December 15, 2020

HABITAT FOR HUMANITY RIVERSIDE, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	\$ 2,214,231
Impound trust account	19,462
Accounts receivable	376,889
Inventory-Restore	173,000
Mortgage receivables, current portion	220,188
Land held for development	810,000
Construction in progress	1,766,726
Prepaid expenses	14,444
Total Current Assets	<u>5,594,940</u>
PROPERTY AND EQUIPMENT	
Equipment	78,545
Vehicles	58,276
Leasehold improvements	106,623
Accumulated depreciation	(240,609)
Total Property and Equipment	<u>2,835</u>
OTHER ASSETS	
Mortgage receivables, net of current portion	5,762,450
Unamortized mortgage discount	(3,984,870)
Total Other Assets	<u>1,777,580</u>
TOTAL ASSETS	<u><u>\$ 7,375,355</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Note payable -Flexcap	\$ 31,723
Accounts payable	77,379
Accrued payroll	9,329
Accrued vacation	22,137
Homeowner escrow funds	26,723
Homeowner deposits	615
Total Current Liabilities	<u>167,906</u>
LONG TERM DEBT	
Paycheck Protection Program loan	<u>160,230</u>
TOTAL LIABILITIES	<u>328,136</u>
NET ASSETS	
Without Donor Restrictions	4,852,289
With Donor Restrictions	2,194,930
Total Net Assets	<u>7,047,219</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 7,375,355</u></u>

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, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>TOTAL</u>
SUPPORT AND REVENUES			
Contributions	\$ 329,140	\$ 1,500,000	\$ 1,829,140
Contributions- noncash	810,000		810,000
Restore sales	1,057,058		1,057,058
Mortgage discount amortization	179,998		179,998
Grants	394,629	418,773	813,402
Special events	28,160		28,160
Interest income	678		678
Other income	160		160
	<hr/>	<hr/>	<hr/>
Total support and revenues	2,799,823	1,918,773	4,718,596
EXPENSES			
Program services	1,828,287		1,828,287
Management and general	48,013		48,013
Fundraising	91,131		91,131
	<hr/>	<hr/>	<hr/>
Total expenses	1,967,431		1,967,431
CHANGE IN NET ASSETS	832,392	1,918,773	2,751,165
NET ASSETS-BEGINNING OF YEAR	<hr/> 4,019,897	<hr/> 276,157	<hr/> 4,296,054
NET ASSETS- END OF YEAR	<hr/> <u>\$ 4,852,289</u>	<hr/> <u>\$ 2,194,930</u>	<hr/> <u>\$ 7,047,219</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, 2020

	<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	\$ 103,369	\$	\$ 103,369	\$	\$	\$ 103,369
Salaries and wages	388,397	314,294	702,691	36,291	50,030	789,012
Payroll taxes	29,740	28,714	58,454	3,019	4,161	65,634
Advertising	2,747	600	3,347			3,347
Auto	3,663	3,862	7,525			7,525
Bank charges	347	643	990			990
Dues	1,996	11,754	13,750			13,750
Equipment expense		43,596	43,596			43,596
Insurance		111,904	111,904			111,904
Office supplies	2,527	7,074	9,601			9,601
Outside services	1,341	34,523	35,864			35,864
Postage		938	938			938
Professional services		12,747	12,747	6,433		19,180
Repairs	2,639	11,079	13,718			13,718
Supplies	2,299	27,150	29,449			29,449
Telephone	815	15,227	16,042			16,042
Rent		282,150	282,150			282,150
Utilities		45,059	45,059			45,059
Tithes to Habitat International	29,068		29,068			29,068
Mortgage debt forgiven	52,764		52,764			52,764
Freight		8,960	8,960			8,960
Depreciation		10,662	10,662			10,662
Interest			-	2,270		2,270
Alarm service		1,266	1,266			1,266
Tax, License and permits	796	901	1,697			1,697
Distribution to Habitat affiliate	30,000		30,000			30,000
Training	2,049	1,767	3,816			3,816
Home repairs	198,206		198,206			198,206
Special events			-		36,940	36,940
Inventory adjustment		(4,000)	(4,000)			(4,000)
Miscellaneous	2,813	1,841	4,654			4,654
Total	<u>\$ 855,576</u>	<u>\$972,711</u>	<u>\$ 1,828,287</u>	<u>\$ 48,013</u>	<u>\$91,131</u>	<u>\$1,967,431</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, 2020

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 2,751,165
Adjustments to reconcile change in net assts to net cash provided by operating activities:	
Depreciation	10,662
Mortgage discount amortization	(179,998)
Mortgage debt forgiven	52,764
Noncash contribution	(810,000)
 (Increase) decrease in operating assets:	
Impound trust account	3,208
Inventory	(4,000)
Accounts receivable	(267,122)
Construction in progress	(288,399)
Prepaid expenses	(14,444)
Increase (decrease) in operating liabilities:	
Accounts payable	57,694
Accrued payroll	(33,563)
Accrued vacation	2,376
Homeowner escrow funds	(724)
Net cash provided by operating activities	1,279,619

CASH FLOWS FROM INVESTING ACTIVITIES

Payments received on mortgages	232,955
Cash provided by investing activities	232,955

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from Paycheck Protection Program loan	160,230
Payments on note payable	(61,945)
Cash provided by financing activities	98,285

NET INCREASE IN CASH 1,610,859

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 603,372

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 2,214,231

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

HABITAT FOR HUMANITY RIVERSIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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 financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Organization reports information regarding its financial position and activities according to two classes of net assets; net assets without donor restrictions and net assets with donor restrictions. Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. Net assets with donor restrictions are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature where the donor stipulates that resources be maintained in perpetuity. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

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.

HABITAT FOR HUMANITY RIVERSIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 15, 2020, which is the date the financial statements were issued.

HABITAT FOR HUMANITY RIVERSIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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 \$29,068 to Habitat for Humanity International. This amount is included in program services in the statement of functional expenses.

NOTE 3-LAND HELD FOR DEVELOPMENT AND CONSTRUCTION IN PROGRESS

Land held for development 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. Upon completion of the home and sale to a homeowner the construction costs are reported as construction costs in the statement of functional expenses.

NOTE 4-PROPERTY AND EQUIPMENT

Property and equipment were comprised of the following at June 30, 2020.

Fixed assets:

Leasehold improvements	\$ 106,623
Office equipment	78,545
Vehicles	<u>58,276</u>
Subtotal	243,444
Less accumulated depreciation	<u>(240,609)</u>
Total property and equipment	<u>\$ 2,835</u>

Depreciation expense for the year ended June 30, 2020 was \$10,662.

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, 2020

NOTE 5-MORTGAGES RECEIVABLE (continued)

Mortgages receivable present value at June 30, 2020

Mortgages receivable at face value	\$ 5,982,638
Less unamortized present value discount	<u>(3,984,870)</u>
Total mortgages receivable, net of discount	<u>\$ 1,997,768</u>
Mortgage receivable-current portion	\$ 220,188
Mortgage receivable-long term, net of discount	\$ 1,777,580

Amortization of the mortgage discount was \$ 179,998 for year ended June 30, 2020.

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. In 2017 the lease agreement was extended to September 30, 2022. Lease expense for the year was \$ 282,150. Minimum lease payments for the new lease are as follows:

Three months ended September 30,	
2021	\$ 289,007
2022	297,677
2023	74,965

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. The balance of the loan at June 30, 2020 was \$31,723.

NOTE 8-PAYCHECK PROTECTION PROGRAM LOAN

During the year the Organization received a loan under the Paycheck Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), provides for loans to qualifying businesses and organizations for amounts up to 2.5 times the average monthly payroll expense. Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for qualifying expenses as described in the CARES Act. If the loan is forgiven the Organization will reduce the loan balance and recognize revenue for the loan balance. Management anticipates that the loan will be forgiven in the subsequent year.

HABITAT FOR HUMANITY RIVERSIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 9-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. Salaries and employee benefits have been allocated on the basis of analysis of personnel time and other operating expenses have been allocated based on space utilized for the related activities,

NOTE 10-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 11-NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consists of temporarily restricted net assets that are restricted for the construction costs of homes. Upon the completion of the homes the net assets with donor restrictions will be released to net assets without donor restrictions.

NOTE 12-CONTINGENCIES

The Organization receives government grants as well as certain other grant funds, for specific purposes that are subject to review and audit by grantor agencies. Such audits could generate expenses disallowed under the terms of the grant. As of June 30, 2020, in the opinion of the Organization's management, there are no outstanding matters which would have a material affect on the Organization's financial position.

NOTE 13-CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Organization to concentration of credit risk consist primarily of cash and cash equivalents and receivables. The Organization maintains its cash and cash equivalents in various bank accounts that, at times may exceed the federally insured limits of \$250,000. At June 30, 2020, the Organization had an uninsured cash balance of \$ 193,634. The Organization has not experienced , nor does it anticipate , any losses with respect to such accounts. In the normal course of business, the Organization performs ongoing credit evaluations of its receivables and maintains allowances for possible losses.

HABITAT FOR HUMANITY RIVERSIDE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 14-LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Organization's financial assets as of June 30, 2020 and the amounts of those financial assets that are available for use within one year to meet general expenditures:

Cash and cash equivalents	\$ 2,214,231
Impound trust account	19,462
Accounts receivable	<u>376,889</u>
Total Financial Assets	<u>\$ 2,610,582</u>

NOTE 15- RETIREMENT PLAN

The Organization has a 403(b) salary deferral plan whereby employees can contribute up to the amount allowed under the Internal Revenue Plan. There were no matching contributions by the Organization for the year.