

**HABITAT FOR HUMANITY OF VENTURA COUNTY, INC.**  
(A NONPROFIT PUBLIC BENEFIT CORPORATION)  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT  
JUNE 30, 2017 AND 2016



**HABITAT FOR HUMANITY OF VENTURA COUNTY, INC.**  
(A NONPROFIT PUBLIC BENEFIT CORPORATION)  
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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Habitat for Humanity of Ventura County, Inc.:

We have audited the accompanying financial statements of Habitat for Humanity of Ventura County, Inc. (the "Organization" or "Habitat"), a nonprofit public benefit corporation, which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and change in net assets, functional expenses and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 risks 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 of Ventura County, Inc. as of June 30, 2017 and 2016, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Los Angeles, California  
December 13, 2017

# HABITAT FOR HUMANITY OF VENTURA COUNTY, INC.

(A NONPROFIT PUBLIC BENEFIT CORPORATION)

## STATEMENTS OF FINANCIAL POSITION

AS OF JUNE 30,	2017	2016
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 187,095	\$ 326,250
Endowment fund	24,572	22,075
Grants receivable	102,968	80,204
Mortgage notes receivable, current portion	112,176	83,016
Homes held for sale	2,093,478	2,122,079
Prepaid expenses and other current assets	47,321	12,606
<b>Total current assets</b>	<b>2,567,610</b>	<b>2,646,230</b>
Restricted cash - homeowner impound funds	76,058	41,051
Property and equipment, net	15,040	24,686
Construction-in-progress	297,888	664,772
Mortgage notes receivable, net of current portion and unamortized discount	1,324,445	831,914
Deposits and other assets	57,406	64,572
<b>Total assets</b>	<b>\$ 4,338,447</b>	<b>\$ 4,273,225</b>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 96,572	\$ 104,531
Deferred revenue	30,150	4,423
<b>Total current liabilities</b>	<b>126,722</b>	<b>108,954</b>
Deposits and impound accounts	268,342	209,817
<b>Total liabilities</b>	<b>395,064</b>	<b>318,771</b>
Net assets		
Unrestricted	3,784,198	3,837,921
Temporarily restricted	159,185	116,533
<b>Total net assets</b>	<b>3,943,383</b>	<b>3,954,454</b>
<b>Total liabilities and net assets</b>	<b>\$ 4,338,447</b>	<b>\$ 4,273,225</b>

See notes to financial statements.

# HABITAT FOR HUMANITY OF VENTURA COUNTY, INC.

(A NONPROFIT PUBLIC BENEFIT CORPORATION)

## STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED JUNE 30,	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Revenue and support</b>						
Government contracts and grants	\$ 286,052	\$ -	\$ 286,052	\$ 245,043	\$ -	\$ 245,043
Grants - forgivable loan	-	-	-	400,000	-	400,000
Private contributions (corporate, foundation and individual)	364,510	130,921	495,431	465,740	193,382	659,122
ReStore sales	1,168,109	-	1,168,109	969,746	-	969,746
In-kind contributions	20,539	-	20,539	34,991	-	34,991
Sales of homes	1,003,798	-	1,003,798	-	-	-
Special events, net	107,710	-	107,710	117,141	-	117,141
Mortgage notes discount amortization	35,932	-	35,932	40,779	-	40,779
Other revenue	97,414	-	97,414	3,562	-	3,562
<b>Total revenue and support</b>	<b>3,084,064</b>	<b>130,921</b>	<b>3,214,985</b>	<b>2,277,002</b>	<b>193,382</b>	<b>2,470,384</b>
<b>Net assets released from restrictions</b>						
Satisfaction on restrictions	88,269	(88,269)	-	426,919	(426,919)	-
<b>Expenses</b>						
Program services						
Housing	1,544,179	-	1,544,179	581,765	-	581,765
Preserve a Home	438,983	-	438,983	451,170	-	451,170
ReStore	965,455	-	965,455	794,855	-	794,855
Supporting services						
Management and general	168,616	-	168,616	242,291	-	242,291
Fundraising	108,823	-	108,823	62,087	-	62,087
<b>Total expenses</b>	<b>3,226,056</b>	<b>-</b>	<b>3,226,056</b>	<b>2,132,168</b>	<b>-</b>	<b>2,132,168</b>
<b>Change in net assets</b>	<b>(53,723)</b>	<b>42,652</b>	<b>(11,071)</b>	<b>571,753</b>	<b>(233,537)</b>	<b>338,216</b>
Net assets, beginning of year	3,837,921	116,533	3,954,454	3,266,168	350,070	3,616,238
<b>Net assets, end of year</b>	<b>\$ 3,784,198</b>	<b>\$ 159,185</b>	<b>\$ 3,943,383</b>	<b>\$ 3,837,921</b>	<b>\$ 116,533</b>	<b>\$ 3,954,454</b>

See notes to financial statements.

# HABITAT FOR HUMANITY OF VENTURA COUNTY, INC.

(A NONPROFIT PUBLIC BENEFIT CORPORATION)

## STATEMENT OF FUNCTIONAL EXPENSES

**FOR THE YEAR ENDED JUNE 30, 2017**

	Program Services			Management and General	Fundraising	Total
	Housing	Preserve a Home	ReStore			
Cost of sales	\$ 987,365	\$ -	\$ -	\$ -	\$ -	\$ 987,365
Compensation and benefits	100,339	194,294	416,697	81,044	88,230	880,604
Mortgage notes discount	386,112	-	-	-	-	386,112
Rent	8,694	8,694	330,650	10,433	3,478	361,949
Preserve a Home costs	74	146,924	30	89	30	147,147
Office expense	7,452	6,006	52,377	21,450	4,708	91,993
Professional fees	8,022	44,130	9,796	20,054	-	82,002
Insurance	15,900	13,098	24,781	4,810	686	59,275
Vehicles	7,359	4,723	40,427	-	223	52,732
HFHI tithes and fees	14,034	14,313	14,313	-	340	43,000
ReStore cost of goods	-	-	40,484	-	-	40,484
Bank fees and charges	12	-	21,404	7,561	2,132	31,109
Repairs and maintenance	3,068	3,011	7,341	4,516	1,505	19,441
Marketing and advertising	1,750	1,746	5,247	1,969	2,130	12,842
Volunteer and other expenses	3,241	1,970	1,862	1,934	1,672	10,679
Travel and seminars	757	74	46	5,243	3,689	9,809
Depreciation	-	-	-	9,513	-	9,513
<b>Total expenses</b>	<b>\$ 1,544,179</b>	<b>\$ 438,983</b>	<b>\$ 965,455</b>	<b>\$ 168,616</b>	<b>\$ 108,823</b>	<b>\$ 3,226,056</b>

See notes to financial statements.

**HABITAT FOR HUMANITY OF VENTURA COUNTY, INC.**

(A NONPROFIT PUBLIC BENEFIT CORPORATION)

## STATEMENT OF FUNCTIONAL EXPENSES

**FOR THE YEAR ENDED JUNE 30, 2016**

	Program Services			Management and General	Fundraising	Total
	Housing	Preserve a Home	ReStore			
Cost of sales	\$ 420,029	\$ -	\$ -	\$ -	\$ -	\$ 420,029
Compensation and benefits	84,237	203,815	302,818	98,383	48,974	738,227
Rent	12,524	8,902	333,514	14,243	3,561	372,744
Preserve a Home costs	-	178,139	-	-	-	178,139
Office expense	10,860	8,030	51,922	33,662	2,509	106,983
Professional fees	6,228	6,259	6,372	5,001	2,467	26,327
Insurance	21,111	19,122	24,593	4,257	-	69,083
Vehicles	5,206	6,761	31,760	831	56	44,614
HFHI tithes and fees	13,069	13,069	13,464	-	-	39,602
ReStore cost of goods	-	-	-	-	-	-
Bank fees and charges	38	300	21,251	4,316	1,224	27,129
Repairs and maintenance	2,800	2,800	4,480	19,597	-	29,677
Marketing and advertising	424	-	2,189	3,666	3,296	9,575
Volunteer and other expenses	4,441	2,459	2,223	11,288	-	20,411
Travel and seminars	798	1,514	40	4,308	-	6,660
Depreciation	-	-	229	16,418	-	16,647
Office relocation	-	-	-	20,575	-	20,575
Interest	-	-	-	5,746	-	5,746
<b>Total expenses</b>	<b>\$ 581,765</b>	<b>\$ 451,170</b>	<b>\$ 794,855</b>	<b>\$ 242,291</b>	<b>\$ 62,087</b>	<b>\$ 2,132,168</b>

*See notes to financial statements.*

# HABITAT FOR HUMANITY OF VENTURA COUNTY, INC.

(A NONPROFIT PUBLIC BENEFIT CORPORATION)

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30,	2017	2016
<b>Cash flows from operating activities</b>		
Changes in net assets	\$ (11,071)	\$ 338,216
Adjustments to reconcile changes in net assets to net cash used in operating activities		
Mortgage notes discount amortization	(35,932)	(40,779)
Depreciation expense	9,513	16,647
Gain on sale of property and equipment	(5,617)	-
Changes in operating assets and liabilities		
Grants receivable	(22,764)	191,199
Inventory	-	9,780
Mortgage notes receivable	(485,759)	89,074
Homes held for sale	28,601	(1,000,000)
Prepaid expenses and other current assets	(34,715)	6,512
Restricted cash - homeowner impound funds	(35,007)	(41,051)
Construction-in-progress	366,884	266,674
Deposits and other assets	7,166	(24,920)
Accounts payable and accrued liabilities	(7,959)	(167,819)
Deferred revenue	25,727	(27,755)
Deposits and impound accounts	58,525	40,667
<b>Net cash used in operating activities</b>	<b>(142,408)</b>	<b>(343,555)</b>
<b>Cash flows from investing activities</b>		
Investments - certificates of deposit	-	377,433
Endowment fund, net	(2,497)	900
Sale of property and equipment	5,750	-
Purchase of property and equipment	-	(17,435)
<b>Net cash provided by investing activities</b>	<b>3,253</b>	<b>360,898</b>
<b>Net change in cash and cash equivalents</b>	<b>(139,155)</b>	<b>17,343</b>
Cash and cash equivalents, beginning of year	326,250	308,907
<b>Cash and cash equivalents, end of year</b>	<b>\$ 187,095</b>	<b>\$ 326,250</b>
<b>Cash paid for the following:</b>		
Interest	\$ -	\$ 1,291
<b>Supplemental schedule of noncash investing and financing activities:</b>		
Forgivable loan and related land	\$ -	\$ 400,000

See notes to financial statements.

# HABITAT FOR HUMANITY OF VENTURA COUNTY, INC.

(A NONPROFIT PUBLIC BENEFIT CORPORATION)

## NOTES TO FINANCIAL STATEMENTS

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### 1. ORGANIZATION AND NATURE OF ACTIVITIES

Habitat for Humanity of Ventura County, Inc. (the "Organization" or "Habitat") is a nonprofit public benefit corporation which was incorporated on June 5, 1986. Habitat is an affiliate of Habitat for Humanity International, Inc. ("Habitat International"), a nondenominational, Christian, not-for-profit organization whose purpose is to create decent, affordable housing for families in need, and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists with information resources, training, publications, and prayer support, Habitat is primarily and directly responsible for its own operations.

**Description of Programs** Through the Housing program, Habitat partners with families in need to build decent, affordable housing. Volunteers provide most of the labor, and government agencies and donors provide funds, materials and land to build Habitat homes. Finished affordable homes are sold to qualified families who have been approved by the Board of Directors based upon the recommendation of the Family Selection Committee. The families are selected based upon income, current housing need, and willingness to partner with Habitat. Habitat's policy is that each family is generally required to complete a minimum of 500 hours of "sweat equity" (voluntary labor). The mortgages for all homes sold are interest-free, with terms and monthly payments that are affordable for the homeowner.

The Preserve a Home program provides low-income homeowners much needed repair services at an affordable cost. Since Habitat launched this program in May 2011, more than 114 home preservations have been completed in Ventura County (Fillmore, Camarillo, Oxnard, Piru, Simi Valley, Thousand Oaks, and Ventura). Homeowners and family members contribute sweat equity hours and work in partnership with Habitat staff and volunteers.

In addition, Habitat operates the ReStore, a discount home improvement center that accepts and resells new and gently used building materials and furniture to the public at a fraction of their retail price. The ReStore reduces the amount of usable building materials going into local landfills. All items sold through the ReStore are received through donations. The proceeds from the ReStore are used to further Habitat's mission.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation** The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Revenues, expenses, gains, losses and net assets are classified in the financial statements based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein, are classified and reported as follows:

- **Unrestricted net assets** Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the primary objectives of the Organization.
- **Temporarily restricted net assets** Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net

# HABITAT FOR HUMANITY OF VENTURA COUNTY, INC.

(A NONPROFIT PUBLIC BENEFIT CORPORATION)

## NOTES TO FINANCIAL STATEMENTS

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assets and reported in the accompanying financial statements as net assets released from restrictions.

- **Permanently restricted net assets** Net assets subject to donor-imposed stipulations that resources be maintained in perpetuity. As of June 30, 2017 and 2016, the Organization had no permanently restricted net assets.

In addition, the Organization reports all of its expenses in the unrestricted fund, regardless of the source of the funds for the expenditures.

**Cash and Cash Equivalents** The Organization considers all unrestricted highly liquid investments with an original maturity of three months or less to be cash equivalents.

**Restricted Cash – Homeowner Impound Funds** Habitat services the mortgages on homes it sells. As part of the process, the Organization collects monthly payments for property taxes and insurance from homeowners, along with the monthly mortgage payments. The homeowner impound balance represents amounts collected by Habitat for property taxes and insurance that has not yet been paid to the county tax collector or insurance providers.

**Property and Equipment** Property and equipment includes real estate, leasehold improvements and equipment at historical cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life of the asset or the lease term

The estimated useful lives of the assets are as follows:

<b>Description</b>	<b>Life</b>
Computer equipment	5 years
Leasehold improvements	5 years
Machinery and equipment	7 years
Vehicles	5 years

The Organization capitalizes expenditures or betterments that materially increase asset lives and charges ordinary repairs and maintenance to operations as incurred. When assets are sold or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in operations. Abandoned projects are expensed when management determines the project is not feasible.

Management reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. When evaluating recoverability, management considers future undiscounted cash flows estimated to be generated by the property including any estimated proceeds from the eventual disposition. In the event these accumulated cash flows are less than the carrying amount of the property, the Organization recognizes an impairment loss equal to the excess of the carrying amount over the estimated fair value of the property. No impairment losses were recognized in 2017 or 2016.

**Construction-in-progress** Costs incurred to build or rehabilitate homes are recorded as construction-in-progress until the home is sold, at which time the related costs are expensed. Habitat has established a policy regarding both donated and purchased land for use in the

# HABITAT FOR HUMANITY OF VENTURA COUNTY, INC.

(A NONPROFIT PUBLIC BENEFIT CORPORATION)

## NOTES TO FINANCIAL STATEMENTS

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construction of homes. Donated land is recorded on Habitat's books at the appraised value at the date of the donation. Land donated or purchased with donated funds is adjusted to a net realizable value of zero.

Consistent with Habitat's mission, homes are constructed to build affordable housing for low-income families. In furtherance of this purpose, certain cost of construction is directly expensed and absorbed by Habitat which is included with cost of sales on the statements of functional expense.

**Homes Held for Sale** Homes held for sale are stated at the lower of cost or net realizable value (estimated fair value, less selling costs) and include initial acquisition cost, direct rehabilitation/construction costs, real estate taxes and interest. Interest costs are capitalized until construction is substantially complete. For the years ended June 30, 2017 or 2016, the Organization did not incur any interest on homes held for sale. Selling costs are expensed as incurred.

Upon completion, the value of the home is reclassified from construction-in-progress to homes held for sale. Approved homeowners are allowed to reside in the homes prior to the home sale being finalized. Homeowners pay Habitat a monthly fee based on the anticipated sales price until the sale is completed, at which time payments made by the homeowner will be applied to the purchase of the home.

**Mortgage Notes Receivable** Mortgages notes receivable consist of residential loans made to qualified borrowers, secured by real estate, that are payable in monthly installments over the life of the mortgage notes. These non-interest bearing notes have been discounted based upon prevailing market rates for low-income housing at inception as calculated by Habitat. The discount is amortized using the effective interest method over the lives of the mortgage notes. Based on management's analysis and history of the borrowers, Habitat believes there is no need for an allowance for uncollectible mortgage notes receivable.

In addition, homes may have a second trust deed in favor of Habitat to ensure compliance with the terms of the Organization's homeownership program. These mortgage notes are referred to as "silent". These silent mortgage notes receivable bear no interest and are deemed to have no value if the homeowner lives in the home for the required period of time and complies with all other covenants and restrictions per the deed of trust. Accordingly, the Organization does not record a value for these silent mortgage notes receivable.

Habitat may in the future sell a portion of their loans or future loans received as homes are built. Due to the uncertainty of the timing and amount of any future sales of mortgage notes receivable, any gain or loss resulting from such transactions will be recorded when the transactions are settled or when amounts can be reasonably estimated.

**Revenue and Support** Habitat receives grant funding from federal, state and local agencies for home development. Revenues from such grants are recognized as they are earned through expenditure in accordance with agreements. Any funds received in advance of the expenditure being incurred are recorded as deferred revenue.

Contributions are recognized at the earlier of the date of receipt of funds or the date of a formal, unconditional pledge from known donors. Contributions or unconditional promises to give with payments due in future periods are discounted to present value and reported as temporarily

# HABITAT FOR HUMANITY OF VENTURA COUNTY, INC.

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## NOTES TO FINANCIAL STATEMENTS

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restricted revenue. Any funds received in advance of a condition being met are recorded as temporarily restricted revenues.

Revenue and cost of revenue from home sales are recorded when title passes to eligible home buyers. Home sales are recorded at cash received or the gross mortgage plus down payment received when financed by the homeowner. Cost of homes sold consists of capitalized home construction costs and other related costs associated with the sale of the home. An offsetting mortgage discount on sales is recorded at the time of sale to report the difference between the non-interest bearing loan and the present value of the discounted loan.

ReStore revenue consists of cash receipts from the sale of donated goods and is recognized at point of sale.

Special events revenue is presented on the statement of activities and change in net assets, net of the event related expenses. Revenues from special events include individual and corporate contributions and are recognized when the event is held. The related expenses are recognized on the date of the event. The contributions received for special events scheduled to occur after year-end are recorded as deferred revenue and recognized as revenue on the date of the event. For the year ended June 30, 2017, revenue from special events was \$151,229 and the related expense was \$43,519. For the year ended June 30, 2016, revenue from special events was \$143,843 and the related expense was \$26,702.

**Donated Goods and Services** A substantial number of volunteers, including family homebuyer voluntary labor (sweat equity) have made significant contributions of their time and expertise to Habitat's program and supporting services, the total value of which cannot be easily calculated or estimated. These volunteer services have not been reflected in the accompanying financial statements because the volunteer services provided do not meet the criteria necessary for recognition under GAAP. Donated labor for professional construction services are valued at the prevailing rate for the pro-bono services received.

Donated building materials and facilities are recorded at fair value. Goods and materials donated to the ReStore are deemed to have no determinable value at the time of donation. Accordingly, donated inventory is not recorded prior to being sold.

**Functional Expenses** The costs of providing the Organization's programs and other activities have been summarized on a functional basis in the accompanying statements of functional expenses. Accordingly, certain costs have been allocated to direct program services or management and general and fundraising expense. The functional classifications are defined as follows:

- Direct program expenses consist of costs incurred in connection with the Organization's neighborhood revitalization activities, which includes home repairs for needy individuals and completing homes and providing loans to program participants. Program services also include the operations of the discount home improvement retail outlet ReStores.
- Management and general expenses consist of costs incurred in connection with the overall activities of the Organization, which are not allocable to another functional expense category.
- Fundraising expenses consist of costs incurred in connection with activities related to obtaining grants and activities designed to generate revenue.

# HABITAT FOR HUMANITY OF VENTURA COUNTY, INC.

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## NOTES TO FINANCIAL STATEMENTS

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**Income Taxes** The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) under the California Revenue and Taxation Code. In addition, the Organization does not have any income which would be subject to unrelated business income taxes, as defined. Accordingly, there is no provision for income taxes in these financial statements and the Organization has no other tax positions which must be considered for disclosure. The Organization is required to file tax returns with the Internal Revenue Service (IRS) and other taxing authorities. With few exceptions, the Organization is no longer subject to income tax examinations by tax authorities for years before 2012. No examinations are currently pending.

**Use of Estimates** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results may differ from those estimates.

**Concentrations of Business and Credit Risk** The Organization's cash and cash equivalents are maintained in various financial institutions. The Organization has exposure to credit risk to the extent cash and cash equivalents exceed amounts covered by federal deposit insurance. The Organization believes that its credit risk is not significant.

Habitat is vulnerable to the inherent risks associated with voluntary labor and with revenue that is substantially dependent on public support and contributions. The continued growth and operations are dependent on the successful achievement of long-term revenue raising goals. In addition, increased developments costs, supply and labor shortages, entitlement delays and other factors may negatively affect future results.

**New Accounting Pronouncements** In August 2016, the Federal Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). The amendments in this update make improvements to the net asset classification requirements and the information presented in the not-for-profit entity's financial statements including specific disclosure requirements about its liquidity and availability of resources, expenses and investment returns and cash flows. ASU 2016-04 is effective for fiscal years beginning after December 15, 2017 with early adoption permitted. The Organization is currently evaluating the impact that the adoption of ASU 2016-14 will have on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record an ROU asset and a lease liability, measured on a discounted basis, on the balance sheet for all leases with terms greater than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities and change in net assets (deficit). A modified retrospective transition approach is required for capital and operating leases existing at the date of adoption, with certain practical expedients available. The Organization is currently in the process of evaluating the potential impact of this new guidance, which is effective for the Organization after December 15, 2019.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, to provide classification guidance for certain transactions. In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230) Restricted Cash*, which changes how restricted cash is presented on the statement of cash flows. The

# HABITAT FOR HUMANITY OF VENTURA COUNTY, INC.

(A NONPROFIT PUBLIC BENEFIT CORPORATION)

## NOTES TO FINANCIAL STATEMENTS

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amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in these updates do not provide a definition of restricted cash or restricted cash equivalents. For private entities, the guidance in ASU 2016-15 and ASU 2016-18 is effective for annual periods beginning after December 15, 2018, with early adoption permitted. The Organization has not yet determined the impact the adoption of ASU 2016-15 and ASU 2016-18 on July 1, 2020 will have on its financial statements.

### 3. ENDOWMENT FUND

The Ventura County Community Foundation holds gifts donated to Habitat in an endowment fund. Earnings from the fund as well as any gifts designated for distribution are available to Habitat for distribution. The Ventura County Community Foundation endowment funds in excess of 100% of principal value will be permitted a 5% distribution. During the years ended June 30, 2017 and 2016, Habitat did not take distributions, and \$2,587 and \$3,567, respectively, is available for distributions.

### 4. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consist of the following:

<b>As of June 30,</b>	<b>2017</b>	<b>2016</b>
Leasehold improvements	\$ 20,609	\$ 20,609
Vehicles	70,036	73,036
Computer equipment	14,197	14,197
Total property and equipment	104,842	107,842
Less: accumulated depreciation	(89,802)	(83,156)
<b>Total property and equipment, net</b>	<b>\$ 15,040</b>	<b>\$ 24,686</b>

Depreciation expense was \$9,513 and \$16,647 for the years ended June 30, 2017 and 2016, respectively.

### 5. MORTGAGE NOTES RECEIVABLE

Mortgage notes receivable range from 25-30 years and represent amounts due from the purchasers of homes constructed by Habitat that are secured by a deed of trust and payable in monthly installments over the term of the note. At the time of sale, a non-interest bearing mortgage loan, secured by a first trust deed and the related discount for interest are recorded. As of June 30, 2017 and 2016, Habitat's noninterest bearing mortgage loans outstanding were discounted at an imputed interest rate of 4%.

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Mortgages notes receivable consisted of the following:

<b>At June 30,</b>	<b>2017</b>	<b>2016</b>
Mortgage loans, which bear no interest, payable in monthly installments ranging from approximately \$250-\$700, secured by first deed of trusts.	\$ 2,289,677	\$ 1,417,806
Less: unamortized discount to net present value	(853,056)	(502,876)
	1,436,621	914,930
Less: current portion	(112,176)	(83,016)
<b>Mortgages receivable, net of current portion and discounts</b>	<b>\$ 1,324,445</b>	<b>\$ 831,914</b>

Scheduled mortgage notes receivable collections are as follows:

<b>For the Years Ending June 30,</b>	
2018	\$ 112,176
2019	112,176
2020	112,176
2021	112,176
2022	112,176
Thereafter	1,728,797
<b>Total</b>	<b>\$ 2,289,677</b>

Habitat services the loans previously sold to Pacific Western Bank. Each month, Habitat collects the mortgage payments and remits the scheduled total monthly payments to Pacific Western based upon the terms of the original purchase agreement. In the event that collections are delinquent, previously sold loans may be substituted with a different loan held by Habitat based on agreement with Pacific Western Bank. To date, Habitat has not experienced any losses on the loans sold.

**6. LINE-OF-CREDIT**

The Organization maintains a line-of-credit agreement with Montecito Bank (the "Bank"). The line-of-credit agreement was amended on May 5, 2017 to provide for maximum borrowings of \$325,000. On May 5, 2017, the line-of-credit agreement was amended to extend the maturity date to May 5, 2018.

The line-of-credit bears interest at the Bank's prime rate (as defined), plus 1.0% per annum, with a floor of 5.25%. At June 30, 2017, the interest rate was 5.25% per annum. Interest expense on the line-of-credit amounted to zero and \$1,291 for the years ended June 30, 2017 and 2016, respectively.

Borrowings under the line-of-credit facility are subject to certain covenants and restrictions on indebtedness, financial guarantees, and other related items. As of June 30, 2017 and 2016, there was no outstanding balance on the line-of-credit and the Organization was in compliance with all covenants.

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### 7. RELATED PARTY TRANSACTIONS

**Habitat for Humanity International** Habitat annually remits a tithe, based on its contributions (excluding in-kind contributions) to Habitat International. These funds are used to construct homes in economically depressed areas around the world. Donations to Habitat International were \$18,000 and \$12,000 for the years ended June 30, 2017 and 2016, respectively. In addition, Habitat paid a stewardship fee of \$25,000 to Habitat International for the years ended June 30, 2017 and 2016.

### 8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

<b>As of June 30,</b>	<b>2017</b>	<b>2016</b>
Home sponsorship	\$ 139,025	\$ 96,373
Endowment	20,160	20,160
<b>Total temporarily restricted net assets</b>	<b>\$ 159,185</b>	<b>\$ 116,533</b>

### 9. LEASE OBLIGATIONS, COMMITMENTS, AND CONTINGENCIES

**Operating Leases** Habitat leases office and warehouse/retail space, effective September 2015 through August 2020, for its Oxnard location. Monthly lease payments are approximately \$12,000.

Habitat leases retail space in Simi Valley, effective March 1, 2012, for a term of five years and six months with monthly lease payments of \$14,250 for the first year and scheduled increases as specified by the lease each year thereafter. Habitat is additionally scheduled to pay a proportionate share of operating expenses. Beginning August 1<sup>st</sup>, 2017 the lease converts to month to month with a 60 day option to terminate by either party with written notice.

Future minimum lease payments that have initial or remaining lease terms in excess of one year are as follows:

<b>For the Years Ending June 30,</b>	<b>Amount</b>
2018	\$ 170,881
2019	151,788
2020	151,788
2021	25,298
2022	-
	<b>\$ 499,755</b>

**Government Grants** Certain grants have been funded by agreements with the City of San Buenaventura, City of Camarillo, City of Ventura, and the County of Ventura. These grants may be subject to examination of records by the awarding agencies. Unless and until such examinations have been completed, a contingency exists that Habitat could be obligated to refund amounts received in excess of allowable costs. However, management believes that no material liability will result from such audits, should they occur. No examinations are currently pending.

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In July 2016, Habitat entered in to a contract with the HOME Investment Partnerships Program offered by the City of Oxnard. Habitat, acting as a Community Housing Development Organization, has been award a grant in the amount of \$556,772 to develop and sell six single family homeownership properties located on five parcels in Oxnard. Habitat broke ground on development in August 2017 and incurred predevelopment costs of \$97,679 as of June 30, 2017.

**Litigation** Habitat is subject to lawsuits and claims which arise out of the normal course of its activities. Based upon the opinion of legal counsel, management believes the disposition of any and all such actions of which it is aware will not have a material effect on Habitat's financial position or changes in the net assets of the Organization.

#### **10. SUBSEQUENT EVENTS**

Management has evaluated subsequent events that have occurred through the independent auditor's report date, which is the date that the financial statements were available to be issued and determined that there were no subsequent events or transactions that required recognition or disclosure in the financial statements, except as disclosed below.

Included in current assets are four homes held for sale totaling \$1,000,000, which are expected to be sold subsequent to June 30, 2017 and financed with 30 year mortgage notes. The remaining five homes are expected to sell by June 30, 2018 and will also be financed with long term mortgage notes.