HABITAT FOR HUMANITY OF VENTURA COUNTY, INC.

(A NONPROFIT PUBLIC BENEFIT CORPORATION)
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2019 AND 2018

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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., a nonprofit public benefit corporation, which comprise the statements of financial position as of June 30, 2019 and 2018, 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, 2019 and 2018, 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.

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Emphasis of a Matter

As discussed in Note 2 of the accompanying financial statements, the Organization adopted the provisions of Accounting Standards Update (ASU) 2016-14 *Presentation of Financial Statement of Not-for-Profit Entities* as of and for the year ended June 30, 2019. The requirements of the ASU have been applied retrospectively to all periods presented with the exception of certain disclosures regarding liquidity and availability of resources as provided by the standard. Our opinion is not modified with respect to this matter.

Holthouse Carlin & Van Trigt LLP

Westlake Village, California
February 3, 2020

HABITAT FOR HUMANITY OF VENTURA COUNTY, INC.

(A NONPROFIT PUBLIC BENEFIT CORPORATION)
STATEMENTS OF FINANCIAL POSITION

AS OF JUNE 30,	2019	2018
Assets		
Cash and cash equivalents	$ 2,362,618	$ 910,564
Grants receivable	109,333	151,017
Endowment fund	26,097	26,097
Prepaid expenses	62,003	44,410
Mortgage notes receivable, net of unamortized discount and allowance	2,396,549	1,968,954
Restricted cash - homeowner impound funds	47,008	45,092
Inventory	46,920	-
Construction-in-progress	801,174	1,399,521
Homes held for sale	349,998	1,122,078
Property and equipment, net	7,022	11,031
Deposits and other assets	55,908	54,539
Total assets	$ 6,264,630	$ 5,733,303
Liabilities and Net Assets		
Accounts payable and accrued liabilities	$ 187,031	$ 117,615
Construction costs payable	113,091	60,560
Notes payable	461,925	517,053
Deferred revenue	40,339	50,500
Deposits and impound liability	84,840	293,185
Total liabilities	887,226	1,038,913
Net assets		
Without donor restrictions	4,978,687	4,386,744
With donor restrictions	398,717	307,646
Total net assets	5,377,404	4,694,390
Total liabilities and net assets	$ 6,264,630	$ 5,733,303

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF VENTURA COUNTY, INC.

(A NONPROFIT PUBLIC BENEFIT CORPORATION)
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

FOR THE YEARS ENDED JUNE 30,			**2019**			**2018**
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Revenue and support						
Government contracts and grants	$ 251,215	$ -	$ 251,215	$ 697,675	$ -	$ 697,675
Contributions (corporate, foundation and individual)	1,224,840	255,263	1,480,103	633,168	287,486	920,654
ReStore sales	1,257,076	-	1,257,076	1,308,097	-	1,308,097
Sale of homes	1,977,954	-	1,977,954	1,003,000	-	1,003,000
In-kind contributions	630,171	-	630,171	106,505	-	106,505
Special events, net	239,673	-	239,673	191,738	-	191,738
Mortgage notes discount amortization	132,357	-	132,357	72,942	-	72,942
Other revenue	2,792	5,937	8,729	20,295	-	20,295
Total revenue and support	5,716,078	261,200	5,977,278	4,033,420	287,486	4,320,906
Net assets released from restrictions	170,129	(170,129)	-	139,025	(139,025)	-
Expenses						
Program services						
Housing	3,069,077	-	3,069,077	1,781,715	-	1,781,715
Home Repair	418,737	-	418,737	517,215	-	517,215
ReStore	898,556	-	898,556	952,343	-	952,343
Supporting services						
Management and general	753,277	-	753,277	178,050	-	178,050
Fundraising	154,617	-	154,617	140,576	-	140,576
Total expenses	5,294,264	-	5,294,264	3,569,899	-	3,569,899
Change in net assets	591,943	91,071	683,014	602,546	148,461	751,007
Net assets, beginning of year	4,386,744	307,646	4,694,390	3,784,198	159,185	3,943,383
Net assets, end of year	$ 4,978,687	$ 398,717	$ 5,377,404	$ 4,386,744	$ 307,646	$ 4,694,390

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF VENTURA COUNTY, INC.
(A NONPROFIT PUBLIC BENEFIT CORPORATION)
STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2019

	Program Services					
	Housing	Home Repair	ReStore	Management and General	Fundraising	Total
Cost of homes sold	$ 2,583,806	$ -	$ -	$ -	$ -	$ 2,583,806
Compensation and benefits	101,831	132,537	413,851	415,767	128,836	1,192,822
Mortgage notes discount amortization expense	274,081	-	-	-	-	274,081
Home sale closings costs	62,367	-	-	-	-	62,367
Rent	1,903	510	302,336	37,225	1,865	343,839
Home Repair costs	-	263,105	-	-	-	263,105
Office expense	8,159	4,188	47,112	78,969	842	139,270
Professional fees	12,894	35	731	92,368	28	106,056
Insurance	12,989	10,524	24,293	26,488	1,529	75,823
HFHI tithes and fees	-	-	-	49,996	-	49,996
ReStore cost of goods	-	-	42,731	-	-	42,731
Vehicles	5,945	6,865	30,690	1,789	807	46,096
Bank fees and charges	3,878	-	27,642	7,840	2,917	42,277
Marketing and advertising	-	206	2,706	12,494	14,917	30,323
Volunteer and other expenses	314	178	1,749	7,087	2,435	11,763
Repairs and maintenance	64	19	4,142	8,850	-	13,075
Depreciation	-	-	-	4,009	-	4,009
Travel and seminars	310	570	573	7,837	441	9,731
Office relocation	-	-	-	2,500	-	2,500
Interest	536	-	-	58	-	594
Total expenses	$ 3,069,077	$ 418,737	$ 898,556	$ 753,277	$ 154,617	$ 5,294,264

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF VENTURA COUNTY, INC.

(A NONPROFIT PUBLIC BENEFIT CORPORATION)
STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2018

	Program Services					
	Housing	**Home Repair**	**ReStore**	**Management and General**	**Fundraising**	**Total**
Cost of homes sold	$ 1,221,400	$ -	$ -	$ -	$ -	$ 1,221,400
Compensation and benefits	96,129	189,624	429,474	78,807	119,363	913,397
Mortgage notes discount amortization expense	386,246	-	-	-	-	386,246
Rent	9,688	9,688	304,304	11,624	3,875	339,179
Home Repair	-	239,609	-	-	-	239,609
Office expense	7,263	7,023	52,505	34,620	7,780	109,191
Professional fees	11,173	33,042	12,387	27,803	-	84,405
Insurance	16,213	13,407	26,700	4,222	1,212	61,754
HFHI tithes and fees	16,900	16,548	16,548	-	-	49,996
ReStore cost of goods	-	-	45,269	-	-	45,269
Vehicles	1,987	6,072	29,059	-	283	37,401
Bank fees and charges	3,250	-	25,940	1,994	2,852	34,036
Marketing and advertising	510	615	4,495	8,235	3,816	17,671
Volunteer and other expenses	9,709	305	1,731	3,151	576	15,472
Repairs and maintenance	1,158	1,158	3,901	1,738	579	8,534
Depreciation	-	-	-	4,009	-	4,009
Travel and seminars	89	124	30	1,847	240	2,330
Total expenses	$ 1,781,715	$ 517,215	$ 952,343	$ 178,050	$ 140,576	$ 3,569,899

See accompanying 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,	2019	2018
Cash flows from operating activities		
Change in net assets	$ 683,014	$ 751,007
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Mortgage notes discount amortization income	(132,357)	(72,942)
Mortgage notes discount amortization expense	274,081	386,246
Depreciation expense	4,009	4,009
Changes in operating assets and liabilities		
Grants receivable	41,684	(48,049)
Inventory	(46,920)	-
Prepaid expenses	(17,593)	2,911
Mortgage notes receivable	(569,319)	(845,637)
Construction-in-progress	598,347	(1,101,633)
Homes held for sale	772,080	971,400
Deposits and other assets	(1,369)	(10,512)
Accounts payable and accrued liabilities	69,416	21,043
Construction costs payable	52,531	60,560
Deferred revenue	(10,161)	20,350
Deposits and impound liability	(208,345)	24,843
Net cash provided by operating activities	1,509,098	163,596
Cash flows from financing activities		
Proceeds from notes payable	444,872	517,053
Payments on notes payable	(500,000)	-
Proceeds from line-of-credit	-	200,000
Payments on line-of-credit	-	(200,000)
Net cash (used in) provided by financing activities	(55,128)	517,053
Net change in cash, cash equivalents, and restricted cash	1,453,970	680,649
Cash, cash equivalents, and restricted cash, beginning of year	981,753	301,104
Cash, cash equivalents, and restricted cash, end of year	$ 2,435,723	$ 981,753

Supplemental cash disclosure

Cash paid for the following:		
Interest, net of capitalized interest	$ 5,231	$ 2,194

See accompanying notes to financial statements.

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 The Organization improves the quality and affordability of housing in Ventura County through the following programs:

- **Housing Program** – Through this program the Family Selection Committee recommends qualified families to the Board of Directors 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). Habitat partners with selected families, volunteers provide most of the labor, and government agencies and donors provide funds, materials and land to build Habitat homes. Finished affordable homes are then sold to selected/approved families. The Organization's mortgages for all homes sold are interest free, with terms and monthly payments that are affordable for the homeowner.

- **Home Repair** – This program provides low-income homeowners much needed repair service. Since Habitat launched this program in May 2011, more than 167 home preservations have been completed in Ventura County (Fillmore, Camarillo, Oxnard, Piru, Simi Valley, Thousand Oaks, and Ventura). Homeowner and family members contribute sweat equity hours, when physically able, in partnership with Habitat staff and volunteers.

- **ReStores** – Habitat operates two ReStores, which are discount home improvement centers that accept and resell new and gently used building materials and furniture to the public at a fraction of their retail price. ReStores reduce the amount of usable building materials going into local landfills through reuse. All items sold through ReStores with the exception of purchase-to-sell merchandise are received through donations. The proceeds from the operations of ReStores 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").

Classes of Net Assets Net assets of the Organization and changes therein are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes have been classified and are reported as follows:

- ***Net Assets Without Donor Restrictions*** Net assets without donor restrictions are available to support operations and are not subject to donor or grantor imposed stipulations. The only limits on net assets without donor restrictions are broad limits resulting from the nature of the

Organization and the purposes specified in its articles of incorporation or bylaws and, perhaps, limits resulting from contractual agreements.

- ***Net Assets With Donor Restrictions*** Net assets of the Organization resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations. 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 will be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both and the net assets are reclassified as net assets without donor restrictions and reported in the statement of activities, and change in net assets, as net assets released from restrictions.

Cash, Cash Equivalents, and Restricted Cash The Organization considers all unrestricted highly liquid investments with an original maturity of three months or less to be cash equivalents. The restricted cash represents the homeowner impound balance held by the Organization for property taxes and insurance collected as part of the homeowners' monthly mortgage payments that has not yet been paid to the county tax collector or insurance providers.

The following table reconciles cash, cash equivalents, and restricted cash reported in the statements of financial position to the amount reported in the statements of cash flows for the years ended June 30, 2019 and 2018.

At June 30,	**2019**	**2018**
Cash and cash equivalents	$ 2,362,618	$ 910,564
Restricted cash – homeowner impound funds	47,008	45,092
Endowment	26,097	26,097
Total cash, cash equivalents, and restricted cash	$ 2,435,723	$ 981,753

Inventory Inventory consists of purchase-to-sell merchandise, donated building supplies and other home improvement items available for sale to the general public. Purchase-to-sell inventory is valued at cost and donated inventory is valued at its estimated fair value based on its expected selling price.

Property and Equipment Property and equipment includes leasehold improvements, equipment, and vehicles, 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:

Description	**Life**
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 2019 or 2018.

Construction-in-Progress Costs incurred to build homes are recorded as construction-in-progress until the home is available to be sold. Consistent with Habitat's mission, homes are constructed to build affordable housing for low-income families. Certain costs of construction are directly expensed and absorbed by Habitat and included with cost of sales on the statements of functional expense.

Habitat has established a policy regarding both donated and purchased land for use in the 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 since the sales price of homes is restricted by donors and lenders.

Habitat incurs costs in connection with properties it is considering for development as well as costs associated with properties in the initial state of development. Habitat capitalizes these costs until the project moves forward or charges the costs to operations at the time it is determined the project is not feasible. For the years ended June 30, 2019 and 2018, Habitat capitalized development costs of $548,119 and $187,362, respectively, which are included in construction-in-progress in the accompanying statements of financial position.

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, 2019 and 2018, the Organization capitalized $6,436 and $11,667 in interest, respectively. Selling costs are expensed as incurred.

Upon completion, the carrying 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 and Allowance Mortgage 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. As of June 30, 2019, there was $3,000 recorded as an allowance for uncollectible mortgage notes receivable. Based on management's analysis and history of the borrowers, Habitat believes that as of June 30, 2018, there was no need for an allowance for uncollectible mortgage notes receivable. In addition, the

Organization is a secured creditor and the fair value of the homes is generally in excess of the related mortgage note balance.

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 forgiven 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 as it is unlikely the notes will be collected.

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 net assets with donor restrictions.

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 net assets with donor restrictions. Any funds received in advance of a condition being met are recorded as deferred revenue.

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 notes discount loss is recorded at the time of sale to report the difference between the non-interest bearing note receivable and the present value of the discounted note receivable.

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 statements of activities and changes 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 net assets with donor restrictions and recognized as revenue on the date of the contribution. For the year ended June 30, 2019, revenue from special events was $286,286 and the related expense was $46,613. For the year ended June 30, 2018, revenue from special events was $248,443 and the related expense was $56,705.

Contributed Goods and Services A substantial number of volunteers, including family homebuyer voluntary labor (sweat equity) have made significant contributions of their time to Habitat's program and supporting services. 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.

Functional Allocation of Expenses Expenses incurred in providing programs and supporting services have been summarized on a functional basis in the accompanying statements of functional expenses. Certain expenses may be attributable to both program services and supporting activities and, therefore, these expenses may require allocation on a reasonable basis that is consistently applied. Salaries and related expenses are allocated based upon the estimated time and effort expended by the employees and other expenses are allocated according to management's estimates or on a direct basis. The functional classifications are defined as follows:

- Direct program service expenses consist of costs incurred in connection with the Organization's neighborhood revitalization activities, which includes home repairs for individuals, building 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.

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 2014. No examinations are currently pending.

Use of Estimates The preparation of financial statements in conformity with GAAP 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.

At June 30, 2019 and 2018, loans receivable secured by real estate were $3,707,633 and $3,135,314, respectively.

Adoption of Accounting Standards Updates In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic

958) – *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the methods used to allocate costs, (c) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (d) presenting investment return net of external direct expenses, and (e) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The Organization adopted the new guidance effective July 1, 2018 and applied the changes retrospectively. Accordingly, the Organization’s net assets previously reported as unrestricted are now reported as net assets without donor restrictions.

Effective July 1, 2018, the Organization early adopted the provisions of ASU 2016-18, *Statement of Cash Flows* (Topic 230): *Restricted Cash*. Under this new accounting policy, the Organization retrospectively presented cash flows related to restricted cash within cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. There was no impact to financial information presented as of and for the year ended June 30, 2018 as a result of the retrospective application of the accounting change.

New Accounting Pronouncements ASU 2014-09, *Revenue from Contracts with Customers*. Under this guidance, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration expected to be received for those goods or services. The updated standard will replace most existing revenue recognition guidance under GAAP when it becomes effective for annual reporting periods beginning after December 15, 2018, and permits the use of either the retrospective or cumulative effect transition method. Early adoption is permitted. In June 2018, the FASB issued ASU 2018-08 *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (Topic 958)* which amends the accounting guidance related to (1) evaluating whether transactions should be accounted for as contributions or exchange transactions, and determining whether a contribution is conditional. The ASU is effective for annual reporting periods after December 15, 2018. The Organization is currently evaluating the effect that the updated standard will have on its financial statements on July 1, 2019.

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 statements of financial position 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 statements of activities and changes 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 impact that the adoption of ASU 2016-02 will have on its financial statements on July 1, 2021.

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. ASU 2016-15 is effective for private entities for fiscal years beginning after December 15, 2018, with early adoption permitted. The Organization is currently evaluating the impact that the adoption of ASU 2016-15 on July 1, 2019 will have on its financial statements.

Reclassifications Certain reclassifications were made to the 2018 financial statements to conform to the presentation of the 2019 financial statements.

3. LIQUIDITY AND AVAILABILITY

The Organization structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Financial assets without donor restrictions or other restrictions limiting their use that can be readily made available within one year of the statement of financial position date, comprise the following:

Year Ending June 30,		**2019**
Financial assets at year end:		
Cash and cash equivalents	$	2,362,618
Grants receivable		109,333
Mortgage notes receivable, gross of unamortized discount and net of allowance		3,704,633
Restricted cash - homeowner impound funds		47,008
Total financial assets		6,223,592
Less amounts not available to be used within one year:		
Mortgage notes receivable long term		(3,509,402)
Funds subject to purpose restrictions		(450,554)
Restricted cash - homeowner impound funds		(47,008)
Financial assets not available to be used within one year		(4,006,964)
Financial assets available to meet general expenditures within one year	$	2,216,628

As part of liquidity management, the Organization designates operating surplus cash to a separate cash account, and although the Organization does not intend to spend from this account, the funds could be made available, if necessary. In addition, the Organization has a committed line of credit in the amount of $1,250,000 which it could draw upon.

4. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consist of the following:

As of June 30,		**2019**		**2018**
Leasehold improvements	$	20,609	$	20,609
Vehicles		70,036		70,036
Computer equipment		14,197		14,197
Total property and equipment		104,842		104,842
Less: accumulated depreciation		(97,820)		(93,811)
Total property and equipment, net	$	7,022	$	11,031

Depreciation expense was $4,009 for each of the years ended June 30, 2019 and 2018, respectively.

5. MORTGAGE NOTES RECEIVABLE

Mortgage notes receivable range from 25-30 years, are non-interest bearing 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, 2019 and 2018, Habitat's non-interest bearing mortgage loans outstanding were discounted at an imputed interest rate of 3.75% and 4%, respectively.

Mortgages notes receivable consisted of the following:

As of June 30,	2019	2018
Mortgage notes	$ 3,707,633	$ 3,135,314
Less: unamortized discount	(1,308,084)	(1,166,360)
Less: allowance for loan losses	(3,000)	-
Mortgage notes receivable, net	$ 2,396,549	$ 1,968,954

Scheduled mortgage notes receivable collections are as follows:

For the Years Ending June 30,	Amount
2020	$ 195,231
2021	175,656
2022	175,656
2023	175,656
2024	175,656
Thereafter	2,809,778
Total	$ 3,707,633

The following table shows and aging analysis of mortgage notes receivable:

As of June 30,	2019	2018
Loan Delinquency Status		
Current	$ 3,702,505	$ 3,135,314
30-60 days delinquent	1,696	-
60-90 days delinquent	3,432	-
Total	$ 3,707,633	$ 3,135,314

In July 2017, Habitat entered into a professional service agreement with AmeriNat to service a majority of the mortgage notes receivable owned by Habitat. Per the terms of the service agreement, AmeriNat will collect the monthly mortgage payments in accordance with the loan documents. All funds will be maintained in an FDIC insured banking institution in a custodial account for the benefit of Habitat and the borrowers as applicable.

Habitat sold a portfolio of mortgage notes receivable to Pacific Western Bank in 2011, but remained the servicer. The portfolio servicing was transferred to AmeriNat in July 2017. Each month, Habitat 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 April 30, 2018, the line-of-credit agreement was amended to extend the maturity date to May 5, 2019, and amended again on April 5, 2019 to extend the maturity date to May 5, 2020. 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, 2019 and 2018, the interest rate was 6.50% and 6.00% per annum, respectively. No interest expense was incurred on the line-of-credit for the year ended June 30, 2019. Interest expense on the line-of-credit amounted to $2,194 for the year ended June 30, 2018. 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, 2019, and 2018, there was no outstanding balance on the line-of-credit and the Organization was in compliance with all covenants. The line-of-credit agreement with Montecito Bank was terminated on June 13, 2019.

On May 8, 2019, the Organization entered into a line-of-credit agreement with Union Bank to provide for maximum borrowings of $1,250,000. The agreement has an original maturity date of May 31, 2021 and bears interest at 0.25% in excess of the Reference Rate (as defined). The interest rate on the Union bank line-of-credit is approximately 5% at June 30, 2019. Under the agreement, the Organization is required to maintain a change in net assets of not less than $1. As of June 30, 2019, there was no outstanding balance on the line-of-credit. The Organization was in violation of the 120 day deadline for audited financial statements but received a waiver from Union Bank.

7. NOTES PAYABLE

On December 5, 2017, the Organization entered into a secured promissory note with the Ventura County Housing Trust Fund ("VCHTF") for $500,000 with a maturity date of June 5, 2019. Per the terms of the agreement, the Organization funds are to be used to construct six single-family residences on 5 parcels of property in Oxnard, California ("Oxnard Project"). The promissory note bears interest at 4.0% per annum until the note is paid in full. Interest capitalized to construction-in-progress on the promissory note amounted to $6,436 and $11,667 for the years ended June 30, 2019 and 2018. The initial note was paid in full during the year ended June 30, 2019. In October 2018, the Organization entered into an additional secured promissory note with VCHTF for $500,000 with a maturity date of October 5, 2019. The second promissory note bears interest at 3.75% per annum until the note is paid in full. As of June 30, 2019, the balance of the promissory note was $300,000. On August 20, 2019, the agreement was amended to extend the maturity date to April 5, 2020.

On May 10, 2018, the Organization entered into a secured promissory note with the City of Camarillo ("City") for $250,000, to be forgiven upon issuance of certificate of completion. Per the terms of the agreement, the Organization funds are to be used to construct two single-family residences on parcels of property in Camarillo, California. As of June 30, 2019, the balance of the forgivable note was $161,925. The forgivable note bears 0% interest. The Organization has the option to purchase the land for $1 upon issuance of certificate of completion.

8. RELATED PARTY TRANSACTIONS

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 $24,996 for each of the years ended June 30, 2019 and 2018, respectively. In addition, Habitat paid a stewardship fee of $25,000 to Habitat International for each of the years ended June 30, 2019 and 2018.

During the year ended June 30, 2019, the Organization utilized the services from one of its board members in the disposition of property. The board member received real estate commission of $21,600.

9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following:

	June 30, 2018	Revenues	Releases	June 30, 2019
Subject to passage of event				
Home construction	$ 135,129	$ 150,974	$ (135,129)	$ 150,974
Perpetual in nature				
Endowment	20,160	5,937	-	26,097
Subject to expenditure for special purpose				
Thomas Fire	152,357	52,289	(35,000)	169,646
Playhouse build	-	52,000	-	52,000
	152,357	104,289	(35,000)	221,646
Total net assets with donor restriction	$ 307,646	$ 261,200	$ (170,129)	$ 398,717

	June 30, 2017	Revenues	Releases	June 30, 2018
Subject to passage of event				
Home construction	$ 139,025	$ 135,129	$ (139,025)	$ 135,129
Perpetual in nature				
Endowment	20,160	-	-	20,160
Subject to expenditure for special purpose				
Thomas Fire	-	152,357	-	152,357
Total net assets with donor restriction	$ 159,185	$ 287,486	$ (139,025)	$ 307,646

Endowment 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, 2019 and 2018, Habitat did not take distributions, and $7,004 and $5,815, respectively, is available for distributions.

10. 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 is additionally scheduled to pay a proportionate share of operating expenses.

Habitat leases retail space in Simi Valley, month-to-month, with a 60-day option to terminate by either party with written notice. Monthly lease payments are approximately $15,000. Habitat is additionally scheduled to pay a proportionate share of operating expenses.

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

For the Years Ending June 30,		Amount
2020	$	169,433
2021		42,990
2022		-
Total	$	212,423

Government Grants Certain grants have been funded by agreements with local city agencies and may be subject to examination of records by the awarding agencies. In July 2016, Habitat was awarded a grant of $556,772 by the City of Oxnard for the Oxnard Project. Habitat broke ground on development in August 2017 and fully expended the grant by June 30, 2018. 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.

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.

11. 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 and in Note 6.

Subsequent to year end, the Organization established a 403(b) plan (the Plan) which covers employees meeting certain qualifications. Under the terms of the Plan, employees are allowed to contribute up to the maximum allowed. The Organization may make discretionary contributions to the Plan based on a percentage of the eligible employees' salaries.