Financial Statements
Year Ended
June 30, 2010

Richmond Metropolitan Habitat for Humanity, Inc.

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Business Solutions

Richmond Metropolitan Habitat for Humanity, Inc.

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Report of Independent Auditors

Board of Directors
Richmond Metropolitan Habitat for Humanity, Inc.

We have audited the accompanying statement of financial position of ***Richmond Metropolitan Habitat for Humanity, Inc.*** (a not-for-profit organization) as of June 30, 2010, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the management of ***Richmond Metropolitan Habitat for Humanity, Inc.*** Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from ***Richmond Metropolitan Habitat for Humanity, Inc.'s*** June 30, 2009 financial statements and in our report dated July 27, 2010, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ***Richmond Metropolitan Habitat for Humanity, Inc.*** as of June 30, 2010, 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.

Goodman & Company, LLP

Richmond, Virginia
December 9, 2010

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Richmond Metropolitan Habitat for Humanity, Inc.

Statement of Financial Position

June 30, 2010, with Comparative Totals for 2009

		Temporarily	Totals	
Assets	Unrestricted	Restricted	**2010**	**2009**
Current assets				
Cash and cash equivalents	$ 844,591	$ 74,412	$ 919,003	$ 260,243
Pledges and grants receivable	32,500	-	32,500	38,635
Inventory	2,046,021	397,583	2,443,604	1,788,775
Prepaid expenses	16,975	-	16,975	13,016
Mortgages receivable - current portion	646,280	-	646,280	633,677
Other current assets	30,306	-	30,306	27,697
Total current assets	3,616,673	471,995	4,088,668	2,762,043
Property and equipment - net	557,566	-	557,566	541,968
Other assets				
Land for future development	19,009	391,000	410,009	407,705
Land - not suitable for building	23,605	-	23,605	25,330
Escrow funds held by Virginia Housing Development Authority (VHDA)	70,319	-	70,319	75,011
Mortgages receivable - net of current portion and unamortized discount	4,530,170	-	4,530,170	4,567,733
	$ 8,817,342	$ 862,995	$ 9,680,337	$ 8,379,790
Liabilities and Net Assets				
Current liabilities				
Line of credit	$ 197,500	$ -	$ 197,500	$ -
Accounts payable and accrued liabilities	267,847	-	267,847	378,848
Notes payable - current portion	171,335	-	171,335	91,026
Obligation under capital leases - current portion	5,252	-	5,252	5,008
Escrow fund liability	100,367	-	100,367	96,890
Total current liabilities	742,301	-	742,301	571,772
Notes payable - less current portion	1,258,803	-	1,258,803	444,864
Obligation under capital leases - less current portion	5,364	-	5,364	10,616
Total liabilities	2,006,468	-	2,006,468	1,027,252
Net assets				
Unrestricted	6,810,874	-	6,810,874	6,414,190
Temporarily restricted	-	862,995	862,995	938,348
Total net assets	6,810,874	862,995	7,673,869	7,352,538
	$ 8,817,342	$ 862,995	$ 9,680,337	$ 8,379,790

The accompanying notes are an integral part of these financial statements.

Statement of Activities

Year Ended June 30, 2010, with Comparative Totals for 2009

	Unrestricted	Temporarily Restricted	Totals 2010	Totals 2009
Support and revenue				
Support -				
Contributions:				
Corporations	$ 39,094	$ 260,580	$ 299,674	$ 322,421
In-kind	160,398	146,085	306,483	723,486
Government grants	43,748	163,410	207,158	164,767
Civic groups	44,085	90,904	134,989	280,484
Congregations	8,568	15,515	24,083	94,630
Individuals	148,059	105	148,164	94,140
Other grants	25,000	-	25,000	2,505
Total support	468,952	676,599	1,145,551	1,682,433
Revenue:				
Transfers to homeowners	604,472	-	604,472	2,149,986
Interest - mortgage loan discount amortization	450,073	-	450,073	533,030
ReStore income	474,128	-	474,128	440,941
Other income	20,484	-	20,484	131,420
Special events - net	(406)	-	(406)	5,997
Interest income	8,656	-	8,656	7,016
Total revenue	1,557,407	-	1,557,407	3,268,390
Net assets released from restrictions	751,952	(751,952)	-	-
Total support and revenue	2,778,311	(75,353)	2,702,958	4,950,823
Expenses and losses				
Expenses:				
Program services	2,074,287	-	2,074,287	4,501,940
Supporting services:				
Management and general	251,328	-	251,328	399,239
Fundraising	55,651	-	55,651	107,642
Loss on disposal of assets	361	-	361	-
Total expenses	2,381,627	-	2,381,627	5,008,821
Change in net assets	396,684	(75,353)	321,331	(57,998)
Net assets - beginning of year	6,414,190	938,348	7,352,538	7,410,536
Net assets - end of year	$ 6,810,874	$ 862,995	$ 7,673,869	$ 7,352,538

The accompanying notes are an integral part of these financial statements.

Richmond Metropolitan Habitat for Humanity, Inc.

Statement of Functional Expenses

Year Ended June 30, 2010, with Comparative Totals for 2009

	Program Services	Management and General	Fund-raising	Totals 2010	Totals 2009
Salaries and benefits	$ 739,183	$ 147,211	$ 36,848	$ 923,242	$ 940,589
Building materials, supplies and land	517,638	-	-	517,638	2,174,748
Mortgage discounts	302,692	-	-	302,692	1,301,859
Other	269,292	50,425	3,850	323,567	304,671
Interest	51,102	12,207	-	63,309	18,485
Supplies and utilities	40,903	13,272	691	54,866	62,247
Rent	34,808	10,710	8,032	53,550	54,239
Insurance	49,555	2,027	-	51,582	49,215
Depreciation	41,890	9,528	-	51,418	47,874
Printing, postage and advertising	8,031	1,473	6,185	15,689	25,760
Repairs and maintenance	11,340	4,185	-	15,525	16,538
Habitat for Humanity International	4,500	-	-	4,500	4,375
Travel and conferences	3,353	290	45	3,688	3,716
Bad debt expense	-	-	-	-	4,505
	$ 2,074,287	$ 251,328	$ 55,651	$ 2,381,266	$ 5,008,821

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

Year Ended June 30, 2010, with Comparative Totals for 2009

	2010	2009
Cash flows from operating activities		
Change in net assets	$ 321,331	$ (57,998)
Adjustments to reconcile to net cash from operating activities:		
Depreciation	51,418	47,874
Loss on disposal of assets	361	-
Bad debt	-	4,505
Donated property and equipment	(1,306)	-
Donated inventory	(147,640)	(145,547)
Donated land held for future development	-	(391,000)
Mortgage discount amortization	(450,073)	(533,030)
Net value of mortgages issued	(260,425)	(850,056)
Proceeds from mortgages	829,158	898,686
Change in:		
Pledges and grants receivable	6,135	141,056
Inventory	(604,126)	384,022
Prepaid expenses	(3,959)	6,077
Other current assets	(2,609)	65,103
Escrow funds held by VHDA	4,692	(1,115)
Land held for future development	(2,304)	(7,275)
Land - not suitable for building	4,962	-
Accounts payable and accrued liabilities	(111,001)	(68,704)
Escrow fund liability	3,477	(22,698)
Net cash from operating activities	(361,909)	(530,100)
Cash flows from investing activities		
Proceeds from sale of assets	5,000	-
Purchase of property and equipment	(71,071)	(48,365)
Net cash from investing activities	(66,071)	(48,365)
Cash flows from financing activities		
Proceeds from notes payable	1,255,784	18,311
Principal payments on capital lease	(5,008)	(7,592)
Principal payments on notes payable	(164,036)	(88,599)
Net cash from financing activities	1,086,740	(77,880)
Net change in cash and cash equivalents	658,760	(656,345)
Cash and cash equivalents - beginning of year	260,243	916,588
Cash and cash equivalents - end of year	$ 919,003	$ 260,243
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 15,689	$ 18,485

The accompanying notes are an integral part of these financial statements.

1. Organization and Nature of Activities

Richmond Metropolitan Habitat for Humanity, Inc. (Organization) is a nonprofit, nonstock, tax-exempt organization dedicated to providing decent, low-cost housing to economically disadvantaged families on a non-discriminatory basis. Incorporated in Virginia in 1986, the Organization is an affiliate of Habitat for Humanity International, Inc., a nondenominational Christian nonprofit organization. Although Habitat for Humanity International assists with information resources, training, publications and many other ways, the Organization is primarily and directly responsible for its own operations, which are conducted in the metropolitan area of Richmond, Virginia. In 2003, the Organization opened a ReStore operation. The ReStore operates like a thrift store, selling primarily donated goods which diverts usable goods out of the waste stream and raises funds to build additional Habitat homes. In November 2009, the Organization created a community land trust and has placed a parcel of land valued at approximately $136,000 as of June 30, 2009 into the trust. This parcel of land is slated to yield 19 homes and as those homes are transferred to homeowners, the buyer will purchase only the home, and the land will continue to be owned by the trust, leased for a nominal fee by the homeowner. The purpose of the land trust is to offset rising land values and property taxes, keeping houses affordable.

2. Summary of Significant Accounting Policies

The financial statements of ***Richmond Metropolitan Habitat for Humanity, Inc.*** have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Basis of Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets as follows:

> **Unrestricted** amounts are those currently available at the discretion of the Board of Directors for use in the Organization's operations and those resources invested in property or equipment.
>
> **Temporarily restricted** amounts are those which are stipulated by donors for specific operating purposes or for the acquisition of property or equipment. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. At June 30, 2010, all temporarily restricted net assets were restricted for the purpose of building and selling homes.
>
> **Permanently restricted** amounts are restricted to investments in perpetuity, the income from which is expendable in accordance with the conditions of each specific donation. The Organization had no permanently restricted net assets at June 30, 2010.

All contributions are considered available for unrestricted use, unless specifically restricted by the donor or subject to other legal restrictions.

Cash and Cash Equivalents

For the purposes of the statements of cash flow, the Organization considers cash and cash equivalents to include cash and temporary investments purchased with a maturity of three months or less.

Inventory

Purchased inventory is carried at cost and is relieved on a specific identification basis. Donated inventory used in home construction is recorded at estimated fair. For ReStore operations, contributed inventory is not recorded until it is sold due to the uncertainty of its ultimate value.

Mortgages Receivable

Mortgages receivable consist of noninterest bearing mortgages which are collateralized by real estate and which have been discounted based upon prevailing market interest rates for low-income housing at the time of issuance. These discounts are amortized and recognized as interest income over the term of the mortgage. Payable in monthly installments, the mortgages have an original maturity of twenty or thirty years, and arose in connection with the Organization's projects in Richmond, Virginia and the surrounding counties.

If a mortgagor fails to pay, the Organization may foreclose on the property to prevent further losses. As the property will revert back to the Organization, and mortgages are below market value at inception, there is no estimate for loan loss reserve given management's belief that the property retained will be higher in value than that of the default mortgage.

Property and Equipment

Property and equipment are stated at cost or, as in the case of donations, at fair market value as of the date of donation. Depreciation is computed using the straight-line method over estimated useful lives of the assets ranging from 3 to 30 years. Expenditures for maintenance and repairs are expensed currently, while expenditures for major additions and betterments greater than $250 are capitalized. When property and equipment are sold or otherwise disposed, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in current year's operations.

Donated Land, Materials and Services

Donated land, materials, and services are included in contributions at fair market value as of the date of donation. A substantial number of unpaid volunteers have made significant contributions of their time in the Organization's administrative and operating activities. In accordance with accounting standards, the value of this donated time is not reflected in these financial statements since it does not meet the standard for inclusion.

Revenue and Cost Recognition

The Organization recognizes revenue from all homebuilding activities at the closing of the sale using the deposit method. During construction, all direct material and labor costs and those indirect costs related to acquisition and construction are capitalized as inventory, and all customer deposits are treated as liabilities. The Board of Directors approves house sales prices based on size. The costs of the houses are reflected in program services expenses as "building materials, supplies, and land" in the year the mortgage is closed. The sales prices are concurrently reflected in the financial statements as "transfers to homeowners."

Income Taxes

The Organization is exempt from income tax under Internal Revenue Code Section 501(c)(3) and the tax statutes of the Commonwealth of Virginia.

Pledges Receivable

Unconditional promises to give, less an allowance for doubtful accounts, are recognized as revenue and receivables in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. All of the Organization's pledges receivable are due within the next year and are deemed to be collectible.

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 and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Concentration of Credit Risk

The Organization maintains its cash in bank deposit accounts with high credit quality financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC). At times, cash maintained in these accounts are in excess of the FDIC limits. Credit ratings of these financial institutions are monitored by management to mitigate the concentration of credit risk. At June 30, 2010, the Organization had on deposit funds over the limit insured by the Federal Deposit Insurance Corporation (FDIC) in financial institutions of $302,934. Mortgages are collateralized by deeds of trust on the property and are not considered to be at credit risk.

Presentation of Sales Taxes

Certain of the School's sales are subject to sales tax imposed by various jurisdictions. The School collects that sales tax from customers and remits it to the applicable jurisdiction. The School's accounting policy is to exclude the tax collected and remitted from revenues and cost of sales.

Advertising

Advertising costs of $8,471 for 2010 were charged to expense as incurred.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 9, 2010, the date of the financial statements were available to be issued.

3. Inventory

Inventory consists of the following at June 30, 2010:

Materials	$	74,701
Vacant land costs		1,621,331
Construction in progress		425,447
Houses for rehabilitation		72,555
Completed houses available for sale		249,570
	$	2,443,604

4. Property and Equipment

Property and equipment consist of the following at June 30, 2010:

Land	$	101,000
Warehouse building		470,485
Warehouse improvements		48,982
Construction equipment		109,139
Transportation equipment		82,567
Office furniture and fixtures		28,784
Computer equipment and software		60,697
Capital lease equipment		23,533
		925,187
Less – accumulated depreciation		(353,501)
Less – accumulated depreciation capital lease equipment		(14,120)
	$	557,566

5. First Mortgage Discounts

The Organization does not charge interest on mortgages or loans. As such, each mortgage is discounted to its present value at the date it occurs. As monthly payments are received this discount is amortized and recognized as revenue. At June 30, 2010, unamortized discounts were $4,441,885.

6. Subordinate Mortgages

When the Organization sells homes, at least two noninterest bearing mortgages are extended to the buyer. The first mortgage is given for the sales price of the home. A second mortgage is given for the difference between the sales price and the fair market value established by an appraiser. For mortgages originated prior to 2010, the second mortgage is forgiven by 5% a year on a 20-year mortgage and by 3.33% a year on a 30-year mortgage provided that the homeowner made all payments in full and on time during the 12 months preceding the anniversary of the mortgage. In the event the buyer sells the home prior to the full forgiveness of the second mortgage, the Organization, whose policy is not to recognize the discounted present value of these mortgages at the time they are given, recognizes as current revenue the amount received.

In 2010, all subsequent second and third mortgages offered to clients were changed from "forgivable" to "silent" mortgages which are not forgiven but require repayment at the time of default, sale or transfer of title and/or refinance. Once the first mortgage is paid off; (1) the 2nd/3rd mortgage could be paid off by the mortgage holder thus giving them clear title to the property or (2) the 2nd/3rd mortgage will remain in place as a lien on the property until default, sale or transfer of title and/or refinance. In addition, during 2010, the Special Warranty Deed was modified so that it now contains a shared appreciation provision whereby the Organization, having sold the property at no profit and financed with a no interest loan, has the right to share 50/50 in any appreciation realized at the time of closing. In the event the buyer sells the home prior to the full forgiveness of the second mortgage or pays off a silent second mortgage, the Organization, whose policy is not to recognize the discounted present value of these mortgages at the time they are given, recognizes as current revenue the amount received.

Certain buyers signed a second mortgage to Department of Housing and Community Development (DHCD) which covered the amount of closing costs paid on the buyers' behalf. These mortgages are forgivable by DHCD over a five-year period. As of June 30, 2010, there were 50 mortgages to DHCD. For these 50 buyers, the above referenced second mortgages are held as third mortgages by the Organization.

Certain buyers signed a second mortgage to Housing Opportunities Made Equal (HOME) which covered the amount of closing costs paid on the buyers' behalf. These mortgages are forgivable by HOME over a five-year period. As of June 30, 2010, there were nine mortgages to HOME. For these nine buyers, the above referenced second mortgages are held as third mortgages by the Organization.

As of June 30, 2010, the Organization held 222 second and third mortgages whose net face values total $5,568,788.

7. Donated Services

During 2010, the Organization received approximately $161,398 of pro-bono legal, construction and appraisal services. These services are recorded as contribution revenue and professional fee expense, cost of sales, or are included in another appropriate expense account.

8. Line of Credit

The Organization entered into a loan and security agreement with Fulton Bank, N.A. related to a secured line of credit that may be borrowed, repaid and re-borrowed over the term of the line of credit in an amount not to exceed $750,000. The outstanding balance at June 30, 2010 was $197,500. The line of credit is collateralized by thirty-one mortgages held by the Organization, is subject to a number of financial and other loan covenants and accrues interest at a fluctuating rate as defined in the agreement based on the thirty-day London Interbank Offered Rate (LIBOR) as published in the Wall Street Journal plus 2.75%, but will never fall below 4% (4% at June 30, 2010). Principal and all outstanding interest is payable on demand. The line of credit renews annually unless terminated by either party. The Organization was in compliance with all loan covenants as of June 30, 2010.

9. Notes Payable

Notes payable consist of the following at June 30, 2010:

Installment note payable to Virginia Housing Development Authority, collateralized by assigned first mortgages receivable, requiring monthly payments of $2,264 including interest at 3.0%, maturing October 2018.	$	178,395
Installment note payable to Virginia Housing Development Authority, collateralized by assigned first mortgages receivable, requiring monthly payments of $598 including interest at 3.0%, maturing January 2021.		64,894
Installment note payable to Virginia Housing Development Authority, collateralized by assigned first mortgages receivable, requiring monthly payments of $1,027 including interest at 3.0%, maturing April 2021.		113,709
Installment note payable to Habitat for Humanity International, collateralized by assigned first mortgages receivable, requiring monthly payments of $3,330 including interest at 3.0%, maturing December 2011.		13,891
Five installment notes payable to Habitat for Humanity International, uncollateralized, requiring monthly payments of $1,571, at no interest, maturing from December 2010 to December 2015.		52,566
Installment note payable to Habitat for Humanity International, collateralized by assigned first mortgages receivable, requiring quarterly payments of $34,195 including interest at 6.5%, maturing December 2019.		963,819
Installment note payable to SunTrust Bank, collateralized by 2005 Mitsubishi FE84D, requiring monthly payments of $364 including interest at 7.10%, maturing December 2013.		13,467
Installment note payable to SunTrust Bank, collateralized by 2009 Ford F-150, requiring monthly payments of $335 including interest at 6.99%, maturing September 2014.		14,433
Installment note payable to SunTrust Bank, collateralized by 2009 GMC Sierra, requiring monthly payments of $307 including interest at 7.84%, maturing May 2015.		14,964
		1,430,138
Less – current portion		(171,335)
	$	1,258,803

Estimated principal payments of notes payable for future years ending June 30 are as follows:

2011	$	171,335
2012		151,592
2013		147,237
2014		147,824
2015		149,727
Thereafter		662,423
	$	1,430,138

10. Operating Leases

The Organization has operating leases for office space and a copier. The operating lease for office space, dated June 7, 2010 has a term of three years commencing on June 1, 2010 and expiring on May 31, 2013. The operating lease for the copier, dated July 7, 2009, has a term of three years commencing on July 7, 2009 and expiring on July 6, 2012. Minimum annual lease payments due under the above mentioned leases for future years ending June 30 are as follows:

2011	$	45,180
2012		45,380
2013		40,465
	$	131,025

11. Capital Lease

The Organization entered into a computer lease payable with The Equipment Leasing Company, requiring monthly payments of $494, including interest at 6.887%, maturing June 2012.

The future minimum lease payments under the capital lease for future years ending June 30 are as follows:

2011	$	5,928
2012		5,434
		11,362
Less – amount representing interest		(746)
Present value of minimum lease payments	$	10,616

12. Retirement Plan

The Organization has an employee retirement plan under Section 403(b) of the Internal Revenue Code. The plan provides for salary reduction contributions by eligible participants, subject to certain limitation, and a 3% matching contribution by the Organization. The Organization made contributions to the plan during 2010 of $14,571.

13. Land Sales

The Organization previously acquired two tracts of land with the intention of developing the property. Due to rezoning difficulties encountered, the Organization determined that they would not be able to develop the land. Based on this conclusion, the Organization sought an independent developer to purchase and develop the property.

On October 25, 2004, the Organization entered into an agreement of purchase and sale, whereby the Organization agreed to sell and convey all rights and title to land comprising of 36 individual lots for the amount of $36,000. Within this agreement is a pledge of cash donations on development. The buyer agreed to make a cash donation to the Organization equal to $5,000 per lot that becomes "buildable" (meets applicable zoning requirements and is not located in wetlands or a HUD designated flood zone) and approved for use and development by the County of Henrico for single family use. In accordance with this agreement, under certain conditions, the Organization may not receive any donations.

Also on October 25, 2004, the Organization entered into a second agreement of purchase and sale, whereby the Organization agreed to sell and convey all rights and title to land in the amount of $75,000. Within this agreement is a pledge of cash donations on development. The buyer agreed to make a cash donation to the Organization equal to $2,500 per lot that becomes "buildable" (meets applicable zoning requirements and is not located in wetlands or a HUD designated flood zone) and approved for use and development by the County of Henrico for single family use. In accordance with this agreement, under certain conditions, the Organization may not receive any donations.

None of the land has become "buildable" as of June 30, 2010.

14. Legal

In 2006, the Organization entered into a contract for professional engineering services related to developing a subdivision. As of June 30, 2009, the contract was in dispute and the Organization had been billed for expenses incurred under the contract of $47,173. The matter was settled during 2010 and no unpaid or disputed amounts existed as of June 30, 2010.

15. Commitments

During October 2009, the Organization signed a contract for infrastructure development for the Pillars at Oakmont project. At June 30, 2010 the Organization had paid $298,682 toward this contract. The balance of $293,904 will be paid in fiscal year 2011 as the project is due to be completed.

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