



Financial Statements

June 30, 2014 and 2013

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

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REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors
Richmond Metropolitan Habitat for Humanity, Inc.
Richmond, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Richmond Metropolitan Habitat for Humanity (the "Organization"), which comprise the statement of financial position as of June 30, 2014, and the related statement of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the 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 Richmond Metropolitan Habitat for Humanity, Inc. as of June 30, 2014 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Report on Summarized Comparative Information

We have previously audited Richmond Metropolitan Habitat for Humanity Inc.'s 2013 financial statements, and in our report dated January 7, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink, appearing to read "Keiter", with a stylized flourish at the end.

January 6, 2015
Glen Allen, Virginia

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Statement of Financial Position
June 30, 2014 with 2013 Comparative Totals

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
	2014	2014	2014	2014	2013
<u>Assets</u>					
Current assets:					
Cash and cash equivalents	\$ 337,839	\$ 33,543	\$ -	\$ 371,382	\$ 463,970
Accounts receivable	10,659	-	-	10,659	78,325
Pledges and grants receivable	225,945	97,890	-	323,835	37,250
Inventory	1,076,388	1,008,093	-	2,084,481	3,406,802
Prepaid expenses	52,527	-	-	52,527	44,645
Mortgages receivable - current portion	762,765	-	-	762,765	731,344
Other current assets	<u>15,750</u>	<u>-</u>	<u>-</u>	<u>15,750</u>	<u>28,918</u>
Total current assets	<u>2,481,873</u>	<u>1,139,526</u>	<u>-</u>	<u>3,621,399</u>	<u>4,791,254</u>
Property and equipment, net	<u>430,631</u>	<u>-</u>	<u>-</u>	<u>430,631</u>	<u>461,131</u>
Other assets:					
Beneficial interest in assets held by The Community Foundation	-	-	150,000	150,000	-
Land not suitable for building	24,625	-	-	24,625	24,625
Escrow funds held by VHDA	78,696	-	-	78,696	69,281
Mortgages receivable - net of current portion and unamortized discount	<u>4,408,449</u>	<u>-</u>	<u>-</u>	<u>4,408,449</u>	<u>4,420,005</u>
Total other assets	<u>4,511,770</u>	<u>-</u>	<u>150,000</u>	<u>4,661,770</u>	<u>4,513,911</u>
	<u>\$ 7,424,274</u>	<u>\$ 1,139,526</u>	<u>\$ 150,000</u>	<u>\$ 8,713,800</u>	<u>\$ 9,766,296</u>

See accompanying notes to financial statements.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Statement of Financial Position, Continued
June 30, 2014 with 2013 Comparative Totals

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Totals</u> 2014	<u>2013</u>
<u>Liabilities and Net Assets</u>					
Current liabilities:					
Line of credit	\$ 330,000	\$ -	\$ -	\$ 330,000	\$ 430,000
Accounts payable	48,203	-	-	48,203	67,734
Notes payable - current portion	194,122	-	-	194,122	193,260
Accrued expenses	132,397	-	-	132,397	103,505
Escrow fund liability	<u>116,312</u>	<u>-</u>	<u>-</u>	<u>116,312</u>	<u>106,403</u>
Total current liabilities	821,034	-	-	821,034	900,902
Notes payable	<u>1,448,720</u>	<u>-</u>	<u>-</u>	<u>1,448,720</u>	<u>1,651,522</u>
Total liabilities	<u>2,269,754</u>	<u>-</u>	<u>-</u>	<u>2,269,754</u>	<u>2,552,424</u>
Net assets:					
Unrestricted	5,154,520	-	-	5,154,520	5,563,966
Temporarily restricted	-	1,139,526	-	1,139,526	1,649,906
Permanently restricted	<u>-</u>	<u>-</u>	<u>150,000</u>	<u>150,000</u>	<u>-</u>
Total net assets	<u>5,154,520</u>	<u>1,139,526</u>	<u>150,000</u>	<u>6,444,046</u>	<u>7,213,872</u>
	<u>\$ 7,424,274</u>	<u>\$ 1,139,526</u>	<u>\$ 150,000</u>	<u>\$ 8,713,800</u>	<u>\$ 9,766,296</u>

See accompanying notes to financial statements.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Statement of Activities
Year Ended June 30, 2014 with 2013 Comparative Totals

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				<u>2014</u>	<u>2013</u>
Support and revenue					
Support:					
Contributions:					
Corporations	\$ 109,693	\$ 139,014	\$ -	\$ 248,707	\$ 243,836
In-kind	131,358	516,180	-	647,538	1,146,286
Government grants	-	100,000	-	100,000	45,000
Civic groups	86,845	-	-	86,845	86,341
Congregations	13,380	74,550	-	87,930	59,499
Individuals	136,921	40,272	150,000	327,193	115,509
Other grants	14,806	99,000	-	113,806	44,700
Total support	<u>493,003</u>	<u>969,016</u>	<u>150,000</u>	<u>1,612,019</u>	<u>1,741,171</u>
Revenue:					
House revenue	1,398,610	-	-	1,398,610	1,326,717
Interest-mortgage loan discount amortization	322,565	-	-	322,565	509,765
ReStore income	672,685	-	-	672,685	690,119
Other income	246,486	-	-	246,486	182,922
Special events, net	2,260	-	-	2,260	2,473
Interest income	253	-	-	253	101
Total revenue	<u>2,642,859</u>	<u>-</u>	<u>-</u>	<u>2,642,859</u>	<u>2,712,097</u>
Total support and revenue	<u>3,135,862</u>	<u>969,016</u>	<u>150,000</u>	<u>4,254,878</u>	<u>4,453,268</u>
Net assets released from restrictions	<u>1,393,282</u>	<u>(1,393,282)</u>	<u>-</u>	<u>-</u>	<u>-</u>

See accompanying notes to financial statements.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Statement of Activities, Continued
Year Ended June 30, 2014 with 2013 Comparative Totals

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Totals</u>	
				2014	2013
Expenses and loss:					
Program services	\$ 4,354,209	-	-	4,354,209	3,486,037
Supporting services:					
Managerial and general	421,141	-	-	421,141	393,392
Fundraising	<u>163,240</u>	<u>-</u>	<u>-</u>	<u>163,240</u>	<u>129,249</u>
Total expenses	<u>4,938,590</u>	<u>-</u>	<u>-</u>	<u>4,938,590</u>	<u>4,008,678</u>
Impairment loss	<u>-</u>	<u>86,114</u>	<u>-</u>	<u>86,114</u>	<u>21,333</u>
Total expenses and loss	<u>4,938,590</u>	<u>86,114</u>	<u>-</u>	<u>5,024,704</u>	<u>4,030,011</u>
Change in net assets	(409,446)	(510,380)	150,000	(769,826)	423,257
Net assets at beginning of year	<u>5,563,966</u>	<u>1,649,906</u>	<u>-</u>	<u>7,213,872</u>	<u>6,790,615</u>
Net assets at end of year	<u>\$ 5,154,520</u>	<u>\$ 1,139,526</u>	<u>\$ 150,000</u>	<u>\$ 6,444,046</u>	<u>\$ 7,213,872</u>

See accompanying notes to financial statements.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Statement of Functional Expenses
Year Ended June 30, 2014 with 2013 Comparative Totals

	Program Services	General and Administrative	Fundraising	Totals	
				2014	2013
Salaries and benefits	\$ 828,186	293,410	126,096	1,247,692	\$ 1,085,029
Building materials, supplies, and land	2,408,844	16,309	2,745	2,427,898	1,902,475
Mortgage discounts	627,024			627,024	338,270
Other	109,048	44,980	7,649	161,677	196,012
Interest	74,892	-	-	74,892	98,126
Supplies and utilities	7,265	3,025	774	11,064	16,483
Rent and occupancy	101,188	27,182	8,551	136,921	112,778
Insurance	24,035	21,346	247	45,628	55,919
Depreciation	52,792	-	-	52,792	51,707
Printing, postage and advertising	42,636	869	10,822	54,327	38,221
Repairs and maintenance	48,929	40	-	48,969	62,696
Habitat for Humanity International	10,035	8,300	-	18,335	-
Travel and conferences	19,335	5,680	6,356	31,371	50,962
Total	\$ 4,354,209	\$ 421,141	\$ 163,240	\$ 4,938,590	\$ 4,008,678

See accompanying notes to financial statements.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Statement of Cash Flows
Year Ended June 30, 2014 with 2013 Comparative Totals

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ (769,826)	\$ 423,257
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	52,792	51,707
Loss on disposal of property and equipment	1,562	-
Contributions restricted for endowment	(150,000)	-
Donated inventory	(530,553)	(534,756)
Completed houses available for sale - impairment loss	86,114	21,333
Mortgage loan discount amortization	(322,565)	(509,765)
Net value of mortgages issued	(395,366)	(255,499)
Proceeds from mortgages	698,066	749,843
Changes in operating assets and liabilities:		
Accounts receivable	67,666	(38,832)
Pledges and grants receivable	(286,585)	(14,750)
Inventory	1,766,760	284,581
Prepaid expenses	(7,882)	69
Other current assets	13,168	(12,866)
Escrow funds held by VHDA	(9,415)	1,723
Land for future development	-	128,000
Accounts payable	(19,531)	33,360
Accrued expenses	28,892	(7,613)
Escrow fund liability	9,909	(103)
Net cash provided by operating activities	<u>233,206</u>	<u>319,689</u>
Cash flows from investing activities:		
Purchase of property and equipment	(23,854)	(31,240)
Investment of endowment funds with The Community Foundation	<u>(150,000)</u>	<u>-</u>
Net cash used in investing activities	<u>(173,854)</u>	<u>(31,240)</u>
Cash flows from financing activities:		
Principal payments on notes payable and line of credit	(301,940)	(371,192)
Contributions restricted for endowment	<u>150,000</u>	<u>-</u>
Net cash used in financing activities	<u>(151,940)</u>	<u>(371,192)</u>

See accompanying notes to financial statements.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Statement of Cash Flows, Continued
Year Ended June 30, 2014 with 2013 Comparative Totals

	<u>2014</u>	<u>2013</u>
Net change in cash and cash equivalents	\$ (92,588)	\$ (82,743)
Cash and cash equivalents, beginning of year	<u>463,970</u>	<u>546,713</u>
Cash and cash equivalents, end of year	<u>\$ 371,382</u>	<u>\$ 463,970</u>
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	<u>\$ 74,892</u>	<u>\$ 98,126</u>
Noncash transactions:		
Refinance of note payable	<u>\$ -</u>	<u>\$ 545,800</u>

See accompanying notes to financial statements.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Notes to Financial Statements

1. **Organization and Nature of Activities:**

Richmond Metropolitan Habitat for Humanity, Inc., (the "Organization") is a non-profit, non-stock, tax-exempt corporation dedicated to providing affordable home ownership opportunities to low-income families on a non-discriminatory basis. Incorporated in Virginia in 1986, the Organization is an affiliate of Habitat for Humanity International, Inc. ("HFHI"), a non-denominational Christian non-profit organization. Although Habitat International assists with information resources, training, publications, and in many other ways, the Organization is primarily and directly responsible for its own operations, which are conducted in the metropolitan area of Richmond, Virginia. During 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.

2. **Summary of Significant Accounting Policies:**

Basis of Accounting: The financial statements of the Organization have been prepared using the accrual basis in accordance with accounting principles generally accepted in the United States.

Cash Equivalents: The Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Accounts, Pledges, and Grants Receivable: Contributions pledged and grants receivable are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Donor-restricted contributions and grants are reported as increases in temporarily or permanently restricted net assets based upon the nature of the restrictions. When a 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. However, contributions and grants that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the contribution is recognized.

The Organization uses the allowance method for estimates of uncollectible receivables. The allowance is based on historical collection rates and an analysis of individual receivables. Based on this analysis, there is no provision for uncollectible amounts for 2014 and 2013.

Grants receivable were \$97,890 as of June 30, 2014 and \$20,000 as of June 30, 2013. Pledges receivable were \$225,945 as of June 30, 2014 and \$17,250 as of June 30, 2013. The Organization expects to collect all grants and pledges receivable during fiscal year 2015.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Notes to Financial Statements, Continued

2. Summary of Significant Accounting Policies, Continued:

Mortgages Receivable: Mortgages receivable consist of non-interest bearing first 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 mortgages. Payable in monthly installments, the mortgages have an original maturity of 20 or 30 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 either be sold at auction on the open market, or revert back to the Organization, and mortgages are below market value at inceptions, there is no estimate for loan loss reserve given management's belief that the property will be higher in value than that of the default mortgage.

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 value. For ReSale store operations, contributed inventory is not recorded until it is sold due to the uncertainty of its ultimate value.

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 on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 30 years. Expenditures for maintenance and repairs are expensed, while expenditures for major additions and betterments greater than \$1,000 are capitalized. Upon retirement or sale of an asset, the cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in operations.

Classes of Net Assets: The financial statements report amounts separately by class 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 and 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, 2014 and 2013, all temporarily restricted net assets were restricted for the purpose of building and selling homes.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Notes to Financial Statements, Continued

2. Summary of Significant Accounting Policies, Continued:

Classes of Net Assets, Continued:

Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Organization to use all or part of the income earned on any related investments for general or specific purposes, in accordance with the conditions of each specific donation. The Organization had permanently restricted net assets of \$150,000 at June 30, 2014 and \$0 at June 30, 2013.

Donated Land, Materials and Services: Donated land, materials and services are included in contributions at fair market value as of the date of donation. The Organization received donated land and houses of \$515,980 during 2014 and \$944,000 during 2013. The Organization received \$118,724 during 2014 and \$80,255 during 2013 of pro-bono legal and construction services. These services are recorded as contribution revenue and professional fee expense, cost of sales, or are included in another appropriate expense account. A substantial number of unpaid volunteers have made significant contributions of their time in the Organization's administrative and operating activities. The value of this contributed time is not reflected in these statements because the criteria for recognition under guidance provided by the Financial Accounting Standards Board ("FASB") related to accounting for contributions received and contributions made, had not been satisfied.

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. House sale prices to Habitat homeowners are derived based on 0.5% below appraisal value. 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 "house revenue."

Income Taxes: The Organization is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code.

Management has evaluated the effect of guidance surrounding uncertain income tax positions and concluded that the Organization has no significant financial statement exposure to uncertain income tax positions at June 30, 2014 and 2013. The Organization's income tax returns for years since 2011 remain open for examination by tax authorities. The Organization is not currently under audit by any tax jurisdiction.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Notes to Financial Statements, Continued

2. Summary of Significant Accounting Policies, Continued:

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

Concentration of Credit Risk: Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents, and mortgages receivable. At times, cash and cash equivalents balances are in excess of the FDIC insurance limit. Mortgages are collateralized by deeds of trust on the property and are not considered to be at risk.

Advertising: Advertising costs are charged to expense as incurred and were \$46,406 for 2014 and \$25,319 for 2013.

Subsequent Events: Management has evaluated subsequent events through January 6, 2015, the date the financial statements were available to be issued, and has determined there are no subsequent events to be reported in the accompanying financial statements.

3. Inventory:

Inventory consists of the following as of June 30:

	<u>2014</u>	<u>2013</u>
Materials	\$ 53,370	\$ 71,196
Vacant land costs	981,941	1,426,010
Construction in progress	385,985	660,719
Houses for rehabilitation	442,566	1,037,144
Completed houses available for sale	<u>220,619</u>	<u>211,733</u>
	<u>\$ 2,084,481</u>	<u>\$ 3,406,802</u>

Based on an analysis of cost and market value, the Organization recorded an impairment loss totaling \$86,114 during 2014 on three properties and an impairment loss totaling \$21,333 during 2013 on seven properties.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Notes to Financial Statements, Continued

4. Property and Equipment:

Property and equipment consists of the following as of June 30:

	<u>2014</u>	<u>2013</u>
Land	\$ 101,000	\$ 101,000
Warehouse building	470,485	470,485
Warehouse improvements	51,733	51,733
Construction equipment	59,366	65,940
Transportation equipment	123,371	119,698
Office furniture and fixtures	48,391	44,661
Computer equipment and software	<u>42,138</u>	<u>33,565</u>
	896,484	887,082
Less accumulated depreciation	<u>465,853</u>	<u>425,951</u>
	<u>\$ 430,631</u>	<u>\$ 461,131</u>

5. Beneficial Interest in Assets Held by The Community Foundation:

During 2014, the Organization with the help of The Community Foundation established the Richmond Metropolitan Habitat for Humanity Endowment (the "Endowment") with funds designated as permanently restricted by a donor. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Endowment is administered by The Community Foundation and is subject to certain terms and conditions regarding withdrawals of income and access to principal. Spendable income is not to exceed 5% of the average endowment balance over the past twelve quarters. The Organization may not access the principal balance of the Endowment unless there is an affirmative vote of the of three-fourths of the board of directors and the following conditions are met: (i) the distribution is for the purpose of acquiring or renovating a capital asset; (ii) the Organization is faced with an unexpected financial need that is not likely to recur and the distribution will enable the Organization to meet those needs; or (iii) the distribution is believed to be in the best interest of the community. The Community Foundation's Board of Governors has full authority and discretion as to the investment of the assets, as well as certain variance power as defined in the agreement. The Endowment is recognized in the Organization's financial statements as a beneficial interest in assets held by The Community Foundation.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Notes to Financial Statements, Continued

5. Beneficial Interest in Assets Held by The Community Foundation, Continued:

The funds for the Endowment were received in June 2014 and are included in Beneficial interest in assets held by The Community Foundation on the accompanying Statement of Financial Position. The Endowment has a balance of \$150,000 as of June 30, 2014.

6. First Mortgage Discounts:

The Organization discounts its interest-free mortgages to present value at the date the mortgage is given. As monthly payments are received, this discount is amortized and recognized as interest income. The original discounted amounts are reflected in the financial statements as "mortgage discounts" expenses in the year the mortgage is closed. The monthly amortization of the discount is recorded as "interest-mortgage loan discount amortization" income. Unamortized discounts were \$4,320,114 at June 30, 2014 and \$4,015,655 at June 30, 2013.

7. Subordinate Mortgages:

When the Organization sells houses, at least one non-interest bearing mortgage is extended to the buyer. The first mortgage is given for either the full sales price of the home or an amount below the sales price based on either the 1) total development costs or 2) affordability of the homeowner as determined by the Organization. A second mortgage, if necessary, is given for the difference between the first mortgage and the sales price. The sales price equals 0.5% below the completed appraised value. The first mortgage cannot exceed the total development costs; therefore, if the total development costs are below the sales price, the first mortgage would equal the total development costs. A second mortgage would be given for the difference between the first mortgage and the sales price.

Second mortgages are forgivable in annual amounts over half the life of the 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 (see Note 6). 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 within the first five years of homeownership. 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.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Notes to Financial Statements, Continued

7. Subordinate Mortgages, Continued:

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. There were 3 mortgages to DHCD and 36 mortgages to other institutions as of June 30, 2014 and 3 mortgages to DHCD and 32 mortgages to other institutions as of June 30, 2013. For the aforementioned buyers, the above referenced second mortgages are held as third mortgages by the Organization.

The Organization holds 222-second and third mortgages with face values totaling \$4,359,775 for as of June 30, 2014 and 208-second and third mortgages with face values totaling \$4,523,048 for as of June 30, 2013.

8. Line of Credit:

In February 2010, the Organization entered into a loan and security agreement with Fulton Bank, N.A. related to a secured line of credit in an amount not to exceed \$750,000. There was an outstanding balance of \$330,000 at June 30, 2014 and \$430,000 at June 30, 2013. The line of credit is collateralized by thirty-one mortgages held by the Organization, and accrues interest at a fluctuating rate as defined in the agreement based on the thirty-day London Interbank Offered Rate (LIBOR) plus 2.75%, but will never fall below 4% (4% at June 30, 2014 and 2013). Principal and all outstanding interest is payable on demand.

The line of credit renews annually unless terminated by either party. Under the provisions of the agreement, the Organization is subject to certain specified financial and operating covenants. The Organization was not in compliance with certain loan covenants as of June 30, 2014, but has received a covenant waiver from Fulton Bank.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Notes to Financial Statements, Continued

9. Notes Payable:

Notes payable consist of the following at June 30:

	2014	2013
Installment note payable to Virginia Housing Development Authority, collateralized by assigned first mortgages receivable, requiring monthly payments of \$2,264, including interest at 3%, maturing October 2017.	\$ 83,781	\$ 109,998
Installment note payable to Virginia Housing Development Authority, collateralized by assigned first mortgages receivable, requiring monthly payments of \$598, including interest at 3%, maturing January 2021.	42,240	48,517
Installment note payable to Virginia Housing Development Authority, collateralized by assigned first mortgages receivable, requiring monthly payments of \$1,027, including interest at 3%, maturing April 2021.	75,083	85,786
Five installment notes payable to Habitat for Humanity International, uncollateralized, requiring monthly payments of \$1,826, at no interest, maturing at various dates to July 2017.	37,998	53,922
Installment note payable to SunTrust Bank, collateralized by 2005 Mitsubishi FE84D, requiring monthly payments of \$364 including interest at 7.10% maturing December 2013.	-	2,188
Installment note payable to Ford Credit, collateralized by 2009 Ford F-150, requiring monthly payments of \$335 including interest at 6.99% maturing September 2014.	806	4,483

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Notes to Financial Statements, Continued

9. Notes Payable, Continued:

	2014	2013
Installment note payable to Ally/GMAC, collateralized by 2009 GMC Sierra, requiring monthly payments of \$307 including interest at 7.84% maturing May 2015.	\$ 3,056	\$ 6,484
Installment notes payable to Virginia Housing Development Authority, collateralized by assigned first mortgages receivable, requiring monthly payments of \$7,338, including interest at 3%, maturing from December 2026 to June 2027.	923,423	987,604
Installment note payable to Habitat for Humanity International, collateralized by assigned first mortgages receivable, requiring quarterly payments of \$22,292, including interest at 3.8%, maturing June 2020.	476,455	545,800
	1,642,842	1,844,782
Less amounts due within one year	194,122	193,260
Long-term notes payable	\$ 1,448,720	\$ 1,651,522

At June 30, 2014, scheduled maturities on notes payable for future years are as follows:

Year	Amount
2015	\$ 194,122
2016	192,914
2017	195,698
2018	174,023
2019	171,017
Thereafter	715,068
	\$ 1,642,842

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Notes to Financial Statements, Continued

10. Operating Leases:

The Organization leases certain equipment and office space under various operating lease agreements. These lease terms expire over the next three years, and certain leases contain renewal options. The Organization recognizes rent expense on a straight line basis over the life of the related lease. Rental expense was \$69,797 for 2014 and \$51,148 for 2013. The future minimum lease payments under the operating leases are \$71,633 for 2015, \$60,777 for 2016, and \$51,599 for 2017.

11. 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 limitations, and Organization matching contributions. The Organization made contributions to the plan of \$19,992 for 2014 and \$15,881 for 2013.

12. 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 from the developer.

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 from the developer.

None of the land has become "buildable" as of June 30, 2014 and 2013.

**REPORT OF INDEPENDENT ACCOUNTANTS
ON SUPPLEMENTAL INFORMATION**

The Board of Directors
Richmond Metropolitan Habitat for Humanity, Inc.
Richmond, Virginia

We have audited the financial statements of Richmond Metropolitan Habitat for Humanity, Inc. as of June 30, 2014 and for the year then ended and our report thereon dated January 6, 2015, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.



January 6, 2015
Glen Allen, Virginia

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Statement of Assets, Liabilities and Net Assets – Modified Cash Basis
June 30, 2014

<u>Assets</u>	<u>Accrual</u>	<u>Adjustments</u>	<u>Modified Cash</u>
Current assets:			
Cash and cash equivalents	\$ 371,382	\$ -	\$ 371,382
Accounts receivable	10,659	(10,659)	-
Pledges and grants receivable	323,835	(323,835)	-
Inventory	2,084,481	(515,980)	1,568,501
Prepaid expenses	52,527	(52,527)	-
Mortgages receivable - current portion	762,765	(762,765)	-
Other current assets	<u>15,750</u>	<u>-</u>	<u>15,750</u>
Total current assets	<u>3,621,399</u>	<u>(1,665,766)</u>	<u>1,955,633</u>
Property and equipment, net	<u>430,631</u>	<u>-</u>	<u>430,631</u>
Other assets:			
Beneficial interest in assets held by The Community Foundation	150,000	-	150,000
Land not suitable for building	24,625	(24,625)	-
Escrow funds held by VHDA	78,696	-	78,696
Mortgages receivable - net of current portion and unamortized discount	<u>4,408,449</u>	<u>(4,408,449)</u>	<u>-</u>
Total other assets	<u>4,661,770</u>	<u>(4,433,074)</u>	<u>228,696</u>
	<u>\$ 8,713,800</u>	<u>\$ (6,098,840)</u>	<u>\$ 2,614,960</u>

See independent accountants' report on supplemental information.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Statement of Assets, Liabilities and Net Assets – Modified Cash Basis, Continued
June 30, 2014

	<u>Accrual</u>	<u>Adjustments</u>	<u>Modified Cash</u>
<u>Liabilities and Net Assets</u>			
Current liabilities:			
Line of credit	\$ 330,000	\$ -	\$ 330,000
Accounts payable	48,203	(48,203)	-
Notes payable - current portion	194,122	-	194,122
Accrued expenses	132,397	(132,397)	-
Escrow fund liability	<u>116,312</u>	<u>-</u>	<u>116,312</u>
Total current liabilities	821,034	(180,600)	640,434
Notes payable	<u>1,448,720</u>	<u>-</u>	<u>1,448,720</u>
Total liabilities	<u>2,269,754</u>	<u>(180,600)</u>	<u>2,089,154</u>
Net assets:			
Unrestricted	5,154,520	(4,846,752)	307,768
Temporarily restricted	1,139,526	(1,071,488)	68,038
Permanently restricted	<u>150,000</u>	<u>-</u>	<u>150,000</u>
Total net assets	<u>6,444,046</u>	<u>(5,918,240)</u>	<u>525,806</u>
	<u>\$ 8,713,800</u>	<u>\$ (6,098,840)</u>	<u>\$ 2,614,960</u>

See independent accountants' report on supplemental information.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Statement of Revenues, Disbursements and Changes in Net Assets – Modified Cash Basis
Year Ended June 30, 2014

	Accrual	Adjustments	Modified Cash
Support and revenue			
Support:	\$ 1,612,019	\$ 60,355	\$ 1,672,374
Revenue:			
House revenue	1,398,610	(19,866)	1,378,744
Interest-mortgage loan discount amortization	322,565	-	322,565
ReStore income	672,685	-	672,685
Other income	246,486	-	246,486
Special events, net	2,260	-	2,260
Interest income	253	-	253
Total revenue	2,642,859	(19,866)	2,622,993
Total support and revenue	4,254,878	40,489	4,295,367
Expenses:			
Program services	4,354,209	(120,156)	4,234,053
Supporting services:			
Managerial and general	421,141	(3,078)	418,063
Fundraising	163,240	(5,658)	157,582
Impairment loss	86,114	-	86,114
Total expenses	5,024,704	(128,892)	4,895,812
Change in net assets	(769,826)	169,381	(600,445)
Net assets at beginning of year	7,213,872	(6,087,621)	1,126,251
Net assets at end of year	\$ 6,444,046	\$ (5,918,240)	\$ 525,806

See independent accountants' report on supplemental information.