



Financial Statements

June 30, 2017



4401 Dominion Boulevard
Glen Allen, Virginia 23060
Tel: 804.747.0000
www.keitercpa.com

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Table of Contents

	<u>Page</u>
Report of Independent Accountants	1
Financial Statements:	
Statement of Financial Position	3
Statement of Activities	5
Statement of Functional Expenses	7
Statement of Cash Flows	8
Notes to Financial Statements	10

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, 2017, 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, 2017 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 2016 financial statements, and in our report dated October 19, 2016, 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, 2016, 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 long, sweeping horizontal stroke extending to the right.

October 18, 2017
Glen Allen, Virginia

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Statement of Financial Position
June 30, 2017 with 2016 Comparative Totals

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Totals</u>	
				2017	2016
<u>Assets</u>					
Current assets:					
Cash and cash equivalents	\$ 933,099	\$ 481,250	\$ -	\$ 1,414,349	\$ 686,115
Pledges and grants receivable	10,900	151,637	-	162,537	300,727
Inventory	420,659	150,000	-	570,659	590,606
Prepaid expenses	47,553	-	-	47,553	51,163
Mortgages receivable - current portion	758,910	-	-	758,910	779,373
Other current assets	<u>11,184</u>	<u>-</u>	<u>-</u>	<u>11,184</u>	<u>49,392</u>
Total current assets	<u>2,182,305</u>	<u>782,887</u>	<u>-</u>	<u>2,965,192</u>	<u>2,457,376</u>
Property and equipment, net	<u>514,100</u>	<u>-</u>	<u>-</u>	<u>514,100</u>	<u>412,742</u>
Other assets:					
Beneficial interest in assets held by The Community Foundation	14,103	-	150,000	164,103	148,376
Land not suitable for building	10,768	-	-	10,768	10,768
Escrow funds held by VHDA	95,587	-	-	95,587	89,874
Escrow funds for Restore building	50,000	-	-	50,000	-
Mortgages receivable - net of current portion and unamortized discount	<u>4,169,793</u>	<u>-</u>	<u>-</u>	<u>4,169,793</u>	<u>4,299,127</u>
Total other assets	<u>4,340,251</u>	<u>-</u>	<u>150,000</u>	<u>4,490,251</u>	<u>4,548,145</u>
	<u>\$ 7,036,656</u>	<u>\$ 782,887</u>	<u>\$ 150,000</u>	<u>\$ 7,969,543</u>	<u>\$ 7,418,263</u>

See accompanying notes to financial statements.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Statement of Financial Position, Continued
June 30, 2017 with 2016 Comparative Totals

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2017	2016
<u>Liabilities and Net Assets</u>					
Current liabilities:					
Line of credit	\$ -	\$ -	\$ -	\$ -	\$ 42,000
Accounts payable	212,173	-	-	212,173	77,504
Notes payable - current portion	163,166	-	-	163,166	180,135
Accrued expenses	111,609	-	-	111,609	106,132
Escrow fund liability	102,587	-	-	102,587	95,374
Total current liabilities	589,535	-	-	589,535	501,145
Notes payable	825,080	-	-	825,080	1,016,950
Total liabilities	1,414,615	-	-	1,414,615	1,518,095
Net assets:					
Unrestricted	5,622,041	-	-	5,622,041	4,861,470
Temporarily restricted	-	782,887	-	782,887	888,698
Permanently restricted	-	-	150,000	150,000	150,000
Total net assets	5,622,041	782,887	150,000	6,554,928	5,900,168
	<u>\$ 7,036,656</u>	<u>\$ 782,887</u>	<u>\$ 150,000</u>	<u>\$ 7,969,543</u>	<u>\$ 7,418,263</u>

See accompanying notes to financial statements.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Statement of Activities
Year Ended June 30, 2017 with 2016 Comparative Totals

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2017	2016
Support and revenue					
Support:					
Contributions:					
Corporations	\$ 30,424	\$ 109,650	\$ -	\$ 140,074	\$ 78,942
In-kind	175,636	-	-	175,636	324,123
Government grants	-	300,154	-	300,154	413,289
Civic groups	211,735	50	-	211,785	99,341
Congregations	12,546	5,750	-	18,296	23,580
Individuals	245,662	3,750	-	249,412	651,236
Other grants	15,633	584,500	-	600,133	528,055
Total support	<u>691,636</u>	<u>1,003,854</u>	<u>-</u>	<u>1,695,490</u>	<u>2,118,566</u>
Revenue:					
House and lot revenue	1,358,009	-	-	1,358,009	703,269
Interest-mortgage loan discount amortization	421,432	-	-	421,432	481,504
ReStore income	1,066,896	-	-	1,066,896	963,988
Other income	65,356	-	-	65,356	82,189
Special events, net	6,851	-	-	6,851	8,726
Investment income (loss)	17,833	-	-	17,833	(6,812)
Total revenue	<u>2,936,377</u>	<u>-</u>	<u>-</u>	<u>2,936,377</u>	<u>2,232,864</u>
Total support and revenue	<u>3,628,013</u>	<u>1,003,854</u>	<u>-</u>	<u>4,631,867</u>	<u>4,351,430</u>
Net assets released from restrictions	<u>1,109,665</u>	<u>(1,109,665)</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, 2017 with 2016 Comparative Totals

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				<u>2017</u>	<u>2016</u>
Expenses and loss:					
Program services	\$ 3,221,799	\$ -	\$ -	\$ 3,221,799	\$ 3,044,978
Supporting services:					
Managerial and general	506,182	-	-	506,182	530,436
Fundraising	249,126	-	-	249,126	190,458
Total expenses and loss	<u>3,977,107</u>	<u>-</u>	<u>-</u>	<u>3,977,107</u>	<u>3,765,872</u>
Change in net assets	760,571	(105,811)	-	654,760	585,558
Net assets at beginning of year	<u>4,861,470</u>	<u>888,698</u>	<u>150,000</u>	<u>5,900,168</u>	<u>5,314,610</u>
Net assets at end of year	<u>\$ 5,622,041</u>	<u>\$ 782,887</u>	<u>\$ 150,000</u>	<u>\$ 6,554,928</u>	<u>\$ 5,900,168</u>

See accompanying notes to financial statements.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Statement of Functional Expenses
Year Ended June 30, 2017 with 2016 Comparative Totals

	Program Services	General and Administrative	Fundraising	Totals	
				2017	2016
Salaries and benefits	\$ 1,201,008	\$ 302,771	\$ 218,777	\$ 1,722,556	\$ 1,506,847
Building materials, supplies, and land	1,141,921	1,110	1,039	1,144,070	1,091,796
Mortgage discounts	365,916	-	-	365,916	390,948
Other	66,357	14,824	9,114	90,295	108,492
Professional fees	98,491	66,065	5,497	170,053	227,345
Interest	35,664	1,004	-	36,668	46,899
Supplies and utilities	9,435	3,715	985	14,135	15,378
Rent and occupancy	89,744	36,414	950	127,108	120,246
Insurance	60,691	11,537	-	72,228	48,079
Depreciation	45,133	-	-	45,133	49,622
Printing, postage and advertising	22,009	2,056	4,348	28,413	29,122
Repairs and maintenance	59,235	13,894	-	73,129	62,163
Habitat for Humanity International	2,039	35,224	-	37,263	35,000
Travel and conferences	24,156	17,568	8,416	50,140	33,935
	<u>\$ 3,221,799</u>	<u>\$ 506,182</u>	<u>\$ 249,126</u>	<u>\$ 3,977,107</u>	<u>\$ 3,765,872</u>
Total					

See accompanying notes to financial statements.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Statement of Cash Flows
Year Ended June 30, 2017 with 2016 Comparative Totals

	2017	2016
Cash flows from operating activities:		
Receipts:		
Contributions and grants	\$ 1,730,420	\$ 1,798,578
House and lot revenue	753,358	18,946
Mortgage collections	809,964	876,126
ReStore income	1,066,896	963,988
Special events	16,971	20,639
Investment income (loss)	-	(5,188)
Other income	65,356	87,218
Total receipts from operating activities	4,442,965	3,760,307
Disbursements:		
Salaries and benefits	1,715,726	1,515,991
Building materials, supplies, and land	1,192,433	881,466
Other	98,672	123,052
Interest	36,668	46,899
Supplies and utilities	14,135	15,378
Rent and occupancy	127,108	120,246
Insurance	72,228	48,079
Special events	10,120	11,913
Printing, postage and advertising	28,413	29,122
Repairs and maintenance	73,129	62,163
Habitat for Humanity International	37,263	35,000
Travel and conferences	50,140	33,935
Total disbursements from operating activities	3,456,035	2,923,244
Net cash provided by operating activities	986,930	837,063
Cash flows from investing activities:		
Purchase of property and equipment	(7,857)	(50,914)
Net cash used in investing activities	(7,857)	(50,914)
Cash flows from financing activities:		
Principal payments on notes payable and line of credit	(250,839)	(529,300)
Net cash used in financing activities	(250,839)	(529,300)
Net change in cash and cash equivalents	\$ 728,234	\$ 256,849

See accompanying notes to financial statements.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Statement of Cash Flows, Continued
Year Ended June 30, 2017 with 2016 Comparative Totals

	2017	2016
Net change in cash and cash equivalents	\$ 728,234	\$ 256,849
Cash and cash equivalents:		
Beginning of year	686,115	429,266
End of year	\$ 1,414,349	\$ 686,115
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 654,760	\$ 585,558
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	45,133	49,622
Loss on disposal of property and equipment	9,074	279
Investment (income) loss reinvested	(15,727)	8,403
Mortgage loan discount amortization	(421,432)	(481,504)
Net value of mortgages issued	(238,735)	(272,304)
Proceeds from mortgages	809,964	876,126
Changes in operating assets and liabilities:		
Accounts receivable	-	5,029
Pledges and grants receivable	138,190	4,135
Inventory	19,947	74,968
Prepaid expenses	3,610	(6,368)
Other current assets	38,208	(27,449)
Escrow funds held by VHDA	(5,713)	9,116
Escrow funds for Restore building	(50,000)	
Accounts payable	(13,039)	39,299
Accrued expenses	5,477	(19,131)
Escrow fund liability	7,213	(8,716)
Net cash provided by operating activities	\$ 986,930	\$ 837,063

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 HFHI 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.

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 2017 and 2016.

Grants and pledges receivable were \$162,537 as of June 30, 2017 and \$300,727 as of June 30, 2016. The Organization expects to collect all grants and pledges receivable during fiscal year 2018.

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 15 to 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, 2017 and 2016, 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, 2017 and 2016.

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 did not receive any donated property during 2017 and received \$59,000 of donated land and houses during 2016. The Organization received pro-bono legal services of \$103,260 during 2017 and \$194,785 during 2016. 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 and lot 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, 2017 and 2016. 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 \$19,203 for 2017 and \$22,195 for 2016.

Subsequent Events: On September 27, 2017 the Organization purchased a building to be used for a second ReStore location. The purchase was funded through a new note payable in the amount of \$2,100,000 with a maturity date of September 2027. Interest only payments are due through March 2019, after which time monthly principal and interest payments will begin. In addition, the line of credit was amended to allow for borrowings not to exceed \$900,000 (see Note 8).

Management has evaluated subsequent events through October 18, 2017, the date the financial statements were available to be issued, and has determined there are no additional subsequent events to be reported in the accompanying financial statements except as disclosed below.

3. Inventory:

Inventory consists of the following as of June 30:

	2017	2016
Materials	\$ 3,998	\$ 3,998
Vacant land costs	88,836	117,437
Construction in progress	411,825	305,651
Completed houses available for sale	66,000	163,520
	<u>\$ 570,659</u>	<u>\$ 590,606</u>

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>2017</u>	<u>2016</u>
Land	\$ 101,000	\$ 101,000
Warehouse building	624,595	476,887
Warehouse improvements	66,784	66,799
Construction equipment	70,018	70,018
Transportation equipment	118,419	137,206
Office furniture and fixtures	48,391	48,391
Computer equipment and software	38,131	34,182
	<u>1,067,338</u>	<u>934,483</u>
Less accumulated depreciation	<u>553,238</u>	<u>521,741</u>
	<u>\$ 514,100</u>	<u>\$ 412,742</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 and is unrestricted and spent as the Board of Directors deems appropriate. The Organization may not access the principal balance of the Endowment unless there is an affirmative vote of the 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.

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 had a balance of \$164,103 as of June 30, 2017 and \$148,376 as of June 30, 2016.

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 \$4,288,792 at June 30, 2017 and \$4,344,309 at June 30, 2016.

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 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 2 mortgages to DHCD and 44 mortgages to other institutions as of June 30, 2017 and 2 mortgages to DHCD and 38 mortgages to other institutions as of June 30, 2016. For the aforementioned buyers, the above referenced second mortgages are held as third mortgages by the Organization.

The Organization holds 171-second, third, and fourth mortgages as of June 30, 2017 and 223-second, third, and fourth mortgages as of June 30, 2016.

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. The line of credit was amended in March 2015 to allow for borrowings not to exceed \$530,000 and subsequently in September 2017 to allow for borrowings not to exceed \$900,000. There was no outstanding balance at June 30, 2017 and \$42,000 outstanding at June 30, 2016. 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, 2017 and 2016). 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 in compliance with all loan covenants as of June 30, 2017.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Notes to Financial Statements, Continued

9. Notes Payable:

Notes payable consist of the following at June 30:

	2017	2016
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.	\$ 4,137	\$ 23,097
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.	23,723	30,600
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.	32,596	41,157
Five installment notes payable to HFHI, uncollateralized, requiring monthly payments of \$1,826, at no interest, maturing at various dates to July 2017.	-	9,384
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.	676,096	763,227
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.	251,694	329,620
	988,246	1,197,085
Less amounts due within one year	163,166	180,135
Long-term notes payable	\$ 825,080	\$ 1,016,950

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Notes to Financial Statements, Continued

9. Notes Payable, Continued:

At June 30, 2017, scheduled maturities on notes payable for future years are as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 163,166
2019	163,125
2020	167,530
2021	77,955
2022	67,829
Thereafter	<u>348,641</u>
	<u>\$ 988,246</u>

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 \$76,110 for 2017 and \$74,016 for 2016. The future minimum lease payments under the operating leases are \$59,323 for 2018, \$289 for 2019, and \$24 for 2020.

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 \$29,498 for 2017 and \$23,181 for 2016.

12. Land Sales:

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.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Notes to Financial Statements, Continued

12. Land Sales, Continued:

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, 2017 and 2016.

13. Indemnification:

The Organization has certain obligations to indemnify its current and former officers and directors for certain events or occurrences while the officer or director is, or was, serving, at the Organization’s request in such capacities. The maximum liability under these obligations is limited by the Code of Virginia, and the organization’s insurance policies also serve to limit its exposure. The Organization is not aware of any such obligations.

14. New Accounting Guidance:

Financial Reporting Changes for Non-Profits: In August 2016, FASB issued ASU No. 2016-14, “Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities”, which both simplifies certain aspects of reporting required by not-for-profit organizations and increases disclosures with a goal to improve the usefulness of not-for-profit financial statements to the various stakeholders, including management, directors, lenders, and donors. Significant changes include the following:

- Replaces the existing three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) with two new classes of net assets—net assets with donor restrictions and net assets without donor restrictions
- Changes the net asset classification of the underwater amounts of donor-restricted endowment funds to be shown as a component of *net assets with donor restrictions* and requires additional disclosures for underwater endowment funds
- Requires all not-for-profits to provide expenses by nature and function
- Requires expansive disclosures (both quantitative and qualitative) of information about liquidity and availability of resources

The amendments in this ASU are effective for fiscal years beginning after December 15, 2017 with early adoption permitted. The Organization has elected not to early adopt this ASU and intends to adopt it prior to the required transition date.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Notes to Financial Statements, Continued

14. New Accounting Guidance, Continued:

Leases: In February 2016, the FASB issued new guidance over leases which requires that all leasing activity with initial terms in excess of twelve months be recognized on the statement of financial position with a right of use asset and a lease liability. The standards will require entities to classify leases as either a finance or operating lease based upon the contractual terms. For finance leases, the right to use asset and lease liability will be calculated based upon the present value of the lease payments. The asset will then be amortized and the interest on the obligation will be recognized separately within the statement of activities. On the statement of cash flows, the principal portion of the financing lease payments will be classified as a financing activity. For operating leases, the right to use asset and lease liability will also be calculated based upon the present value of the lease payments. However, the cost of the lease will generally be allocated over the lease term on a straight-line basis and presented as a single expense on the statement of activities. On the statement of cash flows, all cash payments for operating leases will be classified as an operating activity. The new standard will be effective for periods beginning after December 15, 2019, and will require entities to use a modified retrospective approach to the earliest period presented. The Organization has elected not to early adopt this ASU and intends to adopt it prior to the required transition date.

Revenue Recognition: During 2014, the FASB issued a new standard for revenue recognition, ASU 2014-09. The standard defines a process for evaluating revenue recognition including 1) identify the contract, 2) identify separate performance obligations, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations, and 5) recognize revenue when (or as) the organization satisfies a performance obligation. One of the key concepts in the standard is that revenue should be recognized when a customer has control over a good or service. The standard also requires an entity to enhance revenue recognition disclosures in the accounting policy footnote including both quantitative and qualitative information, significant judgments involved in the process, and the amount and timing of remaining performance obligations. The standard is effective for private companies for annual reporting periods beginning after December 15, 2018. The Organization has elected not to early adopt this ASU and intends to adopt it prior to the required transition date.