Richmond Metropolitan Habitat for Humanity®

# Financial Statements

June 30, 2018

Keiter
Your Opportunity Advisors

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**RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.**

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Your Opportunity Advisors

## 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, 2018, 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.

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**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, 2018 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 2017 financial statements, and in our report dated October 18, 2017, 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, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Keiter

October 17, 2018
Glen Allen, Virginia

**RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.**

Statement of Financial Position
June 30, 2018 with 2017 Comparative Totals

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Totals 2018 | Totals 2017 |
|---|---|---|---|---|---|
| Assets | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 466,683 | $ 123,825 | $ - | $ 590,508 | $ 1,414,349 |
| Pledges and grants receivable | 27,578 | 314,937 | - | 342,515 | 162,537 |
| Inventory | 1,030,654 | 575,000 | - | 1,605,654 | 570,659 |
| Prepaid expenses | 73,496 | - | - | 73,496 | 47,553 |
| Mortgages receivable - current portion | 738,495 | - | - | 738,495 | 758,910 |
| Other current assets | 11,433 | - | - | 11,433 | 11,184 |
| Total current assets | 2,348,339 | 1,013,762 | - | 3,362,101 | 2,965,192 |
| Property and equipment, net | 2,860,265 | - | - | 2,860,265 | 514,100 |
| Other assets: | | | | | |
| Beneficial interest in assets held by The Community Foundation | 26,431 | - | 150,000 | 176,431 | 164,103 |
| Land not suitable for building | - | - | - | - | 10,768 |
| Escrow funds held by VHDA | 92,479 | - | - | 92,479 | 95,587 |
| Escrow funds for Restore building | - | - | - | - | 50,000 |
| Mortgages receivable - net of current portion and unamortized discount | 4,059,226 | - | - | 4,059,226 | 4,169,793 |
| Total other assets | 4,178,136 | - | 150,000 | 4,328,136 | 4,490,251 |
| | $ 9,386,740 | $ 1,013,762 | $ 150,000 | $ 10,550,502 | $ 7,969,543 |

See accompanying notes to financial statements.

**RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.**

Statement of Financial Position, Continued
June 30, 2018 with 2017 Comparative Totals

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Totals 2018 | Totals 2017 |
|---|---|---|---|---|---|
| Liabilities and Net Assets | | | | | |
| Current liabilities: | | | | | |
| Line of credit | $ 500,000 | $ - | $ - | $ 500,000 | $ - |
| Accounts payable | 81,119 | - | - | 81,119 | 212,173 |
| Notes payable - current portion | 174,019 | - | - | 174,019 | 163,166 |
| Accrued expenses | 208,023 | - | - | 208,023 | 111,609 |
| Escrow fund liability | 101,875 | - | - | 101,875 | 102,587 |
| Total current liabilities | 1,065,036 | - | - | 1,065,036 | 589,535 |
| Notes payable | 2,731,121 | - | - | 2,731,121 | 825,080 |
| Total liabilities | 3,796,157 | - | - | 3,796,157 | 1,414,615 |
| Net assets: | | | | | |
| Unrestricted | 5,590,583 | - | - | 5,590,583 | 5,622,041 |
| Temporarily restricted | - | 1,013,762 | - | 1,013,762 | 782,887 |
| Permanently restricted | - | - | 150,000 | 150,000 | 150,000 |
| Total net assets | 5,590,583 | 1,013,762 | 150,000 | 6,754,345 | 6,554,928 |
| | $ 9,386,740 | $ 1,013,762 | $ 150,000 | $ 10,550,502 | $ 7,969,543 |

See accompanying notes to financial statements.

**RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.**

Statement of Activities
Year Ended June 30, 2018 with 2017 Comparative Totals

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Totals 2018 | Totals 2017 |
|---|---|---|---|---|---|
| Support and revenue | | | | | |
| Support: | | | | | |
| Contributions: | | | | | |
| Corporations | $ 159,412 | $ 81,086 | $ - | $ 240,498 | $ 140,074 |
| In-kind | 223,652 | 475,000 | - | 698,652 | 175,636 |
| Government grants | - | 367,379 | - | 367,379 | 300,154 |
| Civic groups | 62,995 | 152,000 | - | 214,995 | 211,785 |
| Congregations | 22,516 | 12,500 | - | 35,016 | 18,296 |
| Individuals | 238,297 | 7,240 | - | 245,537 | 249,412 |
| Other grants | 113,571 | 286,200 | - | 399,771 | 600,133 |
| Total support | 820,443 | 1,381,405 | - | 2,201,848 | 1,695,490 |
| Revenue: | | | | | |
| House and lot revenue | 660,494 | - | - | 660,494 | 1,358,009 |
| Interest-mortgage loan discount amortization | 378,067 | - | - | 378,067 | 421,432 |
| ReStore income | 1,167,587 | - | - | 1,167,587 | 1,066,896 |
| Other income | 144,076 | - | - | 144,076 | 65,356 |
| Special events, net | 18,953 | - | - | 18,953 | 6,851 |
| Investment income (loss) | 14,807 | - | - | 14,807 | 17,833 |
| Total revenue | 2,383,984 | - | - | 2,383,984 | 2,936,377 |
| Total support and revenue | 3,204,427 | 1,381,405 | - | 4,585,832 | 4,631,867 |
| Net assets released from restrictions | 1,150,530 | (1,150,530) | - | - | - |

See accompanying notes to financial statements.

**RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.**

Statement of Activities, Continued
Year Ended June 30, 2018 with 2017 Comparative Totals

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Totals 2018 | Totals 2017 |
|---|---|---|---|---|---|
| Expenses: | | | | | |
| Program services | $ 3,606,470 | $ - | $ - | $ 3,606,470 | $ 3,221,799 |
| Supporting services: | | | | | |
| Managerial and general | 541,662 | - | - | 541,662 | 506,182 |
| Fundraising | 238,283 | - | - | 238,283 | 249,126 |
| Total expenses and loss | 4,386,415 | - | - | 4,386,415 | 3,977,107 |
| Change in net assets | (31,458) | 230,875 | - | 199,417 | 654,760 |
| Net assets at beginning of year | 5,622,041 | 782,887 | 150,000 | 6,554,928 | 5,900,168 |
| Net assets at end of year | $ 5,590,583 | $ 1,013,762 | $ 150,000 | $ 6,754,345 | $ 6,554,928 |

See accompanying notes to financial statements.

## RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Statement of Functional Expenses
Year Ended June 30, 2018 with 2017 Comparative Totals

| | Program Services | General and Administrative | Fundraising | Totals 2018 | Totals 2017 |
|---|---|---|---|---|---|
| Salaries and benefits | $ 1,413,159 | $ 328,794 | $ 201,597 | $ 1,943,550 | $ 1,722,556 |
| Building materials, supplies, and land | 1,115,737 | 5,659 | 105 | 1,121,501 | 1,144,070 |
| Mortgage discounts | 306,246 | - | - | 306,246 | 365,916 |
| Other | 77,332 | 19,041 | 17,491 | 113,864 | 90,295 |
| Professional fees | 165,287 | 51,343 | 13,912 | 230,542 | 170,053 |
| Interest | 99,324 | 15,065 | - | 114,389 | 36,668 |
| Supplies and utilities | 21,028 | 5,057 | 813 | 26,898 | 14,135 |
| Rent and occupancy | 125,578 | 43,340 | 1,000 | 169,918 | 127,108 |
| Insurance | 66,140 | 12,002 | - | 78,142 | 72,228 |
| Depreciation | 89,549 | - | - | 89,549 | 45,133 |
| Printing, postage and advertising | 23,379 | 2,477 | - | 25,856 | 28,413 |
| Repairs and maintenance | 80,289 | 11,360 | - | 91,649 | 73,129 |
| Habitat for Humanity International | - | 35,000 | - | 35,000 | 37,263 |
| Travel and conferences | 23,422 | 12,524 | 3,365 | 39,311 | 50,140 |
| Total | $ 3,606,470 | $ 541,662 | $ 238,283 | $ 4,386,415 | $ 3,977,107 |

See accompanying notes to financial statements.

## RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Statement of Cash Flows
Year Ended June 30, 2018 with 2017 Comparative Totals

| | 2018 | 2017 |
|---|---|---|
| Cash flows from operating activities: | | |
| Receipts: | | |
| Contributions and grants | $ 1,323,218 | $ 1,730,420 |
| House and lot revenue | 105,870 | 753,358 |
| Mortgage collections | 711,734 | 809,964 |
| ReStore income | 1,167,587 | 1,066,896 |
| Special events | 24,224 | 16,971 |
| Other income | 144,076 | 65,356 |
| Total receipts from operating activities | 3,476,709 | 4,442,965 |
| Disbursements: | | |
| Salaries and benefits | 1,851,150 | 1,715,726 |
| Building materials, supplies, and land | 1,636,213 | 1,192,433 |
| Other | 113,864 | 31,879 |
| Professional fees | 94,095 | 66,793 |
| Interest | 114,389 | 36,668 |
| Supplies and utilities | 26,898 | 14,135 |
| Rent and occupancy | 169,918 | 127,108 |
| Insurance | 78,142 | 72,228 |
| Special events | 5,271 | 10,120 |
| Printing, postage and advertising | 25,856 | 28,413 |
| Repairs and maintenance | 91,649 | 73,129 |
| Habitat for Humanity International | 35,000 | 37,263 |
| Travel and conferences | 39,311 | 50,140 |
| Total disbursements from operating activities | 4,281,756 | 3,456,035 |
| Net cash (used in) provided by operating activities | (805,047) | 986,930 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (2,435,440) | (7,857) |
| Net cash used in investing activities | (2,435,440) | (7,857) |
| Cash flows from financing activities | | |
| Net activity on line of credit | 500,000 | (42,000) |
| Payments on notes payable | (183,354) | (208,839) |
| Proceeds from notes payable | 2,100,000 | - |
| Net cash provided by (used in) financing activities | 2,416,646 | (250,839) |
| Net change in cash and cash equivalents | (823,841) | 728,234 |
| Cash and cash equivalents: | | |
| Beginning of year | 1,414,349 | 686,115 |
| End of year | $ 590,508 | $ 1,414,349 |

See accompanying notes to financial statements.

**RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.**

Statement of Cash Flows, Continued
Year Ended June 30, 2018 with 2017 Comparative Totals

Reconciliation of change in net assets to net cash provided by operating activites:

| | 2018 | 2017 |
|---|---|---|
| Change in net assets | $ 199,417 | $ 654,760 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 89,549 | 45,133 |
| Loss on disposal of property and equipment | - | 9,074 |
| Investment income reinvested | (12,328) | (15,727) |
| Mortgage loan discount amortization | (378,067) | (421,432) |
| Net value of mortgages issued | (202,711) | (238,735) |
| Proceeds from mortgages | 711,734 | 809,964 |
| Changes in operating assets and liabilities: | | |
| Pledges and grants receivable | (179,978) | 138,190 |
| Inventory | (1,034,995) | 19,947 |
| Prepaid expenses | (25,943) | 3,610 |
| Other current assets | (249) | 38,208 |
| Escrow funds held by VHDA | 3,108 | (5,713) |
| Escrow funds for Restore building | 50,000 | (50,000) |
| Land not suitable for building | 10,768 | - |
| Accounts payable | (131,054) | (13,039) |
| Accrued expenses | 96,414 | 5,477 |
| Escrow fund liability | (712) | 7,213 |
| Net cash provided by operating activities | $ (805,047) | $ 986,930 |

See accompanying 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 and during 2018 opened a second ReStore operation. The ReStores operate 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 2018 and 2017.

Grants and pledges receivable were $342,515 as of June 30, 2018 and $162,537 as of June 30, 2017. The Organization expects to collect all grants and pledges receivable during fiscal year 2019.

## 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, 2018 and 2017, all temporarily restricted net assets were restricted for the purpose of building and selling homes.

## 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, 2018 and 2017.

**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 property valued at $612,155 during 2018. The Organization did not receive any donated property during 2017. The Organization received pro-bono legal services of $136,497 during 2018 and $103,260 during 2017. 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, 2018 and 2017. The Organization is not currently under audit by any tax jurisdiction.

## 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 $25,856 for 2018 and $19,203 for 2017.

**Subsequent Events:** Management has evaluated subsequent events through October 17, 2018, 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:

| | 2018 | 2017 |
|---|---|---|
| Materials | $ 3,998 | $ 3,998 |
| Vacant land costs | 597,848 | 88,836 |
| Construction in progress | 937,808 | 411,825 |
| Completed houses available for sale | 66,000 | 66,000 |
| | $ 1,605,654 | $ 570,659 |

## 4. Property and Equipment:

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

| | 2018 | 2017 |
|---|---|---|
| Land | $ 631,234 | $ 101,000 |
| Buildings | 2,446,027 | 624,595 |
| Building improvements | 66,784 | 66,784 |
| Construction equipment | 70,018 | 70,018 |
| Transportation equipment | 143,182 | 118,419 |
| Office furniture and fixtures | 107,676 | 48,391 |
| Computer equipment and software | 38,131 | 38,131 |
| | 3,503,052 | 1,067,338 |
| Less accumulated depreciation | 642,787 | 553,238 |
| | $ 2,860,265 | $ 514,100 |

## 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 absences 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 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.

## 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 $176,431 as of June 30, 2018 and $164,103 as of June 30, 2017.

## 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 $4,216,971 at June 30, 2018 and $4,288,792 at June 30, 2017.

## 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.

## 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 53 mortgages to other institutions as of June 30, 2018 and 2 mortgages to DHCD and 44 mortgages to other institutions as of June 30, 2017. For the aforementioned buyers, the above referenced second mortgages are held as third mortgages by the Organization.

The Organization holds 163-second, third, and fourth mortgages as of June 30, 2018 and 171-second, third, and fourth mortgages as of June 30, 2017.

## 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 were $500,000 in borrowings at June 30, 2018 and no amount outstanding at June 30, 2017. 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% (4.88% at June 30, 2018 and 4% at June 30, 2017). 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, 2018.

## 9. Notes Payable:

Notes payable consist of the following at June 30:

| | 2018 | 2017 |
|---|---|---|
| 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 |
| 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. | 17,191 | 23,723 |
| 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. | 24,252 | 32,596 |
| Installment note payable to Fulton Bank, collateralized by the asets of the Organization, including interest at 4.83%, interest only payments through March 2019, and monthly installments of $12,069 beginning April 2019, maturing March 2029. | 2,100,000 | - |
| 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. | 592,749 | 676,096 |
| 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. | 170,948 | 251,694 |
| | 2,905,140 | 988,246 |
| Less amounts due within one year | 174,019 | 163,166 |
| Long-term notes payable | $ 2,731,121 | $ 825,080 |

## 9. Notes Payable, Continued:

At June 30, 2018, scheduled maturities on notes payable for future years are as follows:

| Year | Amount |
|---|---|
| 2019 | $ 174,019 |
| 2020 | 212,266 |
| 2021 | 124,086 |
| 2022 | 117,288 |
| 2023 | 121,793 |
| Thereafter | 2,155,688 |
| | $ 2,905,140 |

## 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 $93,389 for 2018 and $76,110 for 2017. The future minimum lease payments under the operating leases are $97,939 for 2019, $86,610 for 2020, $62,580 for 2021, $8,312 for 2022, and $1,689 for 2023.

During the year, the Organization became the landlord in a lease agreement with the tenant of the new building purchased by the Organization during the year. The lease is set to expire at December 31, 2018. Tenant revenue recognized during 2018 was $86,913 and is included in other income. Expected tenant revenue is $51,287 for 2019.

## 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 $29,303 for 2018 and $29,498 for 2017.

## 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.

### 12. Land Sales, Continued:

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, 2018 and 2017.

### 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.

## 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.