Richmond Metropolitan Habitat for Humanity®

Consolidated Financial Statements

June 30, 2019

Keiter
Your Opportunity Advisors

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

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

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Keiter
Your Opportunity Advisors

REPORT OF INDEPENDENT ACCOUNTANTS

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Richmond Metropolitan Habitat for Humanity, Inc. and Subsidiary (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Certified Public Accountants & Consultants
4401 Dominion Boulevard
Glen Allen, VA 23060
T:804.747.0000 F:804.747.3632

www.keitercpa.com

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Richmond Metropolitan Habitat for Humanity, Inc. and Subsidiary as of June 30, 2019 and the changes in their net assets and their 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 2018 financial statements, and in our report dated October 17, 2018, 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, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Keiter

October 9, 2019
Glen Allen, Virginia

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

Consolidated Statement of Financial Position
June 30, 2019 with 2018 Comparative Totals

Assets	Without Donor Restrictions	With Donor Restrictions	Totals 2019	Totals 2018
Current assets:				
Cash and cash equivalents	$ 360,517	$ 459,000	$ 819,517	$ 590,508
Pledges and grants receivable	41,547	228,500	270,047	342,515
Inventory	789,206	202,000	991,206	1,605,654
Prepaid expenses	56,426	-	56,426	73,496
Mortgages receivable - current portion	717,152	-	717,152	738,495
Other current assets	3,877	-	3,877	11,433
Total current assets	1,968,725	889,500	2,858,225	3,362,101
Property and equipment, net	2,794,752	-	2,794,752	2,860,265
Other assets:				
Beneficial interest in assets held by The Community Foundation	182,314	13,433	195,747	176,431
Escrow funds held by VHDA	95,096	-	95,096	92,479
Mortgages receivable - net of current portion and unamortized discount	3,962,601	-	3,962,601	4,059,226
Total other assets	4,240,011	13,433	4,253,444	4,328,136
	$ 9,003,488	$ 902,933	$ 9,906,421	$ 10,550,502

See accompanying notes to consolidated financial statements.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

Consolidated Statement of Financial Position, Continued
June 30, 2019 with 2018 Comparative Totals

Liabilities and Net Assets	Without Donor Restrictions	With Donor Restrictions	Totals 2019	Totals 2018
Current liabilities:				
Line of credit	$ 350,000	$ -	$ 350,000	$ 500,000
Accounts payable	48,471	-	48,471	81,119
Notes payable - current portion	212,266	-	212,266	174,019
Accrued expenses	240,488	-	240,488	208,023
Escrow fund liability	104,673	-	104,673	101,875
Total current liabilities	955,898	-	955,898	1,065,036
Notes payable	2,518,011	-	2,518,011	2,731,121
Total liabilities	3,473,909	-	3,473,909	3,796,157
Net assets:				
Without donor restrictions	5,529,579	-	5,529,579	5,740,583
With donor restrictions	-	902,933	902,933	1,013,762
Total net assets	5,529,579	902,933	6,432,512	6,754,345
	$ 9,003,488	$ 902,933	$ 9,906,421	$ 10,550,502

See accompanying notes to consolidated financial statements.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

Consolidated Statement of Activities
Year Ended June 30, 2019 with 2018 Comparative Totals

	Without Donor Restrictions	With Donor Restrictions	Totals 2019	Totals 2018
Support and revenue				
Support:				
Contributions:				
Corporations	$ 29,617	$ 70,000	$ 99,617	$ 240,498
In-kind	133,715	77,100	210,815	698,652
Government grants	-	278,628	278,628	367,379
Civic groups	67,935	50	67,985	214,995
Congregations	28,857	1,564	30,421	35,016
Individuals	357,854	10,500	368,354	245,537
Other grants	5,082	436,000	441,082	399,771
Total support	623,060	873,842	1,496,902	2,201,848
Revenue:				
House and lot revenue	2,303,730	-	2,303,730	660,494
Interest-mortgage loan discount amortization	465,200	-	465,200	378,067
ReStore income	1,494,061	-	1,494,061	1,167,587
Other income	258,616	-	258,616	144,076
Special events, net	16,710	-	16,710	18,953
Investment income, net	7,956	-	7,956	14,807
Total revenue	4,546,273	-	4,546,273	2,383,984
Total support and revenue	5,169,333	873,842	6,043,175	4,585,832
Net assets released from restrictions	$ 984,671	$ (984,671)	$ -	$ -

See accompanying notes to consolidated financial statements.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

Consolidated Statement of Activities, Continued
Year Ended June 30, 2019 with 2018 Comparative Totals

	Without Donor Restrictions	With Donor Restrictions	Totals 2019	Totals 2018
Expenses:				
Program services	$ 5,489,375	$ -	$ 5,489,375	$ 3,606,470
Supporting services:				
Managerial and general	643,447	-	643,447	541,662
Fundraising	232,186	-	232,186	238,283
Total expenses and loss	6,365,008	-	6,365,008	4,386,415
Change in net assets	(211,004)	(110,829)	(321,833)	199,417
Net assets at beginning of year	5,740,583	1,013,762	6,754,345	6,554,928
Net assets at end of year	$ 5,529,579	$ 902,933	$ 6,432,512	$ 6,754,345

See accompanying notes to consolidated financial statements.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

Consolidated Statement of Functional Expenses
Year Ended June 30, 2019 with 2018 Comparative Totals

	Program Services	General and Administrative	Fundraising	Totals 2019	Totals 2018
Salaries and benefits	$ 1,744,143	$ 337,890	$ 193,987	$ 2,276,020	$ 1,943,550
Building materials, supplies and land	2,322,666	5,913	40	2,328,619	1,121,501
Mortgage discounts	530,848	-	-	530,848	306,246
Other	79,611	68,976	15,632	164,219	113,864
Professional fees	120,355	59,772	15,772	195,899	230,542
Interest	120,767	28,119	-	148,886	114,389
Supplies and utilities	16,130	6,466	1,020	23,616	26,898
Rent and occupancy	164,533	41,660	850	207,043	169,918
Insurance	116,717	21,442	-	138,159	78,142
Depreciation	107,796	-	-	107,796	89,549
Printing, postage and advertising	48,297	-	692	48,989	25,856
Repairs and maintenance	88,004	15,405	-	103,409	91,649
Habitat for Humanity International	-	40,816	-	40,816	35,000
Travel and conferences	29,508	16,988	4,193	50,689	39,311
Total	$ 5,489,375	$ 643,447	$ 232,186	$ 6,365,008	$ 4,386,415

See accompanying notes to consolidated financial statements.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC. AND SUBSIDIARY

Consolidated Statement of Cash Flows
Year Ended June 30, 2019 with 2018 Comparative Totals

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ (321,833)	$ 199,417
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	107,796	89,549
Investment gain	(19,316)	(12,328)
Mortgage loan discount amortization	(465,200)	(378,067)
Net value of mortgages issued	(326,622)	(202,711)
Proceeds from mortgages	909,790	711,734
Changes in operating assets and liabilities:		
Pledges and grants receivable	72,468	(179,978)
Inventory	614,448	(1,034,995)
Prepaid expenses	17,070	(25,943)
Other current assets	7,556	(249)
Escrow funds held by VHDA	(2,617)	3,108
Escrow funds for ReStore building	-	50,000
Land not suitable for building	-	10,768
Accounts payable	(32,648)	(131,054)
Accrued expenses	32,465	96,414
Escrow fund liability	2,798	(712)
Net cash provided by (used in) operating activities	596,155	(805,047)
Cash flows from investing activities:		
Purchase of property and equipment	(42,283)	(2,435,440)
Net cash used in investing activities	(42,283)	(2,435,440)
Cash flows from financing activities:		
Net activity on line of credit	(150,000)	500,000
Payments on notes payable	(174,863)	(183,354)
Proceeds from notes payable	-	2,100,000
Net cash (used in) provided by financing activities	(324,863)	2,416,646
Net change in cash and cash equivalents	$ 229,009	$ (823,841)
Cash and cash equivalents, beginning of year	590,508	1,414,349
Cash and cash equivalents, end of year	$ 819,517	$ 590,508
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	$ 148,886	$ 114,389

See accompanying notes to consolidated financial statements.

1. Organization and Nature of Activities:

Richmond Metropolitan Habitat for Humanity, Inc., ("Habitat") 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, Habitat 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, Habitat is primarily and directly responsible for its own operations, which are conducted in the metropolitan area of Richmond, Virginia. The consolidated financial statements include the accounts and transactions of Habitat and its wholly-owned subsidiary, Habitat Commonwealth, LLC ("HCL"), whose business activities are incidental to Habitat (collectively, the "Organization"). 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 consolidated financial statements of the Organization have been prepared using the accrual basis in accordance with accounting principles generally accepted in the United States. All significant intercompany transactions and balances have been eliminated in consolidation.

Adoption of New Accounting Principles: In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2016-14, *"Presentation of Financial Statements of Not-for-Profit Entities"* (Topic 958). The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (c) requiring disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (d) presenting investment return net of external and direct internal investment expenses, and (e) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The Organization has adopted this ASU as of and for the year ended June 30, 2019. As a result, the Organization changed the presentation of its net asset classes, expanded the note disclosures as required by the ASU, and reclassified certain amounts in 2018 comparative totals to conform to this presentation.

2. Summary of Significant Accounting Policies, Continued:

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 net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated 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 2019 and 2018.

Grants and pledges receivable were $270,047 as of June 30, 2019 and $342,515 as of June 30, 2018. The Organization expects to collect all grants and pledges receivable during fiscal year 2019.

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.

2. Summary of Significant Accounting Policies, Continued:

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:

Net assets without donor restrictions 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.

Net assets with donor restrictions include those which are stipulated by donors for specific operating purposes or for the acquisition of property or equipment. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. At June 30, 2019 and 2018, $889,500 and $1,013,762 respectively of net assets with donor restrictions were restricted for the purpose of building and selling homes. Net assets with donor restrictions also include funds 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. At June 30, 2019 $13,433 of net assets with donor restrictions of this type were held by the Organization. At June 30, 2018 no net assets with donor restrictions of this type were held by the Organization.

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, building materials and supplies valued at $123,129 during 2019 and donated property, building materials and supplies valued at $562,155 during 2018. The Organization received pro-bono legal services of $87,686 during 2019 and $136,497 during 2018. The donated property and 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 consolidated financial 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.

2. Summary of Significant Accounting Policies, Continued:

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 consolidated financial statements as “house and lot revenue.”

Functional Allocation of Expenses: The Consolidated Statement of Functional Expenses present expenses by function and natural classification. Expenses directly attributable to a specific functional area of the Organization are reported as expenses of those functional areas. A portion of general and administrative costs that benefit multiple functional areas have been allocated across programs and management and general based on time and effort incurred.

Income Taxes: The Organization is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. The Organization incurred unrelated business income tax of $29,441 during fiscal year 2019 due to rental activities.

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, 2019 and 2018. The Organization is not currently under audit by any tax jurisdiction.

Estimates: The preparation of consolidated 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 consolidated 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 $48,898 for 2019 and $25,856 for 2018.

2. Summary of Significant Accounting Policies, Continued:

Reclassification: Certain prior year balances have been reclassified to conform with the current year presentation.

Subsequent Events: Management has evaluated subsequent events through October 9, 2019, the date the consolidated financial statements were available to be issued, and has determined there are no subsequent events to be reported in the accompanying consolidated financial statements.

3. Inventory:

Inventory consists of the following as of June 30:

	2019	2018
Materials	$ -	$ 3,998
Vacant land costs	460,057	597,848
Construction in progress	465,149	937,808
Land available for sale	66,000	66,000
	$ 991,206	$ 1,605,654

4. Property and Equipment:

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

	2019	2018
Land	$ 633,046	$ 631,234
Buildings	2,449,559	2,446,027
Building improvements	74,592	66,784
Construction equipment	70,018	70,018
Transportation equipment	136,232	143,182
Office furniture and fixtures	143,758	107,676
Computer equipment and software	38,131	38,131
	3,545,336	3,503,052
Less accumulated depreciation	750,584	642,787
	$ 2,794,752	$ 2,860,265

5. Liquidity and Availability of Resources:

The following table reflects the Organization's financial assets as of June 30, 2019, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when restricted by a donor for a time or purpose or when the governing board has set aside the funds for a specific purpose.

Financial assets:	
Cash and cash equivalents	$ 819,517
Pledges and grants receivable	270,047
Mortgage receiveable - current portion	717,152
Total financial assets	1,806,716
Less those unavailable for general expenditure within one year due to:	
Donor imposed restrictions on funds to only be used for specific purposes or programs	687,500
Financial assets available to meet cash needs for general expenditures within one year	$ 1,119,216

The Organization has a policy to structure its financial assets as its general expenditures, liabilities, and other obligations come due. The Organization also has a line of credit, which could be drawn upon in the event of an unanticipated liquidity need (see Note 9) as well as investments held at The Community Foundation in the Richmond Metropolitan Habitat for Humanity Endowment, which could be used if certain conditions are met as described in Note 6.

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

During 2014 and 2019, respectively, the Organization with the help of The Community Foundation established the Richmond Metropolitan Habitat for Humanity Endowment and the Richmond Metropolitan Habitat for Humanity-Jane V. Helfrich Endowment (collectively the "Endowments") with funds designated as with donor restrictions. 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 Endowments are 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.

The funds for the Endowments were received in June 2014 and June 2019 and are included in Beneficial interest in assets held by The Community Foundation on the accompanying Consolidated Statement of Financial Position. The Endowments had a balance of $195,747 as of June 30, 2019, of which $13,433 is donor restricted and $176,431 as of June 30, 2018, none of which is donor restricted.

7. 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 consolidated 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 $4,282,619 at June 30, 2019 and $4,216,971 at June 30, 2018. The discount rates used were 7.66% for 2019 and 7.57% for 2018.

8. 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 7). 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.

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 as of June 30, 2019 and 2 mortgages to DHCD as of June 30, 2018. For the aforementioned buyers, the above referenced second mortgages are held as third mortgages by the Organization.

The Organization holds 177 second, third, and fourth mortgages as of June 30, 2019 and 163-second, third, and fourth mortgages as of June 30, 2018.

9. 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 $350,000 in borrowings at June 30, 2019 and $500,000 in borrowings at June 30, 2018. 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% (5.25% at June 30, 2019 and 4.88% at June 30, 2018). 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, 2019.

10. Notes Payable:

Notes payable consist of the following at June 30:

	2019	2018
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.	$ 10,427	$ 17,191
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.	15,612	24,252
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 September 2027.	2,089,407	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.	527,741	592,749
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.	87,090	170,948
	2,730,277	2,905,140
Less amounts due within one year	212,266	174,019
Long-term notes payable	$ 2,518,011	$ 2,731,121

10. Notes Payable, Continued:

At June 30, 2019, scheduled maturities on notes payable for future years are as follows:

Year	Amount
2020	$ 212,266
2021	123,745
2022	117,288
2023	121,793
2024	134,560
Thereafter	2,020,625
	$ 2,730,277

11. Operating Leases:

The Organization leases certain equipment and office space under various operating lease agreements. These lease terms expire over the next four 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 $104,747 for 2019 and $93,389 for 2018. The future minimum lease payments under the operating leases are $87,294 for 2020, $68,259 for 2021, $8,085 for 2022, and $563 for 2023.

During 2018, the Organization became the landlord in a lease agreement with the tenant of the new building purchased by the Organization during 2018. The lease expired in March of 2019. Tenant revenue recognized during 2019 was $98,574 and is included in other income.

12. Retirement Plan:

The Organization has an employee retirement plan under Section 403(b) of the Internal Revenue Code. The plan provides for salary reduction contributions by eligible participants, subject to certain limitations, and Organization matching contributions. The Organization made contributions to the plan of $19,136 for 2019 and $29,303 for 2018.

13. 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. 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, 2019.

14. 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.

15. Commitments and Contingencies:

From time to time the Organization is involved in litigation that it considers to be in the normal course of business. The Organization is not presently involved in any legal proceedings which management expects individually or in the aggregate to have a material adverse effect on its financial condition or results of operations.

16. New Accounting Guidance:

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.