



Financial Statements

June 30, 2016



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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, 2016, 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, 2016 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 2015 financial statements, and in our report dated December 1, 2015, 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, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

October 19, 2016
Glen Allen, Virginia

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Statement of Financial Position
June 30, 2016 with 2015 Comparative Totals

<u>Assets</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				<u>2016</u>	<u>2015</u>
Current assets:					
Cash and cash equivalents	\$ 298,813	\$ 387,302	\$ -	\$ 686,115	\$ 429,266
Accounts receivable	-	-	-	-	5,029
Pledges and grants receivable	5,129	295,598	-	300,727	304,862
Inventory	384,808	205,798	-	590,606	665,574
Prepaid expenses	51,163	-	-	51,163	44,795
Mortgages receivable - current portion	779,373	-	-	779,373	778,368
Other current assets	49,392	-	-	49,392	21,943
Total current assets	<u>1,568,678</u>	<u>888,698</u>	<u>-</u>	<u>2,457,376</u>	<u>2,249,837</u>
Property and equipment, net	<u>412,742</u>	<u>-</u>	<u>-</u>	<u>412,742</u>	<u>411,729</u>
Other assets:					
Beneficial interest in assets held by The Community Foundation	(1,624)	-	150,000	148,376	156,779
Land not suitable for building	10,768	-	-	10,768	10,768
Escrow funds held by VHDA	89,874	-	-	89,874	98,990
Mortgages receivable - net of current portion and unamortized discount	4,299,127	-	-	4,299,127	4,422,450
Total other assets	<u>4,398,145</u>	<u>-</u>	<u>150,000</u>	<u>4,548,145</u>	<u>4,688,987</u>
	<u>\$ 6,379,565</u>	<u>\$ 888,698</u>	<u>\$ 150,000</u>	<u>\$ 7,418,263</u>	<u>\$ 7,350,553</u>

See accompanying notes to financial statements.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Statement of Financial Position, Continued
June 30, 2016 with 2015 Comparative Totals

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2016	2015
<u>Liabilities and Net Assets</u>					
Current liabilities:					
Line of credit	\$ 42,000	\$ -	\$ -	\$ 42,000	\$ 320,000
Accounts payable	77,504	-	-	77,504	38,205
Notes payable - current portion	180,135	-	-	180,135	192,792
Accrued expenses	106,132	-	-	106,132	125,263
Escrow fund liability	95,374	-	-	95,374	104,090
Total current liabilities	501,145	-	-	501,145	780,350
Notes payable	1,016,950	-	-	1,016,950	1,255,593
Total liabilities	1,518,095	-	-	1,518,095	2,035,943
Net assets:					
Unrestricted	4,861,470	-	-	4,861,470	4,676,304
Temporarily restricted	-	888,698	-	888,698	488,306
Permanently restricted	-	-	150,000	150,000	150,000
Total net assets	4,861,470	888,698	150,000	5,900,168	5,314,610
	\$ 6,379,565	\$ 888,698	\$ 150,000	\$ 7,418,263	\$ 7,350,553

See accompanying notes to financial statements.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Statement of Activities
Year Ended June 30, 2016 with 2015 Comparative Totals

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				<u>2016</u>	<u>2015</u>
Support and revenue					
Support:					
Contributions:					
Corporations	\$ 40,042	\$ 38,900	\$ -	\$ 78,942	\$ 122,364
In-kind	265,123	59,000	-	324,123	334,716
Government grants	30	413,259	-	413,289	295,000
Civic groups	98,291	1,050	-	99,341	58,731
Congregations	16,230	7,350	-	23,580	43,432
Individuals	650,386	850	-	651,236	222,459
Other grants	5,055	523,000	-	528,055	284,347
Total support	<u>1,075,157</u>	<u>1,043,409</u>	<u>-</u>	<u>2,118,566</u>	<u>1,361,049</u>
Revenue:					
House and lot revenue	703,269	-	-	703,269	1,272,504
Interest-mortgage loan discount amortization	481,504	-	-	481,504	432,753
ReStore income	963,988	-	-	963,988	821,329
Other income	82,189	-	-	82,189	74,084
Special events, net	8,726	-	-	8,726	(1,678)
Investment (loss) income	(6,812)	-	-	(6,812)	7,207
Total revenue	<u>2,232,864</u>	<u>-</u>	<u>-</u>	<u>2,232,864</u>	<u>2,606,199</u>
Total support and revenue	<u>3,308,021</u>	<u>1,043,409</u>	<u>-</u>	<u>4,351,430</u>	<u>3,967,248</u>
Net assets released from restrictions	<u>643,017</u>	<u>(643,017)</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, 2016 with 2015 Comparative Totals

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				2016	2015
Expenses and loss:					
Program services	\$ 3,044,978	\$ -	\$ -	\$ 3,044,978	\$ 4,161,583
Supporting services:					
Managerial and general	530,436	-	-	530,436	442,347
Fundraising	<u>190,458</u>	<u>-</u>	<u>-</u>	<u>190,458</u>	<u>216,137</u>
Total expenses	<u>3,765,872</u>	<u>-</u>	<u>-</u>	<u>3,765,872</u>	<u>4,820,067</u>
Impairment loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>276,617</u>
Total expenses and loss	<u>3,765,872</u>	<u>-</u>	<u>-</u>	<u>3,765,872</u>	<u>5,096,684</u>
Change in net assets	185,166	400,392	-	585,558	(1,129,436)
Net assets at beginning of year	<u>4,676,304</u>	<u>488,306</u>	<u>150,000</u>	<u>5,314,610</u>	<u>6,444,046</u>
Net assets at end 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>

See accompanying notes to financial statements.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Statement of Functional Expenses
Year Ended June 30, 2016 with 2015 Comparative Totals

	Program	General and		Totals	
	<u>Services</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>2016</u>	<u>2015</u>
Salaries and benefits	\$ 1,072,435	\$ 272,522	\$ 161,890	\$ 1,506,847	\$ 1,430,624
Building materials, supplies, and land	1,086,718	2,329	2,749	1,091,796	2,138,868
Mortgage discounts	390,948	-	-	390,948	548,570
Other	64,575	22,296	21,621	108,492	58,748
Professional fees	102,973	124,372		227,345	186,369
Interest	46,899	-	-	46,899	63,168
Supplies and utilities	10,688	3,984	706	15,378	14,424
Rent and occupancy	87,293	32,253	700	120,246	118,835
Insurance	40,451	7,628	-	48,079	50,993
Depreciation	49,622	-	-	49,622	47,914
Printing, postage and advertising	25,257	2,512	1,353	29,122	57,504
Repairs and maintenance	44,617	17,546	-	62,163	35,530
Habitat for Humanity International	-	35,000	-	35,000	26,776
Travel and conferences	22,502	9,994	1,439	33,935	41,744
	<u>\$ 3,044,978</u>	<u>\$ 530,436</u>	<u>\$ 190,458</u>	<u>\$ 3,765,872</u>	<u>\$ 4,820,067</u>
Total					

See accompanying notes to financial statements.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Statement of Cash Flows
Year Ended June 30, 2016 with 2015 Comparative Totals

	2016	2015
Cash flows from operating activities:		
Receipts:		
Contributions and grants	\$ 1,798,578	\$ 1,053,196
House and lot revenue	18,946	338,305
Mortgage collections	876,126	788,778
ReStore income	963,988	821,329
Special events	20,639	9,457
Investment (loss) income	(5,188)	428
Other income	87,218	79,714
Total receipts from operating activities	3,760,307	3,091,207
Disbursements:		
Salaries and benefits	1,515,991	1,425,668
Building materials, supplies, and land	881,466	724,602
Other	123,052	229,593
Interest	46,899	63,050
Supplies and utilities	15,378	14,424
Rent and occupancy	120,246	118,835
Insurance	48,079	50,993
Special events	11,913	11,135
Printing, postage and advertising	29,122	57,504
Repairs and maintenance	62,163	35,530
Habitat for Humanity International	35,000	26,776
Travel and conferences	33,935	41,744
Total disbursements from operating activities	2,923,244	2,799,854
Net cash provided by operating activities	837,063	291,353
Cash flows from investing activities:		
Purchase of property and equipment	(50,914)	(29,012)
Net cash used in investing activities	(50,914)	(29,012)
Cash flows from financing activities		
Principal payments on notes payable and line of credit	(529,300)	(204,457)
Net cash used in financing activities	(529,300)	(204,457)
Net change in cash and cash equivalents	\$ 256,849	\$ 57,884

See accompanying notes to financial statements.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Statement of Cash Flows, Continued
Year Ended June 30, 2016 with 2015 Comparative Totals

	2016	2015
Net change in cash and cash equivalents	\$ 256,849	\$ 57,884
Cash and cash equivalents:		
Beginning of year	429,266	371,382
End of year	\$ 686,115	\$ 429,266
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 585,558	\$ (1,129,436)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	49,622	47,914
Loss on disposal of property and equipment	279	-
Investment loss (income)	8,403	(6,779)
Impairment loss	-	276,617
Mortgage loan discount amortization	(481,504)	(432,753)
Net value of mortgages issued	(272,304)	(385,629)
Proceeds from mortgages	876,126	788,778
Changes in operating assets and liabilities:		
Accounts receivable	5,029	5,630
Pledges and grants receivable	4,135	18,973
Inventory	74,968	1,142,290
Prepaid expenses	(6,368)	7,732
Other current assets	(27,449)	(6,193)
Escrow funds held by VHDA	9,116	(20,294)
Land not suitable for building	-	13,857
Accounts payable	39,299	(9,998)
Accrued expenses	(19,131)	(7,134)
Escrow fund liability	(8,716)	(12,222)
Net cash provided by operating activities	\$ 837,063	\$ 291,353

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 2016 and 2015.

Grants and pledges receivable were \$300,727 as of June 30, 2016 and \$304,862 as of June 30, 2015. The Organization expects to collect all grants and pledges receivable during fiscal year 2017.

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, 2016 and 2015, 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, 2016 and 2015.

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 \$59,000 of donated land and houses during 2016 and \$148,500 during 2015. The Organization received pro-bono legal and construction services of \$194,785 during 2016 and \$186,216 during 2015. These services are recorded as contribution revenue and professional fee expense, cost of sales, or are included in another appropriate expense account. A substantial number of unpaid volunteers have made significant contributions of their time in the Organization's administrative and operating activities. The value of this contributed time is not reflected in these statements because the criteria for recognition under guidance provided by the Financial Accounting Standards Board ("FASB") related to accounting for contributions received and contributions made, had not been satisfied.

Revenue and Cost Recognition: The Organization recognizes revenue from all homebuilding activities at the closing of the sale using the deposit method. During construction, all direct material and labor costs and those indirect costs related to acquisition and construction are capitalized as inventory, and all customer deposits are treated as liabilities. House sale prices to Habitat homeowners are derived based on 0.5% below appraisal value. The costs of the houses are reflected in program services expenses as "building materials, supplies, and land" in the year the mortgage is closed. The sales prices are concurrently reflected in the financial statements as "house revenue."

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

Management has evaluated the effect of guidance surrounding uncertain income tax positions and concluded that the Organization has no significant financial statement exposure to uncertain income tax positions at June 30, 2016 and 2015. 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 \$22,195 for 2016 and \$47,658 for 2015.

Subsequent Events: Management has evaluated subsequent events through October 19, 2016, the date the financial statements were available to be issued, and has determined there are no subsequent events to be reported in the accompanying financial statements.

3. Inventory:

Inventory consists of the following as of June 30:

	<u>2016</u>	<u>2015</u>
Materials	\$ 3,998	\$ 3,998
Vacant land costs	117,437	260,924
Construction in progress	305,651	148,360
Houses for rehabilitation	-	18,732
Completed houses available for sale	<u>163,520</u>	<u>233,560</u>
	<u>\$ 590,606</u>	<u>\$ 665,574</u>

Based on an analysis of cost and market value, the Organization recorded an impairment loss totaling \$276,617 during 2015 on four properties.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Notes to Financial Statements, Continued

4. Property and Equipment:

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

	<u>2016</u>	<u>2015</u>
Land	\$ 101,000	\$ 101,000
Warehouse building	476,887	470,485
Warehouse improvements	66,799	66,799
Construction equipment	70,018	64,255
Transportation equipment	137,206	123,371
Office furniture and fixtures	48,391	48,391
Computer equipment and software	<u>34,182</u>	<u>51,195</u>
	934,483	925,496
Less accumulated depreciation	<u>521,741</u>	<u>513,767</u>
	<u>\$ 412,742</u>	<u>\$ 411,729</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 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.

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 \$148,376 as of June 30, 2016 and \$156,779 as of June 30, 2015.

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 \$4,344,309 at June 30, 2016 and \$4,435,931 at June 30, 2015.

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 38 mortgages to other institutions as of June 30, 2016 and 2 mortgages to DHCD and 33 mortgages to other institutions as of June 30, 2015. For the aforementioned buyers, the above referenced second mortgages are held as third mortgages by the Organization.

The Organization holds 223-second, third, and fourth mortgages with face values totaling \$4,069,830 as of June 30, 2016 and 220-second and third mortgages with face values totaling \$4,240,935 as of June 30, 2015.

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. There was an outstanding balance of \$42,000 at June 30, 2016 and \$320,000 at June 30, 2015. 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, 2016 and 2015). Principal and all outstanding interest is payable on demand.

The line of credit renews annually unless terminated by either party. Under the provisions of the agreement, the Organization is subject to certain specified financial and operating covenants. The Organization was not in compliance with certain loan covenants as of June 30, 2016, but has received a covenant waiver from Fulton Bank.

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Notes to Financial Statements, Continued

9. Notes Payable:

Notes payable consist of the following at June 30:

	2016	2015
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.	\$ 23,097	\$ 58,750
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.	30,600	36,246
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.	41,157	64,863
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	22,074
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.	763,227	862,146
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.	329,620	404,306
	1,197,085	1,448,385
Less amounts due within one year	180,135	192,792
Long-term notes payable	\$ 1,016,950	\$ 1,255,593

RICHMOND METROPOLITAN HABITAT FOR HUMANITY, INC.

Notes to Financial Statements, Continued

9. Notes Payable, Continued:

At June 30, 2016, scheduled maturities on notes payable for future years are as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 180,135
2018	165,096
2019	163,125
2020	167,530
2021	77,955
Thereafter	<u>443,244</u>
	<u>\$ 1,197,085</u>

10. 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 \$74,016 for 2016 and \$73,417 for 2015. The future minimum lease payments under the operating leases are \$52,752 for 2017, \$937 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 \$23,181 for 2016 and \$18,685 for 2015.

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, 2016 and 2015.

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.