
# Consolidated Financial Statements

June 30, 2020


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

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# REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors
Richmond Metropolitan Habitat for Humanity, Inc. and Subsidiary
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, 2020, 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.

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**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, 2020 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. and Subsidiary's 2019 consolidated financial statements, and in our report dated October 9, 2019 expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

October 29, 2020
Glen Allen, Virginia

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

Consolidated Statement of Financial Position
June 30, 2020 with 2019 Comparative Totals

| Assets | Without Donor Restrictions | With Donor Restrictions | Totals 2020 | Totals 2019 |
|---|---|---|---|---|
| Current assets: | | | | |
| Cash and cash equivalents | $ 744,937 | $ 132,600 | $ 877,537 | $ 819,517 |
| Pledges and grants receivable | 8,923 | 269,928 | 278,851 | 270,047 |
| Inventory | 1,410,066 | 507,000 | 1,917,066 | 1,000,826 |
| Prepaid expenses | 208 | - | 208 | 56,426 |
| Mortgages receivable - current portion | 678,129 | - | 678,129 | 717,152 |
| Other current assets | 3,877 | - | 3,877 | 3,877 |
| Total current assets | 2,846,140 | 909,528 | 3,755,668 | 2,867,845 |
| Property and equipment, net | 2,693,200 | - | 2,693,200 | 2,785,132 |
| Other assets: | | | | |
| Beneficial interest in assets held by The Community Foundation | 178,648 | 22,852 | 201,500 | 195,747 |
| Escrow funds held by VHDA | 88,200 | - | 88,200 | 95,096 |
| Mortgages receivable - net of current portion and unamortized discount | 3,579,948 | - | 3,579,948 | 3,962,601 |
| Total other assets | 3,846,796 | 22,852 | 3,869,648 | 4,253,444 |
| | $ 9,386,136 | $ 932,380 | $ 10,318,516 | $ 9,906,421 |

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Financial Position, Continued
June 30, 2020 with 2019 Comparative Totals

| Liabilities and Net Assets | Without Donor Restrictions | With Donor Restrictions | Totals 2020 | Totals 2019 |
|---|---|---|---|---|
| Current liabilities: | | | | |
| Line of credit | $ 900,000 | $ - | $ 900,000 | $ 350,000 |
| Accounts payable | 18,998 | - | 18,998 | 48,471 |
| Notes payable - current portion | 271,942 | - | 271,942 | 212,266 |
| Accrued expenses | 122,897 | - | 122,897 | 240,488 |
| Escrow fund liability | 97,346 | - | 97,346 | 104,673 |
| Total current liabilities | 1,411,183 | - | 1,411,183 | 955,898 |
| Notes payable | 2,571,772 | - | 2,571,772 | 2,518,011 |
| Total liabilities | 3,982,955 | - | 3,982,955 | 3,473,909 |
| Net assets: | | | | |
| Without donor restrictions | 5,403,181 | - | 5,403,181 | 5,529,579 |
| With donor restrictions | - | 932,380 | 932,380 | 902,933 |
| Total net assets | 5,403,181 | 932,380 | 6,335,561 | 6,432,512 |
| | $ 9,386,136 | $ 932,380 | $ 10,318,516 | $ 9,906,421 |

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Activities
Year Ended June 30, 2020 with 2019 Comparative Totals

| | Without Donor Restrictions | With Donor Restrictions | Totals 2020 | Totals 2019 |
|---|---|---|---|---|
| Support and revenue | | | | |
| Support: | | | | |
| Contributions: | | | | |
| Corporations | $ 74,178 | $ 27,500 | $ 101,678 | $ 99,617 |
| In-kind | 180,946 | 480,000 | 660,946 | 210,815 |
| Government grants | - | 650,927 | 650,927 | 278,628 |
| Civic groups | 76,625 | 136,500 | 213,125 | 173,985 |
| Congregations | 44,374 | - | 44,374 | 30,421 |
| Individuals | 319,964 | 66,430 | 386,394 | 368,354 |
| Other grants | 203,827 | 45,500 | 249,327 | 335,082 |
| Total support | 899,914 | 1,406,857 | 2,306,771 | 1,496,902 |
| Revenue: | | | | |
| House and lot revenue | 1,122,904 | - | 1,122,904 | 2,303,730 |
| Interest-mortgage loan discount amortization | 432,837 | - | 432,837 | 465,200 |
| ReStore income | 1,317,068 | - | 1,317,068 | 1,494,061 |
| Other income | 79,058 | - | 79,058 | 258,616 |
| Special events, net | 39,847 | - | 39,847 | 16,710 |
| Investment (loss) income, net | (2,070) | - | (2,070) | 7,956 |
| Total revenue | 2,989,644 | - | 2,989,644 | 4,546,273 |
| Total support and revenue | 3,889,558 | 1,406,857 | 5,296,415 | 6,043,175 |
| Net assets released from restrictions | $ 1,377,410 | $ (1,377,410) | $ - | $ - |

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Activities, Continued
Year Ended June 30, 2020 with 2019 Comparative Totals

| | | | Totals | |
|---|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | 2020 | 2019 |
| Expenses: | | | | |
| Program services | $ 4,569,511 | $ - | $ 4,569,511 | $ 5,489,375 |
| Supporting services: | | | | |
| General and administrative | 594,763 | - | 594,763 | 643,447 |
| Fundraising | 229,092 | - | 229,092 | 232,186 |
| Total expenses and loss | 5,393,366 | - | 5,393,366 | 6,365,008 |
| Change in net assets | (126,398) | 29,447 | (96,951) | (321,833) |
| Net assets at beginning of year | 5,529,579 | 902,933 | 6,432,512 | 6,754,345 |
| Net assets at end of year | $ 5,403,181 | $ 932,380 | $ 6,335,561 | $ 6,432,512 |

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Functional Expenses
Year Ended June 30, 2020 with 2019 Comparative Totals

| | Program Services | General and Administrative | Fundraising | Totals 2020 | Totals 2019 |
|---|---|---|---|---|---|
| Salaries and benefits | $ 1,553,138 | $ 329,769 | $ 206,639 | $ 2,089,546 | $ 2,276,020 |
| Building materials, supplies and land | 1,472,778 | 541 | - | 1,473,319 | 2,328,619 |
| Mortgage discounts | 627,415 | - | - | 627,415 | 530,848 |
| Other | 163,246 | 33,338 | 8,157 | 204,741 | 164,219 |
| Professional fees | 166,622 | 77,195 | 9,547 | 253,364 | 195,899 |
| Interest | 92,027 | 27,474 | - | 119,501 | 148,886 |
| Supplies and utilities | 13,752 | 9,207 | 508 | 23,467 | 23,616 |
| Rent and occupancy | 114,889 | 38,924 | 800 | 154,613 | 207,043 |
| Insurance | 112,957 | 28,666 | - | 141,623 | 138,159 |
| Depreciation | 105,373 | - | - | 105,373 | 107,796 |
| Printing, postage and advertising | 34,473 | 187 | - | 34,660 | 48,989 |
| Repairs and maintenance | 91,947 | 21,302 | 1,074 | 114,323 | 103,409 |
| Habitat for Humanity International | 1,000 | 24,935 | - | 25,935 | 40,816 |
| Travel and conferences | 19,894 | 3,225 | 2,367 | 25,486 | 50,689 |
| Total | $ 4,569,511 | $ 594,763 | $ 229,092 | $ 5,393,366 | $ 6,365,008 |

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Cash Flows
Year Ended June 30, 2020 with 2019 Comparative Totals

| | 2020 | 2019 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ (96,951) | $ (321,833) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 105,373 | 107,796 |
| Investment loss (gain) | 4,247 | (19,316) |
| Donated inventory | (480,000) | - |
| Mortgage loan discount amortization | (432,837) | (465,200) |
| Net value of mortgages issued | (618,960) | (326,622) |
| Proceeds from mortgages | 1,463,473 | 909,790 |
| Contributions restricted for endowment (Note 6) | (10,000) | - |
| Changes in operating assets and liabilities: | | |
| Pledges and grants receivable | (8,804) | 72,468 |
| Inventory | (436,240) | 614,448 |
| Prepaid expenses | 56,218 | 17,070 |
| Other current assets | - | 7,556 |
| Escrow funds held by VHDA | 6,896 | (2,617) |
| Accounts payable | (29,473) | (32,648) |
| Accrued expenses | (117,591) | 32,465 |
| Escrow fund liability | (7,327) | 2,798 |
| Net cash (used in) provided by operating activities | (601,976) | 596,155 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (13,441) | (42,283) |
| Net cash used in investing activities | (13,441) | (42,283) |
| Cash flows from financing activities: | | |
| Net activity on line of credit | 550,000 | (150,000) |
| Payments on notes payable | (212,390) | (174,863) |
| Proceeds from notes payable | 325,827 | - |
| Contributions restricted for endowment (Note 6) | 10,000 | - |
| Net cash provided by (used in) financing activities | 673,437 | (324,863) |
| Net change in cash and cash equivalents | 58,020 | 229,009 |
| Cash and cash equivalents, beginning of year | 819,517 | 590,508 |
| Cash and cash equivalents, end of year | $ 877,537 | $ 819,517 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | $ 119,501 | $ 148,886 |

See accompanying notes to consolidated financial statements.

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

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"), (collectively, the "Organization"). HCL was established in February 2019 to own and manage real estate. During 2020 HCL admitted an outside investor (see Note 2). The presentation of a non-controlling interest attributable to the outside investor is not material to the accompanying consolidated financial statements. 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.

During March 2020, a novel strain of coronavirus (COVID-19) outbreak was declared a pandemic by the World Health Organization. The situation is evolving with various cities and countries around the world responding in different ways to address the outbreak. There are direct and indirect economic effects developing for various industries and individual companies throughout the world. Management will continue to monitor the impact COVID-19 has on the Organization and reflect the effects as appropriate in the Organization's accounting and financial reporting.

## 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.

**Cash and 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.

## 2. Summary of Significant Accounting Policies, Continued:

**Accounts, Pledges, and Grants Receivable, Continued:** 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 2020 and 2019.

Grants and pledges receivable were $278,851 as of June 30, 2020 and $270,047 as of June 30, 2019. The Organization expects to collect all grants and pledges receivable during fiscal year 2021.

**Contributions:** Effective July 1, 2019, the Organization adopted Accounting Standards Update ("ASU") 2018-08, "Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made", which presents a new methodology for determining whether a grant or contribution received or made by a not-for-profit entity should be accounted for as an exchange transaction or as a contribution. The Organization adopted this ASU using the modified retrospective method. The adoption of this ASU resulted in a decrease in revenue and assets in the amount of $250,695 for the year ended June 30, 2020. Prior periods were not restated.

The Organization recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barriers and a right of return - are not recognized until the conditions on which they depend have been met.

A portion of the Organization's revenue is derived from cost-reimbursable state contracts and grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. The Organization received cost-reimbursable grants of $250,695 that have not been recognized at June 30, 2020 because qualifying expenditures have not yet been incurred.

**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.

## 2. Summary of Significant Accounting Policies, Continued:

**Mortgages Receivable, Continued**: 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 consolidated 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, 2020 and 2019, $909,528 and $889,500, respectively, of net assets with donor restrictions were restricted for the purpose of building, selling, and repairing 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, 2020, and 2019, $22,852 and $13,433 of net assets with donor restrictions of this type were held by the Organization, respectively.

## 2. Summary of Significant Accounting Policies, Continued:

**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 $480,000 during 2020 and donated property, building materials and supplies valued at $123,129 during 2019. The Organization received pro-bono legal services of $144,932 during 2020 and $87,686 during 2019. 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.

**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:** Habitat is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. Habitat incurred unrelated business income tax of $8,837 for 2020 and $29,441 for 2019 due to rental activities.

HCL began as a single member LLC and has elected to be taxed as a partnership. In April 2020, HCL raised capital from an outside investor who then received historic rehabilitation credits and a 1% membership interest in HCL. In lieu of corporate income taxes, the members of the partnership are taxed on their proportionate share of the HCL's taxable income or loss. Accordingly, no provision or liability for income taxes has been included in the accompanying consolidated financial statements. For income tax purposes, HCL operates on a calendar year.

## 2. Summary of Significant Accounting Policies, Continued:

**Income Taxes, Continued:** 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, 2020 and 2019. 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 $34,660 for 2020 and $48,898 for 2019.

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

**Subsequent Events:** Management has evaluated subsequent events through October 29, 2020, the date the consolidated financial statements were available to be issued, and has determined that, other than as described in Note 10, 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:

| | 2020 | 2019 |
|---|---|---|
| Vacant land costs | $ 924,137 | $ 461,869 |
| Construction in progress | 992,929 | 472,957 |
| Land available for sale | - | 66,000 |
| | $ 1,917,066 | $ 1,000,826 |

## 4. Property and Equipment:

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

| | 2020 | 2019 |
|---|---|---|
| Land | $ 631,234 | $ 631,234 |
| Buildings | 2,461,001 | 2,449,559 |
| Building improvements | 68,727 | 66,784 |
| Construction equipment | 70,018 | 70,018 |
| Transportation equipment | 113,739 | 136,232 |
| Office furniture and fixtures | 143,758 | 143,758 |
| Computer equipment and software | 38,131 | 38,131 |
| | 3,526,608 | 3,535,716 |
| Less accumulated depreciation | 833,408 | 750,584 |
| | $ 2,693,200 | $ 2,785,132 |

## 5. Liquidity and Availability of Resources:

The following table reflects the Organization's financial assets as of June 30, 2020 and 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.

| | 2020 | 2019 |
|---|---|---|
| Financial assets: | | |
| Cash and cash equivalents | $ 877,537 | $ 819,517 |
| Pledges and grants receivable | 278,851 | 270,047 |
| Mortgage receivable - current portion | 678,129 | 717,152 |
| Total financial assets | 1,834,517 | 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 | 402,528 | 687,500 |
| Financial assets available to meet cash needs for general expenditures within one year | $ 1,431,989 | $ 1,119,216 |

## 5. Liquidity and Availability of Resources, Continued:

The Organization has a policy to structure its financial assets as its general expenditures, liabilities, and other obligations come due. The Organization also has investments held at The Community Foundation for a greater Richmond ("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. The Organization also intends to apply for 100% forgiveness on its Paycheck Protection Program loan (see Note 10).

## 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 with funds designated without donor restrictions 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 Endowments 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, June 2019, and July 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 $201,500 as of June 30, 2020, of which $22,852 is donor restricted and $195,747 as of June 30, 2019, of which $13,433 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 $4,477,196 at June 30, 2020 and $4,282,619 at June 30, 2019. The discount rates used were 7.38% for 2020 and 7.66% for 2019.

## 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 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 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 2 mortgages to DHCD as of June 30, 2020 and 3 mortgages to DHCD as of June 30, 2019. For the aforementioned buyers, the above referenced second mortgages are held as third mortgages by the Organization.

## 8. Subordinate Mortgages, Continued:

The Organization holds 167 second, third, and fourth mortgages as of June 30, 2020 and 177 second, third, and fourth mortgages as of June 30, 2019.

## 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 $900,000 in borrowings at June 30, 2020 and $350,000 in borrowings at June 30, 2019. 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% (4.00% at June 30, 2020 and 5.25% at June 30, 2019). 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 has met the covenants as of June 30, 2020 and 2019, or obtained waivers for those not met.

Effective March 31, 2020, Fulton Bank, N.A. waived the requirement for the Organization to make regular monthly interest payments due on May 1, 2020 through October 1, 2020 (the “Payment Deferral Period”). Immediately after the Payment Deferral Period, the Organization is required to make regular payments in accordance with the provisions above, with the first payment being on November 1, 2020, including all interest accrued but unpaid during the Payment Deferral Period.

## 10. Notes Payable:

Notes payable consist of the following at June 30:

| | 2020 | 2019 |
|---|---|---|
| Payroll Protection Program loan from Fulton Bank bearing an interest rate of 1% per annum, payable monthly commencing on November 24, 2020 and maturing April 24, 2022. The Loan may be repaid by the borrower at any time prior to maturity. | $ 325,827 | $ - |
| 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. | 3,474 | 10,427 |
| 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. | 6,731 | 15,612 |
| Installment note payable to Fulton Bank, collateralized by the assets 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. | 2,051,992 | 2,089,407 |
| 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. | 455,690 | 527,741 |
| 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%, The outstanding principal and interest were repaid at maturity in June 2020. | - | 87,090 |
| | 2,843,714 | 2,730,277 |
| Less amounts due within one year | 271,942 | 212,266 |
| Long-term notes payable | $ 2,571,772 | $ 2,518,011 |

## 10. Notes Payable, Continued:

At June 30, 2020, scheduled maturities on notes payable for future years are as follows:

| Year | Amount |
|---|---|
| 2021 | $ 271,942 |
| 2022 | 297,588 |
| 2023 | 119,502 |
| 2024 | 124,121 |
| 2025 | 128,929 |
| Thereafter | 1,901,632 |
| | $ 2,843,714 |

Effective July 21, 2020, Fulton Bank, N.A. waived the requirement for the Organization to make regular monthly principal and interest payments due on a certain term loan with an original outstanding loan amount of $2,100,000 from August 1, 2020 through October 1, 2020 (the "Payment Deferral Period". Immediately after the Payment Deferral Period, the Organization is required to make regular payments in accordance with the provisions above, with the first payment being on November 1, 2020, including all interest accrued but unpaid during the Payment Deferral Period.

In response to the economic instability caused by COVID-19, the "CARES Act" was passed by Congress and signed into law by the President on March 27, 2020. The Paycheck Protection Program was a component of the CARES Act and provided for a loan ("PPP Loan") to provide a direct incentive for employers to keep their employees on the payroll. A PPP Loan is eligible for full or partial forgiveness if the funds are used for qualifying costs including payroll, rent, mortgage interest, or utilities, as further defined in the CARES Act.

The Organization applied for and was approved for a PPP Loan in the amount of $325,827 dated April 24, 2020. The loan accrues interest at 1.0%, but payments are not required to begin for six months after the funding of the PPP Loan. Effective June 5, 2020, the Paycheck Protection Program Flexibility Act ("Flexibility Act") was passed extending the deferral period to the date the Small Business Authority remits the Organization's loan forgiveness amount to the lender, or, if the Organization does not apply for loan forgiveness, 10 months after the end of the Organization's loan forgiveness covered period. The extension of the deferral period under the Flexibility Act applies to all PPP loans. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The PPP Loan is uncollateralized and is fully guaranteed by the federal government.

## 10. Notes Payable, Continued:

As of June 30, 2020, the Organization had used none of the loan proceeds. Based on its facts and circumstances, the Organization elected not to recognize the loan forgiveness as of June 30, 2020, as it had not been forgiven as of the date the financial statements were available for issuance. The PPP Loan is reflected as a note payable in the accompanying 2020 statements of financial position.

## 11. 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 $82,157 for 2020 and $104,747 for 2019. The future minimum lease payments under the operating leases are $63,681 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 $29,729 for 2020 and $19,136 for 2019.

## 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.

## 13. Land Sales, Continued:

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, 2020.

## 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, results of operations or cash flows.

## 16. New Accounting Guidance:

**Revenue Recognition:** During 2014, the FASB issued a new standard for revenue recognition, ASU 2014-09, which has been incorporated into FASB guidance as ASC 606. 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 Orginization 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 note 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 organizations with annual reporting periods beginning after December 15, 2018. Due to the COVID-19 pandemic, the FASB further issued ASU 2020-05 which defers the effective date of ASC 606 to reporting periods beginning after December 15, 2019 for certain entities that had not yet issued their financial statements as of June 3, 2020. The Orginization has elected to defer adoption of ASC 606 in accordance with ASU 2020-05 and is currently evaluating the reporting and economic implications of the new standard.

## 16. New Accounting Guidance, Continued:

**Contributed Services:** In September 2020, the FASB issued new guidance related to contributions of non-financial assets received (ASU 2020-07) which amends previous guidance concerning presentation and disclosure of non-financial assets received. Specifically, the amendments require (1) presentation as a separate line item of contributed non-financial assets and (2) disclosure of information about each category of non-financial assets. The new standard will be effective for periods beginning after June 15, 2021 and will require entities to use a retrospective approach to the earliest period presented. The Organization is currently evaluating the reporting and economic implications of the new standard.

**Leases:** In February 2016, the FASB issued a new accounting standard for leases that will impact both lessees and lessors. The new lease standard will require leases with terms more than 12 months to be recognized on the statement of financial position of lessees by recording a right of use asset with a corresponding obligation to pay rent liability which will be calculated based on the net present value of rental payments. This change is expected to be effective starting with years beginning after December 15, 2021. The Organization is calculating the impact that this pronouncement will have on its financial statements and evaluating the reporting and economic implications.