Richmond Metropolitan Habitat for Humanity®

Consolidated Financial Statements

June 30, 2024
(With Comparative Totals as of June 30, 2023)

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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## INDEPENDENT AUDITOR'S REPORT

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

### Opinion

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, 2024 and the related consolidated statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2024, 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.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Emphasis of Matter – Adoption of New Accounting Standard and Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, effective July 1, 2023, the Organization adopted Accounting Standards Update 2016-13, Current Expected Credit Losses (Topic 326), which replaces the current incurred loss model used to measure impairment losses with an expected loss model for receivables. As described in Note 2, at the same time the Organization moved from a fair value method of accounting for mortgages receivable to an amortized cost method. There was an adjustment to net assets to recognize this change at adoption at July 1, 2022, which totaled $785,860. Our opinion is not modified in respect to this matter.

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

www.keitercpa.com

**Responsibilities of Management for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

## Report on Summarized Comparative Information

We have previously audited the Richmond Metropolitan Habitat for Humanity Inc. and Subsidiary's 2023 consolidated financial statements, and in our report dated December 12, 2023, 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, 2023, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Keiter

January 22, 2025
Glen Allen, Virginia

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

Consolidated Statement of Financial Position
June 30, 2024 with 2023 Comparative Totals

| Assets | Without Donor Restrictions | With Donor Restrictions | Totals 2024 | Totals 2023 |
|---|---|---|---|---|
| Current assets: | | | | |
| Cash and cash equivalents | $ 1,682,817 | $ 327,360 | $ 2,010,177 | $ 938,712 |
| Pledges and grants receivable | 375,898 | 129,000 | 504,898 | 536,983 |
| Inventory | 1,359,396 | 120,900 | 1,480,296 | 3,371,826 |
| Mortgages receivable - current portion | 553,965 | - | 553,965 | 586,179 |
| Other current assets | 16,613 | - | 16,613 | 10,088 |
| Total current assets | 3,988,689 | 577,260 | 4,565,949 | 5,443,788 |
| Property and equipment, net | 2,677,376 | 64,390 | 2,741,766 | 2,862,514 |
| Other assets: | | | | |
| Beneficial interest in assets held by The Community Foundation | 263,382 | 32,785 | 296,167 | 276,349 |
| Right-of-use operating lease assets | 325,353 | - | 325,353 | 407,703 |
| Investments | 2,083,722 | - | 2,083,722 | 2,883,217 |
| Escrow funds held by VHDA | 121,047 | - | 121,047 | 110,155 |
| Mortgages receivable - net of current portion and unamortized discount | 3,609,441 | - | 3,609,441 | 3,247,808 |
| Total other assets | 6,402,945 | 32,785 | 6,435,730 | 6,925,232 |
| | $ 13,069,010 | $ 674,435 | $ 13,743,445 | $ 15,231,534 |

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Financial Position, Continued
June 30, 2024, with 2023 Comparative Totals

| Liabilities and Net Assets | Without Donor Restrictions | With Donor Restrictions | Totals 2024 | Totals 2023 |
|---|---|---|---|---|
| Current liabilities: | | | | |
| Line of credit | $ 549,744 | $ - | $ 549,744 | $ 49,744 |
| Accounts payable | 255,488 | - | 255,488 | 216,909 |
| Notes payable - current portion | 166,701 | - | 166,701 | 166,720 |
| Operating lease liabilities - current potion | 106,819 | - | 106,819 | 140,430 |
| Accrued expenses | 145,514 | - | 145,514 | 116,771 |
| Escrow fund liability | 121,899 | - | 121,899 | 114,946 |
| Total current liabilities | 1,346,165 | - | 1,346,165 | 805,520 |
| Notes payable | 2,591,349 | - | 2,591,349 | 2,751,489 |
| Operating lease liabilities | 234,492 | - | 234,492 | 280,291 |
| Total liabilities | 4,172,006 | - | 4,172,006 | 3,837,300 |
| Net assets: | | | | |
| Without donor restrictions | | | | |
| Controlling Interest | 8,897,004 | - | 8,897,004 | 9,903,572 |
| Non-controlling interest | - | - | - | 34,284 |
| Total net assets without donor restrictions | 8,897,004 | - | 8,897,004 | 9,937,856 |
| With donor restrictions | - | 674,435 | 674,435 | 1,456,378 |
| Total net assets | 8,897,004 | 674,435 | 9,571,439 | 11,394,234 |
| | $ 13,069,010 | $ 674,435 | $ 13,743,445 | $ 15,231,534 |

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Activities
Year Ended June 30, 2024, with 2023 Comparative Totals

| | Without Donor Restrictions | With Donor Restrictions | Totals 2024 | Totals 2023 |
|---|---|---|---|---|
| Support and revenue | | | | |
| Support: | | | | |
| Contributions: | | | | |
| Corporations | $ 26,605 | $ 20,710 | $ 47,315 | $ 159,646 |
| In-kind | 1,772,962 | - | 1,772,962 | 1,954,216 |
| Government grants | 1,120,388 | 64,391 | 1,184,779 | 1,662,536 |
| Civic groups | 193,506 | 247,399 | 440,905 | 658,871 |
| Congregations | 146,298 | - | 146,298 | 24,545 |
| Individuals | 400,274 | 500 | 400,774 | 388,545 |
| Other grants | 5,550 | 295,250 | 300,800 | 236,309 |
| Total support | 3,665,583 | 628,250 | 4,293,833 | 5,084,668 |
| Revenue: | | | | |
| House and lot revenue | 2,675,500 | - | 2,675,500 | 1,462,425 |
| Interest-mortgage loan discount amortization | 496,607 | - | 496,607 | 356,682 |
| ReStore income | 678,542 | - | 678,542 | 535,316 |
| Other income | 101,405 | - | 101,405 | 100,870 |
| Special events, net | 109,947 | - | 109,947 | 42,908 |
| Investment income, net | 229,455 | 3,031 | 232,486 | 99,327 |
| Total revenue | 4,291,456 | 3,031 | 4,294,487 | 2,597,528 |
| Total support and revenue | 7,957,039 | 631,281 | 8,588,320 | 7,682,196 |
| Net assets released from restrictions | $ 1,413,224 | $ (1,413,224) | $ - | $ - |

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Activities, Continued
Year Ended June 30, 2024 with 2023 Comparative Totals

| | Without Donor Restrictions | With Donor Restrictions | Totals 2024 | Totals 2023 |
|---|---|---|---|---|
| Expenses: | | | | |
| Program services | $ 8,675,743 | $ - | $ 8,675,743 | $ 6,938,197 |
| Supporting services: | | | | |
| General and administrative | 1,260,613 | - | 1,260,613 | 822,393 |
| Fundraising | 474,759 | - | 474,759 | 464,363 |
| Total expenses | 10,411,115 | - | 10,411,115 | 8,224,953 |
| Change in net assets | (1,040,852) | (781,943) | (1,822,795) | (542,757) |
| Net assets at beginning of year (as restated - see Note 2) | 9,937,856 | 1,456,378 | 11,394,234 | 11,936,991 |
| Net assets at end of year | $ 8,897,004 | $ 674,435 | $ 9,571,439 | $ 11,394,234 |

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Functional Expenses
Year Ended June 30, 2024 with 2023 Comparative Totals

| | Program Services | General and Administrative | Fundraising | Totals 2024 | Totals 2023 |
|---|---|---|---|---|---|
| Salaries and benefits | $ 2,366,240 | $ 701,651 | $ 355,046 | $ 3,422,937 | $ 2,874,126 |
| Building materials, supplies and land | 4,103,150 | - | - | 4,103,150 | 2,942,198 |
| Mortgage discounts | 1,233,672 | - | - | 1,233,672 | 904,317 |
| Other | 216,856 | 69,765 | 11,013 | 297,634 | 245,964 |
| Professional fees | 21,561 | 290,219 | 90,913 | 402,693 | 453,602 |
| Interest | 102,000 | 29,866 | - | 131,866 | 145,721 |
| Supplies | 14,567 | 12,726 | 150 | 27,443 | 29,052 |
| Rent and occupancy | 201,225 | 50,794 | 1,200 | 253,219 | 194,915 |
| Insurance | 113,401 | 52,046 | - | 165,447 | 134,133 |
| Depreciation | 120,748 | - | - | 120,748 | 114,454 |
| Printing, postage and advertising | 25,271 | 3,092 | 9,844 | 38,207 | 9,130 |
| Repairs and maintenance | 119,425 | 24,447 | - | 143,872 | 131,393 |
| Travel and conferences | 37,627 | 26,007 | 6,593 | 70,227 | 45,948 |
| Total | $ 8,675,743 | $ 1,260,613 | $ 474,759 | $ 10,411,115 | $ 8,224,953 |

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Cash Flows
Year Ended June 30, 2024, with Comparative Totals

| | 2024 | 2023 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ (1,822,795) | $ (542,757) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 120,748 | 114,454 |
| Investment (gain) loss, net | (232,486) | 3,869 |
| Donated inventory | - | (64,600) |
| Mortgage loan discount amortization | (496,607) | (356,682) |
| Net value of mortgages issued | (749,236) | (904,317) |
| Proceeds from mortgages | 916,424 | 912,471 |
| Changes in operating assets and liabilities: | | |
| Pledges and grants receivable | 32,085 | (54,431) |
| Inventory | 1,891,530 | (462,353) |
| Other current assets | (6,525) | (4,552) |
| Operating lease assets and liabilities, net | 2,940 | 13,018 |
| Escrow funds held by VHDA | (10,892) | (13,743) |
| Accounts payable | 38,579 | 52,455 |
| Accrued expenses | 28,743 | 12,672 |
| Escrow fund liability | 6,953 | 6,963 |
| Net cash used in operating activities | (280,539) | (1,287,533) |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | - | (86,505) |
| Purchase of investments | - | (2,889,000) |
| Sale of investments | 1,012,163 | - |
| Net cash provided by (used in) investing activities | 1,012,163 | (2,975,505) |
| Cash flows from financing activities: | | |
| Net activity on line of credit | 500,000 | (300,256) |
| Payments on notes payable | (160,159) | (169,282) |
| Net cash provided by (used in) by financing activities | 339,841 | (469,538) |
| Net change in cash and cash equivalents | 1,071,465 | (4,732,576) |
| Cash and cash equivalents, beginning of year | 938,712 | 5,671,288 |
| Cash and cash equivalents, end of year | $ 2,010,177 | $ 938,712 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | $ 131,866 | $ 145,721 |
| Noncash transactions: | | |
| Operating lease assets obtained in exchange for lease liabilities | $ - | $ 502,494 |

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"), (collectively, the "Organization"). HCL was established in February 2019 to own and manage real estate. During 2020, HCL admitted an outside investor and presented the investor's ownership as a non-controlling interest within the consolidated financial statements until June 30, 2024 (see Note 2). The Organization has two ReStore operations. 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 and Change in Accounting Principle:** In June 2016, the FASB issued Topic 326, which requires certain financial assets to be measured at amortized cost net of an allowance for estimated credit losses, such that the net receivable represents the present value of expected cash collection. The new rules also require that certain financial assets be measured at amortized cost reflecting an allowance for estimated credit losses that are expected to occur over the life of the assets. This estimate must be based on all relevant information, such as historical information, current conditions, and reasonable and supportable forecasts that could impact the collectability of the amounts. Entities that apply Topic 326 must reflect a cumulative-effect adjustment to net assets without donor restrictions as of the beginning of the first reporting period in which the guidance is adopted.

As noted, the Organization adopted Topic 326 beginning on July 1, 2023 using the modified retrospective approach with a cumulative-effect adjustment to beginning net assets without donor restrictions recorded at the beginning of the period of adoption. Thus, upon adoption the Organization recognized and measured estimated amortized costs of receivable. The Organization recorded the cumulative effect of $785,860 as a reduction to the July 1, 2022 beginning balance of net assets without donor restrictions, which was related to the recognition of mortgage receivables at amortized cost. There was no significant impact to the Organization's change in net assets for the current period due to this standard update.

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

**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.

**Pledges and Grants Receivable:** Pledges 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. Grants receivable that are due in more than one year are recorded at their net realizable value. Management has determined that any discount on grants receivable as of June 30, 2024 is immaterial.

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 2024.

Grants and pledges receivable were $504,898 as of June 30, 2024. The Organization expects to collect approximately $475,000 of the balance in fiscal year 2025 and the remaining amount during fiscal year 2026.

**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-mortgage loan discount amortization 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. The property will then be either sold at auction on the open market, or revert back to the Organization. Management feels no provision for credit losses is required because the Organization is a secured creditor and the fair market value of the homes is in excess of the related mortgage note balances. The following schedule summarizes the payment status of the mortgage loans at June 30, 2024:

| | | Past Due | | | | |
|---|---|---|---|---|---|---|
| | Current | 30-59 Days | 60-89 Days | ≥ 90 Days | Total Past Due | Total Financing Receivables |
| Mortgage loans | $ 4,104,402 | $ 9,508 | $ 7,212 | $ 42,284 | $ 59,004 | $ 4,163,406 |

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

**Contributions:** 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 government 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 $302,383 that have not been recognized at June 30, 2024 because qualifying expenditures have not yet been incurred.

**Revenue Recognition:** The Organization recognizes revenue from exchange transactions in accordance with Financial Accounting Standards Board ("FASB") guidance contained in Revenue from Contracts with Customers (Topic 606).

The Organization recognizes a majority of its revenue, including ReStore revenue, at a point in time upon the transfer of control of products or services to its customers. Economic factors may impact the nature, amount, and timing of revenue recognition.

*House and Lot Revenue:* 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 (partner families) 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."

As described in Note 8 and Note 9, when the Organization sells houses, at least one non-interest bearing mortgage is extended to the buyer. The Organization has determined these transactions meet the criteria of a significant financing component under Topic 606 and a mortgage receivable is recorded at its net present value at the time of sale.

A contract asset is the Organization's right to consideration in exchange for goods or services the Organization has transferred to a customer. Contract liabilities represent consideration received from a customer before the Organization has transferred a good or service to the customer. There were no contract assets or contract liabilities as of June 30, 2024 or 2023.

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

**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 net realizable value. For ReStore operations, contributed inventory is recorded at the estimated fair value based on a computation using ReStore sales and inventory turnover rates.

**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.

**Leases:** Leases are classified as either finance or operating, with classification affecting expense recognition in the Organization's operations. Lease liabilities are initially measured at the present value of future lease payments, measured on a discounted basis, as of the lease commencement date or the adoption date, whichever is later. The right-of-use assets are initially measured at the value of the lease liability, adjusted for initial direct lease costs, lease incentives, and prepaid or deferred rent. The right-of-use assets and lease liabilities are calculated to include options to extend or terminate the lease when the Organization determines that it is reasonably certain it will exercise those options. In making those determinations, the Organization considers various existing economic and market factors, business strategies as well as the nature, length, and terms of the lease agreements. The Organization does not record a lease liability and corresponding right-of-use asset for leases with terms of 12 months or less, and accounts for lease and non-lease components as a single lease component.

**Investments:** Investments include U.S. Treasury bills, which are based on a market approach on yields currently available on comparable securities and issuers with similar credit ratings. Investments are exposed to various risks, such as interest rate, market, and credit.

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

**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, 2024, $641,650 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, 2024, $32,785 of net assets with donor restrictions of this type were held by the Organization.

**Donated Land, Materials, Inventories and Services:** Donated land, materials, inventories and services are included in contributions at fair market value as of the date of donation using appraisals or current market prices. All donated land, materials, inventories and services are able to be used by the Organization as determined by the board of directors and management. Donated inventories consist of donated merchandise, the fair value of which is recorded at the time of donation; however, this merchandise also requires program related expenses and processing costs before it reaches its point of sale. The Organization received $16,254 in donated materials during 2024. Amounts reported as ReStore income have been reduced by the fair value of donated goods reported as in-kind contributions of $1,594,937 during 2024 on the consolidated statement of activities. The Organization received pro-bono legal services of $161,771 during 2024. The donated property and services are recorded as in-kind revenue and professional fee expense, inventory, 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 FASB related to accounting for contributions received and contributions made, has not been satisfied.

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

**Functional Allocation of Expenses:** The consolidated statement of functional expenses presents 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.

**Non-Controlling Interest:** In accordance with the operating agreement, an outside investor was admitted to HCL and received a share of historic rehabilitation credits in exchange for contributed cash but was not allocated any share of income or loss generated by HCL. During 2024, the investor was bought out of HCL by the Organization for a nominal amount. Therefore, as of June 30, 2024, there is no non-controlling interest present on the consolidated statement of financial position.

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

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.

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, 2024. 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.

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

**Concentration of Credit Risk:** Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents, pledges and grants receivable, 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. For the year ended June 30, 2024, 35% of pledges and grants receivable are due from two donors.

**Advertising:** Advertising costs are charged to expense as incurred and were $23,784 for 2024.

**Subsequent Events:** Management has evaluated subsequent events through January 22, 2025, the date the consolidated financial statements were available to be issued, and has determined that there are no subsequent events to be reported in the accompanying consolidated financial statements.

## 3. Fair Value Measurements:

The FASB has issued guidance for measurement and disclosure of fair value and establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal and most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The levels of the hierarchy are defined as follows:

Level 1 — Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 — Inputs to the valuation methodology are quoted prices for similar instruments in active and inactive markets; and model driven valuations with significant inputs and drivers derived from observable active markets.

Level 3 — Inputs to the valuation methodology are unobservable for the instrument and significant to the fair value measurement. The Organization did not have any Level 3 assets or liabilities at June 30, 2024. Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for investments carried or disclosed at fair value:

**US Treasury Bills:** Valued at market approach on yields currently available on comparable securities and issuers with similar credit ratings.

Investments in US treasury bills measured at fair value on a recurring basis measured using Level 2 inputs amounted to $2,083,722 as of June 30, 2024.

Investments in US treasury bills are subject to restrictions on the frequency of redemptions without penalty. Redemption restrictions on US Treasury Bills lapse by December 2024.

## 4. Inventory:

Inventory consists of the following as of June 30, 2024:

| | |
|---|---|
| Vacant land costs | $ 599,575 |
| ReStore merchandise | 201,006 |
| Construction in progress | 679,715 |
| | $ 1,480,296 |

## 5. Property and Equipment:

Property and equipment consists of the following as of June 30, 2024:

| | |
|---|---|
| Land | $ 631,234 |
| Buildings | 2,498,933 |
| Building improvements | 98,233 |
| Rental properties | 340,881 |
| Construction equipment | 70,018 |
| Transportation equipment | 169,756 |
| Office furniture and fixtures | 170,654 |
| Computer equipment and software | 38,331 |
| | 4,018,040 |
| Less accumulated depreciation | 1,276,274 |
| | $ 2,741,766 |

Depreciation expense was $120,748 for 2024.

## 6. Liquidity and Availability of Resources:

The following table reflects the Organization's financial assets as of June 30, 2024 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 | $ 2,010,177 |
| Pledges and grants receivable, current | 475,000 |
| Mortgage receivable - current portion | 553,965 |
| Investments | 2,083,722 |
| Total financial assets | 5,122,864 |
| 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 | 489,145 |
| Financial assets available to meet cash needs for general expenditures within one year | $ 4,633,719 |

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 7.

## 7. 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 absence of donor-imposed restrictions.

## 7. Beneficial Interest in Assets Held by The Community Foundation, Continued:

The Endowments are administered by The Community Foundation and are 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 $296,167 as of June 30, 2024, of which $32,785 is donor restricted.

During the year ended June 30, 2024, the Endowment had investment income totaling $19,818, which is included in investment income, net, on the consolidated statement of activities.

## 8. 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-mortgage loan discount amortization. The original discounted amounts are reflected in the consolidated financial statements as mortgage discounts expense 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 $6,238,247 at June 30, 2024.

## 9. 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.

## 9. Subordinate Mortgages, Continued:

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 8). 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. For the aforementioned buyers, the above referenced second mortgages are held as third mortgages by the Organization. The Organization holds 145 second, third, and fourth mortgages as of June 30, 2024.

## 10. Line of Credit:

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 $900,000. There were $549,744 in borrowings at June 30, 2024. The line of credit is collateralized by 37 mortgages held by the Organization. Interest for the loan accrues at the Prime Rate plus 0.00% with a floor of 4.00% (8.50% at June 30, 2024). 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 or obtained a waiver as of June 30, 2024.

## 11. Notes Payable:

Notes payable consist of the following at June 30, 2024:

| | |
|---|---|
| Installment note payable to Fulton Bank, collateralized by the assets of the Organization, including interest at 4.22% and monthly installments of $17,436 beginning February 2022 and a final payment of $1,755,182 due February 1, 2032. | $ 2,585,235 |
| Installment notes payable to Virginia Housing Development Authority, collateralized by assigned first mortgages receivable, requiring monthly payments of $5,861, including interest at 3%, maturing from December 2026 to June 2027. | 172,815 |
| | 2,758,050 |
| Less amounts due within one year | 166,701 |
| Long-term notes payable | $ 2,591,349 |

At June 30, 2024, scheduled maturities on notes payable for future years are as follows:

| Year | Amount |
|---|---|
| 2025 | $ 166,701 |
| 2026 | 173,103 |
| 2027 | 148,381 |
| 2028 | 114,169 |
| 2029 | 119,820 |
| Thereafter | 2,035,876 |
| | $ 2,758,050 |

## 12. Operating Leases:

The Organization leases certain equipment and office space under various operating lease agreements. These lease terms expire at various times between May 2026 and June 2028. The Organization recognizes lease expense on a straight line basis over the life of the related leases. Lease costs under these leases was $153,008 for 2024.

The Organization has elected to apply the short-term lease exception to all leases with a term of one year or less. Short-term lease costs associated with equipment rentals amounted to $48,197 for 2024.

## 12. Operating Leases, Continued:

Future minimum lease payments at June 30, 2024, are as follows:

| | Year Ending | Amount |
|---|---|---|
| | 2025 | $ 106,873 |
| | 2026 | 100,807 |
| | 2027 | 85,608 |
| | 2028 | 70,458 |
| Total lease payments | | 363,746 |
| Less amount representing interest | | (22,435) |
| Total operating lease liabilities | | $ 341,311 |

The weighted average remaining lease terms and discount rates at June 30, 2024 are 3.5 years and 3.35%, respectively.

During 2022, the Organization began leasing residential homes to certain qualifying individuals with lease terms of 12 months or less. Lease income was $14,035 for 2024 and is included in other income on the consolidated statement of activities.

## 13. 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 $33,300 for 2024.

## 14. 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.

## 14. 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, 2024.

## 15. 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 further limit its exposure. The Organization is not aware of any such obligations.

## 16. 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.

## 17. Related Party Transactions:

Promises to give from board members and management totaled $63,634 as of June 30, 2024.