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**HABITAT FOR HUMANITY  
OF NORTHERN VIRGINIA, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AND**

**INDEPENDENT AUDITORS' REPORT**

**JUNE 30, 2017 AND 2016**

**MATTHEWS, CARTER & BOYCE**  
RESPECT. CONFIDENCE. TRUST.

# HABITAT FOR HUMANITY OF NORTHERN VIRGINIA, INC.

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JUNE 30, 2017 AND 2016

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## Independent Auditors' Report

Board of Directors  
Habitat for Humanity of Northern Virginia, Inc.  
Arlington, VA

We have audited the accompanying consolidated financial statements of Habitat for Humanity of Northern Virginia, Inc. and its subsidiary, which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the 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 of America; 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors' 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 auditors consider 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.

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Habitat for Humanity of Northern Virginia, Inc. and its subsidiary as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Fairfax, Virginia  
December 14, 2017

HABITAT FOR HUMANITY OF NORTHERN VIRGINIA, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016

ASSETS

	June 30, 2017	June 30, 2016
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 1,095,202	\$ 1,540,884
Construction in process inventory	2,305,169	1,648,100
Prepaid expenses	54,916	36,093
Investment in timeshare, net of allowance of \$16,900 and \$8,000, respectively	2,000	10,900
Current portion of non-interest bearing mortgage loans, net of allowance of \$38,637 and \$38,637, respectively	194,098	208,141
Current portion of discounts on non-interest bearing mortgage loans	(125,127)	(142,088)
Other receivables	19,838	18,586
Total Current Assets	<u>\$ 3,546,096</u>	<u>\$ 3,320,616</u>
<b>OTHER ASSETS:</b>		
Non-interest bearing mortgage loans, net of current portion	\$ 2,837,366	\$ 3,308,053
Discounts on non-interest bearing mortgage loans, net of current portion	(1,342,485)	(1,579,351)
Deposits	80,010	80,855
Net furniture, fixtures and equipment	77,927	67,564
<b>TOTAL ASSETS</b>	<u><u>\$ 5,198,914</u></u>	<u><u>\$ 5,197,737</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 449,454	\$ 182,260
Line of credit	-	95,735
Current portion of deferred rent	424	-
Current portion of notes payable	72,428	78,920
Total Current Liabilities	<u>\$ 522,306</u>	<u>\$ 356,915</u>
<b>OTHER LIABILITIES:</b>		
Deferred rent, net of current portion	259,042	234,695
Notes payable, net of current portion	916,640	1,014,060
Total Liabilities	<u>\$ 1,697,988</u>	<u>\$ 1,605,670</u>
<b>NET ASSETS:</b>		
Unrestricted	\$ 3,241,608	\$ 3,372,111
Temporarily restricted	259,318	219,956
Total Net Assets	<u>\$ 3,500,926</u>	<u>\$ 3,592,067</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 5,198,914</u></u>	<u><u>\$ 5,197,737</u></u>

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY OF NORTHERN VIRGINIA, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	June 30, 2017			June 30, 2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>REVENUE AND SUPPORT:</b>						
Contributions and grants	\$ 998,191	\$ 39,362	\$ 1,037,553	\$ 955,373	\$ -	\$ 955,373
Sales to homeowners	1,234,222	-	1,234,222	281,510	-	281,510
Mortgage loan discount amortization	188,510	-	188,510	158,146	-	158,146
Mortgage loan discount recapture	639,575	-	639,575	817,319	-	817,319
In-kind contributions	70,880	-	70,880	109,588	-	109,588
Special events income, net of expenses	55,149	-	55,149	26,863	-	26,863
Loss on mortgage assignments/sales	(215,229)	-	(215,229)	(301,879)	-	(301,879)
Other income	198,160	-	198,160	13,566	-	13,566
Interest income	3,951	-	3,951	5,098	-	5,098
Total	\$ 3,173,409	\$ 39,362	\$ 3,212,771	\$ 2,065,584	\$ -	\$ 2,065,584
Resale stores income	\$ 1,656,604	\$ -	\$ 1,656,604	\$ 1,540,677	\$ -	\$ 1,540,677
Less direct costs of resale stores	(1,589,106)	-	(1,589,106)	(1,553,094)	-	(1,553,094)
Net resale stores	\$ 67,498	\$ -	\$ 67,498	\$ (12,417)	\$ -	\$ (12,417)
Net assets released from restrictions:						
Satisfaction of purpose restrictions	\$ -	\$ -	\$ -	\$ 13,322	\$ (13,322)	\$ -
Total Revenue and Support	\$ 3,240,907	\$ 39,362	\$ 3,280,269	\$ 2,066,489	\$ (13,322)	\$ 2,053,167
<b>EXPENSES:</b>						
Program services	\$ 2,858,063	\$ -	\$ 2,858,063	\$ 1,576,952	\$ -	\$ 1,576,952
Management and general	254,332	-	254,332	202,274	-	202,274
Fundraising	259,015	-	259,015	191,093	-	191,093
Total Expenses	\$ 3,371,410	\$ -	\$ 3,371,410	\$ 1,970,319	\$ -	\$ 1,970,319
<b>CHANGE IN NET ASSETS</b>	\$ (130,503)	\$ 39,362	\$ (91,141)	\$ 96,170	\$ (13,322)	\$ 82,848
<b>NET ASSETS, BEGINNING OF YEAR</b>	3,372,111	219,956	3,592,067	3,275,941	233,278	3,509,219
<b>NET ASSETS, END OF YEAR</b>	\$ 3,241,608	\$ 259,318	\$ 3,500,926	\$ 3,372,111	\$ 219,956	\$ 3,592,067

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY OF NORTHERN VIRGINIA, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2017

	Program Services	Management and General	Fundraising	Total
Building materials and supplies	\$ 1,290,442	\$ -	\$ -	\$ 1,290,442
Mortgage discounts	574,258	-	-	574,258
Salaries	496,911	171,864	160,590	829,365
HFHI tithe	9,250	-	-	9,250
Office supplies and expenses	1,671	3,128	52	4,851
Payroll taxes and employee benefits	70,779	26,343	23,580	120,702
Land acquisition costs	2,679	-	-	2,679
Professional fees	84,190	15,577	617	100,384
Miscellaneous	87,670	2,464	31,840	121,974
Telephone	3,195	578	463	4,236
Printing and mailing	10,289	4,634	10,703	25,626
Depreciation	15,428	1,890	1,512	18,830
Rent	31,383	6,449	4,361	42,193
Taxes and licenses	391	-	797	1,188
Repairs and maintenance	6,994	1,599	1,398	9,991
Loan closing costs	38,899	-	-	38,899
Auto expense	8,454	-	-	8,454
Interest	43,306	-	-	43,306
Bank charges	3,696	1,111	4,403	9,210
Travel	386	2,185	308	2,879
Insurance	76,015	15,771	12,616	104,402
Conferences and meetings	1,777	739	775	3,291
Fundraising costs - other	-	-	5,000	5,000
	<u>\$ 2,858,063</u>	<u>\$ 254,332</u>	<u>\$ 259,015</u>	<u>\$ 3,371,410</u>

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY OF NORTHERN VIRGINIA, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2016

	Program Services	Management and General	Fundraising	Total
Building materials and supplies	\$ 449,968	\$ -	\$ -	\$ 449,968
Mortgage discounts	169,784	-	-	169,784
Salaries	453,688	123,573	125,589	702,850
HFHI tithe	10,000	-	-	10,000
Office supplies and expenses	6,570	3,408	458	10,436
Payroll taxes and employee benefits	64,825	18,584	17,268	100,677
Land acquisition costs	5,838	-	-	5,838
Professional fees	130,580	19,482	1,123	151,185
Miscellaneous	72,697	12,224	13,964	98,885
Telephone	5,611	652	522	6,785
Printing and mailing	8,231	1,770	14,802	24,803
Depreciation	12,518	1,169	1,113	14,800
Rent	44,958	6,798	4,140	55,896
Taxes and licenses	913	754	545	2,212
Repairs and maintenance	3,971	896	655	5,522
Loan closing costs	16,205	-	-	16,205
Auto expense	5,657	-	-	5,657
Interest	44,409	-	-	44,409
Bank charges	3,777	357	-	4,134
Travel	204	29	-	233
Insurance	62,402	12,578	10,063	85,043
Conferences and meetings	4,146	-	606	4,752
Fundraising costs - other	-	-	245	245
	<u>\$ 1,576,952</u>	<u>\$ 202,274</u>	<u>\$ 191,093</u>	<u>\$ 1,970,319</u>
Total	<u>\$ 1,576,952</u>	<u>\$ 202,274</u>	<u>\$ 191,093</u>	<u>\$ 1,970,319</u>

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY OF NORTHERN VIRGINIA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	June 30, 2017	June 30, 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (91,141)	\$ 82,848
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	18,830	14,800
Mortgage loan discount amortization	(188,510)	(158,146)
Mortgage loan discount recapture	(639,575)	(817,319)
New mortgage loans issued, net of discount	(379,861)	(111,724)
Loss on mortgage assignments/sales	215,229	301,879
Changes in assets and liabilities:		
Construction in process inventory	(657,069)	(244,335)
Prepaid expenses	(18,823)	15,974
Investment in timeshare	8,900	-
Other receivables	(1,252)	11,986
Deposits	845	(345)
Accounts payable and accrued expenses	267,194	3,061
Deferred rent	24,771	44,081
Net Cash Used in Operating Activities	<u>\$ (1,440,462)</u>	<u>\$ (857,240)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of furniture, fixtures and equipment	\$ (29,193)	\$ (32,632)
Mortgage principal payments received	366,886	284,637
Sale of mortgage loans	856,734	1,207,504
Net Cash Provided by Investing Activities	<u>\$ 1,194,427</u>	<u>\$ 1,459,509</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on notes payable	\$ (103,912)	\$ (82,293)
Line of credit activity, net	(95,735)	(3,937)
Net Cash Used in Financing Activities	<u>\$ (199,647)</u>	<u>\$ (86,230)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>\$ (445,682)</b>	<b>\$ 516,039</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>1,540,884</u>	<u>1,024,845</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 1,095,202</u></u>	<u><u>\$ 1,540,884</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Interest paid	\$ 43,306	\$ 44,409
<b>NON-CASH INVESTING AND FINANCING TRANSACTION:</b>		
Mortgage loans issued, net of discounts for home sales	\$ 379,861	\$ 111,724

The accompanying notes are an integral part of these financial statements.



# HABITAT FOR HUMANITY OF NORTHERN VIRGINIA, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

### Note 1. Organization and Summary of Significant Accounting Policies:

#### Organization

Habitat for Humanity of Northern Virginia, Inc. (HFHNV) is a non-profit organization established in 1990. HFHNV is an affiliate of Habitat for Humanity International, Inc. (HFHI), a non-denominational Christian non-profit organization whose purpose is to create decent, affordable housing for those in need, and to make decent shelter a matter of conscience for people everywhere. Although HFHI assists with information resources, training, publications and prayer support, HFHNV is responsible for its own operations.

Program services include land acquisition, construction, family support, educational ministries and discounts on mortgage originations. The cost of home building is charged to program services when the home is transferred to the homeowner.

#### Principles of Consolidation

The consolidated financial statements include the accounts of HFHNV and its subsidiary Perry S. Hall Apartments, LLC (the LLC). HFHNV is the sole member of the LLC. All significant intercompany accounts and transactions have been eliminated. In July 2015, the LLC was dissolved by management due to inactivity.

#### Basis of Presentation

HFHNV's financial statements are presented on the accrual basis of accounting. Consequently, revenues are recognized when earned and expenses when incurred.

#### Cash and Cash Equivalents

For purposes of the statement of cash flows, HFHNV considers all investments purchased with a maturity of less than three months to be cash equivalents.

HFHNV places its cash in financial institutions. At times, cash held in accounts in financial institutions may be in excess of the FDIC insurance limits.

#### Mortgage Loans and Other Receivables

Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of the individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. All mortgages are due based on the note terms. The estimated allowance for uncollectible mortgage loans was \$38,637 at June 30, 2017 and 2016.

Beginning in fiscal year 2016, HFHNV started selling selective mortgages originated by HFHNV to local banks. Any gain or loss resulting from such transactions will be recorded when the transaction is settled.

#### Merchandise Inventory

HFHNV receives donated building materials which it sells in its resale stores. The materials in the resale stores are deemed to be of value only when, and if, sold. In accordance with Accounting Standards Codification 958-605-25-4, *Not-for-Profit Entities – Revenue Recognition*, the donated inventory is not recorded in the financial statements. Proceeds of sales are recorded at the time of sale.

# HABITAT FOR HUMANITY OF NORTHERN VIRGINIA, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

### Note 1. Organization and Summary of Significant Accounting Policies (Continued):

#### Construction in Process Inventory

HFHNV's policy is to carry the direct costs incurred in the construction of homes including building materials, engineer and architect fees as construction in process inventory until the homes are transferred to the homeowners, at which time the costs are recognized as expenses. As a non-profit organization, HFHNV does not attempt to profit from the sale of homes, but rather to have the homeowner purchase the homes at the cost to construct. For the years ended June 30, 2017 and 2016, four and two homes were completed and sold to homeowners, respectively.

#### Furniture, Fixtures and Equipment and Related Depreciation

Furniture, fixtures and equipment are recorded at cost with a unit capitalization threshold of \$1,000 and are depreciated using the straight-line method over three to seven years with no salvage value. Leasehold improvements are amortized over the remaining lease term. Expenditures for major repairs and improvements are capitalized; expenditures for minor repairs and maintenance costs are expensed when incurred.

#### Classification of Net Assets

Unrestricted net assets represent the portion of expendable funds that are available for support of HFHNV's operations.

Temporarily restricted amounts are specifically restricted by donors or grantors for specific properties or purposes.

#### Revenue Recognition

HFHNV reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of donated assets. When a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

In-kind contributions other than merchandise inventory are recorded based on their estimated value on the date of receipt. Included in In-kind contributions are donated services requiring specialized skills of \$51,439 and \$52,931 and various building materials and supplies of \$19,441 and \$56,657 in fiscal years 2017 and 2016, respectively. HFHNV's program is furthered through the contribution of time by a significant number of unpaid volunteers. In accordance with generally accepted accounting principles, the value of these volunteer services is not reflected in the accompanying financial statements.

Sales to homeowners of acquired properties are recorded at the contract sales price. Sales to homeowners of constructed properties which are financed through HFHNV are recorded at the gross amount of payments to be received over the lives of the mortgages. Non-interest bearing mortgages have been discounted at various rates based upon prevailing market rates at the inception of the mortgages to account for the time value of money. A discount is an expense in the first year of a mortgage and is recaptured as income as the discounts are amortized. Discounts are amortized using the straight-line method over the lives of the mortgages.

# HABITAT FOR HUMANITY OF NORTHERN VIRGINIA, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

### Note 1. Organization and Summary of Significant Accounting Policies (Concluded):

#### Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

#### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### Note 2. Investment in Timeshare:

HFHNV received a donation of a vacation timeshare for an Orlando, Florida resort. The timeshare has been recorded as a current asset, as management intends to liquidate the timeshare within the next fiscal year. The timeshare has been recorded at its estimated market value based on market quotes.

### Note 3. Non-Interest Bearing Mortgage Loans Receivable and Discounts:

Home purchase mortgage loans and loan discounts activity for fiscal years 2017 and 2016 consist of the following:

Description	Mortgage at Market % Rate	0% Rate Loan Discount	Net
Balances at June 30, 2015	\$ 5,028,705	\$ (2,527,119)	\$ 2,501,586
Home sale mortgage loans	281,509	(169,785)	111,724
Mortgage loan assignment/sales	(1,509,383)	817,319	(692,064)
Mortgage principal pay downs and amortization	(284,637)	158,146	(126,491)
Balances at June 30, 2016	\$ 3,516,194	\$ (1,721,439)	\$ 1,794,755
Home sale mortgage loans	954,119	(574,258)	379,861
Mortgage loan assignment/sales	(1,071,963)	639,575	(432,388)
Mortgage principal pay downs and amortization	(366,886)	188,510	(178,376)
Balances at June 30, 2017	<u>\$ 3,031,464</u>	<u>\$ (1,467,612)</u>	<u>\$ 1,563,852</u>

The discount rates for the new mortgage loans at market percentage rates were 7.48% and 7.51% for the years ended June 30, 2017 and 2016, respectively.

During the fiscal year 2017, cash proceeds of \$856,734 were received by HFHNV when Sandy Spring Bank purchased \$1,071,963 of discounted first-lien mortgages originated by HFHNV. Resulting in a net loss of \$215,229.

During fiscal year 2016, Sandy Spring Bank purchased \$1,509,383 of discounted first-lien mortgages originated by HFHNV. HFHNV received \$1,207,504 in cash proceeds resulting in a recognized net loss of \$301,879. The mortgage loan sale contract contains a repurchase buy back provision in the case of default. It is estimated that the risk of default involved with these mortgage sales is immaterial, and no provision has been recorded for the potential default repayment to the bank on the outstanding mortgages held by Sandy Spring Bank.

# HABITAT FOR HUMANITY OF NORTHERN VIRGINIA, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

### Note 3. Non-Interest Bearing Mortgage Loans Receivable and Discounts: (Concluded)

A summary of the HFHNV originated loans sold during fiscal year 2017 is as follows:

	June 30, 2017	
	Net Book Value	Gross Face Value
<u>Mortgage Loan Activity</u>		
Principal amount of mortgages sold	\$ 1,071,963	\$ 1,071,963
Discount recapture	(639,575)	-
Net book value of mortgages	\$ 432,388	\$ 1,071,963
Proceeds on assignment/sale	(856,734)	(856,734)
(Gain)/Loss	<u>\$ (424,346)</u>	<u>\$ 215,229</u>

  

	June 30, 2016	
	Net Book Value	Gross Face Value
<u>Mortgage Loan Activity</u>		
Principal amount of mortgages sold	\$ 1,509,383	\$ 1,509,383
Discount recapture	(817,319)	-
Net book value of mortgages	\$ 692,064	\$ 1,509,383
Proceeds on assignment/sale	(1,207,504)	(1,207,504)
(Gain)/Loss	<u>\$ (515,440)</u>	<u>\$ 301,879</u>

### Note 4. Furniture, Fixtures and Equipment:

HFHNV held the following furniture, fixtures and equipment as of June 30, 2017 and 2016:

	June 30, 2017	June 30, 2016
Furniture and equipment	\$ 77,512	\$ 72,520
Vehicles	46,621	46,621
Software	66,771	42,571
Less, accumulated depreciation	<u>(112,977)</u>	<u>(94,148)</u>
Net Furniture, Fixtures and Equipment	<u>\$ 77,927</u>	<u>\$ 67,564</u>

Total depreciation expense was \$18,830 and \$14,800, for the years ended June 30, 2017 and 2016, respectively.

### Note 5. Temporarily Restricted Net Assets:

Temporarily restricted net assets and the amount of net assets that were released from restrictions at June 30, 2017 and 2016 were comprised of the following programs/projects:

<u>Program/Project</u>	<u>Balance 6/30/16</u>	<u>Grants and Contributions</u>	<u>Released</u>	<u>Balance 6/30/17</u>
100 <sup>TH</sup> House	\$ 144,917	\$ -	\$ -	\$ 144,917
Critical Home Repair	75,039	-	-	75,039
Kenilworth Project	-	39,362	-	39,362
	<u>\$ 219,956</u>	<u>\$ 39,362</u>	<u>\$ -</u>	<u>\$ 259,318</u>

HABITAT FOR HUMANITY OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

**Note 5. Temporarily Restricted Net Assets: (Concluded)**

<u>Program/Project</u>	<u>Balance 6/30/15</u>	<u>Grants and Contributions</u>	<u>Released</u>	<u>Balance 6/30/16</u>
100 <sup>TH</sup> House	\$ 144,917	\$ -	\$ -	\$ 144,917
A Brush With Kindness (Home Repair)	75,039	-	-	75,039
Women Build	13,322	-	(13,322)	-
	<u>\$ 233,278</u>	<u>\$ -</u>	<u>\$ (13,322)</u>	<u>\$ 219,956</u>

**Note 6. Line of Credit:**

HFHNV had a line of credit agreement under which it could borrow up to \$800,000, bearing interest at the prime rate plus 1.45%. This line of credit expired in April 2017. In May 2017, HFHNV entered into a new line of credit agreement for borrowings up to \$800,000. This line bears interest at the daily LIBOR rate plus 2.85% and expires on May 10, 2018 when all outstanding principal and accrued interest become due. This line is secured by the assets of the Organization. The total outstanding balance on the line of credit was \$0 and \$95,735 at June 30, 2017 and 2016, respectively.

**Note 7. Notes Payable:**

Notes payable are comprised of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
In February 1999, HFHNV entered into a note payable agreement for \$120,000 with Arlington County. The note is interest free with annual principal payments of \$6,000. Due to be repaid fully in February 2019.	\$ 12,000	\$ 18,000
In February 2011, HFHNV entered into a note payable for \$20,000 with Habitat for Humanity International, Inc., in conjunction with the SHOP08 grant. The note is payable in 48 consecutive monthly installments of principal only, with no interest. The first installment of \$416 was due on July 1, 2013. The note matured on June 1, 2017 when the final payment of \$448 was made.	-	5,024
HFHNV entered into two notes payable with Virginia Housing Development Authority (VHDA) in November 2008 and December 2012. The notes are payable over 180 months in equal installments including interest at 3%. The notes are secured by an interest in certain mortgage loans held by HFHNV. Due to be repaid fully in December 2027.	577,068	669,956
In April 2014, HFHNV received a loan from a bank for \$400,000. The loan is secured by assignment of certain mortgages held by HFHNV. No monthly payments are due, but the loan is due to be repaid fully in October 2018, including interest at 5%	<u>400,000</u>	<u>400,000</u>
Total	\$ 989,068	\$ 1,092,980
Less, current portion	<u>(72,428)</u>	<u>(78,920)</u>
Long-term portion	<u>\$ 916,640</u>	<u>\$ 1,014,060</u>

# HABITAT FOR HUMANITY OF NORTHERN VIRGINIA, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

### Note 7. Notes Payable: (Concluded)

The scheduled principal maturities of the loans at June 30, 2017 are as follows:

For the Year Ending  
June 30,

2018	\$	72,428
2019		474,448
2020		70,530
2021		72,675
2022		74,886
Thereafter		<u>224,101</u>
Total Notes Payable	\$	<u>989,068</u>

### Note 8. Income Taxes:

Under Section 501(c)(3) of the Internal Revenue Code, HFHNV is exempt from the payment of taxes on income other than unrelated business income. No provision for taxes is required for the years ended June 30, 2017 or 2016 as HFHNV had no net unrelated business income.

HFHNV has analyzed its tax positions, and has concluded that no liability should be recorded related to any uncertain tax positions. HFHNV is not aware of any tax positions which it believes will change materially in the next twelve months. If this position changes, HFHNV will assess the impact of any such matters on its financial position and results of operations.

HFHNV files its informational return for Federal reporting purposes. HFHNV is currently not under audit by any income tax jurisdiction.

### Note 9. Simple IRA:

HFHNV contributes to a Simple IRA for each of its employees. HFHNV matches employee contributions up to 3% and employer contributions totaled \$25,119 and \$22,183 for the years ended June 30, 2017 and 2016, respectively.

### Note 10. Lease Commitments:

In August 2014, a lease was signed for the resale store operation in Alexandria. The new lease has an initial monthly base rent of \$16,536 which increases by 3% each August 1<sup>st</sup>. The lease also requires additional monthly payments of the proportionate share of common area maintenance costs and real estate taxes. The lease expires on November 30, 2024.

In October 2014, a lease was signed for the resale store operation in Chantilly. The new lease has an initial monthly base rent of \$16,659 which increases 3% each October 1<sup>st</sup>. The lease also requires additional monthly payments of the proportional share of common area maintenance costs and real estate taxes. The lease expires on February 28, 2025.

# HABITAT FOR HUMANITY OF NORTHERN VIRGINIA, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

### Note 10. Lease Commitments: (Concluded)

Total rent expense (including operating expenses and property taxes) under these resale store location leases was \$586,662 and \$563,878 for the years ended June 30, 2017 and 2016, respectively, which is included in direct costs of resale stores on the statements of activities and changes in net assets.

In fiscal year 2015, HFHNV entered into a new 7-year lease agreement for its headquarters location. The new lease term began on October 1, 2015. The new lease had an initial monthly base rent of \$2,159 which increases 3% every June 1<sup>st</sup>. This new lease expires on May 31<sup>st</sup>, 2022. The rent expense for the headquarters space was \$42,193 and \$55,896 for the years ended June 30, 2017 and 2016, respectively.

In order to more accurately reflect the annual lease costs, deferred rent is accrued to provide a constant rent over the life of the leases.

Future commitments under the leases are estimated as follows for the years ended June 30:

2018	\$	460,669
2019		474,739
2020		487,406
2021		503,244
2022		515,863
Thereafter		<u>1,306,710</u>
Total	\$	<u>3,748,631</u>

### Note 11. Contingency:

HFHNV received a \$248,809 grant from Fairfax County in 2005 to be used to build a minimum of eight condominium units in Fairfax County, Virginia. HFHNV signed a promissory note for the grant amount, but will not have to repay the note as long as it operates the property as affordable housing over an agreed upon period of twenty years and complies with other terms of the agreement. Since HFHNV intends to comply with the agreement, no liability has been recorded for any potential repayment of the amount. In May 2016, a certificate of release was signed thereby releasing HFHNV from this potential liability.

### Note 12. Presentation of Prior Year Financial Statements:

Certain accounts and descriptions in the prior year financial statements have been modified for comparative purposes to conform with the presentation of the current year financial statements. These modifications had no effect on the change in net assets for the prior year.

### Note 13. Subsequent Events:

HFHNV has evaluated events through December 14, 2017, the date the financial statements were available to be issued, and determined that there was no event occurring subsequent to June 30, 2017 that would have a material impact on HFHNV's results of operations or financial position.