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

**CONSOLIDATED FINANCIAL STATEMENTS**

**AND**

**INDEPENDENT AUDITORS' REPORT**

**JUNE 30, 2016 AND 2015**

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

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

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**JUNE 30, 2016 AND 2015**

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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, 2016 and 2015, 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 the 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, 2016 and 2015, 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  
January 3, 2017

HABITAT FOR HUMANITY OF NORTHERN VIRGINIA, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

ASSETS

	June 30, 2016	June 30, 2015
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 1,540,884	\$ 1,024,845
Construction in process inventory	1,648,100	1,403,765
Prepaid expenses	36,093	52,067
Investment in timeshare	10,900	10,900
Current portion of non-interest bearing mortgage loans, net of allowance of \$38,637 and \$38,637, respectively	208,141	286,908
Current portion of discounts on non-interest bearing mortgage loans	(142,088)	(200,004)
Other receivables	18,586	30,572
Total Current Assets	<u>\$ 3,320,616</u>	<u>\$ 2,609,053</u>
<b>OTHER ASSETS:</b>		
Non-interest bearing mortgage loans, net of current portion	\$ 3,308,053	\$ 4,741,797
Discounts on non-interest bearing mortgage loans, net of current portion	(1,579,351)	(2,327,115)
Deposits	80,855	80,510
Net furniture, fixtures and equipment	67,564	49,732
<b>TOTAL ASSETS</b>	<u><u>\$ 5,197,737</u></u>	<u><u>\$ 5,153,977</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 182,260	\$ 179,199
Line of credit	95,735	99,672
Current portion of notes payable	78,920	482,286
Total Current Liabilities	<u>\$ 356,915</u>	<u>\$ 761,157</u>
<b>OTHER LIABILITIES:</b>		
Deferred rent	234,695	190,614
Notes payable, net of current portion	1,014,060	692,987
Total Liabilities	<u>\$ 1,605,670</u>	<u>\$ 1,644,758</u>
<b>NET ASSETS:</b>		
Unrestricted	\$ 3,372,111	\$ 3,275,941
Temporarily restricted	219,956	233,278
Total Net Assets	<u>\$ 3,592,067</u>	<u>\$ 3,509,219</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 5,197,737</u></u>	<u><u>\$ 5,153,977</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, 2016 AND 2015

	June 30, 2016			June 30, 2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>REVENUE AND SUPPORT:</b>						
Contributions and grants	\$ 958,874	\$ -	\$ 958,874	\$ 978,325	\$ 11,220	\$ 989,545
Sales to homeowners	281,509	-	281,509	1,150,400	-	1,150,400
Mortgage loan discount amortization	158,146	-	158,146	196,528	-	196,528
Mortgage loan discount recapture	817,319	-	817,319	-	-	-
In-kind contributions	109,588	-	109,588	448,644	-	448,644
Special events income	23,363	-	23,363	7,019	-	7,019
Loss on mortgage assignments/sales	(301,879)	-	(301,879)	-	-	-
Loss on other asset disposal	-	-	-	(9,664)	-	(9,664)
Other income	13,566	-	13,566	9,785	-	9,785
Interest income	5,098	-	5,098	1,630	-	1,630
Total	<u>\$ 2,065,584</u>	<u>\$ -</u>	<u>\$ 2,065,584</u>	<u>\$ 2,782,667</u>	<u>\$ 11,220</u>	<u>\$ 2,793,887</u>
Resale stores income	\$ 1,540,677	\$ -	\$ 1,540,677	\$ 1,325,693	\$ -	\$ 1,325,693
Less direct costs of resale stores	(1,553,094)	-	(1,553,094)	(1,506,962)	-	(1,506,962)
Net resale stores	<u>\$ (12,417)</u>	<u>\$ -</u>	<u>\$ (12,417)</u>	<u>\$ (181,269)</u>	<u>\$ -</u>	<u>\$ (181,269)</u>
Net assets released from restrictions:						
Satisfaction of purpose restrictions	\$ 13,322	\$ (13,322)	\$ -	\$ 366,753	\$ (366,753)	\$ -
Total Revenue and Support	<u>\$ 2,066,489</u>	<u>\$ (13,322)</u>	<u>\$ 2,053,167</u>	<u>\$ 2,968,151</u>	<u>\$ (355,533)</u>	<u>\$ 2,612,618</u>
<b>EXPENSES:</b>						
Program services	\$ 1,576,952	\$ -	\$ 1,576,952	\$ 1,941,547	\$ -	\$ 1,941,547
Management and general	202,274	-	202,274	241,579	-	241,579
Fundraising	191,093	-	191,093	237,832	-	237,832
Total Expenses	<u>\$ 1,970,319</u>	<u>\$ -</u>	<u>\$ 1,970,319</u>	<u>\$ 2,420,958</u>	<u>\$ -</u>	<u>\$ 2,420,958</u>
<b>CHANGE IN NET ASSETS</b>	\$ 96,170	\$ (13,322)	\$ 82,848	\$ 547,193	\$ (355,533)	\$ 191,660
<b>NET ASSETS, BEGINNING OF YEAR</b>	3,275,941	233,278	3,509,219	2,728,748	588,811	3,317,559
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 3,372,111</u>	<u>\$ 219,956</u>	<u>\$ 3,592,067</u>	<u>\$ 3,275,941</u>	<u>\$ 233,278</u>	<u>\$ 3,509,219</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 STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2015

	Program Services	Management and General	Fundraising	Total
Building materials and supplies	\$ 950,471	\$ -	\$ -	\$ 950,471
Mortgage discounts	188,553	-	-	188,553
Salaries	325,734	90,286	181,364	597,384
HFHI tithe	6,800	-	-	6,800
Office supplies and expenses	14,980	1,859	388	17,227
Payroll taxes and employee benefits	68,992	15,662	14,966	99,620
Land acquisition costs	28,644	-	-	28,644
Professional fees	69,059	74,697	1,466	145,222
Miscellaneous	75,207	20,145	12,537	107,889
Telephone	6,436	1,304	1,009	8,749
Printing and mailing	13,794	2,455	11,139	27,388
Depreciation	9,724	6,197	855	16,776
Rent	11,713	2,739	2,119	16,571
Taxes and licenses	4,905	-	-	4,905
Repairs and maintenance	4,339	3,131	860	8,330
Loan closing costs	42,196	-	-	42,196
Auto expense	7,210	-	-	7,210
Interest	46,892	496	-	47,388
Bank charges	2,351	8,730	403	11,484
Travel	2,702	357	58	3,117
Insurance	58,957	13,440	10,467	82,864
Conferences and meetings	1,888	81	126	2,095
Fundraising costs - other	-	-	75	75
	<u>\$ 1,941,547</u>	<u>\$ 241,579</u>	<u>\$ 237,832</u>	<u>\$ 2,420,958</u>
Total				

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, 2016 AND 2015**

**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

	June 30, 2016	June 30, 2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 82,848	\$ 191,660
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Bad debt expense	-	9,739
Donated investment in timeshare	-	(10,900)
Depreciation	14,800	16,776
Mortgage loan discount amortization	(158,146)	(196,528)
Mortgage loan discount recapture	(817,319)	-
New mortgage loans issued, net of discount	(111,724)	(257,173)
Loss on mortgage assignments/sales	301,879	-
Loss on other asset disposal	-	9,664
Changes in assets and liabilities:		
Construction in process inventory	(244,335)	228,788
Prepaid expenses	15,974	8,328
Other receivables	11,986	(29,579)
Deposits	(345)	25,952
Accounts payable and accrued expenses	3,061	59,264
Deferred rent	44,081	188,524
Net Cash Provided by (Used in) Operating Activities	\$ (857,240)	\$ 244,515
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of furniture, fixtures and equipment	\$ (32,632)	\$ (19,844)
Payments received from escrow notes receivable	-	14,148
Mortgage principal payments received	284,637	311,250
Sale of mortgage loans	1,207,504	-
Net Cash Provided by Investing Activities	\$ 1,459,509	\$ 305,554
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on notes payable	\$ (82,293)	\$ (120,153)
Line of credit activity, net	(3,937)	(328)
Net Cash Used in Financing Activities	\$ (86,230)	\$ (120,481)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	\$ 516,039	\$ 429,588
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	1,024,845	595,257
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 1,540,884	\$ 1,024,845
<b>NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Donated investment in timeshare	\$ -	\$ 10,900
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Interest paid	\$ 44,409	\$ 47,388

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



# HABITAT FOR HUMANITY OF NORTHERN VIRGINIA, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

### 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.

#### **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 \$38,687 at both June 30, 2016 and 2015.

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, 2016 AND 2015

### 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, 2016 and 2015, two and four 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 \$52,931 and \$65,458 and various building materials and supplies of \$56,657 and \$383,186 in fiscal years 2016 and 2015, 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, 2016 AND 2015

### 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 during the year ending June 30, 2015. 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 2016 and 2015 consist of the following:

Description	Mortgage at Market % Rate	0% Rate Loan Discount	Net
Balances at June 30, 2014	\$ 4,903,967	\$ (2,535,093)	\$ 2,368,874
Home sale mortgage loans	445,727	(188,554)	257,173
Mortgage principal pay downs and Amortization	(311,250)	196,528	(114,722)
Increase in allowance	(9,739)	-	(9,739)
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	<u>\$ 3,516,194</u>	<u>\$ (1,721,439)</u>	<u>\$ 1,794,755</u>

The discount rates for the new mortgage loans at market percentage rates are inputted at 7.51%

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 contained 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, 2016 AND 2015

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

A summary of the HFHNV originated loans sold during fiscal year 2016 is as follows:

	June 20, 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, 2016 and 2015:

	June 30, 2016	June 30, 2015
Furniture and equipment	\$ 72,520	\$ 49,561
Vehicles	46,621	46,621
Software	42,571	32,898
Less, accumulated depreciation	<u>(94,148)</u>	<u>(79,348)</u>
Net Furniture, Fixtures and Equipment	<u>\$ 67,564</u>	<u>\$ 49,732</u>

Total depreciation expense was \$14,800 and \$16,776, for the years ended June 30, 2016 and 2015, 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, 2016 and 2015 were comprised of the following programs/projects:

<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
Acquisition Fund	-	-	-	-
A Brush With Kindness	75,039	-	-	75,039
Women Build	13,322	-	(13,322)	-
Clayborne	-	-	-	-
Douglas	-	-	-	-
	<u>\$ 233,278</u>	<u>\$ -</u>	<u>\$ (13,322)</u>	<u>\$ 219,956</u>
	<u>Balance 6/30/14</u>	<u>Grants and Contributions</u>	<u>Released</u>	<u>Balance 6/30/15</u>
100 <sup>TH</sup> House	\$ 144,917	\$ -	\$ -	\$ 144,917
Acquisition Fund	2,988	-	(2,988)	-
A Brush With Kindness	77,009	1,220	(3,190)	75,039
Women Build	13,322	-	-	13,322
Clayborne	147,246	10,000	(157,246)	-
Douglas	203,329	-	(203,329)	-
	<u>\$ 588,811</u>	<u>\$ 11,220</u>	<u>\$ (366,753)</u>	<u>\$ 233,278</u>

# HABITAT FOR HUMANITY OF NORTHERN VIRGINIA, INC.

## NOTES TO FINANCIAL STATEMENTS

### JUNE 30, 2016 AND 2015

#### Note 6. Line of Credit:

In April 2014, HFHNV entered into a line of credit agreement under which it can borrow up to \$800,000. This line bears interest at the prime rate plus 1.45%. Interest is payable monthly and principal is due on demand. This line is secured by the assets of the Organization. The total outstanding balance on the line of credit was \$95,735 and \$99,672 at June 30, 2016 and 2015, respectively. The line of credit expires in April 2017.

#### Note 7. Notes Payable:

Notes payable are comprised of the following at June 30, 2016 and 2015:

	2016	2015
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.	\$ 18,000	\$ 24,000
In November 2008, HFHNV entered into a note payable for \$709,541 with Virginia Housing Development Authority (VHDA). The note is payable over 180 months in equal installments of \$4,903 including interest at 3%. The note is secured by an interest in the mortgage loans financed with proceeds of the note. Due to be repaid fully in November 2023.	393,936	444,213
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 is due on July 1, 2013. The note matures on June 1, 2017 when the final payment of \$448 is due.	5,024	10,016
In December 2012, HFHNV obtained an additional loan from VHDA for \$340,545. The loan is secured by assignment of a certain mortgage held by HFHNV, payable over 15 years in monthly installments of \$2,353 including interest at 3% beginning in February 2013. Due to be repaid fully in December 2027.	276,020	297,044
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 5.25%	400,000	400,000
Total	\$ 1,092,980	\$ 1,175,273
Less, current portion	(78,920)	(482,286)
Long-term portion	\$ 1,014,060	\$ 692,987

# HABITAT FOR HUMANITY OF NORTHERN VIRGINIA, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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

The scheduled principal maturities of the loans at June 30, 2016 are as follows:

For the Year Ending  
June 30,

2017	\$ 78,920
2018	475,962
2019	78,089
2020	74,282
2021	76,542
Thereafter	<u>309,185</u>
Total Notes Payable	<u>\$ 1,092,980</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, 2016 or 2015 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 \$22,183 and \$15,483 the years ended June 30, 2016 and 2015, respectively.

### Note 10. Lease Commitments:

HFHNV entered into a building lease for its resale store operation in Alexandria, Virginia that expired on May 31, 2014 and was continued on a month-to-month basis through July 2014. In July, 2014, the monthly payment including operating costs under the lease was approximately \$18,600. In August 2014, a new lease began 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.

# HABITAT FOR HUMANITY OF NORTHERN VIRGINIA, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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

HFHNV entered into another building lease for a resale store operation in Chantilly, Virginia. This lease began in December 2009 and expired September 30, 2014. Under the terms of this lease, the landlord granted a three month rent waiver at the beginning of the lease. For July through September, 2014, the monthly payments including operating costs under the lease were approximately \$15,200. In October 2014 a new lease began 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.

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.

Total rent expense (including operating expenses and property taxes) under these resale store location leases was \$563,878 and \$544,339 for the years ended June 30, 2016 and 2015, respectively, which is included in direct costs of resale stores on the statements of activities and changes in net assets.

HFHNV entered into a 5-year lease agreement for its headquarters location. The lease term began on September 1, 2011. Monthly payments under this lease were \$1,200. In fiscal year 2015, HFHNV terminated its existing lease and entered into a new 7-year lease agreement for its headquarters location. The new lease term began on October 1, 2015. The new lease has 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 \$55,896 and \$16,571 for the years ended June 30, 2016 and 2015, respectively.

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

2017	\$ 447,319
2018	460,669
2019	474,739
2020	487,406
2021	503,244
Thereafter	<u>1,822,572</u>
Total	<u>\$ 4,195,949</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 has 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. Subsequent Events:

HFHNV has evaluated events through January 3, 2017, the date the financial statements were available to be issued, and determined that there was no event occurring subsequent to June 30, 2016 that would have a material impact on HFHNV's results of operations or financial position.