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

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

JUNE 30, 2019 AND 2018

MATTHEWS, CARTER & BOYCE
RESPECT. CONFIDENCE. TRUST.

HABITAT FOR HUMANITY OF NORTHERN VIRGINIA, INC.

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MATTHEWS, CARTER & BOYCE
CPAs • ADVISORS

Independent Auditors' Report

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

We have audited the accompanying financial statements of Habitat for Humanity of Northern Virginia, Inc., which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Northern Virginia, Inc. as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Fairfax, Virginia
December 20, 2019

HABITAT FOR HUMANITY OF NORTHERN VIRGINIA, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

ASSETS

	June 30, 2019	June 30, 2018
CURRENT ASSETS:		
Cash and cash equivalents	\$ 631,959	\$ 1,603,484
Grant receivables	129,765	-
Construction in process inventory	1,893,103	2,604,681
Prepaid expenses	72,696	86,140
Investment in timeshare, net of allowance of \$16,900	2,000	2,000
Current portion of non-interest bearing mortgage loans, net of allowance of \$38,637 and \$38,637, respectively	127,054	133,993
Current portion of discounts on non-interest bearing mortgage loans	(95,772)	(92,361)
Other receivables	24,638	19,081
Total Current Assets	<u>\$ 2,785,443</u>	<u>\$ 4,357,018</u>
OTHER ASSETS:		
Non-interest bearing mortgage loans, net of current portion	\$ 2,143,415	\$ 1,984,031
Discounts on non-interest bearing mortgage loans, net of current portion	(971,110)	(916,008)
Deposits	101,299	99,973
Net furniture, fixtures and equipment	426,891	147,929
TOTAL ASSETS	<u><u>\$ 4,485,938</u></u>	<u><u>\$ 5,672,943</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 240,413	\$ 718,772
Line of credit	481,316	386,519
Current portion of deferred rent	15,528	4,169
Current portion of notes payable	57,347	71,367
Total Current Liabilities	<u>\$ 794,604</u>	<u>\$ 1,180,827</u>
OTHER LIABILITIES:		
Deferred rent, net of current portion	329,955	266,717
Notes payable, net of current portion	320,939	798,102
Total Liabilities	<u>\$ 1,445,498</u>	<u>\$ 2,245,646</u>
NET ASSETS:		
Without donor restrictions	\$ 2,791,224	\$ 3,233,643
With donor restrictions	249,216	193,654
Total Net Assets	<u>\$ 3,040,440</u>	<u>\$ 3,427,297</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,485,938</u></u>	<u><u>\$ 5,672,943</u></u>

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

HABITAT FOR HUMANITY OF NORTHERN VIRGINIA, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	June 30, 2019			June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT:						
Contributions and grants	\$ 1,026,968	\$ 261,105	\$ 1,288,073	\$ 942,353	\$ 235,652	\$ 1,178,005
Sales to homeowners	778,265	-	778,265	830,842	-	830,842
Mortgage loan discount amortization	98,001	-	98,001	127,421	-	127,421
Mortgage loan discount recapture	-	-	-	512,289	-	512,289
In-kind contributions	42,264	-	42,264	74,816	-	74,816
Special events income, net of expenses	116,627	-	116,627	36,767	-	36,767
Loss on mortgage assignment/sales	-	-	-	(149,436)	-	(149,436)
Loss on sale of non-program inventory	(22,301)	-	(22,301)	-	-	-
Other income	86,835	-	86,835	92,134	-	92,134
Interest income	5,419	-	5,419	2,183	-	2,183
Total	<u>\$ 2,132,078</u>	<u>\$ 261,105</u>	<u>\$ 2,393,183</u>	<u>\$ 2,469,369</u>	<u>\$ 235,652</u>	<u>\$ 2,705,021</u>
Resale stores income	\$ 1,833,288	\$ -	\$ 1,833,288	\$ 1,721,066	\$ -	\$ 1,721,066
Less direct costs of resale stores	(1,911,325)	-	(1,911,325)	(1,766,214)	-	(1,766,214)
Net resale stores	<u>\$ (78,037)</u>	<u>\$ -</u>	<u>\$ (78,037)</u>	<u>\$ (45,148)</u>	<u>\$ -</u>	<u>\$ (45,148)</u>
Net assets released from restrictions:						
Satisfaction of purpose restrictions	\$ 205,543	\$ (205,543)	\$ -	\$ 301,316	\$ (301,316)	\$ -
Total Revenue and Support	<u>\$ 2,259,584</u>	<u>\$ 55,562</u>	<u>\$ 2,315,146</u>	<u>\$ 2,725,537</u>	<u>\$ (65,664)</u>	<u>\$ 2,659,873</u>
EXPENSES:						
Program services	\$ 2,081,405	\$ -	\$ 2,081,405	\$ 2,193,134	\$ -	\$ 2,193,134
Management and general	276,303	-	276,303	239,930	-	239,930
Fundraising	344,295	-	344,295	300,438	-	300,438
Total Expenses	<u>\$ 2,702,003</u>	<u>\$ -</u>	<u>\$ 2,702,003</u>	<u>\$ 2,733,502</u>	<u>\$ -</u>	<u>\$ 2,733,502</u>
CHANGE IN NET ASSETS	<u>\$ (442,419)</u>	<u>\$ 55,562</u>	<u>\$ (386,857)</u>	<u>\$ (7,965)</u>	<u>\$ (65,664)</u>	<u>\$ (73,629)</u>
NET ASSETS, BEGINNING OF YEAR	<u>3,233,643</u>	<u>193,654</u>	<u>3,427,297</u>	<u>3,241,608</u>	<u>259,318</u>	<u>3,500,926</u>
NET ASSETS, END OF YEAR	<u><u>\$ 2,791,224</u></u>	<u><u>\$ 249,216</u></u>	<u><u>\$ 3,040,440</u></u>	<u><u>\$ 3,233,643</u></u>	<u><u>\$ 193,654</u></u>	<u><u>\$ 3,427,297</u></u>

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

HABITAT FOR HUMANITY OF NORTHERN VIRGINIA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2019

	Program Services	Management and General	Fundraising	Total
Building materials and supplies	\$ 892,237	\$ -	\$ -	\$ 892,237
Mortgage discounts	156,513	-	-	156,513
Salaries	528,264	176,107	188,316	892,687
HFHI tithe	9,250	-	-	9,250
Office supplies and expenses	1,697	2,447	233	4,377
Payroll taxes and employee benefits	84,816	45,446	21,346	151,608
Professional fees	52,860	16,965	1,290	71,115
Miscellaneous	76,258	15,863	80,621	172,742
Telephone	2,256	1,005	317	3,578
Printing and mailing	4,107	1,083	10,274	15,464
Depreciation	44,633	1,327	3,450	49,410
Rent	32,263	2,231	4,139	38,633
Taxes and licenses	1,349	-	842	2,191
Repairs and maintenance	8,887	1,996	930	11,813
Loan closing costs	27,957	-	-	27,957
Auto expense	6,192	-	-	6,192
Interest	42,145	425	-	42,570
Bank charges	549	1,816	9,717	12,082
Travel	236	2,004	1,030	3,270
Insurance	108,169	6,980	16,535	131,684
Conferences and meetings	767	608	361	1,736
Fundraising costs - other	-	-	4,894	4,894
Total	<u>\$ 2,081,405</u>	<u>\$ 276,303</u>	<u>\$ 344,295</u>	<u>\$ 2,702,003</u>

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

HABITAT FOR HUMANITY OF NORTHERN VIRGINIA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2018

	Program Services	Management and General	Fundraising	Total
Building materials and supplies	\$ 971,596	\$ -	\$ -	\$ 971,596
Mortgage discounts	180,468	-	-	180,468
Salaries	511,238	142,411	205,861	859,510
HFHI tithe	9,250	-	-	9,250
Office supplies and expenses	1,151	3,353	154	4,658
Payroll taxes and employee benefits	110,777	27,385	25,876	164,038
Land acquisition costs	8,690	-	-	8,690
Professional fees	61,564	15,367	777	77,708
Miscellaneous	75,987	20,426	11,222	107,635
Telephone	3,764	411	535	4,710
Printing and mailing	5,716	2,776	16,340	24,832
Depreciation	24,945	2,278	2,742	29,965
Rent	31,784	7,304	4,445	43,533
Taxes and licenses	5,239	78	768	6,085
Repairs and maintenance	5,937	1,629	1,479	9,045
Loan closing costs	24,711	-	-	24,711
Auto expense	12,807	-	-	12,807
Interest	44,788	606	1,349	46,743
Bank charges	427	941	3,664	5,032
Travel	111	3,849	521	4,481
Insurance	101,989	10,938	15,403	128,330
Conferences and meetings	195	178	2,560	2,933
Fundraising costs - other	-	-	6,742	6,742
Total	<u>\$ 2,193,134</u>	<u>\$ 239,930</u>	<u>\$ 300,438</u>	<u>\$ 2,733,502</u>

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

HABITAT FOR HUMANITY OF NORTHERN VIRGINIA, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	June 30, 2019	June 30, 2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (386,857)	\$ (73,629)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	49,410	29,965
Mortgage loan discount amortization	(98,001)	(127,421)
Mortgage loan discount recapture	-	(512,289)
New mortgage loans issued, net of discount	(186,221)	(119,533)
Loss on sale of non-program inventory	22,301	149,436
Changes in assets and liabilities:		
Construction in process inventory	106,777	(299,512)
Prepaid expenses	13,444	(31,224)
Grant receivables	(129,765)	-
Other receivables	(5,557)	757
Deposits	(1,326)	(19,963)
Accounts payable and accrued expenses	(478,359)	269,318
Deferred rent	74,597	11,420
Net Cash Used in Operating Activities	<u>\$ (1,019,557)</u>	<u>\$ (722,675)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of furniture, fixtures and equipment	\$ (328,372)	\$ (99,967)
Mortgage principal payments received	190,290	217,425
Proceeds from sale of mortgage loans	-	846,579
Proceeds from sale of non-program inventory	582,500	-
Net Cash Provided by Investing Activities	<u>\$ 444,418</u>	<u>\$ 964,037</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes payable	\$ (491,183)	\$ (119,599)
Line of credit activity, net	94,797	386,519
Net Cash Provided by (Used) in Financing Activities	<u>\$ (396,386)</u>	<u>\$ 266,920</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>\$ (971,525)</u>	<u>\$ 508,282</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,603,484</u>	<u>1,095,202</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 631,959</u></u>	<u><u>\$ 1,603,484</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	\$ 42,570	\$ 46,743
NON-CASH INVESTING AND FINANCING TRANSACTION:		
Mortgage loans issued, net of discounts for home sales	\$ 186,221	\$ 119,533

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

HABITAT FOR HUMANITY OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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 and non-proselytizing 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.

NOVA Community Partners (NOVA) was formed in 2018 for charitable purposes such as creating affordable and equitable housing opportunities for low and moderate income families. HFHNV is the sole member of NOVA. NOVA intends to operate as a Community Housing Development Organization (CHDO) after obtaining its tax-exempt status. During the years ended June 30, 2019 and 2018, NOVA had no operating activity.

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, 2019 and 2018.

HFHNV may sell 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, 2019 AND 2018

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, 2019 and 2018, three homes each year were completed and sold to homeowners.

During the year ended June 30, 2019, one additional property was sold directly to a commercial developer since HFHNV was experiencing significant difficulties in obtaining residential development approval.

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

Net assets of HFHNV and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of HFHNV's management and the Board of Directors.

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of HFHNV or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. Net assets with donor restrictions at June 30, 2019 and 2018 were \$249,216 and \$193,654, respectively.

Revenue Recognition

Contributions are recognized as revenue when they are received or unconditionally pledged. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

HABITAT FOR HUMANITY OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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

Revenue Recognition (Concluded)

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 \$6,958 and \$36,156 and various building materials and supplies of \$35,306 and \$38,660 in fiscal years 2019 and 2018, 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.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the 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.

Recent Accounting Pronouncements

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. HFHNV has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

Note 2. Investment in Timeshare:

HFHNV received a donation in a prior year of a vacation timeshare for an Orlando, Florida resort. The timeshare has been recorded as a current asset. Management has been unable to liquidate the timeshare. The timeshare has been recorded at its estimated market value based on market quotes.

HABITAT FOR HUMANITY OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 3. Availability and Liquidity:

The following represent HFHNV's financial assets at June 30, 2019:

Cash and cash equivalents	\$ 631,959
Current portion of non-interest bearing mortgage loans, net	127,054
Grant receivables	129,765
Other receivables	<u>24,638</u>
Total financial assets	\$ <u>913,416</u>
Less amounts not available to be used for general operating:	
Net assets with donor restrictions	<u>(249,216)</u>
Financial assets available to meet general and restricted program expenditures over the next twelve months	\$ <u>664,200</u>

During the normal course of operations, HFHNV will receive contributions, proceeds from house sales, and ReStore sales which will be available to spend on general expenditures. Because a donor's restriction requires resources to be used in a particular manner or in a future period HFHNV must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. HFHNV will regularly monitor cash projections over the next twelve months with the understanding that positive cash flow is desired.

Note 4. Non-Interest Bearing Mortgage Loans Receivable and Discounts:

Home purchase mortgage loans and loan discounts activity for fiscal years 2019 and 2018 consist of the following:

Description	Mortgage at Market % Rate	0% Rate Loan Discount	Net
Balances at June 30, 2017	\$ 3,031,464	\$ (1,467,612)	\$ 1,563,852
Home sale mortgage loans	300,000	(180,467)	119,533
Mortgage loan assignment/sales	(996,015)	512,289	(483,726)
Mortgage principal pay downs and amortization	<u>(217,425)</u>	<u>127,421</u>	<u>(90,004)</u>
Balances at June 30, 2018	\$ 2,118,024	\$ (1,008,369)	\$ 1,109,655
Home sale mortgage loans	342,735	(156,514)	186,221
Mortgage principal pay downs and amortization	<u>(190,290)</u>	<u>98,001</u>	<u>(92,289)</u>
Balances at June 30, 2019	\$ <u>2,270,469</u>	\$ <u>(1,066,882)</u>	\$ <u>1,203,587</u>

The discount rates for the new mortgage loans at market percentage rates were 5.0% and 7.47% for the years ended June 30, 2019 and 2018, respectively.

During the fiscal year 2018, cash proceeds of \$846,579 were received by HFHNV for the sale of \$996,015 of discounted first-lien mortgages originated by HFHNV, resulting in a net loss of \$149,436.

HABITAT FOR HUMANITY OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 4. Non-Interest Bearing Mortgage Loans Receivable and Discounts (Concluded):

The mortgage loan sale contracts 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 on the outstanding mortgages sold.

There were no mortgage loan sales during the fiscal year 2019.

A summary of the HFHNV originated loans sold during fiscal year 2018 is as follows:

	June 30, 2018	
	Net Book Value	Gross Face Value
<u>Mortgage Loan Activity</u>		
Principal amount of mortgages sold	\$ 996,015	\$ 996,015
Discount recapture	(512,289)	-
Net book value of mortgages	\$ 483,726	\$ 996,015
Proceeds on assignment/sale	(846,579)	(846,579)
(Gain)/Loss	<u>\$ (362,853)</u>	<u>\$ 149,436</u>

Note 5. Furniture, Fixtures and Equipment:

HFHNV held the following furniture, fixtures and equipment as of June 30, 2019 and 2018:

	June 30, 2019	June 30, 2018
Furniture and equipment	\$ 114,048	\$ 123,821
Vehicles	77,588	77,588
Software	66,771	66,771
Leasehold Improvements	360,836	22,691
Less, accumulated depreciation	<u>(192,352)</u>	<u>(142,942)</u>
Net Furniture, Fixtures and Equipment	<u>\$ 426,891</u>	<u>\$ 147,929</u>

Total depreciation expense was \$49,410 and \$29,965, for the years ended June 30, 2019 and 2018, respectively.

HABITAT FOR HUMANITY OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 6. Net Assets with Donor Restrictions:

Net assets with donor restrictions and the amount of net assets that were released from restrictions at June 30, 2019 and 2018 were comprised of the following programs/projects:

<u>Program/Project</u>	<u>Balance 6/30/18</u>	<u>Grants and Contributions</u>	<u>Released</u>	<u>Balance 6/30/19</u>
Critical Home Repair	\$ 91,140	\$ 2,000	\$ (16,416)	\$ 76,724
Kenilworth Project	39,362	-	(39,362)	-
Development Proffer	63,152	68,340	-	131,492
Reeves	-	20,000	-	20,000
FY2020 Build Days	-	21,000	-	21,000
Clayborne	-	107,500	(107,500)	-
Frye	-	42,265	(42,265)	-
	<u>\$ 193,654</u>	<u>\$ 261,105</u>	<u>\$ (205,543)</u>	<u>\$ 249,216</u>
<u>Program/Project</u>	<u>Balance 6/30/17</u>	<u>Grants and Contributions</u>	<u>Released</u>	<u>Balance 6/30/18</u>
100 TH House	\$ 144,917	\$ 100,000	\$ (244,917)	\$ -
Critical Home Repair	75,039	22,000	(5,899)	91,140
Kenilworth Project	39,362	-	-	39,362
Women Build	-	500	(500)	-
Development Proffer	-	63,152	-	63,152
Alabama	-	15,000	(15,000)	-
Other	-	35,000	(35,000)	-
	<u>\$ 259,318</u>	<u>\$ 235,652</u>	<u>\$ (301,316)</u>	<u>\$ 193,654</u>

Note 7. Line of Credit:

HFHNV has a line of credit agreement under which it could borrow up to \$800,000. The line of credit bears interest at the daily LIBOR rate plus 2.85% and was set to expire on May 10, 2019. On April 9, 2019 the line of credit was extended to May 10, 2020. This line is secured by the assets of the Organization. The total outstanding balance on the line of credit was \$481,316 and \$386,519 at June 30, 2019 and 2018, respectively.

Note 8. Notes Payable:

Notes payable are comprised of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</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. Repaid fully in February 2019.	\$ -	\$ 12,000
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.	378,286	457,469

HABITAT FOR HUMANITY OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 8. Notes Payable (Concluded):

	<u>2019</u>	<u>2018</u>
In April 2014, HFHNV received a loan from a bank for \$400,000 which bore interest at a rate of 5% and was due October 2019. The loan was secured by the Stevenson property held by HFHNV. The loan was paid in full in May 2019.		
	<u>-</u>	<u>400,000</u>
Total	\$ 378,286	\$ 869,469
Less, current portion	<u>(57,347)</u>	<u>(71,367)</u>
Long-term portion	<u>\$ 320,939</u>	<u>\$ 798,102</u>

The scheduled principal maturities of the loans are as follows:

For the Year Ending
June 30,

2020	\$ 57,347
2021	59,091
2022	60,888
2023	62,740
2024	44,204
Thereafter	<u>94,016</u>
Total Notes Payable	<u>\$ 378,286</u>

Note 9. 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, 2019 or 2018 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 10. Simple IRA:

HFHNV contributes to a Simple IRA for each of its employees. HFHNV matches employee contributions up to 3% and employer contributions totaled \$26,006 and \$26,627 for the years ended June 30, 2019 and 2018, respectively.

HABITAT FOR HUMANITY OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 11. Lease Commitments:

In August 2014, a lease was signed for the resale store operation in Alexandria. The lease has an initial monthly base rent of \$16,536 which increases by 3% each August 1st. 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 lease has an initial monthly base rent of \$16,659 which increases 3% each October 1st. 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 May 2018, HFHNV entered in a new 10-year lease agreement for a resale store operation in Herndon which commenced on November 1, 2018. The new lease has an initial monthly base rent of \$16,724 which increases by approximately 3% each November 1st. The lease also requires additional monthly payments of proportional share of common areas maintenance costs and real estate taxes. The lease expires on February 28, 2029.

Total rent expense (including operating expenses and property taxes) under these resale store location leases was \$718,115 and \$589,428 for the years ended June 30, 2019 and 2018, 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 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 1st. This new lease expires on May 31st, 2022. The rent expense for the headquarters space was \$38,633 and \$43,533 for the years ended June 30, 2019 and 2018, respectively.

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

In June 2014, HFHNV entered into a 7-year lease agreement for a truck for the ReStore locations. The lease has monthly rental payments of \$1,429 and expires on June 11, 2021.

In fiscal year 2019, HFHNV entered into a 7-year lease agreement for three trucks for the ReStore locations. Each truck has a monthly rental payment of \$1,319. The lease expires in 2026.

In December 2018, HFHNV entered into a 5-year operating lease agreement for office copiers at the HFHNV headquarters office and the Alexandria and Chantilly ReStore locations. The lease has monthly payments of \$241 and expires on December 5, 2023.

In April 2019, HFHNV entered into a 5-year operating lease agreement for an office copier at the Herndon ReStore location. The lease has monthly payments of \$45 and expires on April 16, 2024.

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

2020	\$ 755,383
2021	776,597
2022	777,536
2023	769,281
2024	788,199
Thereafter	<u>1,550,466</u>
Total	<u>\$ 5,417,462</u>

HABITAT FOR HUMANITY OF NORTHERN VIRGINIA, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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 20, 2019, the date the financial statements were available to be issued, and determined that there was no event occurring subsequent to June 30, 2019 that would have a material impact on HFHNV's results of operations or financial position.