

**HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC.  
AND AFFILIATES**

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**Consolidated Financial Statements  
For the Years Ended June 30, 2022 and 2021**

**Together with Independent Auditors' Report**

# **HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES**

## **Table of Contents For the Years Ended June 30, 2022 and 2021**

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	<u>Page</u>
Independent Auditors' Report .....	1-2
Consolidated Financial Statements	
Consolidated Statements of Financial Position as of June 30, 2022 and 2021 .....	3
Consolidated Statements of Activities for the Years Ended June 30, 2022 and 2021 .....	4
Consolidated Statements of Functional Expenses for the Years Ended June 30, 2022 and 2021 .....	5
Consolidated Statements of Cash Flows for the Years Ended June 30, 2022 and 2021 .....	6
Notes to the Consolidated Financial Statements .....	7-27



## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Habitat for Humanity of the Chesapeake, Inc. and Affiliates:

### **Opinion**

We have audited the accompanying consolidated financial statements of Habitat for Humanity of the Chesapeake, Inc. and Affiliates (a Maryland nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021 and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Habitat for Humanity of the Chesapeake, Inc. and Affiliates as of June 30, 2022 and 2021, 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.

### **Basis for Opinion**

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

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

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

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

## **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Habitat for Humanity of the Chesapeake, Inc. and Affiliate's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Habitat for Humanity of the Chesapeake, Inc. and Affiliate's ability to continue as a going concern for a reasonable period of time.

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

*SC&H Attest Services, PC.*

November 30, 2022

# HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

## Consolidated Statements of Financial Position

<i>As of June 30,</i>	<i>2022</i>	<i>2021</i>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 3,489,397	\$ 5,436,298
Contributions receivable - current portion	931,294	1,124,976
Accounts receivable	997,252	970,397
Mortgages receivable - current portion	445,768	487,508
Grants receivable	573,617	457,936
Inventory of homes	3,260,547	3,144,683
ReStore inventory	49,648	42,468
Prepaid expenses	108,785	94,296
<b>Total Current Assets</b>	<b>9,856,308</b>	<b>11,758,562</b>
Property and equipment, net	976,316	1,054,940
Long-term contributions receivable, net	459,225	781,804
Long-term mortgages receivable, net	4,230,839	4,837,917
Leveraged mortgages receivable, net	5,771,663	6,124,170
Capitalized interest on leveraged mortgages receivable	3,357,913	3,460,730
Prepaid interest	152,575	171,674
Deposits	59,580	43,499
<b>Total Assets</b>	<b>\$ 24,864,419</b>	<b>\$ 28,233,296</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Lines of credit and notes payable - current portion	\$ 200,845	\$ 344,761
Accounts payable and accrued liabilities	661,559	733,090
Deferred rent - current portion	38,830	10,737
<b>Total Current Liabilities</b>	<b>901,234</b>	<b>1,088,588</b>
<b>Non-Current Liabilities</b>		
Lines of credit and notes payable - net of current portion	2,051,519	3,674,056
Leveraged mortgages receivable liability	5,771,663	6,124,170
Deferred rent - net of current portion	212,825	251,655
<b>Total Liabilities</b>	<b>8,937,241</b>	<b>11,138,469</b>
<b>Commitments and Contingencies (Notes 12)</b>		
<b>Net Assets</b>		
Without donor restrictions	14,471,837	15,291,329
With donor restrictions	1,455,341	1,803,498
<b>Total Net Assets</b>	<b>15,927,178</b>	<b>17,094,827</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 24,864,419</b>	<b>\$ 28,233,296</b>

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

# HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

## Consolidated Statements of Activities

<i>For the Years Ended June 30,</i>	<i>2022</i>			<i>2021</i>		
	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Revenues, Gains and Other Support						
Contributions	\$ 1,972,141	\$ 618,250	\$ 2,590,391	\$ 1,699,133	\$ 2,000,000	\$ 3,699,133
Government grants	688,748	-	688,748	909,835	-	909,835
Donated assets and services	170,987	-	170,987	302,918	-	302,918
ReStore income	3,967,670	-	3,967,670	3,624,716	-	3,624,716
Real estate sales	743,065	-	743,065	966,598	-	966,598
Miscellaneous income	23,319	-	23,319	36,691	-	36,691
Amortization of mortgage discounts	255,453	-	255,453	303,443	-	303,443
Employee Retention Credit (Note 7)	-	-	-	680,340	-	680,340
Net assets released from donor restrictions	966,407	(966,407)	-	1,219,423	(1,219,423)	-
Total Revenues, Gains, and Other Support	8,787,790	(348,157)	8,439,633	9,743,097	780,577	10,523,674
Expenses						
Program services						
House construction	4,165,415	-	4,165,415	4,402,475	-	4,402,475
ReStore services	3,515,288	-	3,515,288	3,369,112	-	3,369,112
Support services						
Management and general	1,213,240	-	1,213,240	1,214,652	-	1,214,652
Fundraising	731,291	-	731,291	658,966	-	658,966
Total Expenses	9,625,234	-	9,625,234	9,645,205	-	9,645,205
Excess (Deficit) of Revenues, Gains, and Other Support over Expenses	(837,444)	(348,157)	(1,185,601)	97,892	780,577	878,469
Other Changes in Net Assets						
Debt forgiveness - notes payable	37,500	-	37,500	66,750	-	66,750
Loss on the sales of homes	(19,548)	-	(19,548)	(110,456)	-	(110,456)
Total Other Changes in Net Assets	17,952	-	17,952	(43,706)	-	(43,706)
Change in Net Assets	(819,492)	(348,157)	(1,167,649)	54,186	780,577	834,763
Net Assets, beginning of year	15,291,329	1,803,498	17,094,827	15,237,143	1,022,921	16,260,064
Net Assets, end of year	\$ 14,471,837	\$ 1,455,341	\$ 15,927,178	\$ 15,291,329	\$ 1,803,498	\$ 17,094,827

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

# HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

## Consolidated Statements of Functional Expenses

<i>For the Years Ended June 30,</i>	<i>2022</i>					<i>2021</i>				
	<i>Program Services</i>		<i>Supporting Services</i>		<i>Total</i>	<i>Program Services</i>		<i>Supporting Services</i>		<i>Total</i>
	<i>House Construction</i>	<i>ReStore Services</i>	<i>Management and General</i>	<i>Fundraising</i>		<i>House Construction</i>	<i>ReStore Services</i>	<i>Management and General</i>	<i>Fundraising</i>	
Advertising	\$ 191,127	\$ 11,277	\$ 655	\$ 134,995	\$ 338,054	\$ 95,831	\$ 17,253	\$ 319	\$ 144,086	\$ 257,489
Amortization of capitalized interest	158,484	-	-	-	158,484	155,101	-	-	-	155,101
Bad debt	-	-	-	-	-	-	-	7,200	-	7,200
Computer and software maintenance	27,441	14,000	11,358	48,614	101,413	29,245	18,808	16,153	35,694	99,900
Conference/training expenses	18,769	2,144	32,643	1,123	54,679	3,451	435	11,775	533	16,194
Construction and rehabilitation costs on houses sold and settled	889,299	-	-	-	889,299	1,359,017	-	-	-	1,359,017
Depreciation and amortization	38,446	93,904	54,610	8,430	195,390	31,944	78,024	45,375	7,004	162,347
Discounts of mortgages receivable	49,302	-	-	-	49,302	146,036	-	-	-	146,036
Dues and subscriptions	7,279	14	3,595	1,105	11,993	6,938	-	3,629	2,019	12,586
Employee benefits	125,057	252,462	61,941	33,172	472,632	106,497	304,820	53,556	24,267	489,140
Habitat for Humanity International tithe	20,000	-	-	-	20,000	20,000	-	-	-	20,000
Homeownership	76,147	-	-	-	76,147	89,294	-	-	-	89,294
Impairment on inventory of homes	1,214,390	-	-	-	1,214,390	911,449	-	-	-	911,449
Insurance	9,746	13,885	4,827	2,585	31,043	8,589	16,613	4,319	1,957	31,478
Interest	55,982	163	40,638	-	96,783	14,406	3,432	78,183	-	96,021
Meals and entertainment	28,466	15,450	22,184	2,465	68,565	7,471	9,324	5,991	739	23,525
Miscellaneous	2,937	4,168	61	184	7,350	1,407	14,119	-	269	15,795
Office administration and supplies	38,738	78,342	19,187	10,276	146,543	28,748	83,303	14,457	6,551	133,059
Postage	1,586	3,201	785	421	5,993	972	2,781	489	221	4,463
Printing and production	8,453	17,065	4,187	2,242	31,947	7,244	20,735	3,643	1,651	33,273
Professional fees	75,898	96,453	66,736	12,674	251,761	37,422	86,256	89,262	6,867	219,807
Purchased merchandise	-	223,999	-	-	223,999	-	154,829	-	-	154,829
Remediation of houses previously sold	5,269	-	-	-	5,269	5,505	-	-	-	5,505
Rent	95,436	925,509	47,270	25,315	1,093,530	170,659	829,555	85,821	38,888	1,124,923
Repair and renew	8,212	-	-	-	8,212	22,928	-	-	-	22,928
Repairs and maintenance	17,053	92,714	8,447	4,524	122,738	13,790	94,863	6,935	3,142	118,730
Salaries	884,395	1,236,904	774,267	412,802	3,308,368	1,037,746	1,216,596	740,513	364,708	3,359,563
Taxes - other	452	17,274	998	-	18,724	1,418	16,247	2,157	-	19,822
Taxes - payroll	70,380	142,082	34,860	18,669	265,991	56,053	160,437	28,188	12,773	257,451
Telephone	25,612	51,706	12,686	6,794	96,798	20,932	59,912	10,526	4,770	96,140
Travel	7,105	4,010	4,428	1,218	16,761	249	2,379	60	62	2,750
Truck	-	128,852	-	-	128,852	-	100,056	-	-	100,056
Utilities	13,884	86,263	6,877	3,683	110,707	12,133	76,503	6,101	2,765	97,502
Volunteers	70	3,447	-	-	3,517	-	1,832	-	-	1,832
<b>Total Expenses</b>	<b>\$ 4,165,415</b>	<b>\$ 3,515,288</b>	<b>\$ 1,213,240</b>	<b>\$ 731,291</b>	<b>\$ 9,625,234</b>	<b>\$ 4,402,475</b>	<b>\$ 3,369,112</b>	<b>\$ 1,214,652</b>	<b>\$ 658,966</b>	<b>\$ 9,645,205</b>

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

# HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

## Consolidated Statements of Cash Flows

<i>For the Years Ended June 30,</i>	<i>2022</i>	<i>2021</i>
Cash Flows from Operating Activities		
Change in net assets	\$ (1,167,649)	\$ 834,763
Adjustments to reconcile change in net assets		
to net cash and cash equivalents used in operating activities:		
Depreciation and amortization of property and equipment	195,390	162,347
Amortization of prepaid interest	19,099	14,405
Amortization of deferred financing costs	3,500	3,463
Amortization of capitalized interest on leveraged mortgages receivable	158,484	155,101
Debt forgiveness - notes payable	(37,500)	(66,750)
Capitalized interest from leveraged mortgages receivable	(55,667)	(87,823)
Impairment on inventory of homes	1,214,390	911,449
Bad debt expense	-	7,200
Change in present value discount on contributions receivable	33,215	28,044
Mortgages receivable discount expense	49,302	146,036
Amortization of mortgage discounts	(255,454)	(303,443)
Effects of changes in operating assets and liabilities:		
Contributions receivable	483,046	(631,766)
Accounts receivable	(26,855)	(699,706)
Grants receivable	(115,681)	(334,844)
Inventory of homes	(1,330,254)	(536,179)
ReStore inventory	(7,180)	25,286
Prepaid expenses	(14,489)	11,227
Accounts payable and accrued liabilities	(71,531)	179,537
Deferred rent	(10,737)	119,475
Deferred revenue	-	(750)
Net Cash and Cash Equivalents Used in Operating Activities	(936,571)	(62,928)
Cash Flows from Investing Activities		
Acquisition of property and equipment	(116,766)	(109,624)
Origination and acquisition of mortgages receivable, net	248,663	(300,728)
Principal payments collected on mortgages receivable	606,307	779,648
(Decrease) increase in deposits	(16,081)	3,000
Net Cash and Cash Equivalents Provided by Investing Activities	722,123	372,296
Cash Flows from Financing Activities		
Payment of deferred financing cost	(10,222)	(1,000)
Payments on lines of credit and notes payable	(1,722,231)	(322,426)
Net Cash and Cash Equivalents Used in Financing Activities	(1,732,453)	(323,426)
Net Decrease in Cash and Cash Equivalents	(1,946,901)	(14,058)
Cash and Cash Equivalents, beginning of year	5,436,298	5,450,356
Cash and Cash Equivalents, end of year	\$ 3,489,397	\$ 5,436,298
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 77,684	\$ 106,053
Settlement costs	\$ 12,854	\$ 15,191
Decrease in leveraged mortgages receivable, net	\$ (352,507)	\$ (790,741)
Cash received on foreclosed homes or deeds in lieu	\$ 112,774	\$ 119,000

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



# **HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES**

## **Notes to the Consolidated Financial Statements For the Years Ended June 30, 2022 and 2021**

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### **1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Description of the Organization**

Habitat for Humanity of the Chesapeake, Inc. and Affiliates (the Organization) is composed of Habitat for Humanity of the Chesapeake, Inc. (Habitat), JLR Investments LLC (JLR), Habitat for Humanity of the Chesapeake CHDO, LLC (Chesapeake CHDO), Chesapeake Funding Company I, LLC (Chesapeake Funding) and BOTF, Inc. (BOTF).

Habitat was incorporated under the laws of the state of Maryland in 1982 and has been recognized by the Internal Revenue Service (IRS) as a not-for-profit, tax-exempt organization as defined by Section 501(c)(3) of the Internal Revenue Code (IRC) that is publicly supported and, therefore, not a private foundation.

JLR is a limited liability company created by Habitat that was incorporated in Maryland in 2005. Habitat is the sole member of JLR. JLR was formed to own, operate, lease and sell real property, including certain property located in Baltimore, Maryland together with all improvements thereon.

Chesapeake CHDO is a limited liability company formed for charitable purposes, including assisting community organizations in the planning and managing of housing and economic development projects and providing decent housing that is affordable to low and moderate income people, including, for such purposes, the making of distributions to organizations that qualify as exempt organizations under Section 501(c)(3) of the IRC. Habitat is the sole member of Chesapeake CHDO.

Chesapeake Funding is a limited liability company formed for the purpose of holding certain real estate investment portfolios, and to do any and all things necessary, convenient or incidental to that purpose. Habitat is the sole member of Chesapeake Funding.

BOTF was incorporated in Maryland in 2013 and has been recognized by the IRS as a not-for-profit, tax-exempt organization as defined by Section 501(c)(2) of the IRC. BOTF was formed to hold title to the building housing the Sandtown ReStore on behalf of and for the exclusive benefit of Sandtown Habitat for Humanity, Inc. (Sandtown) and is consolidated as a result of Habitat's merger with Sandtown. Effective September 30, 2014, Habitat entered into an Articles of Merger with Sandtown, which provided similar services to the Organization in the Sandtown area of Baltimore. Upon merging, the Organization recognized all identifiable assets and liabilities acquired at their fair value at the date of acquisition. Any difference between the fair value of the assets and liabilities acquired was recognized in the consolidated statements of activities as contribution from merger.

The Organization is a Christian organization, unaffiliated with any denomination, that aims to demonstrate the Christian gospel by working to establish affordable housing and decent habitat through the acquisition and rehabilitation of homes for those that are in need in Anne Arundel County, Baltimore City, Baltimore County and Howard County. The Organization is supported primarily through contributions, home sponsorships, government grants, real estate sales, ReStore sales and donated goods and services.

# HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2022 and 2021

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.

#### Description of the Organization – cont'd.

The Organization is an affiliate of Habitat for Humanity International, Inc. (HFHI), a nondenominational 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 with people everywhere. Although HFHI assists with information resources, training, publications, prayer support and in other ways, the Organization is primarily and directly responsible for its own operations.

The Organization operates six Habitat for Humanity ReStores (the ReStores). The ReStores are retail operations, where home furnishings, appliances, and other miscellaneous items are donated or purchased and then sold to the community at a greatly reduced price.

#### Principles of Consolidation

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810, *Consolidations*, the accompanying consolidated financial statements include the accounts of Habitat, and those of its affiliates, which consist of JLR, Chesapeake CHDO, Chesapeake Funding, and BOTF. Habitat is the sole member of its affiliates. All intercompany transactions and balances have been eliminated in consolidation.

#### Basis of Accounting

The accompanying consolidated financial statements are presented in accordance with the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

The consolidated financial statement presentation is in accordance with the requirements of FASB ASC 958-205, *Not-for-Profit Entities: Presentation of Financial Statements*. Under ASC 958-205, the Organization is required to report information regarding its consolidated financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

*Without Donor Restrictions* - Net assets without donor restrictions represent net assets that are not subject to donor-imposed restrictions. Contributions with donor-imposed restrictions that are met in the same reporting period that the contribution is received are reported as net assets without donor restrictions.

*With Donor Restrictions* - Net assets with donor restrictions result from contributions whose use is limited by donor-imposed stipulations. Net assets may be donor restricted for various purposes, such as use in future periods or use for specified purposes. When a donor restriction expires by the passage of time or by satisfying restrictions through actions of the Organization, the net assets with donor restrictions are released to net assets without donor restrictions. Net assets subject to donor restrictions to be maintained permanently by the Organization would be included in this net asset class, however, the Organization has no such net assets as of June 30, 2022 and 2021.

# **HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES**

## **Notes to the Consolidated Financial Statements For the Years Ended June 30, 2022 and 2021**

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### **1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.**

#### **Program Services**

Program services encompass activities directly and indirectly related to establishing affordable and decent housing through acquisition, rehabilitation, sale of homes, and retail operations. Program service expenses are included in house construction or ReStore services on the accompanying consolidated statements of activities.

#### **Management and General**

Management and general services are those related to operating and managing the Organization and its programs on a day to day basis. The Organization's management and general services consist of activities not directly related to the programs for which the Organization exists, including all activities related to the Organization's internal management and accounting for program services.

#### **Fundraising**

Fundraising consists of activities performed either directly or indirectly to induce contributions, which will be utilized to enhance the program service activities and related management and general activities.

#### **Functional Allocation of Expenses**

The costs of providing the Organization's various programs and other activities have been presented in the consolidated statements of functional expenses. The Organization incurs certain expenses that directly relate to, and can be assigned to, a specific program or supporting activity. The Organization also conducts a number of activities which benefit both its program objectives as well as supporting activities. These costs, which are not specifically attributable to a specific program or supporting activity, are allocated by management on a consistent basis. Select overhead accounts are allocated based upon the percentage of Full-Time Employees (FTEs) per department. Employee benefits and payroll taxes are allocated based upon percentage of salary costs. All other entries are department specific and initial general ledger entries are made to that effect.

#### **Cash and Cash Equivalents**

Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less at the time of purchase.

#### **Credit Risk**

The Organization maintains cash and cash equivalents at several financial institutions. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor. The Organization periodically maintains cash balances in excess of FDIC coverage. Management considers this to be a normal business risk.

# HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2022 and 2021

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.

#### Contributions

Contributions are recognized when a donor makes an unconditional promise to transfer assets to the Organization. Contributions received are recorded at fair value on the date of the gift and are recorded as contributions with or without donor restrictions depending on the existence and/or nature of any donor restrictions. Grant revenue is considered a conditional gift and is recognized as program or other expenses are incurred satisfying the conditions of the grant.

#### Contributions Receivable

Contributions receivable are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Conditional promises to give are recognized when the conditions on which they depend are substantially met. In accordance with ASC 958-310, *Not-for-Profit Entities: Receivables*, pledges due in one or more years are discounted to their net present value at the time the revenue is recorded. The Organization uses the allowance method to determine the reserve for uncollectible pledges receivable. The allowance is based on historical experience and management's analysis of specific promises made. As of June 30, 2022 and 2021, the Organization had unconditional promises to give, all of which management considered to be fully collectible, totaling \$1,453,061 and \$1,936,107, respectively. Contributions receivable includes amounts receivable in more than one year in the amount of \$521,767 and \$811,131 as of June 30, 2022 and 2021, respectively, which are recorded as contributions with donor restrictions. Contributions receivable are discounted for the time value of money using the IRS long term annual applicable federal rate at the date of the promise, which was 2.99% and 0.87% as of June 30, 2022 and 2021, respectively. As of June 30, 2022 and 2021, discounts on contributions receivable totaled \$62,542 and \$29,327, respectively.

As of June 30, 2022, the anticipated receipts of contributions receivable are as follows:

For the years ended June 30,:	
2023	\$ 931,294
2024	317,434
2025	204,333
Total	1,453,061
Less: present value discount	(62,542)
Contributions receivable, net	\$ 1,390,519

# HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2022 and 2021

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.

#### **Mortgages Receivable**

Mortgages receivable consists of non-interest bearing mortgages, which are secured by real estate and payable in monthly installments, with original maturities ranging from 20 to 30 years. All of the mortgages are related to either new construction or rehabilitation of existing homes by the Organization. These mortgages are shown on the consolidated statements of financial position discounted at the prevailing interest rate for the time value of money, equaling 1.91% as of June 30, 2022 and ranging from 1.65% to 2.26% as of June 30, 2021. Amortization revenue is recorded using the straight-line method over the lives of the mortgages.

The Organization is a secured creditor. Management therefore records a provision for loan losses at the time that it is determined that the mortgage balance exceeds the fair market value of the related home. Management has not provided a provision for loan losses as of June 30, 2022 and 2021 because the fair market value of the homes exceeds the related mortgage balances.

The Organization has pledged some of the mortgage loans as collateral for lines of credit and notes payable (Note 6).

In addition to the mortgages receivable included in the consolidated statements of financial position, the Organization also holds non-interest bearing second, third and fourth mortgages. These mortgages originate at the same time as the first mortgage and reflect the difference between the sales price and the fair market value of the house. These mortgages are legal documents executed for protection against homeowners who may sell their house for a profit before the mortgage is repaid and to protect the homeowner by preventing predatory lenders from paying off the first mortgage and saddling the homeowners with an onerous new mortgage. These mortgages are not included on the consolidated statements of financial position based on FASB ASC 450, *Contingencies*, which relates to gain contingencies. Since these mortgages are contingent receivables, they are not recorded in the consolidated financial statements because there is a significant uncertainty that they will be exercised and collected.

#### **Leveraged Mortgages Receivable**

When a mortgage receivable is leveraged, the Organization receives a discounted cash amount in exchange for the transfer of the mortgage receivable to a bank. Under these agreements, the Organization is liable to repurchase or replace a mortgage transferred to the bank in the event that the homeowner does not make the required payments. In accordance with ASC 805 through 860, *Broad Transactions*, the leveraging of the mortgage receivable with a conditional obligation to repurchase or replace the mortgage is not considered a sale.

# HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2022 and 2021

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.

#### Leveraged Mortgages Receivable – cont'd.

The leveraged mortgages receivable are shown on the consolidated statements of financial position discounted at the prevailing interest rate for the time value of money, ranging from 2.05% to 2.97% as of June 30, 2022 and from 2.01% to 2.16% as of June 30, 2021. The difference between the cash received and the gross mortgage receivable transferred is recorded as capitalized interest on leveraged mortgages receivable in the consolidated statements of financial position. The capitalized interest on leveraged mortgages receivable is amortized over the term of the leveraged mortgage receivable using the straight-line method. The liability in the event that the homeowner does not make the required payments is included in the consolidated statements of financial position as a leveraged mortgages receivable liability, carried at fair market value.

#### Inventory of Homes

Inventory of homes consists of houses and lots purchased by or donated to the Organization for rehabilitation and resale and the cost of homes that are under construction. Donated properties, materials, and services relating to the homes are recognized at fair market value as of the date of the donation. The houses and lots are valued at net realizable value. Impairment on the inventory of homes totaling \$1,214,390 and \$911,449 is included in house construction expenses in the consolidated statements of activities for the years ended June 30, 2022 and 2021, respectively. When homes are sold the related costs and impairments are removed by recording construction and rehabilitation costs on houses sold and settled.

#### Property and Equipment

Property and equipment is stated at cost. The Organization capitalizes all costs that are in excess of \$1,000 and have a useful life of at least one year. Expenditures for maintenance, repairs and renewals are charged against income as incurred. Expenditures for additions, improvements and replacements are added to the property and equipment accounts and depreciated over their useful lives. When assets are retired or sold, the related costs and accumulated depreciation are removed from the accounts, and any gain or loss on disposition is recognized in the consolidated statements of activities.

Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the respective assets. Estimated useful lives for respective assets are as follows:

	Years
Buildings	40
Furniture, fixtures and equipment	5
Vehicles	5
Computer equipment	3

# HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2022 and 2021

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.

#### Property and Equipment – cont'd.

Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life of the asset or the life of the lease. Depreciation and amortization expense totaled \$195,390 and \$162,347 for the years ended June 30, 2022 and 2021, respectively.

#### Valuation of Long-Lived Assets

The Organization accounts for the valuation of long-lived assets in accordance with ASC 360, *Property, Plant and Equipment*. ASC 360 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed are reportable at the lower of the carrying amount or fair value, less costs to sell. As of June 30, 2022 and 2021, the Organization had no assets held for disposal.

#### Warranties

The Organization provides homeowner warranties on the homes it rehabilitates and records an accrual for estimated future claims. Such accruals are based upon historical experience and management's estimate of the level of future claims. No accruals were considered necessary as of June 30, 2022 and 2021.

#### Deferred Financing Costs and Amortization

Deferred financing costs are presented as a contra-account to the mortgage liability and are amortized over the period the obligation is outstanding using the straight-line method. Amortization of deferred financing costs charged to interest expense totaled \$3,500 and \$3,463 for the years ended June 30, 2022 and 2021, respectively.

#### Donated Services

Donated services meeting the requirements for recognition in the consolidated financial statements and donated materials are included in support and expense at their estimated fair values on the date they were contributed. The requirements for recognition of donated services in the consolidated financial statements are (a) the donated services create or enhance non-financial assets, or (b) the donated services require special skills, are provided by individuals who possess those special skills and donated services would typically be purchased by the Organization if they had not been provided by contribution.

# HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2022 and 2021

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.

#### Donated ReStore Items

Donations of ReStore items are not valued, nor is an inventory of such items used for financial reporting. This accounting treatment is based on ASC 958, *Contributions Received*, where a major uncertainty about the existence of value may indicate that an item received or given should not be recognized. ASC 845, *Initial Measurement*, also applies that fair value should be regarded as not determinable within reasonable limits if major uncertainties exist about the realizability of the value. Revenue from donated ReStore inventory is recognized when the inventory is sold.

#### ReStore Inventory

ReStore inventory consists of purchased merchandise to be sold in the ReStores and is valued at the lower of cost or net realizable value. This accounting treatment is based on ASC 330, *Inventory*, where net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.

#### Income Taxes

The Organization is exempt from Federal and State income taxes under Section 501(c)(3) of the IRC and is not considered a private foundation. All of the ReStores' activities are classified as exempt activities since sales of purchased merchandise are less than 15% of the ReStores' total sales. ReStore's activities are not subject to the tax on unrelated business income. JLR, Chesapeake CHDO and Chesapeake Funding are disregarded entities for tax purposes. Therefore, they do not generate taxable income. BOTF is exempt from Federal and State income taxes under Section 501(c)(2) of the IRC.

ASC 740, *Income Taxes*, prescribes the recognition and measurement of a tax position taken or expected to be taken in a tax return as well as guidance on de-recognition, classification, interest and penalties, and financial statement reporting disclosures. For these benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than fifty percent likely to be realized upon ultimate settlement. The Organization has considered its income tax positions, including any positions that may be considered uncertain by the relevant tax authorities in the jurisdictions in which the Organization operates. As of June 30, 2022 and 2021, the Organization had no uncertain tax positions.

The Organization recognizes interest and penalties accrued on any unrecognized tax exposures as a component of income tax expense. The Organization does not have any amounts accrued relating to interest and penalties as of June 30, 2022 and 2021. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress.



# HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2022 and 2021

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.

#### Use of 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may vary from those estimates.

#### Revenue from Exchange Transactions

In accordance with FASB ASC 606, *Revenue from Contracts with Customers*, revenue is recognized when a customer obtains control of promised goods or services (performance obligation) in an amount that reflects the consideration the Organization expects to receive in exchange for those goods or services (transaction price). The Organization's exchange revenue is primarily derived from the sale of ReStore merchandise and real estate income. Revenue is recorded net of discounts and similar charges. Sales and other tax amounts collected for remittance to governmental authorities are excluded from revenue.

ReStore income is generated through the sale of home furnishings, appliances, and other miscellaneous items that are donated or purchased and then sold at a reduced price. The transaction price is a fixed amount set by the Organization, and revenue is recognized at the time of sale, as that is when the performance obligation is satisfied.

Real estate income is generated through home sales. The homes are originally held as inventory, under the House construction program, and revenue is recognized at the time of sale, as that is when the performance obligation is satisfied. The transaction price is based on the appraised value of the home that is agreed upon the entering of a contract of sale.

# HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2022 and 2021

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd.

#### Recently Adopted Accounting Pronouncement

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Asset*, which improves the transparency of contributed nonfinancial assets through enhancements to presentation and disclosure. Under this new standard, contributed nonfinancial assets are required to be presented as a separate line item on the statement of activities. Additionally, the standard requires the disclosure and disaggregation of contributed nonfinancial assets by category based on the type of gift received. For each category, disclosures should include qualitative information regarding monetization or utilization, policies, donor-imposed restrictions, valuation techniques and fair value measurement of the asset. ASU 2020-07 is effective for fiscal years beginning after June 15, 2021, with early adoption permitted. All changes should be retrospectively applied to all periods presented. The Organization implemented ASU 2020-07 during the year ended June 30, 2022 and the new standard was applied retroactively to the accompanying consolidated financial statements and notes. The adoption of ASU 2020-07 did not have an effect of the Organization's net assets or changes in net assets.

#### Recently Issued Accounting Pronouncement

The FASB issued ASU 2016-02, *Leases (Topic 842)*, the distinction between finance leases and operating leases is substantially similar to the distinction between capital leases and operating leases in the previous leases guidance. Lessor accounting is largely unchanged. For lessees, leases under both categories will be reported on the statement of financial position as a depreciable right-to-use asset and a liability to make lease payments. The asset and liability should be initially measured at the present value of the lease payments, including payments to be made in optional periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. The asset will be depreciated and the liability will be reduced by lease payments. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. In June 2020, the FASB deferred the effective date of the lease guidance for non-public entities to fiscal years beginning after December 15, 2021. The Organization has elected not to early adopt ASU 2016-02 and will assess the impact on future financial statements.

#### Subsequent Events

The Organization evaluated for disclosure any subsequent events through November 30, 2022, the date on which the consolidated financial statements were available to be issued, and determined that there were no material events that warrant disclosure, except as disclosed in Note 6.

# HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2022 and 2021

### 2. MORTGAGES RECEIVABLE

The Organization directly finances a number of the homes that it sells. Each mortgage is issued as a zero interest mortgage to the buyer. The Organization discounts the mortgages using the current interest rates at the time the home is sold. The discounts are amortized using the straight-line method over the lives of the mortgages.

Mortgages receivable as of June 30, 2022 and 2021 are as follows:

	2022	2021
Mortgages receivable	\$ 7,738,948	\$ 8,593,918
Less: discount on mortgages	(3,062,341)	(3,268,493)
<u>Mortgages receivable, net</u>	<u>\$ 4,676,607</u>	<u>\$ 5,325,425</u>

At June 30, 2022, the balances due on the mortgages, excluding those that have been leveraged, are scheduled to be received as follows:

<u>For the years ending June 30,:</u>		
2023	\$	445,768
2024		463,967
2025		407,531
2026		399,465
2027		392,260
Thereafter		5,629,957
<u>Total</u>	<u>\$</u>	<u>7,738,948</u>

### 3. LEVERAGED MORTGAGES RECEIVABLE

The Organization leverages mortgages receivable to banks. Leveraged mortgages receivable as of June 30, 2022 and 2021 are as follows:

	2022	2021
Leveraged mortgages receivable	\$ 8,825,860	\$ 9,435,867
Less: discount on leveraged mortgages	(3,054,197)	(3,311,697)
<u>Leveraged mortgages receivable, net</u>	<u>\$ 5,771,663</u>	<u>\$ 6,124,170</u>

# HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2022 and 2021

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### 4. FAIR VALUE MEASUREMENT

ASC 820, *Fair Value Measurement*, defines fair value and establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

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

Level 2      Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3      Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodology used for assets and liabilities measured at fair value:

*Leveraged mortgages receivable liability:* Valued at the carrying amount of the related leveraged mortgage receivable asset which approximates the value of the replacement mortgage to be transferred to the bank in the event that the homeowner does not make the required payments.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodology used as of June 30, 2022 and 2021.

# HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2022 and 2021

### 4. FAIR VALUE MEASUREMENT– cont’d.

The following table sets forth by level, within the fair value hierarchy, the Organization's liabilities at fair value as of June 30, 2022:

	Level 1:	Level 2:	Level 3:	Total
Leveraged mortgages receivable liability	\$ -	\$ 5,771,663	\$ -	\$ 5,771,663

The following table sets forth by level, within the fair value hierarchy, the Organization's liabilities at fair value as of June 30, 2021:

	Level 1:	Level 2:	Level 3:	Total
Leveraged mortgages receivable liability	\$ -	\$ 6,124,170	\$ -	\$ 6,124,170

### 5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30,:

	2022	2021
Land and buildings	\$ 626,140	\$ 626,140
Furniture, fixtures and equipment	138,125	123,335
Leasehold improvements	630,277	573,731
Vehicles	697,769	685,093
Computer equipment	418,663	385,909
	2,510,974	2,394,208
Less: accumulated depreciation	(1,534,658)	(1,339,268)
Property and equipment, net	\$ 976,316	\$ 1,054,940

# HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2022 and 2021

### 6. LINES OF CREDIT AND NOTES PAYABLE

Lines of credit and notes payable consisted of the following as of June 30,:

	2022	2021
M&T Bank Revolving Note	\$ 166,435	\$ 200,000
Severn/Shore United Bank Line of Credit	-	1,468,286
Neighborhood Housing Services of Baltimore, Inc.	259,722	276,389
BOKF, NA dba Bank of Texas	-	19,624
PNC Community Development Company, LLC	806,068	942,316
Small Business Administration Economic Disaster Relief Loan	497,528	500,000
Department of Housing and Community Development	454,631	500,000
Community Development Block Grant 42	112,500	150,000
	2,296,884	4,056,615
Less: Unamortized deferred financing costs	(44,520)	(37,798)
Less: Current portion of lines of credit and notes payable	(200,845)	(344,761)
<u>Long Term Portion of Lines of Credit and Notes Payable</u>	<u>\$ 2,051,519</u>	<u>\$ 3,674,056</u>

Future minimum principal payments are as follows:

For the years ending June 30,:	
2023	\$ 200,845
2024	205,077
2025	209,548
2026	214,212
2027	177,686
Thereafter	1,177,016
<u>Total</u>	<u>\$ 2,184,384</u>
<u>CDBG-42 forgivable portion</u>	<u>112,500</u>

The future maturities table above is reduced by the \$112,500 forgivable portion of the Community Development Block Grant 42 debt.

Interest expense on the lines of credit and notes payable totaled \$57,535 and \$81,615 for the years ended June 30, 2022 and 2021, respectively. In addition, the Organization paid interest of \$20,149 and \$24,438 for the years ended June 30, 2022 and 2021, respectively, which has been capitalized as part of inventory of homes on the consolidated statements of financial position.

# **HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES**

## **Notes to the Consolidated Financial Statements For the Years Ended June 30, 2022 and 2021**

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### **6. LINES OF CREDIT AND NOTES PAYABLE – cont'd.**

#### **M&T Bank – Credit Line**

The Organization has a \$50,000 credit line with M&T, bearing interest at the bank's prime rate plus 1.5%, (4.75% as of June 30, 2022 and 2021) and due on demand. The credit line is secured by all deposits or other sums credited by or due from M&T to the Organization, as well as any cash, securities, instruments or other property. There were no outstanding borrowings as of June 30, 2022 and 2021.

#### **M&T Bank – Revolving Note**

The Organization has a \$200,000 revolving demand note with M&T, that is secured by all deposits or other sums credited by or due from M&T to the Organization, as well as any cash, securities, instruments or other property. The note bore an interest at the bank's prime rate, 3.25% as of June 30, 2021, and was due on demand. Effective June 30, 2021, the loan was amended and restated to a 4% fixed rate term note maturing on or before June 30, 2026.

#### **Severn/Shore United Bank Line of Credit**

The Organization has a \$2,500,000 line of credit with Severn Savings Bank (later referred to as Shore United Bank after the merger in October 2021), that bore an interest at 4.75%. During October 2020, the interest rate changed to 4.25%. The line of credit requires the Organization to make monthly principal payments of \$10,000. In August 2021, the line of credit was modified to \$1,500,000 with a 4.25% fixed rate, interest only revolving line of credit maturing on August 1, 2022 with no required monthly curtailment. Subsequent to year-end, the line of credit's maturity date was extended to January 1, 2023. This line of credit is secured by mortgages receivable in the amount of \$2,318,071 and \$2,303,852 as of June 30, 2022 and 2021, respectively. This line of credit contains covenants with which the Organization must comply. As of June 30, 2022 and 2021, the Organization was in compliance with, or had received a waiver for, all covenants associated with this line of credit.

#### **Neighborhood Housing Services of Baltimore, Inc.**

The Organization has a note payable due to Neighborhood Housing Services of Baltimore, Inc. (NHS). The note is non-interest bearing and requires monthly principal payments of \$1,389 and matures on January 31, 2038. This note is secured by 5 real estate properties.

# **HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES**

## **Notes to the Consolidated Financial Statements For the Years Ended June 30, 2022 and 2021**

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### **6. LINES OF CREDIT AND NOTES PAYABLE – cont’d.**

#### **BOKF, NA dba Bank of Texas**

During 2016, the Organization obtained two notes of \$125,000 from BOKF, NA dba Bank of Texas, with 4.71% interest. The notes required monthly payments of principal and interest of \$2,346, with an original maturity date as of July 15, 2021. Pursuant to the coronavirus outbreak, the Organization and BOKF, NA dba Bank of Texas agreed to extend the maturity date by ninety days to October 13, 2021 and the notes were paid in full during the year ended June 30, 2022. These notes contained financial covenants in which the Organization was in compliance with as of June 30, 2021.

#### **PNC Community Development Company, LLC**

During 2013, the Organization obtained a note payable for \$1,847,867 from PNC Community Development Company, LLC. Proceeds from the note were \$1,401,012. The note includes \$152,575 and \$171,674 of prepaid interest, at a rate of 2.75%, as of June 30, 2022 and 2021, respectively, and \$30,000 of loan fees. The note is secured by approximately \$739,750 and \$893,025 of mortgages receivable as of June 30, 2022 and 2021, respectively, and requires monthly payments determined by a payment schedule that is based on the anticipated amounts to be received under those mortgages receivable. The note matures on July 15, 2038. The note has since been amended for the inclusion of new mortgage loans, and the exclusion of released mortgage loans.

#### **Small Business Administration Economic Disaster Relief Loan**

During April 2020, the Organization obtained a \$500,000 loan for working capital to alleviate economic injury caused by the coronavirus pandemic. The loan bears an interest of 2.75% per annum and requires monthly payments of principal and interest of \$2,136, with a maturity date thirty years from the date of the note.

#### **Department of Housing and Community Development**

On October 1, 2019, the Organization signed a commitment to enter into a ten-year, \$500,000 note payable with the Department of Housing and Community Development at an interest rate of 4.50%. The note requires monthly payments of interest only in the amount of \$1,875, with a balloon payment due and payable upon maturity in October 2029. Proceeds from the note are to be used for working capital to support the Organization’s real estate development efforts in the Baltimore region. As of June 30, 2022 and 2021, the proceeds from the note were expended for program-related and general expenditures relating to real estate development.



# **HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES**

## **Notes to the Consolidated Financial Statements For the Years Ended June 30, 2022 and 2021**

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### **6. LINES OF CREDIT AND NOTES PAYABLE – cont'd.**

#### **Community Development Block Grant 42**

During November 2018, the Organization obtained a \$300,000 loan for the construction and rehabilitation of 8 single family homes in Baltimore. Under the terms of the agreement, a portion of the debt will be forgiven as each home is settled. During the years ended June 30, 2022 and 2021, \$37,500 and \$66,750, respectively, was forgiven. The outstanding balance of the forgivable note totaled \$112,500 and \$150,000 as of June 30, 2022 and 2021, respectively.

### **7. EMPLOYEE RETENTION CREDIT**

The employee retention credit (ERC) was created by the Coronavirus Aid, Relief and Economic Security (CARES) Act in 2020. It allowed for a payroll tax credit of up to 50% of employee wages up to a maximum of \$10,000, per employee. During the calendar year 2020, the credit was not available to recipients of the Paycheck Protection Program (PPP) loans, such as the Organization. However, in 2021, the Consolidated Appropriations Act allowed for recipients of PPP loans to retroactively claim the credit via amended quarterly payroll returns. The Organization obtained ERC's during the year ended June 30, 2021 of \$680,340, which is recognized as employee retention credit revenues in the accompanying consolidated statement of activities. The Organization did not receive any ERC's for the year ended June 30, 2022. Balances due under the ERC totaling \$680,340 as of June 30, 2022 and 2021 are included in accounts receivable on the accompanying consolidated statements of financial position.

### **8. REAL ESTATE SALES**

During the years ended June 30, 2022 and 2021, the Organization sold 5 and 6 homes, respectively. Income and related costs on the sale of each home are not recognized until the home goes to settlement and the deed is transferred to the purchaser.

### **9. DONATED ASSETS AND SERVICES**

During the years ended June 30, 2022 and 2021, the Organization received nonfinancial contributions, which consisted of, but not limited to donated materials and equipment for the construction of homes, and services rendered by individuals who volunteered their time performing a variety of tasks that assisted the Organization with the construction of homes, as well as Google marketing advertisements. Many of the Organization's donated services are not recorded in the accompanying consolidated financial statements, as these services are not susceptible to objective measurement or valuation. Donated materials and equipment are valued at the fair value of assets received less any obligations incurred. In accordance with ASC 958-605, the Organization recognizes revenue and expense for donated services that (1) would typically be purchased by the Organization had the contribution not been provided, (2) require specialized skills, and (3) are provided by individuals with those skills. Contributed services are value and are reported at the estimated fair value in the consolidated financial statements based on current rates for similar services.

# HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2022 and 2021

### 9. DONATED ASSETS AND SERVICES – cont'd.

The donated materials and equipment, and the services rendered, were used during the respective years ended June 30, 2022 and 2021, and there were no donor-imposed restrictions associated with the donated assets and services.

The following amounts are included as donated assets and services in the accompanying consolidated statements of activities for the years ended June 30,:

	2022	2021
Materials and equipment - capitalized in homes inventory	\$ 106,634	\$ 291,705
Donated services - individual support meeting requirements for recognition	64,353	11,213
Donated assets and services	\$ 170,987	\$ 302,918

### 10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following as of June 30,:

	2022	2021
Purpose restrictions		
Workforce development	\$ 1,012,973	\$ 926,088
Home sponsorships	359,863	719,101
Other	10,000	5,000
Chesapeake Matched Savings Account	505	505
Total purpose restrictions	1,383,341	1,650,694
Contributions receivable with time restriction, net	72,000	152,804
Net Assets With Donor Restrictions	\$ 1,455,341	\$ 1,803,498

### 11. LOSS ON SALE OF HOMES

During the year ended June 30, 2022, 3 homes were sold that were originally held as inventory to be sold within the House construction program. The proceeds totaled \$112,774 and the carrying value of the homes totaled \$131,960 resulting in a loss of \$19,186. Additionally, the Organization had 1 write-off resulting in a loss of \$362.

During the year ended June 30, 2021, 4 homes were sold that were originally held as inventory to be sold within the House construction program. The proceeds totaled \$119,506 and the carrying value of the homes totaled \$191,304 resulting in a loss of \$71,798. Additionally, the Organization had 6 write-offs resulting in a loss of \$38,658.

# HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2022 and 2021

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### 12. LEASES

The Organization leases its office and warehouse space under a non-cancelable operating lease agreement. During August 2019, the lease agreement was renewed and extended until January 31, 2025, subject to annual increases in monthly rent payments.

In 2007, the Organization leased a building for its Dundalk ReStore location under a non-cancelable operating lease agreement. In August 2017, the lease agreement was amended to extend the lease term until June 30, 2023, subject to annual increases in monthly rent payments.

In 2013, the Organization leased a building for its Columbia ReStore location under a non-cancelable operating lease agreement. In February 2019, the Organization entered into a relocation and extension agreement with the lessor for a new Columbia ReStore location under a non-cancelable operating lease agreement that expires on June 20, 2026. Rent is subject to annual rent escalation based on the lease terms.

In 2015, the Organization leased a building for its Glen Burnie ReStore location under a non-cancelable operating lease agreement. The Organization moved locations and entered into a new lease agreement commencing on August 15, 2020 and set to expire on August 14, 2028 and is subject to rent escalation bi-annually.

In 2016, the Organization leased a building for its Timonium ReStore location under a non-cancelable operating lease agreement for 63 months. The Organization entered into a new lease agreement commencing on November 1, 2020 and set to expire on May 31, 2026. Rent is subject to annual escalation based on the lease terms.

Rent expense under month-to-month and non-cancelable operating agreements for the years ended June 30, 2022 and 2021 totaled \$1,093,530 and \$1,124,923, respectively.

The minimum annual payments under these leases are as follows:

For the years ending June 30,:		
2023	\$	870,126
2024		756,265
2025		676,452
2026		527,208
2027		241,764
Thereafter		263,065
Total	\$	3,334,880

# HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2022 and 2021

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### 13. DEFERRED RENT

The Organization's lease agreements for its main office and for its Dundalk, Columbia, Glen Burnie, and Timonium ReStore buildings have provisions for rent payments with fixed annual increases. In accordance with ASC 840, *Leases*, the total rent commitment is expensed on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for consolidated financial statement purposes is recorded as deferred rent.

Future amortization of deferred rent is as follows:

For the years ending June 30,:		
2023	\$	38,830
2024		39,337
2025		54,993
2026		52,462
2027		31,142
Thereafter		34,891
Total	\$	251,655

### 14. EMPLOYEE BENEFITS

The Organization maintains a tax deferred annuity plan for its employees under IRC Section 403(b). Under the terms of the plan, the Organization will match 40% of the employee's deferral up to a maximum 8% of employee compensation. Contributions totaled \$54,274 and \$48,287 for the years ended June 30, 2022 and 2021, respectively.

### 15. TRANSACTIONS WITH HABITAT INTERNATIONAL

The Organization annually makes an election to remit to HFHI a tithe based on undesignated contributions. These funds are used to construct homes in economically depressed areas around the world. The Organization contributed \$20,000 to HFHI for each of the years ended June 30, 2022 and 2021. Such amounts are included in program services expense in the consolidated statements of activities.

# HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2022 and 2021

### 16. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization's financial assets available within one year for general expenditures are as follows as of June 30,:

	2022	2021
Current Financial Assets		
Cash and cash equivalents	\$ 3,489,397	\$ 5,436,298
Contributions receivable - current portion	931,294	1,124,976
Mortgages receivable - current portion	445,768	487,508
Accounts receivable	997,252	970,397
Grants receivable	573,617	457,936
Total Current Financial Assets	\$ 6,437,328	\$ 8,477,115
Less: Net assets with donor restrictions for specified purposes	(1,383,341)	(1,650,694)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	\$ 5,053,987	\$ 6,826,421

The Organization is partially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to donors. Thus, certain financial assets may not be available for general expenditures within one year. As a part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

On a daily, weekly, and monthly basis, the Organization closely monitors and assesses short-term liquidity by estimating contributions receivable, releases of cash with donor restrictions, construction loans, property sales, and mortgages receivable likely to be received in the next 90 days.

The Organization has also established a revolving Working Capital fund for capital expenditures and program expenses. These fund balances are closely monitored and replenished when unrestricted cash is available.