HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC.
AND AFFILIATES

Consolidated Financial Statements
For the Years Ended June 30, 2018 and 2017

Together with Independent Auditors' Report

HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC.
AND AFFILIATES

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For the Years Ended June 30, 2018 and 2017

INDEPENDENT AUDITORS' REPORT

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

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 statement of financial position as of June 30, 2018, the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

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

Prior Period Financial Statements

The consolidated financial statements of Habitat for Humanity of the Chesapeake, Inc. and Affiliates as of June 30, 2017 were audited by other auditors whose report dated December 21, 2017 expressed an unmodified opinion on those consolidated statements.

SC&H Attest Services, P.C.

November 28, 2018

HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC.
AND AFFILIATES

Consolidated Statements of Financial Position

As of June 30,		*2018*		*2017*
Assets				
Current Assets				
Cash and cash equivalents	$	2,271,500	$	714,996
Contributions receivable - current portion		762,079		1,435,217
Mortgages receivable - current portion		758,380		965,515
Accounts receivable		259,721		262,253
Grants receivable		118,299		152,453
Inventory of homes		4,645,109		5,157,937
ReStore inventory		57,885		44,804
Prepaid expenses		63,820		64,588
Total Current Assets		8,936,793		8,797,763
Property and equipment, net		825,279		841,073
Long-term contributions receivable, net		309,225		326,184
Long-term mortgages receivable, net		5,675,446		6,146,034
Leveraged mortgages receivable, net		7,520,283		7,632,880
Capitalized interest on leveraged mortgages receivable		3,461,259		3,492,957
Investments in limited liability companies		4,627,412		9,155,358
Prepaid interest		246,723		276,905
Deposits		48,329		48,329
Total Assets	$	31,650,749	$	36,717,483
Liabilities and Net Assets				
Current Liabilities				
Lines of credit and notes payable - current portion	$	470,854	$	831,825
Accounts payable and accrued liabilities		773,381		889,780
Deferred rent - current portion		29,693		27,406
Total Current Liabilities		1,273,928		1,749,011
Non-Current Liabilities				
Lines of credit and notes payable - net of current portion		5,606,103		5,054,789
Notes payable - related parties		5,114,482		10,391,645
Leveraged mortgages receivable liability		7,520,283		7,632,880
Deferred rent - net of current portion		82,703		66,952
Deferred revenue		90,295		-
Total Liabilities		19,687,794		24,895,277
Commitments and Contingencies (Notes 8 and 14)				
Net Assets				
Unrestricted		10,692,800		11,285,112
Temporarily restricted		1,270,155		537,094
Total Net Assets		11,962,955		11,822,206
Total Liabilities and Net Assets	$	31,650,749	$	36,717,483

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

Consolidated Statements of Activities

For the Years Ended June 30,	*2018*			*2017*		
	Unrestricted	*Temporarily Restricted*	*Total*	*Unrestricted*	*Temporarily Restricted*	*Total*
Revenues, Gains and Other Support						
Contributions	$ 1,890,498	$ 1,558,974	$ 3,449,472	$ 3,248,931	$ 346,366	$ 3,595,297
Donated good and services	114,621	-	114,621	83,966	-	83,966
Donated property	49,000	-	49,000	55,000	-	55,000
Government grants	910,420	42,464	952,884	540,957	-	540,957
Real estate sales	882,950	-	882,950	523,002	-	523,002
ReStore income	3,541,316	-	3,541,316	3,461,902	-	3,461,902
Special events, net of expense of $20,516 and $26,333, respectively	111,076	-	111,076	(11,806)	-	(11,806)
Rental income	14,322	-	14,322	23,750	-	23,750
Miscellaneous income	37,921	-	37,921	12,567	-	12,567
Debt forgiveness	-	-	-	204,676	-	204,676
Amortization of mortgage discounts	372,013	-	372,013	367,407	-	367,407
Satisfaction of program restrictions	851,418	(851,418)	-	448,953	(448,953)	-
Satisfaction of time restrictions	16,959	(16,959)	-	376,931	(376,931)	-
Total Revenues, Gains, and Other Support	8,792,514	733,061	9,525,575	9,336,236	(479,518)	8,856,718
Expenses						
Program services						
House construction	4,719,137	-	4,719,137	3,904,145	-	3,904,145
ReStore services	3,163,131	-	3,163,131	3,062,887	-	3,062,887
Support services						
Management and general	1,147,943	-	1,147,943	1,139,970	-	1,139,970
Fundraising	621,152	-	621,152	586,355	-	586,355
Total Expenses	9,651,363	-	9,651,363	8,693,357	-	8,693,357
Excess (Deficit) of Revenues, Gains, and Other Support over Expenses	(858,849)	733,061	(125,788)	642,879	(479,518)	163,361
Other Changes in Net Assets						
Investment income (loss) from limited liability companies	1,261	-	1,261	(3,153)	-	(3,153)
Debt forgiveness - notes payable, related parties, net	747,956	-	747,956	430,964	-	430,964
Loss on sale of property of equipment	-	-	-	(3,489)	-	(3,489)
Loss on sale of homes	(482,680)	-	(482,680)	(1,520)	-	(1,520)
Total Other Changes in Net Assets	266,537	-	266,537	422,802	-	422,802
Change in Net Assets	(592,312)	733,061	140,749	1,065,681	(479,518)	586,163
Net Assets, beginning of year	11,285,112	537,094	11,822,206	10,219,431	1,016,612	11,236,043
Net Assets, end of year	$ 10,692,800	$ 1,270,155	$ 11,962,955	$ 11,285,112	$ 537,094	$ 11,822,206

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

Consolidated Statements of Functional Expenses

For the Years Ended June 30,	*2018*					*2017*				
	Program Services		***Supporting Services***			***Program Services***		***Supporting Services***		
	House Construction	*ReStore Services*	*Management and General*	*Fundraising*	*Total*	*House Construction*	*ReStore Services*	*Management and General*	*Fundraising*	*Total*
Advertising	$ 17,447	$ 81,294	$ -	$ 155,066	$ 253,807	$ 46,631	$ 174,378	$ -	$ 101,776	$ 322,785
Amortization of capitalized interest	143,633	-	-	-	143,633	118,804	-	-	-	118,804
Bad debt expense	124,169	-	-	5,225	129,394	146,332	-	551	5,691	152,574
Computer and software maintenance	16,446	8,355	13,138	38,119	76,058	15,630	21,936	9,434	37,053	84,053
Conference/training expenses	18,641	6,156	2,697	720	28,214	6,934	2,455	3,110	629	13,128
Construction and rehabilitation costs on	-	-	-	-						
houses sold and settled	1,343,881	-	-	-	1,343,881	1,359,964	-	-	-	1,359,964
Depreciation expense	36,833	57,615	22,100	5,525	122,073	36,898	58,262	15,032	4,100	114,292
Discounts of mortgages receivable	121,165	-	-	-	121,165	36,058	-	-	-	36,058
Dues and subscriptions	5,107	10,806	5,960	808	22,681	1,055	12,942	4,525	2,032	20,554
Employee benefits	129,449	201,808	59,939	22,529	413,725	142,035	163,400	52,003	15,319	372,757
Habitat for Humanity International tithe	20,000	-	-	-	20,000	15,000	-	-	-	15,000
Homeownership	134,021	-	-	-	134,021	131,836	-	-	-	131,836
Insurance	8,622	22,436	5,173	1,293	37,524	6,104	19,828	2,486	678	29,096
Interest expense	103,007	10,171	9,810	2,452	125,440	76,036	13,188	3,915	-	93,139
Impairment on inventory of homes	1,265,565	-	-	-	1,265,565	711,716	-	-	-	711,716
Meals and entertainment	18,354	11,145	20,108	7,010	56,617	27,722	5,758	17,463	14,887	65,830
Miscellaneous expense	15,257	8,307	2,928	25,177	51,669	50,923	5,325	-	3,315	59,563
Office administration and supplies	37,413	61,727	22,446	5,612	127,198	46,584	55,071	18,812	5,163	125,630
Postage	8,154	98	4,894	1,224	14,370	11,024	30	4,490	1,225	16,769
Printing and production	9,002	14,853	5,401	1,350	30,606	11,207	13,283	4,566	1,245	30,301
Professional fees	102,874	72,429	140,304	1,872	317,479	103,177	67,604	130,845	1,783	303,409
Purchased merchandise	-	257,858	-	-	257,858	-	218,359	-	-	218,359
Remediation of house previously sold	4,870	-	-	-	4,870	4,333	-	-	-	4,333
Rent	73,188	709,016	43,913	10,978	837,095	85,653	719,749	34,896	9,517	849,815
Repair and renew	32,000	-	-	-	32,000	11,528	-	-	-	11,528
Repairs and maintenance	11,385	103,426	6,831	1,708	123,350	12,542	93,050	5,422	1,479	112,493
Salaries	769,587	1,168,043	688,251	302,099	2,927,980	643,565	1,107,540	746,140	343,913	2,841,158
Taxes - other	660	13,458	1,565	-	15,683	9,251	13,568	1,839	-	24,658
Taxes - payroll	94,463	81,924	65,794	23,101	265,282	83,539	77,896	57,255	26,313	245,003
Telephone	28,738	43,261	17,243	4,311	93,553	33,192	37,690	13,523	3,688	88,093
Travel	3,821	3,883	113	2,639	10,456	4,447	6,141	5,438	4,034	20,060
Truck expenses	-	143,109	-	-	143,109	(108,674)	115,425	-	-	6,751
Utilities	15,558	66,159	9,335	2,334	93,386	20,187	58,698	8,225	2,243	89,353
Volunteers	5,827	5,794	-	-	11,621	2,912	1,311	-	272	4,495
Total Expenses	$ 4,719,137	$ 3,163,131	$ 1,147,943	$ 621,152	$ 9,651,363	$ 3,904,145	$ 3,062,887	$ 1,139,970	$ 586,355	$ 8,693,357

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

Consolidated Statements of Cash Flows

For the Years Ended June 30,	*2018*	*2017*
Cash Flows from Operating Activities		
Change in net assets	$ 140,749	$ 586,163
Adjustments to reconcile change in net assets		
to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation expense	122,072	114,292
Amortization of deferred financing costs	3,463	3,463
Amortization of prepaid interest	30,182	29,400
Amortization of capitalized interest on leveraged mortgages receivable	140,170	118,804
Capitalized interest from leveraged mortgages receivable	(108,472)	(72,609)
Impairment on inventory of homes	1,265,565	711,716
Bad debt expense	129,394	152,574
Loss on sales of property and equipment	-	3,489
Forgiveness of program debt	-	(204,676)
Discounts of contributions receivable	(15,725)	-
Discounts of mortgages receivable	121,165	36,058
Amortization of mortgage discounts	(372,013)	(367,407)
Amortization of notes payable discounts	49,922	-
Effects of changes in operating assets and liabilities:		
Contributions receivable	700,597	(429,999)
Accounts receivable	(121,637)	18,987
Grants receivable	34,154	276,368
Inventory of homes	(752,737)	(1,406,313)
ReStore inventory	(13,081)	8,879
Prepaid expenses	768	46,066
Accounts payable and accrued liabilities	(116,399)	52,832
Deferred rent	18,038	(11,906)
Deferred revenue	90,295	-
Net Cash and Cash Equivalents Provided by (Used in) Operating Activities	1,346,470	(333,819)
Cash Flows from Investing Activities		
Acquisition of property and equipment	(106,278)	(23,234)
Changes in equity in investments in limited liability companies (Note 5)	(749,217)	(424,365)
Origination and acquisition of mortgages receivable	188,141	(273,228)
Principal payments collected on mortgages receivable	740,430	730,025
Proceeds from sales of mortgages receivable	-	201,862
Increase in deposits	-	1,000
Net Cash and Cash Equivalents Used in Investing Activities	73,076	212,060
Cash Flows from Financing Activities		
Proceeds from lines of credit and notes payable	802,863	1,016,685
Payments on lines of credit and notes payable	(665,905)	(1,213,836)
Proceeds from program debt	-	12,500
Payments on program debt	-	(26,106)
Net Cash and Cash Equivalents Provided by Financing Activities	136,958	(210,757)
Net Increase (Decrease) in Cash and Cash Equivalents	1,556,504	(332,516)
Cash and Cash Equivalents, beginning of year	714,996	1,047,512
Cash and Cash Equivalents, end of year	$ 2,271,500	$ 714,996
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 136,585	$ 99,526
Settlement costs	$ 42,577	$ 13,894
Leveraged mortgages receivable	$ 112,597	-
Cash received on foreclosed homes or deeds in lieu	$ 215,281	$ 256,569
Debt forgiven and write off of investment in LLC	$ 5,277,163	$ 4,455,113

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

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 50l(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 Sandown, 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 statement 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.

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.

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.

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.

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

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 Accounting Standards Codification (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 three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets – Unrestricted net assets are the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets – Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. When a restriction expires, either by the passage of time or the Organization's incurrence of donor-specified expenses, temporarily restricted net assets are reclassified to unrestricted net assets. Any temporarily restricted resource that is received and used during the same year is considered an unrestricted resource and is reported as unrestricted support.

Permanently restricted net assets – Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the Organization's actions. Although the corpus may not be used, income earned from these restricted assets may be used based on donor-imposed stipulations. The Organization had no permanently restricted net assets as of June 30, 2018 and 2017.

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.

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

Investments in Limited Liability Companies

The Organization has investments in limited liability companies (LLC's) in which it owns more than 20% of the entity. These investments are accounted for under the equity method. Under the equity method, the initial investment is recorded at cost and the Organization's share of the subsequent earnings or losses of the LLC's are recognized in investment income in the accompanying consolidated statement of activities.

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 unrestricted, temporarily restricted, or permanently restricted depending on the existence and/or nature of any donor restrictions.

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, 2018 and 2017, the Organization had unconditional promises to give, all of which management considered to be fully collectible, totaling $1,087,029 and $1,761,401, respectively. Contributions receivable includes amounts receivable in more than one year in the amount of $324,950 and $326,184 as of June 30, 2018 and 2017, respectively, which are included in temporarily restricted net assets. 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 2.73% as of June 30, 2018. A discount on contributions receivable was not recorded as of June 30, 2017. As of June 30, 2018 and 2017, discounts on contributions receivable totaled $15,725 and $0, respectively.

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

Contributions Receivable – cont'd.

At June 30, 2018, the balances due on contributions receivable that are scheduled to be received for the next five years and thereafter are as follows:

For the years ended June 30,:	
2019	$ 762,079
2020	182,887
2021	94,638
2022	37,425
2023	10,000
Total	1,087,029
Less: present value discount	(15,725)
Contributions receivable, net	$ 1,071,304

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 new construction and the rehabilitation of existing homes rehabilitated 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, ranging from 2.79% to 3.11% as of June 30, 2018 and from 2.11% to 3.20% as of June 30, 2017. 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 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 9).

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.

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

Mortgages Receivable – cont'd.

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 on the books 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.

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 2.79% to 3.14% as of June 30, 2018 and from 2.71% to 2.97% as of June 30, 2017. 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 $1,265,565 and $711,716 is included in the consolidated statements of activities for the years ended June 30, 2018 and 2017, respectively. When homes are sold the related costs and impairments are removed by recording construction and rehabilitation costs on houses sold and settled.

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

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 statement 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
Equipment	5
Vehicles	5
Computer equipment	3

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 amounted to $122,072 and $114,292 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017.

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

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. Interest from deferred financing costs charged to operations totaled $3,463 for each of the years ended June 30, 2018 and 2017.

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.

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.

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. Accordingly, estimates have been made to allocate certain costs among the program services, management and general and fundraising sources benefited.

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

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. Habitat's activities are not subject to the tax on unrelated business income. All of the ReStores' activities are classified as exempt activities since sales of purchased merchandise are less than 15% of the ReStores' total sales. 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, 2018 and 2017, 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, 2018 and 2017. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress.

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.

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

Reclassification

Certain amounts from the consolidated financial statements for the year ended June 30, 2017 have been reclassified to conform to the presentation for the year ended June 30, 2018. These reclassifications had no effect on previously reported changes in net assets.

Recently Issued Accounting Pronouncements

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330)*. Under this new guidance, an entity utilizing first-in, first-out or average cost inventory methods measures inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This new guidance is effective for annual reporting periods beginning after December 15, 2016. The Organization adopted the new inventory standard during the year ended June 30, 2017. The adoption of this ASU did not have a material impact on the accompanying consolidated financial statements.

The FASB issued Accounting Standard Update 2016-02, *Leases (Topic 842*), which will be effective for fiscal years beginning after December 15, 2019. 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 also 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. Management has elected not to early adopt ASU 2016-02 and will assess the impact on future financial statements.

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

Recently Issued Accounting Pronouncements – cont'd.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities* which is effective for fiscal years beginning after December 15, 2017. The primary impact of ASU 2016-14 is as follows: a) Net Asset Classification: The three categories of net assets will be condensed to two categories: Without Donor Restrictions and With Donor Restrictions. Not-for-profits may choose to disaggregate net assets further within the two categories. b) Board-Designated Net Assets: Not-for-profits will need to disclose the amount, purpose, and type of board designations either on the face of the financials or in the notes to the financial statements. Board-designated net assets remain a subgroup of net assets without donor restrictions. c) Underwater Endowment Assets: Although the underwater calculation remains unchanged, instead of classifying the underwater portion against unrestricted net assets, it will go against the net assets with donor restrictions. There are also certain additional disclosures such as any board policy or actions taken regarding appropriation from such funds. d) Cash Flow Statement: Not-for-profits will still have the option of presenting operating cash flows using the direct method or the indirect method. If the direct method is chosen, the indirect reconciliation is not required. e) Expenses: Expenses will be required to be presented both by function and by nature, but it is flexible as to how (in statement form or in the footnotes). A qualitative disclosure about how costs are allocated by function will also be required. External and internal direct investment expenses will be netted against investment return on the statement of activities. Disclosure of investment return components will no longer be required. f) Liquidity and Availability: The ASU will require (1) quantitative disclosure about availability of financial assets to meet cash needs for general expenditures within one year of the balance sheet date, and (2) qualitative disclosure about liquidity, presented in the notes, including information about liquidity risk and how the liquid available resources are managed. Management has chosen not to early adopt ASU 2016-14 and will assess the impact on future financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which amends the existing accounting standards for revenue recognition. ASU 2014-09 supersedes the revenue recognition requirements in ASC 605 and most industry-specific guidance throughout the Industry Topics in the ASC. Under the new standard, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB deferred the effective date of the revenue recognition guidance for nonpublic entities to reporting periods beginning after December 15, 2018. Early adoption is permitted. The new revenue standard may be applied retrospectively to each prior period presented or prospectively with the cumulative effect recognized as of the date of adoption. Management has chosen not to early adopt ASU 2014-09 and will assess the future impact on the financial statements.

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

Subsequent Events

The Organization evaluated for disclosure any subsequent events through November 28, 2018, the date on which the financial statements were available to be issued, and determined that there were no material events that warrant disclosure, except for the lease extension for the Columbia ReStore location as described in Note 14.

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, 2018 and 2017 are as follows:

		2018		2017
Mortgages receivable	$	10,434,277	$	11,275,149
Less: discount on mortgages		(4,000,451)		(4,163,600)
Mortgages receivable, net	$	6,433,826	$	7,111,549

At June 30, 2018, the balances due on the mortgages, excluding those that have been leveraged, that are scheduled to be received for the next five years and thereafter are as follows:

For the years ended June 30,:		
2019	$	758,380
2020		704,779
2021		662,640
2022		626,994
2023		578,001
Thereafter		7,103,483
Total	$	10,434,277

3. LEVERAGED MORTGAGES RECEIVABLE

The Organization leverages mortgages receivable to banks. Leveraged mortgages receivable as of June 30, 2018 and 2017 are as follows:

		2018		2017
Leveraged mortgages receivable	$	11,821,240	$	11,954,296
Less: discount on leveraged mortgages		(4,300,957)		(4,321,416)
Leveraged mortgages receivable, net	$	7,520,283	$	7,632,880

4. FAIR VALUE

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.

4. FAIR VALUE – cont'd.

The following is a description of the valuation methodologies 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 methods 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 methods are 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 methodologies used as of June 30, 2018 and 2017.

The following table sets forth by level, within the fair value hierarchy, the Organization's liabilities at fair value as of June 30, 2018:

	Level 1:	Level 2:	Level 3:	Total
Leveraged mortgages receivable liability	$ -	$ 7,520,283	$ -	$ 7,520,283

The following table sets forth by level, within the fair value hierarchy, the Organization's liabilities at fair value as of June 30, 2017:

	Level 1:	Level 2:	Level 3:	Total
Leveraged mortgages receivable liability	$ -	$ 7,632,880	$ -	$ 7,632,880

5. INVESTMENTS IN LIMITED LIABILITY COMPANIES

The investments in limited liability companies on the consolidated statements of financial position includes investments from participation in three New Market Tax Credit (NMTC) Programs. NMTC programs provide funds to eligible organizations for investment in "qualified low-income community investment." Program compliance requirements included creation of a promissory note and investment in a qualified community development entity (CDE). Tax credit recapture is required if compliance requirements are not met by the CDE over a seven-year period. Details of the transactions follow.

5. INVESTMENTS IN LIMITED LIABILITY COMPANIES – cont'd.

HFHI-SA Leverage III, LLC (Habitat Affiliate 1)

In 2010, the Organization invested, along with 5 other Habitat affiliates, in Habitat Affiliate 1 with 20.53% ownership, to take advantage of NMTC financing. The Organization invested $3,716,144 with Habitat Affiliate 1 and was able to secure a 15-year loan in the amount of $4,455,113 payable to City First Capital 21, LLC (CDE) (a subsidiary of Habitat Affiliate 1). The loan proceeds were used solely for the purpose of constructing and selling qualified housing properties to low income residents subject to certain conditions. During the year ended June 30, 2017, in connection with the debt forgiveness, the investment was written off (Note 8).

HFHI-SA Leverage VIII, LLC (Habitat Affiliate 2)

In 2011, the Organization invested, along with three other Habitat affiliates, in Habitat Affiliate 2 with 43.22% ownership to take advantage of NMTC financing. As a result, the Organization invested $4,298,956 and was able to secure a 15-year loan in the amount of $5,277,163 payable to HFHI-SA NMTC V, LLC (CDE) (a subsidiary of Habitat Affiliate 2). The loan proceeds were used solely for the purpose of constructing and selling qualified housing properties to low income residents. During the year ended June 30, 2018, in connection with the debt forgiveness, the investment was written off (Note 8).

The following is a summary of the activity for Habitat Affiliate 2 for the years ending June 30:

	2018	2017
Beginning balance	$ 4,554,647	$ 4,511,972
Investment activity	(4,554,647)	42,675
Ending balance	$ -	$ 4,554,647

The following is the condensed financial information of Habitat Affiliate 2 as of and the years ending June 30,:

	2018	2017
Cash	$ -	$ 1,135,940
Note receivable	-	9,322,862
Total assets	$ -	$ 10,458,802
Equity	$ -	$ 10,458,802
Revenue and net income	$ 1,640,060	$ 271,144

5. INVESTMENTS IN LIMITED LIABILITY COMPANIES – cont'd.

Habitat Harbor Leverage, LLC (Habitat Affiliate 3)

In 2013, the Organization invested, along with 2 other nonprofit organizations, in Habitat Affiliate 3 with 50.92% ownership, to take advantage of NMTC financing. NMTC financing allows an entity to receive a loan or investment capital from outside investors, who will receive new market tax credits to be applied against their federal tax liability.

Additionally, during 2015 as part of the Sandtown merger, the Organization acquired an additional 18.74% ownership in Habitat Affiliate 3. This investment is carried at fair market value, as it was acquired through a merger, and is netted against the related note (see Note 8) for the consolidated financial statement purposes. The fair value is deemed to be $0 as of June 30, 2018 and 2017.

The Organization invested $4,469,199 with Habitat Affiliate 3 and was able to secure a 15-year loan in the amount of $5,114,482 payable to Harbor Community Fund VI LLC (CDE) (a subsidiary of Habitat Affiliate 3). The loan proceeds were used solely for the purpose of constructing and selling qualified housing properties to low income residents subject to certain conditions (Note 8).

The following is a summary of the activity for Habitat Affiliate 3 for the years ending June 30:

	2018	2017
Beginning balance	$ 4,600,711	$ 4,574,010
Investment activity	26,701	26,701
Ending balance	$ 4,627,412	$ 4,600,711

The following is the condensed financial information of Habitat Affiliate 3 as of and for the years ending June 30:

	2018	2017
Cash	$ 878,428	$ 795,646
Note receivable	7,430,579	7,347,785
Total assets	$ 8,309,007	$ 8,143,431
Equity	$ 8,309,007	$ 8,143,431
Revenue and net income	$ 239,046	$ 239,046

5. INVESTMENTS IN LIMITED LIABILITY COMPANIES – cont'd.

Investment income and debt forgiveness is summarized below for the year ended June 30, 2018:

	Habitat Affiliate 2	Habitat Affiliate 3	Total
Income			
Distribution	$ 74,811	$ 121,718	$ 196,529
Interest	26,591	27,688	54,279
Total income	101,402	149,406	250,808
Expense			
QLICI interest	27,610	37,418	65,028
Amortization	99,232	85,287	184,519
Total expense	126,842	122,705	249,547
Total investment income (loss) from limited liability companies	$ (25,440)	$ 26,701	$ 1,261
Debt forgiveness - notes payable, related parties, net	$ 747,956	$ -	$ 747,956

Investment income and debt forgiveness is summarized below for the year ended June 30, 2017:

	Habitat Affiliate 1	Habitat Affiliate 2	Habitat Affiliate 3	Total
Income				
Distribution	$ 40,496	$ 117,210	$ 121,718	$ 279,424
Interest	12,821	39,886	27,688	80,395
Total income	53,317	157,096	149,406	359,819
Expense				
QLICI interest	106,394	39,918	37,418	183,730
Amortization	19,452	74,503	85,287	179,242
Total expense	125,846	114,421	122,705	362,972
Total investment income (loss) from limited liability companies	$ (72,529)	$ 42,675	$ 26,701	$ (3,153)
Debt forgiveness - notes payable, related parties, net	$ 430,964	$ -	$ -	$ 430,964

6. PROPERTY AND EQUIPMENT

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

	2018	2017
Land and buildings	$ 625,000	$ 625,000
Furniture, fixtures and equipment	95,783	88,496
Leasehold improvements	342,308	285,574
Vehicles	345,603	345,603
Computer equipment	274,608	232,351
	1,683,302	1,577,024
Less: accumulated depreciation	(858,023)	(735,951)
Property and equipment, net	$ 825,279	$ 841,073

7. 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 over the remaining life of the leases is as follows:

For the years ended June 30,:	
2019	$ 29,693
2020	37,180
2021	17,659
2022	12,782
2023	15,082
Total	$ 112,396

8. NOTES PAYABLE, RELATED PARTIES

During 2010, in connection with the investment in Habitat Affiliate 1, the Organization received a $4,455,113 note from City First Capital 21, LLC (a related party). The note required interest only payments at 0.8126%. The note was secured by substantially all the assets acquired by the Organization from the project loan proceeds. The note's put option feature was exercised on December 6, 2016 and the debt was forgiven in full. Debt forgiveness - notes payable, related parties, net of $430,964 is shown in the consolidated statements of activities for the year ended June 30, 2017, consisting of the debt forgiveness of $4,455,113, net of the $4,024,149 loss on the investment in Habitat Affiliate 1 that occurred at the time of the exercising of the put option.

During 2011, in connection with the investment in Habitat Affiliate 2, the Organization received a $5,277,163 note from HFHI-SA NMTC V, LLC (a related party). The note required interest only payments at 0.76%. The note was secured by substantially all the assets acquired by the Organization from the project loan proceeds. The note’s put option feature was exercised on March 12, 2018 and the debt was forgiven in full. Debt forgiveness – notes payable, related parties, net of $747,956, is shown on the consolidated statements of activities for the year ended June 30, 2018, consisting of the debt forgiveness of $5,277,163, net of the $4,529,207 loss on investment in Habitat Affiliate 2 that occurred at the time that the put option was exercised.

During 2013, in connection with the investment in Habitat Affiliate 3, the Organization received a $5,114,482 note from Harbor Community Fund VI, LLC (a related party). The note requires interest only payments at 0.73%. The note is secured by substantially all the assets acquired by the Organization from the project loan proceeds. The note has a put option feature that is exercisable on or before September 10, 2019. Management expects that the option will be exercised and the debt will thereby be forgiven. In the event that the option is not exercised, interest payments will be made through September 10, 2027, at which time the principal balance is due in full.

Additionally, during 2015 as part of the Sandtown merger, the Organization acquired an additional note payable in the amount of $1,882,483 due to Harbor Community Fund VI. LLC, subject to the same terms as the note from Harbor Community Fund VI LLC, disclosed above. This note is carried at fair market value, as it was acquired through a merger, and is netted against the related investment for the consolidated financial statement purposes. The fair value is deemed to be $0 as of June 30, 2018 and 2017.

Interest expense on the notes payable, related parties included in investment income from limited liability companies on the consolidated statements of activities was $78,800 and $109,310 for the years ended June 30, 2018 and 2017, respectively.

These notes require the maintenance of certain covenants. The Organization was in compliance with all covenants as of June 30, 2018.

9. LINES OF CREDIT AND NOTES PAYABLE

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

	2018	2017
M&T Revolving Notes	$ 200,000	$ 200,000
MECU Revolving Note	-	50,000
Severn Savings Bank Line of Credit	2,059,286	2,179,286
Neighborhood Housing Services of Baltimore, Inc.	326,389	343,056
Self-help Homeownership Opporunity Program	40,932	77,905
BOKF, NA dba Bank of Texas	177,956	257,019
PNC Community Development Company, LLC	1,304,765	1,407,525
City of Annapolis - 55 Clay	-	31,250
City of Annapolis - 123 Clay	-	82,000
CDFC, net	149,544	196,548
M&T Notes	364,287	414,554
Rosedale Federal Savings and Loan Association	1,489,005	686,141
	$ 6,112,164	$ 5,925,284
Less: Unamortized deferred financing costs	(35,207)	(38,670)
Less: Current Portion of Lines of Credit and Notes Payable	(470,854)	(831,825)
Long Term Portion of Lines of Credit and Notes Payable	$ 5,606,103	$ 5,054,789

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%, (5.00% as of June 30, 2018 and 2017) 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, 2018 and 2017.

M&T Bank – Revolving Note

The Organization has a $200,000 revolving demand note with M&T, bearing interest at the bank's prime rate, (3.50% as of June 30, 2018 and 2017) and due on demand. The revolving demand note 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.

9. LINES OF CREDIT AND NOTES PAYABLE – cont'd.

Municipal Employees Credit Union (MECU) – Revolving Note

The Organization obtained a $50,000 credit line with MECU on September 2, 2016 which matured on September 2, 2017. Borrowings under this line of credit bore interest at 4.50% and were due on demand. The credit line was secured by real property owned by JLR. The balance on the line was paid in full during the year ended June 30, 2018.

Severn Savings Bank

The Organization has a $2,500,000 line of credit with Severn Savings Bank (Severn), bearing interest at 4.25%. The line of credit requires the Organization to make monthly principal payments of $10,000 and matures on August 1, 2019. This line of credit is secured by mortgages receivable in the amount of $3,196,680 and $3,364,822 as of June 30, 2018 and 2017, respectively. This line of credit contains covenants with which the Organization must comply. As of June 30, 2018, 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

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.

Self-help Homeownership Opportunity Program

The Self-help Homeownership Opportunity Program (SHOP) notes payable to HFHI are non-interest bearing and unsecured notes used for building homes. These notes represent a 25% portion of the SHOP grants received as of June 30, 2018 and 2017, respectively, and are payable through 2021 in monthly installments of principal and interest.

BOKF, NA dba Bank of Texas

During 2013, the Organization obtained a note payable for $150,000 from BOKF, NA dba Bank of Texas, with 4.03% interest. The note requires interest only payments for the first year followed by monthly payments of principal and interest in the amount of $2,768, maturing November 30, 2018. This note contains covenants with which the Organization must comply.

During 2016, the Organization obtained two notes of $125,000, each from BOKF, NA dba Bank of Texas, with 4.71% interest. The notes require monthly payments of principal and interest of $2,346, maturing July 15, 2021. These notes contain covenants with which the Organization must comply. As of June 30, 2018, the Organization was in compliance with all covenants associated with these notes.

9. LINES OF CREDIT AND NOTES PAYABLE – cont'd.

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 loan were $1,401,012. The note includes $246,723 and $416,855 of prepaid interest at a rate of 2.75% as of June 30, 2018 and 2017, respectively, and $30,000 of loan fees. The debt is secured by approximately $1,210,251 and $1,410,000 of mortgages receivable as of June 30, 2018 and 2017, respectively, and requires monthly payments ranging from $89 to $8,800, based on a payment schedule that is based on the anticipated amounts to be received from those mortgages receivable. The note matures on July 15, 2038.

City of Annapolis – 55 Clay

During 2013, the Organization obtained a note payable for $125,000 from the city of Annapolis, with 0% interest. During 2016, the note was extended to be repaid in full at the earlier of the sale of the home at 55 Clay Street or June 30, 2016. During 2017, the note was amended to require four equal installment payments of $31,250 to be made from March 2017 through September 2017 with a maturity date of October 31, 2017. The balance on the note was paid in full during the year ended June 30, 2018.

City of Annapolis – 123 Clay

During 2014, the Organization obtained a note payable for $82,000 from the city of Annapolis, with 0% interest. During 2016, the note was extended to be repaid in full at the earlier of the sale of the home at 123 Clay Street or on December 31, 2016. During 2017, the note was extended to be repaid in full at the earlier of the sale of the home at 123 Clay Street or on December 31, 2017. The balance on the note was paid in full during the year ended June 30, 2018.

CDFC, net

During 2015, as part of the Sandtown merger, the Organization assumed notes payable to Baltimore Community Development Financing Corporation (CDFC). The notes are secured by mortgages receivable and are non-interest bearing with various maturity dates through 2021. The Organization imputed interest on these notes using a 4.25% interest rate at the date of the merger to approximate the fair market value of the liability. The notes are carried net of a discount of $8,028 and $14,451 as of June 30, 2018 and 2017, respectively.

M&T Notes

During 2015, as part of a merger, the Organization assumed notes payable to M&T Bank. The notes are secured by mortgages receivable, and bear interest at rates from 5.70% to 5.80% with various payment terms and maturity dates through 2033.

9. LINES OF CREDIT AND NOTES PAYABLE – cont'd.

Rosedale Federal Savings and Loan Association

During 2017, the Organization obtained a $1,150,000 construction loan for 9 townhouses in Baltimore City. The loan bears interest at prime plus .50% (5.50% and 4.75% as of June 30, 2018 and 2017, respectively), but not less than 4.00%, and is secured by the properties being constructed. The loan requires interest only monthly payments until the maturity date of November 1, 2019, at which time all unpaid principal and interest is due. $1,091,161 and $686,141 were outstanding on this loan as of June 30, 2018 and 2017, respectively.

During 2017, the Organization obtained a $1,000,000 revolving line of credit. The loan bears interest at prime plus 1% (6% and 5.25% as of June 30, 2018 and 2017, respectively). The loan requires interest only monthly payments until the maturity date of December 1, 2019, at which time all unpaid principal and interest is due. Borrowing outstanding under the revolving line of credit totaled $397,844 and $0, as of June 30, 2018 and 2017, respectively.

The future minimum principal payments for the next five years and thereafter, based on maturity dates are as follows:

For the years ended June 30,:		
2019	$	470,854
2020		1,946,778
2021		308,890
2022		289,695
2023		289,695
Thereafter		2,806,252
Total	$	6,112,164

Interest expense on the lines of credit and notes payable totaled $41,656 and $68,405 for the years ended June 30, 2018 and 2017, respectively. In addition, the Organization paid interest of $106,730 and $65,391 for the years ending June 30, 2018 and 2017, respectively, which has been capitalized as part of inventory of homes on the consolidated statements of financial position.

10. REAL ESTATE SALES

During the years ended June 30, 2018 and 2017, the Organization sold 8 and 5 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.

11. DONATED MATERIAL AND SERVICES

Individuals volunteer their time and perform a variety of tasks that assist the Organization with its program, fundraising and administrative activities. 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.

The following amounts are included as donated property and donated goods or services in the accompanying consolidated activities as of and for the year ended June 30,:

	2018	2017
Donated property - capitalized in homes inventory	$ 49,000	$ 55,000
Materials and equipment - capitalized in homes inventory	36,831	20,150
Donated services - individual support meeting requirements for recognition	77,790	63,816
Donated materials and services	$ 163,621	$ 138,966

12. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following as of June 30,:

	2018	2017
Purpose restrictions		
Workforce development	$ 235,773	$ 90,562
Youth passenger bus	-	15,989
Team builds	10,500	15,000
Capacity building	358,039	-
Homebuyer services	27,500	-
House construction and rehabilitation		
Home sponsorships	234,167	-
ReStore	94,446	88,854
Chesapeake Matched Savings Account	505	505
Total purpose restrictions	$ 960,930	$ 210,910
Time restrictions		
Long-term contributions receivable, net	309,225	326,184
Total Temporarily Restricted Net Assets	$ 1,270,155	$ 537,094

13. LOSS ON SALE OF HOMES

During the year ended June 30, 2018, five homes were sold that were originally held as inventory to be sold within the House construction program. The proceeds were $215,281 and the carrying value of the homes totaled $350,086, resulting in a loss of $134,805. Additionally, the Organization gave back 29 properties to the city of Baltimore that were originally in construction in progress, resulting in a loss of $188,177. During the year ended June 30, 2017, three such homes were sold. The proceeds were $27,277 and the carrying value of the homes totaled $28,797, resulting in a loss of $1,520.

14. LEASES

The Organization leases its office and warehouse space under a non-cancelable operating lease agreement. During 2015, the lease agreement was renewed for a five-year period from January 1, 2015 to December 31, 2019. The lease provides for annual rent of $177,650 for the first year with annual increases of approximately 3%.

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 for the Dundalk ReStore was amended to reflect base rent being abated from September 1, 2017 through January 31, 2018. For the month of February 2018 rent was $10,194. From March 1, 2018 through February 28, 2019 the annual rent is $116,250 with annual increases of approximately 3%. The lease term will end June 30, 2023.

In 2013, the Organization leased a building for its Columbia ReStore location under a non-cancellable operating lease agreement. The lease agreement is for 66 months and through August 2018. The lease provides for basic annual rent of $82,886 with annual increases of 2% of the previous year's base rental. The lease was renewed in July 2018 to extend through February 2026.

In 2015, the Organization leased a building for its Glen Burnie ReStore location under a non-cancellable operating lease agreement. The lease agreement is for 63 months through July 2020. The lease provides for basic annual rent of $128,700 with annual increases of approximately 2.50%.

In 2016, the Organization leased a building for its Timonium ReStore location under a non-cancellable operating lease agreement. The lease is for 63 months through November 2020. The lease provides for basic annual rent of $138,060 with annual increases of approximately 2.50%.

Rent expense for the years ended June 30, 2018 and 2017 was $837,095 and $849,815, respectively.

14. LEASES – cont'd.

The minimum annual lease payments under these leases are as follows:

For the years ended June 30,:		
2019	$	676,600
2020		631,373
2021		333,495
2022		252,041
2023		214,677
Thereafter		313,810
Total	$	2,421,996

15. 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. The Organization's contributions totaled $26,042 and $26,318 for the years ended June 30, 2018 and 2017, respectively.

16. 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 and $15,000 to HFHI for the years ended June 30, 2018 and 2017, respectively. Such amounts are included in program services expense in the consolidated statements of activities.