

**GORFINE, SCHILLER & GARDYN, P.A.**

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS

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

CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012

**HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES**  
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*June 30, 2013 and 2012*

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**INDEPENDENT AUDITORS' REPORT**

**To the Board of Directors  
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, which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, 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.

***Management's Responsibility for the Consolidated Financial Statements***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the 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 accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Habitat for Humanity of the Chesapeake, Inc. and Affiliates as of June 30, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Martini, Schiller & Gaudyn, P.A.*

**February 18, 2014**  
**Owings Mills, Maryland**

## **CONSOLIDATED FINANCIAL STATEMENTS**

**HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
*June 30, 2013 and 2012*

	<u>2013</u>	<u>2012</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,157,552	\$ 1,507,531
Contributions receivable	69,776	-
Mortgages receivable - current portion	634,192	612,843
Accounts receivable	205,477	37,743
Grants receivable	719,887	562,964
Inventory of homes	8,487,942	6,874,300
Restore inventory	29,544	-
Prepaid interest	416,855	-
Prepaid expenses	41,929	30,259
<b>Total current assets</b>	<u>12,763,154</u>	<u>9,625,640</u>
<b>PROPERTY AND EQUIPMENT</b>		
Land and buildings	665,106	665,106
Furniture and fixtures and equipment	82,055	82,055
Leasehold improvements	224,596	91,840
Vehicles	192,775	192,775
Computers	103,617	102,922
	<u>1,268,149</u>	<u>1,134,698</u>
Less accumulated depreciation	(539,059)	(479,684)
<b>Net property and equipment</b>	<u>729,090</u>	<u>655,014</u>
<b>OTHER ASSETS</b>		
Long-term mortgages receivable, net	6,483,150	5,879,471
Investments in limited liability companies	12,830,270	8,137,234
Deposits	25,556	22,605
Loan fees, net of accumulated amortization	52,522	24,785
<b>Total other assets</b>	<u>19,391,498</u>	<u>14,064,095</u>
 <b>TOTAL ASSETS</b>	 <u>\$ 32,883,742</u>	 <u>\$ 24,344,749</u>

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

	<u>2013</u>	<u>2012</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 593,769	\$ 853,501
Notes payable - current portion	169,901	90,130
Line of credit	2,079,286	530,286
Deferred rent	<u>63,895</u>	<u>49,637</u>
<b>Total current liabilities</b>	<u>2,906,851</u>	<u>1,523,554</u>
<b>LONG-TERM LIABILITIES</b>		
Notes payable, related parties	14,846,758	9,732,276
Notes payable	4,449,223	1,881,814
Program debt	<u>1,249,407</u>	<u>2,044,553</u>
<b>Total long-term liabilities</b>	<u>20,545,388</u>	<u>13,658,643</u>
<b>Total liabilities</b>	<u>23,452,239</u>	<u>15,182,197</u>
<b>NET ASSETS</b>		
Unrestricted	8,759,459	8,725,772
Temporarily restricted	<u>672,044</u>	<u>436,780</u>
<b>Total net assets</b>	<u>9,431,503</u>	<u>9,162,552</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 32,883,742</u>	<u>\$ 24,344,749</u>

**HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
*For the Years Ended June 30, 2013 and 2012*

	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>REVENUES, GAINS, AND SUPPORT</b>						
Contributions	\$ 1,568,127	\$ 746,047	\$ 2,314,174	\$ 1,271,349	\$ 791,367	\$ 2,062,716
Donated goods and services	60,691	-	60,691	92,502	-	92,502
Donated property	567,800	-	567,800	-	-	-
Government grants	1,229,213	-	1,229,213	1,069,354	-	1,069,354
Real estate sales	3,927,859	-	3,927,859	4,273,771	-	4,273,771
Restore income	1,885,650	-	1,885,650	1,726,156	-	1,726,156
Special events, net of expenses of \$38,108 and \$18,193, respectively	(6,999)	-	(6,999)	31,481	-	31,481
Miscellaneous income	11,614	-	11,614	13,709	-	13,709
Debt forgiveness	1,307,789	-	1,307,789	1,862,186	-	1,862,186
Amortization of mortgage discounts	695,564	-	695,564	429,249	-	429,249
	<u>11,247,308</u>	<u>746,047</u>	<u>11,993,355</u>	<u>10,769,757</u>	<u>791,367</u>	<u>11,561,124</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>						
Satisfaction of program restrictions	510,783	(510,783)	-	524,580	(524,580)	-
Satisfaction of time restrictions	-	-	-	108,936	(108,936)	-
	<u>510,783</u>	<u>(510,783)</u>	<u>-</u>	<u>633,516</u>	<u>(633,516)</u>	<u>-</u>
<b>Total revenues, gains, and support</b>	<u>11,758,091</u>	<u>235,264</u>	<u>11,993,355</u>	<u>11,403,273</u>	<u>157,851</u>	<u>11,561,124</u>
<b>EXPENSES</b>						
Program services						
House construction	8,842,164	-	8,842,164	8,749,653	-	8,749,653
Restore	1,656,957	-	1,656,957	1,442,283	-	1,442,283
Total program services	<u>10,499,121</u>	<u>-</u>	<u>10,499,121</u>	<u>10,191,936</u>	<u>-</u>	<u>10,191,936</u>
Supporting services						
Management and general	1,057,122	-	1,057,122	1,280,420	-	1,280,420
Fundraising	417,571	-	417,571	358,844	-	358,844
<b>Total expenses</b>	<u>11,973,814</u>	<u>-</u>	<u>11,973,814</u>	<u>11,831,200</u>	<u>-</u>	<u>11,831,200</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(215,723)</u>	<u>235,264</u>	<u>19,541</u>	<u>(427,927)</u>	<u>157,851</u>	<u>(270,076)</u>
<b>OTHER INCOME (EXPENSES)</b>						
Investment income (loss) from limited liability companies	224,904	-	224,904	(25,840)	-	(25,840)
Loss on sale of homes	-	-	-	(54,204)	-	(54,204)
Unrelated business income tax	24,506	-	24,506	(60,029)	-	(60,029)
<b>Total other income (expenses)</b>	<u>249,410</u>	<u>-</u>	<u>249,410</u>	<u>(140,073)</u>	<u>-</u>	<u>(140,073)</u>
<b>CHANGES IN NET ASSETS</b>						
<b>BEFORE TRANSFER OF ASSETS</b>	33,687	235,264	268,951	(568,000)	157,851	(410,149)
Transfer of assets from Habitat for Humanity of Howard County, Inc.	-	-	-	225,518	-	225,518
<b>CHANGES IN NET ASSETS</b>	<u>33,687</u>	<u>235,264</u>	<u>268,951</u>	<u>(342,482)</u>	<u>157,851</u>	<u>(184,631)</u>
<b>NET ASSETS - Beginning of year</b>	<u>8,725,772</u>	<u>436,780</u>	<u>9,162,552</u>	<u>9,068,254</u>	<u>278,929</u>	<u>9,347,183</u>
<b>NET ASSETS - End of year</b>	<u>\$ 8,759,459</u>	<u>\$ 672,044</u>	<u>\$ 9,431,503</u>	<u>\$ 8,725,772</u>	<u>\$ 436,780</u>	<u>\$ 9,162,552</u>

*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**  
*For the Years Ended June 30, 2013 and 2012*

	2013					
	<u>Program Services</u>			<u>Supporting Services</u>		
	<u>House Construction</u>	<u>Restore</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Advertising	\$ 16,892	\$ 91,650	\$ 108,542	\$ -	\$ 84,552	\$ 193,094
Amortization	2,263	-	2,263	-	-	2,263
Bad debt expense	10,187	-	10,187	1,505	-	11,692
Computer and software maintenance	9,135	5,536	14,671	11,420	24,910	51,001
Conference expenses	8,200	4,995	13,195	4,098	2,034	19,327
Construction and rehabilitation costs on houses sold and settled	6,878,325	-	6,878,325	-	-	6,878,325
Depreciation	14,896	23,909	38,805	15,454	5,116	59,375
Discounts of mortgages receivable	653,174	-	653,174	-	-	653,174
Donations	-	-	-	-	-	-
Dues and subscriptions	1,490	80	1,570	14,091	8,385	24,046
Employee benefits	51,798	52,718	104,516	53,762	17,815	176,093
Habitat for Humanity International tithe	32,500	-	32,500	-	-	32,500
Homeownership	42,173	-	42,173	-	-	42,173
Insurance	49,970	1,935	51,905	21,983	53	73,941
Interest	-	35,108	35,108	1,303	-	36,411
Interest buydown expense	158,523	-	158,523	-	-	158,523
Meals and entertainment	4,963	4,461	9,424	15,815	2,077	27,316
Miscellaneous expenses	169	13,984	14,153	4,644	-	18,797
Office administration and supplies	32,606	33,183	65,789	33,841	11,214	110,844
Postage	2,718	2,912	5,630	3,041	1,290	9,961
Printing and production	9,935	9,379	19,314	9,201	1,622	30,137
Professional fees	73,454	31,698	105,152	146,249	13,845	265,246
Purchased merchandise	-	274,635	274,635	-	-	274,635
Remediation of houses previously sold	11,661	-	11,661	-	-	11,661
Rent	89,088	235,620	324,708	40,028	18,810	383,546
Repairs and maintenance	12,489	34,235	46,724	3,018	1,338	51,080
Restore start-up expenses	-	36,128	36,128	-	-	36,128
Salaries	586,031	596,447	1,182,478	608,277	201,617	1,992,372
Taxes - other	-	16,419	16,419	500	-	16,919
Taxes - payroll	40,167	40,879	81,046	41,689	13,814	136,549
Telephone	30,354	24,067	54,421	12,727	5,376	72,524
Travel	9,574	4,881	14,455	7,740	1,486	23,681
Truck expense	-	60,377	60,377	-	-	60,377
Utilities	9,429	21,721	31,150	6,736	2,217	40,103
Volunteers	-	-	-	-	-	-
<b>Total</b>	<u>\$ 8,842,164</u>	<u>\$ 1,656,957</u>	<u>\$ 10,499,121</u>	<u>\$ 1,057,122</u>	<u>\$ 417,571</u>	<u>\$ 11,973,814</u>

*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 - CONTINUED**  
*For the Years Ended June 30, 2013 and 2012*

	2012					
	<u>Program Services</u>			<u>Supporting Services</u>		
	<u>House Construction</u>	<u>Restore</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Advertising	\$ 21,158	\$ 74,984	\$ 96,142	\$ -	\$ 45,602	\$ 141,744
Amortization	2,263	-	2,263	-	-	2,263
Bad debt expense	17,196	472	17,668	1,272	5,790	24,730
Computer and software maintenance	15,527	3,439	18,966	15,726	2,440	37,132
Conference expenses	1,456	570	2,026	8,453	1,539	12,018
Construction and rehabilitation costs on houses sold and settled	7,064,370	-	7,064,370	-	-	7,064,370
Depreciation	15,425	31,867	47,292	19,428	2,234	68,954
Discounts of mortgages receivable	304,694	-	304,694	-	-	304,694
Donations	56,511	-	56,511	-	-	56,511
Dues and subscriptions	2,472	1,547	4,019	2,692	5,135	11,846
Employee benefits	38,486	40,163	78,649	59,564	15,389	153,602
Habitat for Humanity International tithe	75,000	-	75,000	-	-	75,000
Homeownership	37,267	-	37,267	-	-	37,267
Insurance	14,136	8,832	22,968	5,705	2,225	30,898
Interest	31,563	37,598	69,161	-	-	69,161
Interest buydown expense	153,883	-	153,883	-	-	153,883
Meals and entertainment	5,068	5,019	10,087	8,877	-	18,964
Miscellaneous expenses	-	-	-	-	-	-
Office administration and supplies	40,029	35,109	75,138	40,656	6,300	122,094
Postage	5,912	1,095	7,007	6,004	931	13,942
Printing and production	16,115	2,925	19,040	9,354	4,960	33,354
Professional fees	147,805	3,077	150,882	144,020	35,033	329,935
Purchased merchandise	-	312,345	312,345	-	-	312,345
Remediation of houses previously sold	26,475	-	26,475	-	-	26,475
Rent	62,700	199,340	262,040	61,520	9,867	333,427
Repairs and maintenance	20,076	32,442	52,518	3,464	1,818	57,800
Restore start-up expenses	-	-	-	-	-	-
Salaries	492,325	513,771	1,006,096	761,963	196,861	1,964,920
Taxes - other	-	13,331	13,331	850	-	14,181
Taxes - payroll	38,071	39,728	77,799	58,920	15,222	151,941
Telephone	25,734	15,947	41,681	20,195	4,050	65,926
Travel	11,587	9,456	21,043	45,555	2,534	69,132
Truck expense	-	39,166	39,166	-	-	39,166
Utilities	5,809	19,989	25,798	5,901	914	32,613
Volunteers	540	71	611	301	-	912
<b>Total</b>	<u>\$ 8,749,653</u>	<u>\$ 1,442,283</u>	<u>\$ 10,191,936</u>	<u>\$ 1,280,420</u>	<u>\$ 358,844</u>	<u>\$ 11,831,200</u>

*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**  
*For the Years Ended June 30, 2013 and 2012*

	<b>2013</b>	<b>2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 268,951	(184,631)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	59,375	68,954
Amortization	2,263	2,263
Transfer of assets from Habitat for Humanity of Howard County, Inc.	-	(225,518)
Interest buydown expense from sale of mortgages receivable	158,523	46,166
Mortgages assumed on real estate sales	(2,224,005)	(955,903)
Bad debt expense	11,692	24,730
Changes in equity in investments in limited liability companies	(223,837)	31,366
Forgiveness of program debt	(1,307,789)	(1,862,186)
Discounts of mortgages receivable	653,174	304,694
Amortization of mortgage discounts	(695,564)	(429,249)
Changes in operating assets and liabilities:		
Contributions receivable	(81,468)	84,206
Accounts receivable	(167,734)	(15,773)
Grants receivable	(156,923)	(126,757)
Inventory of homes	(1,241,087)	(252,030)
Restore inventory	(29,544)	-
Prepaid expenses	(11,670)	2,817
Accounts payable and accrued expenses	(259,732)	(5,883)
Deferred rent	14,258	(11,785)
	<b>(5,231,117)</b>	<b>(3,504,519)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of property and equipment	(133,451)	(49,385)
Proceeds from sale of mortgages receivable	565,732	166,962
Proceeds from transfer of assets from Habitat for Humanity of Howard County, Inc.	-	13,055
Principal payments collected on mortgages receivable	544,557	538,376
Initial investment in limited liability company	(4,469,199)	-
Increase in deposits	(2,951)	(1,740)
	<b>(3,495,312)</b>	<b>667,268</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net payments on line of credit	1,549,000	(50,314)
Proceeds from notes payable, related parties	5,114,482	-
Proceeds from notes payable	3,538,647	600,000
Proceeds from program debt	1,512,758	3,396,991
Principal payments on notes payable	(1,338,322)	(206,686)
Principal payments on program debt	(1,000,115)	(2,008,060)
	<b>9,376,450</b>	<b>1,731,931</b>
<b>NET CHANGES IN CASH AND CASH EQUIVALENTS</b>	<b>650,021</b>	<b>(1,105,320)</b>
<b>CASH AND CASH EQUIVALENTS - Beginning of year</b>	<b>1,507,531</b>	<b>2,612,851</b>
<b>CASH AND CASH EQUIVALENTS - End of year</b>	<b>\$ 2,157,552</b>	<b>\$ 1,507,531</b>

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

**HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
*June 30, 2013 and 2012*

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**NOTE A – NATURE OF ACTIVITIES**

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), and Chesapeake Funding Company I, LLC (Chesapeake Funding).

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.

During the current year, Habitat formed Chesapeake Funding. 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.

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 and Baltimore County. On June 30, 2012, the Organization expanded its service area to include Howard County. The Organization is supported primarily through contributions, home sponsorships, government grants, real estate sales, restore sales and donated goods and services.

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 four Habitat for Humanity Restores (the Restores), one of which was opened during the year ended June 30, 2012, and another of which was opened during the year ended June 30, 2013. 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.

## **NOTE A – NATURE OF ACTIVITIES – Continued**

### **Program Services**

Program services encompass activities directly and indirectly related to establishing affordable and decent housing through acquisition, rehabilitation and sale of homes. Program service expenses are categorized as House construction or Restore expenses.

### **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.

## **NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **1. Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of Habitat, and those of its affiliates JLR, Chesapeake CHDO and Chesapeake Funding. Habitat is the sole member of its affiliates. All intercompany transactions and balances have been eliminated in consolidation.

### **2. Basis of Accounting**

The Organization prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, which involves the application of accrual basis accounting. Accordingly, revenues and gains are recognized when earned, expenses and losses are recognized when incurred and all significant receivables, payables and other liabilities are reflected in the accompanying consolidated financial statements.

### **3. Cash and Cash Equivalents**

For purposes of financial reporting, the Organization considers demand deposits and money market accounts with an original maturity of three months or less and any certificates of deposit that do not contain material early withdrawal penalties, to be cash and cash equivalents. At various times during the year, bank balances may have exceeded the Federal Deposit Insurance Corporation (FDIC) insurance limitation for interest bearing accounts. The Organization does not believe it is exposed to any significant loss on such deposits.

### **4. Investments in Limited Liability Companies**

The Organization has investments in limited liability companies in which it owns more than 20% of the entity, which are accounted for under the equity method. The initial investment is recorded at cost.

## **NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

### **5. Contributions Receivable**

Contributions receivable represents amounts due from contributors based on unconditional promises to give. The Organization provides an allowance for potentially uncollectible contributions based upon a review of their outstanding pledges receivable and their historical experience with individual accounts. As of June 30, 2013 the Organization had \$69,776 of unconditional promises to give, all of which management considered fully collectible. As of June 30, 2012 the Organization did not have any unconditional promises to give.

### **6. Mortgages Receivable**

#### First Mortgages

Mortgages receivable consists of non-interest bearing mortgages, which are secured by real estate and payable in monthly installments, with 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 notes are shown on the consolidated statements of financial position discounted at the prevailing interest rate, for the time value of money, 3.52% and 2.76% at June 30, 2013 and 2012, respectively. 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 loans (see Note I).

#### Second, Third and Fourth Mortgages Receivable

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 purchase 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 Financial Accounting Standards Board Accounting Standards Codification (ASC) 450, *Contingencies*, which relates to the accounting concept of conservatism. Since these mortgages are contingent receivables, they are not recorded on the books because there is a significant uncertainty regarding collectability.

### **7. Inventory of Homes**

Inventory of homes consists of houses and lots purchased by the Organization for rehabilitation and resale. The houses and lots are valued at the specific acquisition and carrying costs. The Organization often sells homes at a loss and therefore fair market consideration of the inventory is not meaningful to the Organization since the Organization's mission is to sell housing to qualified individuals at prices they can afford without consideration of the fair value of the home or whether losses will be incurred.

## **NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

### **8. 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 income.

Depreciation is calculated under the straight-line method over the estimated useful lives of the respective assets, which range from 5 to 39 years. Depreciation expense amounted to \$59,375 and \$68,954 for the years ended June 30, 2013 and 2012, respectively.

### **9. Impairment of Long-Lived Assets**

In accordance with ASC *Impairment or disposal of Long-Lived Assets*, the Organization reviews its property for impairments whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of an asset, an impairment loss is recognized for the difference. No impairment loss has been recognized during the years ended June 30, 2013 and 2012.

### **10. Warranties**

The Organization provides homeowner warranties on the homes it creates 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. Accrued warranties included in accounts payable and accrued expenses on the consolidated statements of financial position were \$10,000 at June 30, 2012. An accrual was not considered necessary at June 30, 2013.

### **11. Restricted and Unrestricted Revenue**

Contributions received by the Organization are presented at their fair market value on the date of such gifts. Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor imposed restrictions.

Unconditional promises to give are recognized as revenue when the underlying promises are received by the Organization. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

The Organization reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the time period or manner of use of the contribution. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a donor restriction expires (that is, when a stipulated time restriction or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

## **NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

### **12. Donated Materials and 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.

### **13. 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, *Contributions Received* where a major uncertainty about the existence of value may indicate that an item received or given should not be recognized. ASC, *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.

### **14. Restore Inventory**

Restore inventory consists of purchased merchandise to be sold in the Restores and is valued at the lower of cost or market.

### **15. 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.

### **16. Income Taxes**

Habitat 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, with the exception of the Restores (see Note A) 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.

The Organization follows the provisions of the ASC, *Accounting for Income Taxes*. This topic requires the Organization to recognize or disclose any tax positions that would result in unrecognized tax benefits. The Organization has no positions that would require disclosure or recognition under the topic. The Organization's tax returns for fiscal years after June 30, 2010 are subject to examinations by the IRS and state taxing authorities.

Unrelated business income tax in the consolidated statements of activities consists of an accrual for the current year's income tax for the Restores net of any adjustments to prior year accruals. During the current year, expenses were identified that should have been included in the unrelated business income tax returns in prior years. The Organization intends to file amended returns including these expenses and the anticipated refunds of \$20,403 are included in unrelated business income tax for the year ended June 30, 2013.



## **NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

### **17. Net Assets**

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization had no permanently restricted net assets at June 30, 2013 and 2012.

### **18. Use of Estimates**

The preparation of consolidated 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 could differ from those estimates.

### **19. Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year presentation.

### **20. Subsequent Events**

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through February 18, 2014, the date the consolidated financial statements were available to be issued. During this period, the Organization had material recognizable subsequent events as discussed in Note H and Note J.

## **NOTE C – 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, 2013 and 2012 are as follows:

	<b><u>2013</u></b>	<b><u>2012</u></b>
Mortgages receivable	11,907,906	\$ 11,325,268
Less: discount on mortgages	<u>(4,790,564)</u>	<u>(4,832,954)</u>
	<b><u>\$ 7,117,342</u></b>	<b><u>\$ 6,492,314</u></b>

### **NOTE C – MORTGAGES RECEIVABLE – Continued**

At June 30, 2013, the balances due on the mortgages that are scheduled to be received for the next five years and thereafter are as follows:

Years ending June 30, 2014	\$	634,192
2015		625,417
2016		618,917
2017		606,265
2018		585,031
Thereafter		<u>8,838,084</u>
Total	\$	<u>11,907,906</u>

### **NOTE D – LOAN FEES**

At June 30, 2013 and 2012, loan fees are as follows:

	<b><u>2013</u></b>	<b><u>2012</u></b>
Loan fees at cost	\$ 63,955	\$ 33,955
Less: accumulated amortization	<u>(11,433)</u>	<u>(9,170)</u>
Loan fees, net of amortization	<u>\$ 52,522</u>	<u>\$ 24,785</u>

Loan fees are amortized using the straight-line method over the life of the related loans, ranging from fifteen to twenty five years. Amortization expense was \$2,263 for each of the years ended June 30, 2013 and 2012. Amortization expense for each of the next five years will be \$3,463.

### **NOTE E – FAIR VALUE MEASUREMENTS**

The ASC *Fair Value Measurements and Disclosure* topic requires financial assets and liabilities to be valued and disclosed based on the following structure:

Level I - Investments included in this designation are valued based on quoted prices for identical investments in active markets as of the reporting date.

Level II - Investments included in this designation are valued based on observable market based inputs or unobservable inputs that are corroborated by market data.

Level III - Investments included in this designation are valued based on unobservable inputs that are significant to the valuation of a particular investment. The inputs into the determination of fair value in this level require significant management judgment or estimates.

In determining the appropriate levels for each investment, Management performs a detailed analysis of the assets and liabilities that are subject to the ASC Fair Value Measurements and Disclosure topic. In some instances, an investment may be valued using a combination of inputs. In such instances, the investment is to be classified based on the lowest significant level used in the valuation. Management's assessment of the significance of a particular input in the fair value measurement of an investment requires judgment and considers factors specific to the investment.

**NOTE E – FAIR VALUE MEASUREMENTS – Continued**

Following is a description of the valuation methodology used for assets and liabilities measured at fair value. There have been no changes in the methodology used at June 30, 2013 and 2012.

*Donated property – capitalized in homes inventory:* Valued at the appraised amount at the time of the donation.

*Materials and equipment – capitalized in homes inventory:* Valued at the price provided by the donor on the invoice for the material or equipment provided or at the price of a comparable item at a local store selling materials and equipment for use in construction of homes.

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 method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table is set forth by level, within the fair value hierarchy, the Organization’s assets at fair value as of June 30, 2013 and 2012:

**Assets at Fair Value as of June, 30 2013**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Donated property – capitalized in homes inventory	\$ -	\$ 567,800	\$ -	\$ 567,800
Materials and equipment – capitalized in homes inventory	<u>-</u>	<u>-</u>	<u>39,374</u>	<u>39,374</u>
Total assets at fair value	<u>\$ -</u>	<u>\$ 567,800</u>	<u>\$ 39,374</u>	<u>\$ 607,174</u>

**Assets at Fair Value as of June, 30 2012**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Materials and equipment – capitalized in homes inventory	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 67,636</u>	<u>\$ 67,636</u>
Total assets at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 67,636</u>	<u>\$ 67,636</u>

## **NOTE F – 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. The 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.

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

In 2010, the Organization invested, along with 5 other Habitat affiliates, in Habitat Affiliate 1 with 20.526% 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 are to be used solely for the purpose of constructing and selling qualified housing properties to low income residents subject to certain conditions. See Note I for loan terms.

The following is a summary of the activity for Habitat Affiliate 1 for the years ending June 30:

	<b><u>2013</u></b>	<b><u>2012</u></b>
Beginning balance	\$ 3,854,542	\$ 3,853,917
Investment activity	<u>97,857</u>	<u>625</u>
Ending balance	<u>\$ 3,952,399</u>	<u>\$ 3,854,542</u>

The following is the condensed financial information of Habitat Affiliate 1 as of and for the years ending June 30:

	<b><u>2013</u></b>	<b><u>2012</u></b>
Cash	\$ 5	\$ 5
Interest receivable	1,089,560	791,050
Note receivable	<u>17,518,157</u>	<u>17,518,157</u>
Total assets	<u>\$ 18,607,722</u>	<u>\$ 18,309,212</u>
Equity	<u>\$ 18,607,722</u>	<u>\$ 18,309,212</u>
Revenue and net income	<u>\$ 473,689</u>	<u>\$ 473,694</u>

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

In 2011, the Organization invested, along with three other Habitat affiliates, in Habitat Affiliate 2 with 43.223% 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 are to be used solely for the purpose of constructing and selling qualified housing properties to low income residents. See Note I for loan terms.

**NOTE F – INVESTMENTS IN LIMITED LIABILITY – Continued**

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

	<b><u>2013</u></b>	<b><u>2012</u></b>
Beginning balance	\$ 4,282,692	\$ 4,314,683
Investment activity	<u>101,271</u>	<u>(31,991)</u>
Ending balance	<u>\$ 4,383,963</u>	<u>\$ 4,282,692</u>

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

	<b><u>2013</u></b>	<b><u>2012</u></b>
Interest receivable	\$ 420,700	\$ 241,890
Note receivable	<u>9,322,862</u>	<u>9,322,862</u>
Total assets	<u>\$ 9,743,562</u>	<u>\$ 9,564,752</u>
Equity	<u>\$ 9,743,562</u>	<u>\$ 9,564,752</u>
Revenue and net income	<u>\$ 271,144</u>	<u>\$ 271,144</u>

**Habitat Harbor Leverage, LLC (Habitat Affiliate 3)**

In 2013, the Organization invested, along with 2 other nonprofit organizations, in Habitat Affiliate 3 with 50.915% 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. 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 are to be used solely for the purpose of constructing and selling qualified housing properties to low income residents subject to certain conditions. See Note I for loan terms.

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

	<b><u>2013</u></b>
Initial investment	\$ 4,469,199
Investment activity	<u>24,709</u>
Ending balance	<u>\$ 4,493,908</u>

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

	<b><u>2013</u></b>
Interest receivable	\$ 133,374
Note receivable	<u>7,430,569</u>
Total assets	<u>\$ 7,563,943</u>
Equity	<u>\$ 7,563,943</u>
Revenue and net income	<u>\$ 180,318</u>

## **NOTE G – DEFERRED RENT**

The Organization's lease agreements for its main office and for its Dundalk and Columbia Restore buildings have provisions for rent payments with fixed annual increases (see Note Q). In accordance with generally accepted accounting principles, the total rent commitment is recognized 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 lease is as follows:

Years ending June 30, 2014	\$ (15,995)
2015	(18,393)
2016	(7,743)
2017	(9,482)
2018	(11,256)
2019	<u>(1,026)</u>
	<u>\$ (63,895)</u>

## **NOTE H – LINES OF CREDIT**

The Organization has a \$50,000 credit line with M & T Bank (M & T), bearing interest at the bank's prime rate plus 1.5%, (4.75% as of June 30, 2013 and 2012) and due on demand. The credit line is secured by all business assets of the Organization. There were no outstanding borrowings as of June 30, 2013 and 2012.

The Organization also has a \$350,000 revolving demand note with M & T, bearing interest at the bank's prime rate, (3.25% as of June 30, 2013 and 2012) 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. There were no outstanding borrowings as of June 30, 2013 and 2012.

The Organization has a \$2,500,000 line of credit with Severn Savings Bank (Severn). The line of credit bears interest at the bank's prime rate (3.25% as of June 30, 2013 and 2012). The line of credit expires December 1, 2014. This line is secured by mortgages receivable in the amount of \$3,682,284 and \$4,655,540 as of June 30, 2013 and 2012, respectively. Outstanding borrowings were \$2,079,286 and \$530,286 as of June 30, 2013 and 2012, respectively. This line of credit contains covenants with which the Organization must comply. Relating to this line of credit, the Organization had an irrevocable letter of credit which authorized the city of Annapolis to draw on the line of credit in an amount not to exceed \$214,332 for the completion of all work required or repair of any damage under the permit from the city of Annapolis. In the current year, this letter of credit was released by the city of Annapolis.

Subsequent to year end, the Organization obtained a commitment letter from M & T for a line of credit in the maximum amount of \$1,325,000 for construction of 18 homes in the 1200 block of Ward Street. The line of credit bears interest at LIBOR plus 4% and will mature one year from the date of closing.

## **NOTE I – NOTES PAYABLE, RELATED PARTIES**

During 2010, in connection with the investment in Habitat Affiliate 1 (see Note F), the Organization received a \$4,445,133 note from City First Capital 21, LLC (a related party). The note requires interest only payments at 0.8126%. 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 December 1, 2016. Management expects that the option will be exercised and the debt will thereby be forgiven. In the event that the option is not exercised principal and interest payments will be made through December 1, 2024.

During 2011, in connection with the investment in Habitat Affiliate 2 (see Note F), the Organization received a \$5,277,163 note from HFHI-SA NMTC V, LLC (a related party). The note requires interest only payments at 0.756432%. 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 March 11, 2018. Management expects that the option will be exercised and the debt will thereby be forgiven. In the event that the option is not exercised principal and interest payments will be made through February 24, 2026.

During 2013, in connection with the investment in Habitat Affiliate 3 (see Note F), the Organization received a \$5,114,482 note from Harbor Community Fund VI, LLC (a related party). The note requires interest only payments at 0.7316%. 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 principal and interest payments will be made through September 10, 2027.

Interest expense on the notes payable, related parties included in investment income from limited liability companies on the consolidated statements of activities was \$100,026 and \$76,641 for the years ended June 30, 2013 and 2012, respectively.

## **NOTE J – NOTES PAYABLE**

Notes payable consisted of the following as of June 30:

	<b><u>2013</u></b>	<b><u>2012</u></b>
Neighborhood Housing Services of Baltimore, Inc.	\$ 409,722	\$ 426,389
Self-help Homeownership Opportunity Program SECU	78,234 539,140	51,324 552,669
The Columbia Foundation, Inc.	37,066	41,562
Rosedale Federal Savings and Loan Association	1,428,000	900,000
BOKF, NA dba Bank of Texas	150,000	-
Northwest Savings Bank	4,095	-
PNC Community Development Company, LLC	1,847,867	-
City of Annapolis	<u>125,000</u>	<u>-</u>
Total long-term debt	\$ 4,619,124	\$ 1,971,944
Less current portion	<u>(169,901)</u>	<u>(90,130)</u>
Long-term portion	<u>\$ 4,449,223</u>	<u>\$ 1,881,814</u>

## **NOTE J – NOTES PAYABLE – Continued**

### **Neighborhood Housing Services of Baltimore**

Note payable to Neighborhood Housing Services of Baltimore, Inc. (NHS), with 0% interest, with monthly principal payments of \$1,389 maturing 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 noninterest-bearing and unsecured notes used for building homes. These notes represent a 25% portion of the SHOP grants received as of June 30, 2013 and 2012, respectively, payable through 2017.

### **SECU**

Note payable for \$600,000 with SECU. The note is to be repaid with monthly principal and interest payments of \$3,898 until May 2018, at which time the balance of the note is due. The note carries a 6.0% interest rate. This note contains covenants with which the Organization must comply and although several covenants were not met, SECU waived these covenants for the current and previous year.

### **The Columbia Foundation, Inc.**

In 2012, as part of the Transfer of assets from Howard County (see Note P) the Organization acquired a note payable to The Columbia Foundation, Inc. with 4.00% interest. The note calls for monthly payments of principal and interest in the amount of \$506. Subsequent to year end, the note was paid in full.

### **Rosedale Federal Savings and Loan Association**

During 2011, the Organization obtained a construction loan up to a maximum amount of \$1,800,000 from Rosedale Federal Savings and Loan Association, with 5.25% interest. The note calls for interest only payments through February 1, 2014. The note was to be paid in full on March 1, 2014. Subsequent to year end, the loan was verbally extended through March 1, 2015, pending filing of the extension documents. The loan balance is included in long-term liabilities in the consolidated statements of financial position and is included in the principal payments for 2015 in the schedule below.

### **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.

### **Northwest Savings Bank**

During 2013, the Organization obtained a construction loan up to a maximum of \$250,000 from Northwest Savings Bank, with interest at 1% more than the prime rate (4.25% as of June 30, 2013). The note calls for interest only payments and is due on demand.



## **NOTE J – NOTES PAYABLE – Continued**

### **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 \$416,855 of prepaid interest and \$30,000 of loan fees. The note is secured by \$1,847,867 of mortgages receivable 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 July 15, 2038.

### **City of Annapolis**

During 2013, the Organization obtained a note payable for \$125,000 from the city of Annapolis, with 0% interest. The note is to be repaid in full at the earlier of the sale of the home at 55 Clay Street or December 31, 2014.

The future minimum principal payments for the next five years and thereafter are as follows:

Years ending June 30, 2014	\$ 169,901
2015	1,708,029
2016	155,741
2017	147,903
2018	582,818
Thereafter	<u>1,854,732</u>
	<u>\$ 4,619,124</u>

Interest expense on the notes payable and lines of credit were \$36,411 and \$69,161 for the years ended June 30, 2013 and 2012, respectively. Interest of \$99,469 was capitalized during the year ended June 30, 2013.

Subsequent to year end, the Organization obtained the following notes payable:

A note payable for \$210,291 from Revere Bank, with interest at the greater of 1% more than the prime rate or 4.75%. The note calls for interest only payments until the maturity date of October 2, 2014 on which date the note is due in full.

A note payable for \$685,000 from the Municipal Employees Credit Union of Baltimore, with interest at 4.5%. The note calls for interest only payments until the maturity date of December 31, 2014 on which date the note is due in full.

A note payable for \$82,000 from the city of Annapolis, with 0% interest. The note is to be repaid in full at the earlier of the sale of the home at 123 Clay Street or December 31, 2015.

## **NOTE K – PROGRAM DEBT**

During 2012, the Organization entered into a development agreement with Healthy Neighborhoods, Inc. (HNI), which superseded prior agreements. Under the development agreement the Organization is required to expend no less than \$5,000,000 to acquire and rehabilitate 50 residential properties. Loan proceeds are drawn by the Organization for purposes of acquiring and rehabilitating homes. Upon settlement of such homes, the Organization has the option of remitting the proceeds from the sale of the home as a prepayment to HNI. Under this option, the remaining liability relating to this home will be forgiven. This forgiving of the remaining liability is recognized in the consolidated statements of activities as debt forgiveness revenue. Any outstanding liabilities will become due two years after the date of the acquisition of the property. Interest will accrue on the loan at prime plus 3%. Interest does not accrue until after the payment of the final portion of the developer's fee associated with the property.

## **NOTE L – REAL ESTATE SALES**

During the years ended June 30, 2013 and 2012, the Organization sold 30 and 28 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. Ownership of the property is typically transferred at settlement. Costs associated with homes that are substantially completed, but not sold/settled prior to year end, are capitalized and included under the category inventory of homes on the consolidated statements of financial position.

## **NOTE M – DONATED MATERIALS AND SERVICES**

Many individuals volunteer their time and perform a variety of tasks that assist the Organization with its program, fundraising and administrative activities. Due to the criteria regarding the recognition of donated goods and services, many of the Organization's donated services are not reflected in the accompanying consolidated financial statements.

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

	<b><u>2013</u></b>	<b><u>2012</u></b>
Donated property – capitalized in homes inventory	\$ 567,800	\$ -
Materials and equipment – capitalized in homes inventory	45,360	74,955
Individual support meeting requirements for recognition	<u>15,331</u>	<u>17,547</u>
	<u>\$ 628,491</u>	<u>\$ 92,502</u>

## **NOTE N – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets were available for the following purposes and time restrictions as of June 30:

	<b><u>2013</u></b>	<b><u>2012</u></b>
Development grant	\$ 8,549	\$ 85,085
House construction and rehabilitation		
Home sponsorships	658,216	344,918
Chesapeake Matched Savings Account	<u>5,279</u>	<u>6,777</u>
	<u>\$ 672,044</u>	<u>\$ 436,780</u>

## **NOTE O – LOSS ON SALE OF HOMES**

During the year ended June 30, 2012, four homes were sold that were originally held as inventory in prior years. The proceeds were \$110,106 and accumulated costs totaled \$164,310 resulting in a loss of \$54,204. All homes sold in the year ended June 30, 2013 were real estate sales (see Note L).

## **NOTE P – TRANSFER OF ASSETS FROM HABITAT FOR HUMANITY OF HOWARD COUNTY, INC.**

During the year ended June 30, 2012, Habitat for Humanity of Howard County, Inc. (Howard County) transferred their assets to the Organization. The assets transferred consisted of cash, one property included in inventory of homes and a related loan (see Note J), and two mortgages receivable. The fair value of the assets transferred of \$225,518 is included in the consolidated statements of activities as transfer of assets from Howard County.

## **NOTE Q – COMMITMENTS**

### Operating leases

On October 3, 2007, the Organization leased a building for its Dundalk location under a non-cancelable operating lease agreement. The lease agreement was for the five-year period from October 3, 2007 to February 28, 2013. The lease provides for basic annual rent of \$100,000 with annual increases of 3% of the previous year's base rental. The lease also provides for options to extend the lease for 2 additional three-year terms, commencing on March 1, 2013. The first of these lease extensions has been exercised, and the lease is now scheduled to expire February 28, 2016.

In September 2009, the Organization relocated its administrative offices. The Organization leases its office and warehouse space under a non-cancelable operating lease agreement. The lease agreement is for a five-year period from November 1, 2009 to December 31, 2014. The lease provides for annual rent of \$138,380 with annual increases.

In February 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. The lease provides for basic annual rent of \$82,886 with annual increases of 2% of the previous year's base rental.

Rent expense for the years ended June 30, 2013 and 2012 was \$383,546 and \$333,427, respectively.

The minimum annual lease payments under these leases for the remaining terms of the leases are as follows:

Years Ending June 30, 2014	\$ 363,770
2015	291,113
2016	86,954
2017	88,693
2018	90,466
2019	53,383

### Purchase Commitments

During the current year, the Organization entered into purchase commitments to build homes. At June 30, 2013, the remaining commitments totaled \$855,592.

## **NOTE R – CONTINGENCIES**

The Organization has entered into agreements with several banks to sell some of its mortgages receivable to the banks. In exchange for the mortgages receivable the Organization receives a discounted cash amount, with the difference included as interest buydown expense in the consolidated statements of activities. Under these agreements, the Organization is liable to repurchase or replace a mortgage sold to the bank in the event that the homeowner does not make the required payments. At June 30, 2013 and 2012, respectively, the Organization was contingently liable for \$8,764,658 and \$7,079,721 related to these mortgages.

## **NOTE S – EMPLOYEE BENEFITS**

The Organization maintains a tax deferred annuity program for their respective 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 \$17,319 and \$15,390 for the years ended June 30, 2013 and 2012, respectively.

## **NOTE T – SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

During the year ended June 30, 2012, net changes in cash and cash equivalents on the consolidated statements of cash flows were negative primarily because \$1,269,933 of HFHI-SA Leverage VIII (Habitat Affiliate 2, see Note F) NMTC funds included in proceeds from NMTC in the statements of cash flows for the year ended June 30, 2011, were used to purchase inventory of homes.

Cash paid for interest during the years ended June 30, 2013 and 2012 was \$235,906 and \$145,802, respectively. Cash paid for unrelated business income taxes (UBIT) during the years ended June 30, 2013 and 2012 was \$42,261 and \$57,923, respectively.

During the years ended June 30, 2013 and 2012, HNI paid \$461,937 and \$858,879, respectively, of settlement costs, directly to banks on behalf of the Organization. These payments were recorded as increases in debt and decreases in debt forgiveness income on the consolidated statements of financial position and the consolidated statements of activities, respectively.

During the year ended June 30, 2012, HNI paid \$88,402 directly to vendors on behalf of the Organization. These payments were recorded as increases in inventory of homes and program debt on the consolidated statements of financial position. Total payments by HNI during the years ended June 30, 2013 and 2012, not including the money forwent (see below) were \$1,979,433 and \$4,344,270, respectively.

During the years ended June 30, 2012, HNI forwent program income proceeds of \$221,116 subsequently used by the Organization to purchase inventory of homes. These monies were recorded as increases in inventory of homes and debt forgiveness on the consolidated statements of financial position and the consolidated statements of activities, respectively.

During the years ended June 30, 2013 and 2012, the Organization foreclosed on homes for which the mortgagees were not making payments. These amounts were transferred from mortgages receivable to inventory of homes in the amounts of \$372,555 and \$138,520, respectively.

During the year ended June 30, 2012, the Organization received assets through an asset purchase agreement with Howard County (see Note P). These assets, net of liabilities, were valued at \$225,518, including \$13,055 of cash at the time of the purchase agreement.

## **NOTE T – SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION – Continued**

During the year ended June 30, 2013, the Organization prepaid \$416,855 of interest on a note payable to PNC Community Development Company, LLC (see Note J) through a reduction of the proceeds from the note. This amount is included in prepaid interest and in notes and mortgage payable in the consolidated statements of financial position. The Organization also paid \$30,000 of loan fees through a reduction of proceeds from the same note.

## **NOTE U – 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 \$32,500 and \$75,000 to HFHI for the years ended June 30, 2013 and 2012, respectively. Such amounts are included in program services expense in the consolidated statements of activities.

## **NOTE V – GRANT RESTRICTIONS**

During 2010, the Organization received a grant in the amount of \$800,000 (total award amount was \$1,000,000) of which \$767,735 of cumulative revenue has been recognized through June 30, 2013, from the Department of Housing and Community Development (the Department) for acquisition and redevelopment of abandoned and foreclosed homes for sale to certain eligible households under Title III of Division B of the Housing and Economic Recovery Act of 2008 (“Emergency Assistance for Redevelopment of Abandoned and Foreclosed Homes”) (the “Neighborhood Stabilization Program”) Under the provisions of the grant agreement, if the Organization is not in compliance with the terms of the grant the Department has the right to recover the grant proceeds.

During 2011, the Organization received a grant in the amount of \$367,101, of which \$367,101 was recognized as revenue in the year ended June 30, 2013, and \$308,513 of which is included in grants receivable at June 30, 2013, from the Housing Authority of Baltimore City (the Authority), pursuant to the terms of a certain Project and Loan Agreement for the Disposition of Up-Front Grant Funds dated December 20, 2007, by and between Orchard Ridge Homeownership I, Inc. and the Authority. Under the provisions of the grant agreement, if the Organization is not in compliance with the terms of the grant the Authority has the right to recover the grant proceeds.