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, 2014 AND 2013

HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES
TABLE OF CONTENTS
June 30, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

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

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, 2014 and 2013, 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.

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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, 2014 and 2013, 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.

Emphasis of Matter

As discussed in Note U to the consolidated financial statements, the consolidated financial statements have been reissued to correct a misstatement. Our opinion is not modified with respect to this matter.

Gorfine, Schiller + Gardyn, P.A.

February 27, 2015
Owings Mills, Maryland

CONSOLIDATED FINANCIAL STATEMENTS

HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and 2013

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,115,298	$ 2,157,552
Contributions receivable	161,608	69,776
Mortgages receivable - current portion	671,627	634,192
Accounts receivable	214,806	205,477
Grants receivable	539,773	719,887
Inventory of homes	6,585,957	8,487,942
Restore inventory	52,076	29,544
Prepaid interest	379,970	416,855
Prepaid expenses	50,352	41,929
Total current assets	10,771,467	12,763,154
PROPERTY AND EQUIPMENT		
Land and buildings	665,106	665,106
Furniture and fixtures and equipment	82,055	82,055
Leasehold improvements	225,811	224,596
Vehicles	223,370	192,775
Computers	183,734	103,617
	1,380,076	1,268,149
Less accumulated depreciation	(621,468)	(539,059)
Net property and equipment	758,608	729,090
OTHER ASSETS		
Long-term mortgages receivable, net	6,981,056	6,326,681
Leveraged mortgages receivable, net	7,426,525	5,337,684
Capitalized interest on leveraged mortgages	2,712,810	1,941,151
Investments in limited liability companies	12,948,881	12,830,270
Deposits	38,139	25,556
Loan fees, net of accumulated amortization	49,059	52,522
Total other assets	30,156,470	26,513,864
TOTAL ASSETS	$ 41,686,545	$ 40,006,108

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

	2014	2013
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 1,767,468	$ 593,769
Lines of credit and notes payable - current portion	1,560,062	2,249,187
Deferred rent	47,900	63,895
Total current liabilities	3,375,430	2,906,851
LONG-TERM LIABILITIES		
Notes payable, related parties	14,846,758	14,846,758
Lines of credit and notes payable - net of current portion	5,545,360	4,449,223
Program debt	987,542	1,249,407
Leveraged mortgages receivable liability	7,426,525	5,337,684
Total long-term liabilities	28,806,185	25,883,072
Total liabilities	32,181,615	28,789,923
NET ASSETS		
Unrestricted	9,493,577	10,544,141
Temporarily restricted	11,353	672,044
Total net assets	9,504,930	11,216,185
TOTAL LIABILITIES AND NET ASSETS	$ 41,686,545	$ 40,006,108

HABITAT FOR HUMANITY OF THE CHESAPEAKE, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2014 and 2013

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES, GAINS, AND SUPPORT						
Contributions	$ 1,664,334	$ 980,300	$ 2,644,634	$ 1,568,127	$ 746,047	$ 2,314,174
Donated goods and services	83,937	-	83,937	60,691	-	60,691
Donated property	131,517	-	131,517	567,800	-	567,800
Government grants	810,456	-	810,456	1,229,213	-	1,229,213
Real estate sales	6,128,884	-	6,128,884	3,927,859	-	3,927,859
Restore income	2,305,519	-	2,305,519	1,885,650	-	1,885,650
Special events, net of expenses of $17,793 and $38,108, respectively	213	-	213	(6,999)	-	(6,999)
Miscellaneous income	22,886	-	22,886	11,614	-	11,614
Debt forgiveness	381,578	-	381,578	1,307,789	-	1,307,789
Amortization of mortgage discounts	522,475	-	522,475	695,564	-	695,564
	12,051,799	980,300	13,032,099	11,247,308	746,047	11,993,355
NET ASSETS RELEASED FROM RESTRICTIONS						
Satisfaction of program restrictions	1,640,991	(1,640,991)	-	510,783	(510,783)	-
	1,640,991	(1,640,991)	-	510,783	(510,783)	-
Total revenues, gains, and support	13,692,790	(660,691)	13,032,099	11,758,091	235,264	11,993,355
EXPENSES						
Program services						
House construction	11,441,642	-	11,441,642	8,614,799	-	8,614,799
Restore	1,816,294	-	1,816,294	1,656,957	-	1,656,957
Total program services	13,257,936	-	13,257,936	10,271,756	-	10,271,756
Supporting services						
Management and general	1,023,649	-	1,023,649	1,057,122	-	1,057,122
Fundraising	566,348	-	566,348	417,571	-	417,571
Total expenses	14,847,933	-	14,847,933	11,746,449	-	11,746,449
OPERATING (LOSS) INCOME	(1,155,143)	(660,691)	(1,815,834)	11,642	235,264	246,906
OTHER INCOME (EXPENSES)						
Investment income from limited liability companies	118,783	-	118,783	224,904	-	224,904
Loss on sale of homes	(14,204)	-	(14,204)	-	-	-
Unrelated business income tax	-	-	-	24,506	-	24,506
Total other income (expenses)	104,579	-	104,579	249,410	-	249,410
CHANGES IN NET ASSETS	(1,050,564)	(660,691)	(1,711,255)	261,052	235,264	496,316
NET ASSETS - Beginning of year, as originally stated	10,544,141	672,044	11,216,185	8,725,772	436,780	9,162,552
EFFECT OF RESTATEMENT	-	-	-	1,557,317	-	1,557,317
NET ASSETS - Beginning of year, restated	10,544,141	672,044	11,216,185	10,283,089	436,780	10,719,869
NET ASSETS - End of year	$ 9,493,577	$ 11,353	$ 9,504,930	$ 10,544,141	$ 672,044	$ 11,216,185

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, 2014 and 2013

	2014					
	Program Services			Supporting Services		
	House Construction	Restore	Total Program Services	Management and General	Fundraising	Total
Advertising	$ 20,068	$ 37,370	$ 57,438	$ 440	$ 127,573	$ 185,451
Amortization of loan fees	3,463	-	3,463	-	-	3,463
Amortization of capitalized interest	80,030	-	80,030	-	-	80,030
Computer and software maintenance	-	5,065	5,065	6,317	9,325	20,707
Conference expenses	7,524	3,067	10,591	3,522	1,760	15,873
Construction and rehabilitation costs on houses sold and settled	9,068,315	-	9,068,315	-	-	9,068,315
Depreciation	18,427	49,404	67,831	14,007	571	82,409
Discounts of mortgages receivable	1,064,764	-	1,064,764	-	-	1,064,764
Dues and subscriptions	7,543	205	7,748	5,042	1,590	14,380
Employee benefits	75,243	93,398	168,641	69,837	34,091	272,569
Habitat for Humanity International tithe	25,000	-	25,000	-	-	25,000
Homeownership	49,867	-	49,867	-	-	49,867
Insurance	9,753	10,449	20,202	3,135	2,438	25,775
Interest	36,885	38,377	75,262	11,022	-	86,284
Meals and entertainment	9,556	2,956	12,512	20,499	6,743	39,754
Miscellaneous expenses	2,441	9,650	12,091	14,911	1,658	28,660
Office administration and supplies	50,223	53,810	104,033	16,143	12,556	132,732
Postage	6,612	1,615	8,227	2,125	1,653	12,005
Printing and production	11,370	12,182	23,552	3,654	2,842	30,048
Professional fees	25,585	29,963	55,548	164,871	9,134	229,553
Purchased merchandise	-	143,302	143,302	-	-	143,302
Remediation of houses previously sold	9,608	-	9,608	-	-	9,608
Rent	101,358	285,816	387,174	32,579	25,339	445,092
Repairs and maintenance	16,111	50,059	66,170	5,178	4,028	75,376
Salaries	615,640	764,193	1,379,833	571,413	278,939	2,230,185
Taxes - other	-	14,928	14,928	1,737	-	16,665
Taxes - payroll	56,393	70,000	126,393	52,341	25,551	204,285
Telephone	46,918	23,059	69,977	15,081	11,730	96,788
Travel	8,637	5,000	13,637	5,210	5,261	24,108
Truck expense	-	78,351	78,351	-	-	78,351
Utilities	14,265	34,075	48,340	4,585	3,566	56,491
Volunteers	43	-	43	-	-	43
Total	$ 11,441,642	$ 1,816,294	$ 13,257,936	$ 1,023,649	$ 566,348	$ 14,847,933

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, 2014 and 2013

	2013					
	Program Services			Supporting Services		
	House Construction	Restore	Total Program Services	Management and General	Fundraising	Total
Advertising	$ 16,892	$ 91,650	$ 108,542	$ -	$ 84,552	$ 193,094
Amortization of loan fees	2,263	-	2,263	-	-	2,263
Amortization of capitalized interest	61,986	-	61,986	-	-	61,986
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	6,591,028	-	6,591,028	-	-	6,591,028
Depreciation	14,896	23,909	38,805	15,454	5,116	59,375
Discounts of mortgages receivable	809,643	-	809,643	-	-	809,643
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
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
Total	$ 8,614,799	$ 1,656,957	$ 10,271,756	$ 1,057,122	$ 417,571	$ 11,746,449

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, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ (1,711,255)	$ 496,316
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	82,409	59,375
Amortization of loan fees	3,463	2,263
Amortization of capitalized interest on leveraged mortgages	80,030	61,986
Capitalized interest from leveraging of mortgages receivable	(719,207)	(287,297)
Mortgages assumed on real estate sales	(2,746,795)	(2,224,005)
Bad debt expense	-	11,692
Changes in equity in investments in limited liability companies	(118,611)	(223,837)
Forgiveness of program debt	(381,578)	(1,307,789)
Discounts of mortgages receivable	1,064,764	809,643
Amortization of mortgage discounts	(522,475)	(695,564)
Changes in operating assets and liabilities:		
Contributions receivable	(91,832)	(81,468)
Accounts receivable	(9,329)	(167,734)
Grants receivable	180,114	(156,923)
Inventory of homes	2,013,782	(1,241,087)
Restore inventory	(22,532)	(29,544)
Prepaid expenses	(8,423)	(11,670)
Accounts payable and accrued expenses	1,173,699	(259,732)
Deferred rent	(15,995)	14,258
Net cash used in operating activities	(1,749,771)	(5,231,117)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(111,927)	(133,451)
Proceeds from leveraging of mortgages receivable	599,639	565,732
Principal payments collected on mortgages receivable	735,729	544,557
Payment for repurchase of leveraged mortgage receivable	(66,951)	-
Initial investment in limited liability company	-	(4,469,199)
Increase in deposits	(12,583)	(2,951)
Net cash provided by (used in) provided by investing activities	1,143,907	(3,495,312)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable, related parties	-	5,114,482
Proceeds from lines of credit and notes payable	4,885,725	5,238,647
Proceeds from program debt	367,378	1,512,758
Principal payments on lines of credit and notes payable	(4,441,828)	(1,489,322)
Principal payments on program debt	(247,665)	(1,000,115)
Net cash provided by financing activities	563,610	9,376,450
NET CHANGES IN CASH AND CASH EQUIVALENTS	(42,254)	650,021
CASH AND CASH EQUIVALENTS - Beginning of year	2,157,552	1,507,531
CASH AND CASH EQUIVALENTS - End of year	$ 2,115,298	$ 2,157,552

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

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.

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, 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.

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, 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.

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, 2014 and 2013, the Organization had unconditional promises to give, all of which management considered fully collectible of $161,608 and $69,776, respectively.

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, 3.34% and 3.52% at June 30, 2014 and 2013, 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 J).

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) , *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. Leveraged Mortgages Receivable

Effective July 1, 2012, the Organization adopted the following policy regarding mortgages receivable leveraged to banks. 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 *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 mortgage receivables are shown on the consolidated statements of financial position discounted at the prevailing interest rate for the time value of money. 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. 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 mortgage receivable liability, carried at fair market value.

8. 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.

9. 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 $82,409 and $59,375 for the years ended June 30, 2014 and 2013, respectively.

10. 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, 2014 and 2013.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

11. 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. No accruals were considered necessary as of June 30, 2014 and 2013.

12. 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. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. 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.

13. 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.

14. 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.

15. Restore Inventory

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

16. 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.

17. 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 in the prior year (see Note A and below) 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 ending June 30, 2011 and after are subject to examinations by the IRS and state taxing authorities.

During the year ended June 30, 2014, changes were made in the operations of the Restores and it was determined that the Restores’ activities for the year ending June 30, 2014 were not subject to unrelated business income tax. Unrelated business income tax for the year ended June 30, 2013 in the consolidated statement of activities consists of an accrual for that year’s income tax for the Restores net of any adjustments to prior year accruals. During 2013, expenses were identified that should have been included in the unrelated business income tax returns in prior years. The Organization has filed amended tax returns including these identified expenses, and the anticipated refunds of $20,403 are included in unrelated business income tax for the year ended June 30, 2013.

18. 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, 2014 and 2013.

19. 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.

20. Reclassifications

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

21. Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through February 27, 2015, 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 J and Note T.

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, 2014 and 2013 are as follows:

	2014	2013
Mortgages receivable	$ 13,142,005	$ 11,907,906
Less: discount on mortgages	(5,489,322)	(4,947,033)
	$ 7,652,683	$ 6,960,873

At June 30, 2014, 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,	2015	$ 671,627
	2016	668,395
	2017	659,103
	2018	639,766
	2019	626,624
	Thereafter	9,876,490
	Total	$ 13,142,005

NOTE D – LEVERAGED MORTGAGES RECEIVABLE

The Organization leverages mortgages receivable to banks.

Leveraged mortgages receivable as of June 30, 2014 and 2013 are as follows:

	2014	2013
Leveraged mortgages receivable	12,032,275	8,764,658
Less: discount on leveraged mortgages	(4,605,750)	(3,426,974)
	$ 7,426,525	$ 5,337,684

NOTE E – LOAN FEES

At June 30, 2014 and 2013, loan fees are as follows:

	2014	2013
Loan fees at cost	$ 63,955	$ 63,955
Less: accumulated amortization	(14,896)	(11,433)
Loan fees, net of amortization	$ 49,059	$ 52,522

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 for the years ending June 30, 2014 and 2013 was $- and $2,263, respectively. Amortization expense for each of the next five years will be $3,463.

NOTE F – 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 Disclosures* 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.

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, 2014 and 2013.

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.

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.

NOTE F – FAIR VALUE MEASUREMENTS – Continued

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, 2014 and 2013:

Assets at Fair Value as of June, 30 2014

	Level 1	Level 2	Level 3	Total
Donated property – capitalized in inventory of homes	$ -	$ 185,194	$ -	$ 185,194
Materials and equipment – capitalized in inventory of homes	-	-	33,421	33,421
Total assets at fair value	$ -	$ 185,194	$ 33,421	$ 218,615
Leveraged mortgages receivable liability	$ 7,426,525	$ -	$ -	$ 7,426,525

Assets at Fair Value as of June, 30 2013

	Level 1	Level 2	Level 3	Total
Donated property – capitalized in inventory of homes	$ -	$ 567,800	$ -	$ 567,800
Materials and equipment – capitalized in inventory of homes	$ -	$ -	$ 39,374	$ 39,374
Total assets at fair value	$ -	$ 567,800	39,374	$ 607,174
Leveraged mortgages receivable liability	$ 5,382,897	$ -	-	$ 5,382,897

NOTE G – 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:

	2014	2013
Beginning balance	$ 3,952,399	$ 3,854,542
Investment activity	49,241	97,857
Ending balance	$ 4,001,640	$ 3,952,399

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

	2014	2013
Cash	$ 5	$ 5
Interest receivable	1,388,068	1,089,560
Note receivable	17,518,157	17,518,157
Total assets	$ 18,906,230	$ 18,607,722
Equity	$ 18,906,230	$ 18,607,722
Revenue and net income	$ 473,688	$ 473,689

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 G – INVESTMENTS IN LIMITED LIABILITY – Continued

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

	2014	2013
Beginning balance	$ 4,383,963	$ 4,282,692
Investment activity	42,670	101,271
Ending balance	$ 4,426,633	$ 4,383,963

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

	2014	2013
Interest receivable	$ 599,510	$ 420,700
Note receivable	9,322,862	9,322,862
Total assets	$ 9,922,372	$ 9,743,562
Equity	$ 9,922,372	$ 9,743,562
Revenue and net income	$ 271,144	$ 271,144

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 years ending June 30:

	2014	2013
Beginning balance	$ 4,493,908	$ 4,469,199
Investment activity	26,700	24,709
Ending balance	$ 4,520,608	$ 4,493,908

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

	2014	2013
Interest receivable	$ 298,942	$ 133,374
Note receivable	7,347,785	7,347,785
Total assets	$ 7,646,727	$ 7,481,159
Equity	$ 7,646,727	$ 7,481,159
Revenue and net income	$ 239,046	$ 180,318

NOTE H – 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 O). 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,	2015	$ (18,393)
	2016	(7,743)
	2017	(9,482)
	2018	(11,256)
	2019	(1,026)
		$ (47,900)

NOTE I – NOTES PAYABLE, RELATED PARTIES

During 2010, in connection with the investment in Habitat Affiliate 1 (see Note F), the Organization received a $4,455,113 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 $113,534 and $100,026 for the years ended June 30, 2014 and 2013, respectively.

NOTE J – LINES OF CREDIT AND NOTES PAYABLE

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

	2014	2013
M & T Construction Line of Credit	$ 673,035	$ -
Severn Savings Bank	2,279,286	2,079,286
Neighborhood Housing Services of Baltimore, Inc.	393,056	409,722
Self-help Homeownership Opportunity Program	139,480	78,234
SECU	524,764	539,140
The Columbia Foundation, Inc.	-	37,066
Rosedale Federal Savings and Loan Association	546,000	1,428,000
BOKF, NA dba Bank of Texas	134,044	150,000
Northwest Savings Bank	2,235	4,095
PNC Community Development Company, LLC	1,717,321	1,847,867
City of Annapolis - 55 Clay	125,000	125,000
Revere Bank	155,615	-
City of Annapolis - 123 Clay	82,000	-
MECU	333,586	-
Total long-term debt	$ 7,105,422	$ 6,698,410
Less current portion	(1,560,062)	(2,249,187)
Long-term portion	$ 5,545,360	$ 4,449,223

M & T Bank – Construction Line of Credit

The Organization has a $1,325,000 credit line with M & T Bank (M & T), bearing interest at LIBOR plus 4% for construction of 18 homes in the 1200 block of Ward Street and matured February 19, 2015. Subsequent to year end, the credit line was paid in full.

M & T Bank – Credit Line

The Organization also has a $50,000 credit line with M & T, bearing interest at the bank's prime rate plus 1.5%, (4.75% as of June 30, 2014 and 2013) 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, 2014 and 2013.

M & T Bank – Revolving Note

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, 2014 and 2013) 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, 2014 and 2013.

NOTE J – LINES OF CREDIT AND NOTES PAYABLE – Continued

Severn Savings Bank

The Organization has a $2,500,000 line of credit with Severn Savings Bank (Severn). The line of credit bore interest at the bank's prime rate (3.25% as of June 30, 2013). The line of credit was due December 1, 2014. Subsequent to year end, the Organization obtained an extension letter granting an extension of the maturity of the line of credit to August 1, 2015. Effective January 1, 2015 the interest rate is 4.25% and the Organization is required to make $10,000 principal payments monthly. This line is secured by mortgages receivable in the amount of $4,353,890 and $3,682,284 as of June 30, 2014 and 2013, respectively. This line of credit contains covenants with which the Organization must comply.

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, 2014 and 2013, respectively, payable through 2021.

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% 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, the Organization acquired a note payable to The Columbia Foundation, Inc. with 4 % interest. The note called for monthly payments of principal and interest in the amount of $506. During the current year, the note was paid in full.

Rosedale Federal Savings and Loan Association

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. The note was to be paid in full on March 1, 2015. Subsequent to year end, the loan was extended through March 1, 2016.

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.

NOTE J – LINES OF CREDIT AND NOTES PAYABLE – Continued

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, 2014 and 2013). The note calls for interest only payments and is due on demand.

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 $1,717,321 and $1,847,867 of mortgages receivable as of June 30, 2014 and 2013, 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 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. 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. As of the report date, the City of Annapolis is in the process of extending the due date of the note.

Revere Bank

During 2014, the Organization obtained 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. Subsequent to year end, the note was paid in full.

City of Annapolis – 123 Clay

During 2014, the Organization obtained 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.

MECU

During 2014, the Organization obtained a note payable for $685,000 from the Municipal Employees Credit Union of Baltimore (MECU), 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. The Organization is in the process of obtaining an extension on this note.

The future minimum principal payments for the next five years and thereafter, based on maturity dates including extensions obtained subsequent to year end, are as follows:

Years ending June 30,	2015	$ 1,560,062
	2016	3,045,074
	2017	191,822
	2018	641,320
	2018	144,331
	Thereafter	1,522,813
		$ 7,105,422

NOTE J – LINES OF CREDIT AND NOTES PAYABLE – Continued

Interest expense on the lines of credit and notes payable were $195,304 and $135,880 for the years ended June 30, 2014 and 2013, respectively, of which $109,020 and $99,469 for the years ending June 30, 2014 and 2013, respectively, has been capitalized as part of inventory of homes on the consolidated statements of financial position.

Subsequent to year end, the Organization obtained a bridge promissory note from the Housing Authority of Baltimore City (the Authority) for $307,513. The note is interest free and is due the earlier of July 15, 2015 or upon the Authority receiving written approval from the United States Department of Housing and Urban Development that they intend to release the final five percent of the grant funds to the Authority.

NOTE K – PROGRAM DEBT

The Organization entered into a development agreement with Healthy Neighborhoods, Inc. (HNI). Under the development agreement, the Organization is required to expend no less than $5,000,000 to acquire and rehabilitate 50 residential properties. This expenditure requirement has been fulfilled by the Organization. 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, 2014 and 2013, the Organization sold 41 and 30 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:

	2014	2013
Donated property – capitalized in homes inventory	$ 131,517	$ 567,800
Materials and equipment – capitalized in homes inventory	41,165	45,360
Individual support meeting requirements for recognition	42,772	15,331
	$ 215,454	$ 628,491

NOTE N – TEMPORARILY RESTRICTED NET ASSETS

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

	2014	2013
Development grant	$ -	$ 8,549
ReStore truck purchase	6,000	-
House construction and rehabilitation		
Home sponsorships	300	658,216
Chesapeake Matched Savings Account	5,053	5,279
	$ 11,353	$ 672,044

NOTE O – 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.

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, 2014 and 2013 was $445,092 and $383,546, respectively.

The minimum annual lease payments under these leases for the next five years are as follows:

Years Ending June 30,	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. As of June 30, 2014, the remaining commitments totaled $292,039.

NOTE P – 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 $25,853 and $17,319 for the years ended June 30, 2014 and 2013, respectively.

NOTE Q – SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid for interest during the years ended June 30, 2014 and 2013 was $275,416 and $235,906, respectively. Cash paid for unrelated business income taxes (UBIT) during the years ended June 30, 2014 and 2013 was $-0- and $42,261, respectively.

During the years ended June 30, 2014 and 2013, HNI paid $109,698 and $461,937, 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 years ended June 30, 2014 and 2013, 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 $111,797 and $372,555, respectively.

During the years ended June 30, 2014 and 2013, the Organization capitalized $132,482 and $158,523 of interest from leveraging of mortgages receivable. These differences between the gross value of the mortgage receivable and the cash received were recorded as decreases in mortgages receivable and increases of capitalized interest from leveraging of mortgages receivable in the consolidated statements of financial position.

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 R – 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 $25,000 and $32,500 to HFHI for the years ended June 30, 2014 and 2013, respectively. Such amounts are included in program services expense in the consolidated statements of activities.

NOTE S – GRANT RESTRICTIONS

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 $307,513 of which is included in grants receivable at June 30, 2014 and 2013, from 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.

NOTE T – SUBSEQUENT EVENT

Subsequent to year end, the Organization entered into an Articles of Merger with Sandtown Habitat for Humanity, Inc., effective September 30, 2014. Sandtown Habitat for Humanity, Inc. provided similar services as the Organization in the Sandtown area of Baltimore, using the same approach as the Organization by providing affordable low income housing to families.

NOTE U – RESTATEMENT – CHANGE IN ACCOUNTING POLICY

During the current year, the Organization determined that leveraged mortgages receivable and the related capitalized interest on leveraged mortgages receivable and leveraged mortgages receivable liability should be included in the consolidated statements of financial position. Net assets as of July 1, 2012 were restated by adding $1,557,317 of capitalized interest on leveraged mortgages receivable and increasing unrestricted net assets by $1,557,317. $4,333,984 of leveraged mortgages receivable and leveraged mortgages receivable liability were also added to the consolidated statements of financial position as of that date. The consolidated statement of activities for the year ending June 30, 2013 was also restated resulting in a decrease in program services expense of $227,365 and an increase in the change of unrestricted net assets of $227,365.